



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

Rome, 12-13 September 2001

REPORT OF THE AUDIT COMMITTEE

1. Following its Seventy-Fourth meeting on 10 September 2001, the Audit Committee wishes to draw the attention of the Executive Board to the following matters.

Appointment of the External Auditor

2. At its Sixty-Third meeting in 1998, the Audit Committee reviewed the question of rotating the external auditor at intervals in the interests of ensuring his independence. The Committee recommended, and the Executive Board agreed, that the external auditor should be appointed on the basis of an annual contract, renewable for a period of up to five years, subject to satisfactory performance. The Committee decided that the issue of rotation should be re-visited every five years with the option of recommending either to reappoint the existing auditor without competition or of retendering for external audit services.

3. The Committee will commence its periodic review of the rotation of the external auditing service at its Seventy-Fifth meeting in December 2001, and the Executive Board will be kept informed on progress made.

Appointment of the External Auditor for the 2001 Audit

4. To allow sufficient time for the completion of its deliberations on the above, and after a thorough review of the Strategic Planning Memorandum presented for the audit of the 2001 financial accounts, the Committee decided to recommend to the Executive Board that the existing external auditor, PricewaterhouseCoopers, should be reappointed for the 2001 audit.

External Audit Fee for the 2001 Audit

5. The Audit Committee is required to put forward recommendations for Executive Board approval with regard to the fees for the annual audit of IFAD's accounts. For the audit of the 2001 accounts, the external auditor has proposed a total fee of ITL 167 million, comprising ITL 150 million for the Regular Programme; ITL 6 500 000 for the Belgian Survival Fund; and ITL 10 500 000 for Supplementary Funds. The total fee of ITL 167 million is unchanged from that charged by PricewaterhouseCoopers for the audit of the 2000 accounts. On the basis of its discussions, the Audit Committee recommends that the Executive Board approve the proposed fee.



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

6. During the course of the annual audit of IFAD's accounts, the External Auditor submits recommendations on internal control and accounting procedures. During its consideration of the Memorandum relating to the 2000 audit, the Committee took particular note of the following.

- (a) **Custodian fees.** State Street has been unable to provide a detailed breakdown of the calculation of custody fees. Some progress has been made in the area of transaction costs, but the custodian's computer software is presently unable to produce a detailed breakdown of custody fees. Further discussions are under way with the global custodian to obtain independent confirmation from State Street auditors that the computer applications have been tested and found reliable. A progress report will be discussed at the December 2001 meeting of the Audit Committee.
- (b) **Investment management policies and procedures.** The Committee noted that a manual on daily procedures was under finalization and that it would be presented to the Investment Advisory Committee for final approval by the end of 2001.
- (c) **Risk monitoring procedures.** In response to the external auditor's recommendation that a formalized set of procedures be put in place to ensure proper coordination of risk measurement and monitoring, value at risk and other risk measurements will be included in reports to the Investment Advisory Committee and the Executive Board with the results of the second quarter of 2001.
- (d) **Loan and grants system (LGS).** Management has taken note of the urgent need to replace the obsolete LGS. Some adjustments have been made to the existing system in the area of multi-currencies for the introduction of the Euro. Development of a new LGS is expected to commence shortly as an integral part of the new financial system.
- (e) **Project audit reports.** The external auditor has urged that procedures for the receipt and review of audit reports should be strengthened. Under existing loan agreement provisions, responsibility for ensuring the preparation of timely and accurate audit reports lies with the Fund's cooperating institutions. Guidelines will be prepared on the terms of reference to be provided by Borrowers to independent auditors.
- (f) **Systems security.** Work is in progress for the definition of a standard policy and procedure for information security. The external auditor considers that satisfactory progress has been made on this issue to date.

7. A comprehensive list of previous external auditor recommendations on internal control and accounting procedures, together with a description of the action taken thereon, will be provided to the Audit Committee at its Seventy-Fifth meeting in December 2001.

Impact of the Process Re-engineering Programme on Internal Audit Recommendations

8. As part of its review of the Internal Audit function, the Committee took note of information on the percentage of internal audit recommendations that relate to the process re-engineering programme. It is hoped that the President will be in a position to address the Audit Committee in December 2001 regarding his review of the Internal Audit function.

Structure, Mandate and Terms of Reference of the Audit Committee

9. Depending upon the outcome of discussions at the Seventy-Third Session of the Executive Board, the Committee will review its structure, mandate and terms of reference with a view to providing advice to the Executive Board on a wider range of financial issues.