



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-First Session

Rome, 6-7 December 2000

REPORT OF AUDIT COMMITTEE

1. The Audit Committee held its seventy-first meeting on 5 December 2000 and reports to the Executive Board on the following matters.

Consideration of the External Auditor's Memorandum on Internal Control and Accounting Procedures and the President's Revised Draft Responses

2. Each year, in the course of its annual audit of IFAD's accounts, the external auditor provides observations on internal control and accounting procedures to assist management in ensuring transparent, efficient and accurate financial reporting.

3. The committee reviewed the revisions made to the 1999 memorandum as a result of discussions at the seventieth meeting of the Audit Committee. These revisions include detailed information on the action to be taken by IFAD to address the external auditors' recommendations and a specific timetable for the implementation of such remedial action. The Secretariat advised that action should be completed within the timetable. The representative of PricewaterhouseCoopers expressed satisfaction with the revised draft management responses, which will be reviewed within the scope of the audit of the 2000 accounts. Progress on the implementation will be reported in the next Memorandum on Internal Control.

4. A recommendation was discussed on the development of procedures for a regular review of custody fees charged by the global custodian bank. The Secretariat will prepare an oral statement for the March 2001 Audit Committee, and a written proposal by April 2001, outlining proposals and timing for a review of the custody fees.

5. The committee took note of the observations and recommendations of the 1999 Memorandum on Internal Control and approved the President's draft responses.

Review of the Alternate Format for Quarterly Report on IFAD's Investment Portfolio Presented to the Executive Board

6. The committee reviewed a revised abbreviated version of the Report on IFAD's Investment Portfolio prepared for the Executive Board. This version is also attached in the form of Annex XIV to the Report on IFAD's Investment Portfolio for the Third Quarter of 2000 (document EB 2000/71/R.4). A decision on the adoption of the abbreviated format lies with the Executive Board. The following comments are provided for guidance and information.



7. The Audit Committee welcomed the proposal for a shorter report and commended the Secretariat on the new format, which is seen as a clearer, condensed source of investment data for the use of Executive Board members. Some suggested additions to future editions of the report:

- a brief recapitulation of expert opinions on investment-market trends for the next quarter;
- an annual comparison in tabular form of the performance between IFAD's Fund managers and other similar reputable managers;
- research into other international or commercial institutions analogous to IFAD, with a view to comparing investment policies and results.

8. The Committee also felt that the question of how to provide the Executive Board with a more-effective early-warning mechanism should be considered.

9. The committee decided to recommend adoption of the abbreviated investment report format by the Executive Board. Members reserved further comment on the content of the report for the Executive Board discussions and the scheduled investment seminar with IFAD's investment advisers.

International Accounting Standard (IAS) 39 and Provisioning in the Financial Statements of IFAD

10. IFAD prepares its financial statements in accordance with international accounting standards. When new standards are issued by the responsible body, IFAD is required to change its accounting policies and to adjust its financial statements accordingly. IAS39 involves the recognition and measurement of financial instruments in the financial accounts. It will come into effect on 1 January 2001. From that date IFAD will be obliged to align its principles.

11. The committee discussed the issue at length during its seventieth meeting, taking into account the views of the external auditor. An amended proposal was reviewed in a revised document presented to the seventy-first Audit Committee meeting. Among other things, the changes suggested by the committee bring IFAD's policies for provisioning of overdue loan repayments into line with those of other international financial institutions.

12. The Audit Committee recommends that the Executive Board adopt the following decision:

- “(i) In line with current accounting standards, the Executive Board approves a policy of establishing accounting provisions for overdue loan repayments in order to provide for the deemed impairment of the value of underlying assets. The entire loan, and not just the overdue instalment, shall be subject to impairment. Where it is not possible to estimate with reasonable certainty the expected cashflows of a loan (as required by the relevant accounting standard), a calculation analogous to the benchmark for provisioning Member State contributions may be used. This means that a provision will be made on all loan instalments overdue by more than 24 months. A provision will also be made for loan instalments on the same loan overdue by less than 24 months. Once this trigger period has been reached, all amounts overdue would be considered to be in provision status, even if part of the total outstanding debt were subsequently repaid. When more than 48 months have elapsed, a provision shall be made for all outstanding principal amounts of the loan.
- (ii) The operative date for determining whether or not the specified period has elapsed will be the balance-sheet date. However, if payment is made for outstanding amounts after the balance-sheet date but prior to the signing of the financial statements by the external auditor, an appropriate adjustment will be made.
- (iii) The net movement in the provision for impairment loss will be included as a separate line item (following administrative expenses) in the statement of activities and changes in net



assets; and also separately on the face of the balance sheet. Further details will be given in the notes to the financial statements.

- (iv) Overdue loans in provision status will be taken into account when projecting future resources.
- (v) In line with current market practice, the trigger point for the non-accrual status of overdue loan income and service charges will be reduced from 300 days to 180 days, with effect from 1 January 2001.”

Guide to the Management of Exchange Rates

13. A paper entitled Guide to the Management of Exchange Rates was distributed for the information of members. The Treasurer provided a brief explanation. The committee may return to this issue at a future meeting.

Provision for Unfunded Liabilities

14. IFAD participates in the multi-employer After-Service Medical Coverage (ASMC) scheme for staff, administered by FAO. In 1995, FAO engaged an actuary who determined that IFAD’s share of the unfunded accrued liability was USD 10.8 million. An updated valuation estimated IFAD’s liability at 31 December 1997 to be USD 12.9 million. IFAD’s accounting regime (IAS19) requires that this liability be fully funded in the accounts of the organization within a limited time. At its Sixty-Fifth Session in December 1998, the Executive Board authorized annual transfers of USD 2.6 million from IFAD’s accumulated surplus in each of the five subsequent years, beginning in 1999, so as to build up a provision for funding the actuarial deficit.

15. The results of the latest actuarial valuation show that IFAD’s share of the unfunded liability at 31 December 1999 was USD 19.7 million (an increase of USD 6.8 million over the 1997 figure). This increase in the initial liability needs to be funded over the years remaining of the initial period, requiring a further transfer of USD 1.7 million in each of the four consecutive years, beginning in 2000.

16. The Committee was concerned about the sharp increase in IFAD’s share of the unfunded liability. It decided to return to this issue at its April 2001 meeting when it will investigate the reasons for the increase, the costs incurred for the actuarial valuations and the possibility of an independent actuarial review of IFAD’s obligations.

17. In the meantime, and bearing in mind IFAD’s obligation to comply with IAS19, the committee recommends the following decision to the Executive Board:

“The Executive Board authorizes additional annual transfers of USD 1.7 million from IFAD’s resources in each of the four consecutive years beginning in 2000 to fund the After-Service Medical Coverage scheme actuarial deficit.”