



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

Rome, 25-26 April 2001

REPORT OF THE AUDIT COMMITTEE

1. The Audit Committee held its Seventy-Second Meeting on 4 April 2001, and its Seventy-Third Meeting on 24 April 2001, and wishes to draw the attention of the Executive Board to the following matters.
2. As an informal seminar on IFAD's Investment Policies and Resources was scheduled for 24 April 2001, the committee decided to reserve its substantive comments on that subject for debate during the seminar.

Review of the Custody Fees of the Global Custodian Bank

3. In 1993, State Street Bank and Trust Company was appointed as IFAD's Global Custodian. Based on the recommendations of the External Auditor and the Office of Internal Audit, the Secretariat now considers it timely to tender for custodian services to test competitiveness of State Street on the market and, if necessary, change the custodian. A request for proposals will be prepared, in consultation with Cambridge Associates, to include all IFAD's requirements and will be sent out to custodian banks.
4. In line with the appeal made by Mr Kofi Annan, Secretary-General of the United Nations, for agencies to reduce costs by introducing common services wherever feasible, IFAD, the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) are currently engaged in discussions concerning the possible pooling resources in the field of investment monitoring. Should this proposal be adopted, technical services for monitoring the operations of external portfolio managers will be provided to the three Rome-based organizations by the Investments Section of IFAD Treasury, and augmented by staff funded by FAO and WFP. A common service agreement of this type would require the use of the same global custodian on the part of the three organizations in order that a standard approach may be adopted, using identical customized software for monitoring and reporting. Each organization would, however, enter into separate contracts with the custodian selected.
5. The committee supported the view that it was time to re-tender for global custodian services, and welcomed, in principle, the idea of a common service arrangement with the FAO and WFP. However, since it was not convinced that the costs, benefits and risks of such an agreement had been



fully appraised, it decided to record its concerns in order to assist the President in taking a decision on how to proceed.

Review of the Audited Financial Statements of IFAD for 2000

6. The committee reviewed the Financial Statements of IFAD for the year ending 31 December 2000. It noted with satisfaction the opinion of the external auditor, PricewaterhouseCoopers, that the statements gave a true and fair view of the financial position of IFAD, the results of its operations and its cash flows, in accordance with international accounting standards.

7. Salient points from the Financial Statements are as follows:

(a) **Investments**

The net loss from investments amounted to USD 47.0 million in 2000 compared with investment income of USD 196.2 million restated for 1999, including interest income of USD 68.0 million compared with USD 89.4 million in 1999. Dividend income for 2000 amounted to USD 11.8 million compared with USD 8.7 million in 1999. Total net realized and unrealized market value losses amounted to USD 118.9 million in 2000 compared with a gain of USD 104.0 million in 1999. Fees related to investment managers, custody and other investment costs, which are charged to investment income, amounted to USD 11.3 million in 2000 compared with USD 10.1 million in 1999.

(b) **Income from Loans**

Income from loans amounted to USD 44.3 million compared with a total of USD 43.5 million in 1999. An amount of USD 2.7 million was excluded for interest and services charges on loans with amounts outstanding in excess of 10 months.

(c) **Operating and Administrative Expenses**

Actual expenses in 2000 amounted to USD 46 212 000 compared with an approved budget figure of USD 50 448 000. The United States dollar appreciated by 16% over the 1999 rate. The line item for cooperating institutions and consultants was a main source of savings in 2000.

(d) **Net Charge for Commitments under the Debt Initiative for Heavily Indebted Poor Countries (HIPC)**

IFAD has been participating in the Debt Initiative for HIPCs since 1997. IFAD changed its accounting policy related to the Debt Initiative for HIPCs in 2000, which resulted in a net charge (after currency effects) of USD 73.6 million. This charge represents the part approved during 2000 of the total cumulative cost of debt relief of USD 104.6 million as at 31 December 2000. The restated 1999 comparative figure was USD 2.1 million.

(e) **Cash in Banks**

Cash balances in convertible currencies at 31 December 2000 amounted to USD 60.1 million, which included funds held pending investment by external fund managers. Cash balances subject to restriction on use amounted to USD 12.6 million. This balance included USD 8.4 million for the After-Service Medical Coverage provision.

(f) **Operational Statistics**

Loan disbursements increased from USD 284.0 million in 1999 to USD 285.0 million in 2000. Loan principal repayments remained constant compared with the previous year. Excluding the effects of exchange rate movements, loan disbursements are steadily increasing each year. Grant disbursements fell from USD 30.0 million to USD 27.0 million in 2000.



8. In its discussion on the Financial Statements, the committee noted the following points:
- The Fund had a strong balance sheet (net assets of USD 5.234 billion at the end of 2000).
 - The level of resources available for commitment had declined significantly over the year, from USD 268.0 million to USD 68.0 million.
 - The investment outlook was not promising, and the flow of committable resources derived from Replenishments was problematic in terms of timing owing to slow receipt of Members' pledged contributions.
 - The Fund's involvement in the Debt Initiative for HIPC's was a further source of strain on committable resources.
 - Projects and grants for Executive Board approval in April 2001 will amount to some USD 100.0 million. The gap in resources could only be overcome by reducing the number of projects approved, or by use of the Advance Commitment Authority (ACA) (or a combination of the two). At its Seventy-Third meeting, the committee was advised that the President had made known his intention to recommend to the Executive Board that the ACA should be used, and that the Programme Management Department has been requested to review the possibility of restoring the 2001 lending programme back to its normal level.
9. Following its private session with the External Auditor, the committee recommended endorsement of the IFAD Financial Statements for 2000 by the Executive Board to the next Session of the Governing Council.

Review of the Internal Audit Function

10. The Chairman recalled that the responsibility of the Audit Committee is to "satisfy itself that the Fund has an effective and efficient Internal Audit function".

11. 2000 was the third year of operations under the new charter adopted in 1998, when a risk assessment identified areas of high and very high risk. These included grants, investments, budget management, cash management, travel services, systems development, staff entitlements and recruitment. In the period 1998-2000, thirty programmed audits were initiated and mostly completed, covering almost all the high-risk areas. In 2000, ten programmed audits were initiated in accordance with the approved plan, and the Office of Internal Audit (OA) was instrumental in establishing the Oversight Committee which is responsible for investigations. When the 2001 annual risk analysis was carried out both management and an extensive cross-section of staff were interviewed and their concerns and suggestions recorded. Many of these concerns and suggestions were reflected in the OA Work Plan for 2001, which comprised ten programmed audits and a series of more focused, tactical reviews. OA has initiated a programme of field visits that are considered important for the purpose of providing accountability information to management.

12. The Vice President explained that he chairs the Oversight Committee, with the General Counsel and the Chief, Internal Audit, as Members. He further explained that the Oversight Committee has a narrow remit, that it handles a limited number of investigation cases, and that it is not responsible for overseeing the work of OA.

13. In its discussion on the subject the committee noted the following:

- (a) The External Auditor had reported that the internal audit function works satisfactorily.



- (b) The OA Work Plan for 2001 is based on a standard risk analysis and adapted to undertake targeted limited reviews and full audits;
- (c) Management's follow-up of OA recommendations was a source of concern. Further work on the Programme Reengineering Programme would cover much of the action outstanding, but the question of timely follow-up should be kept under review.
- (d) There was a question as to whether the resources of OA were adequate. In particular, it was noted that, with its present level of staffing, the unit would take 16 years to work through the 160 audit areas in the Fund's operations.

14. The committee was informed that the new President intended to review the internal audit function. That being the case, it hoped that the President might share his draft conclusions by means of a paper to the September 2001 meeting of the Audit Committee.

After-Service Medical Benefits

15. The committee resumed its discussion on arrangements for funding the accrued liability for after-service medical benefits, and noted that the main reasons for the increase in the liability between 1997 and 1999 were the one-off increase in eligible staff and a change in the accounting standards applied for the two valuations. The committee noted that IFAD staff would be consulted about the assumptions to be incorporated in the next actuarial exercise planned for the end of 2001. It decided to revert to the subject at its September meeting, based on a paper that would, among other things, outline the operating principles of the scheme.