



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

Rome, 4-5 September 2002

REPORT OF THE AUDIT COMMITTEE

1. Following its seventy-eighth meeting on 2 September 2002, the Audit Committee wishes to draw the attention of the Executive Board to the following matters.

Structure, Mandate and Terms of Reference of the Audit Committee

2. As advised in its report to the April Executive Board, the Audit Committee has been reviewing the Audit Committee function and discussing the committee's structure, mandate and terms of reference. In doing so the Audit Committee has discussed its proposal with IFAD Management and both parties have agreed on the recommendation to the Board shown below in paragraph 6.

3. Extensive discussions took place regarding the Audit Committee's proposal to be involved in the review of the financial aspects and format of the Programme of Work and Budget (POW&B) and it was agreed that further discussion and the final decision regarding this matter be delayed for a period of two budget cycles. Effectively, this means that the Board will be asked to consider, in April 2004, whether it feels that the budget review process at that time is adequate or if it feels that involvement from the Audit Committee is warranted in the future. The Audit Committee would then revisit its terms of reference after having heard the Board's decision, if necessary.

4. The meeting agreed that during the next two budget cycles the following extra measures with respect to the review of the POW&B would be taken;

(a) Regarding the 2003 POW&B:

- (i) there will be a seminar held just prior to the December 2002 Board in order to review the POW&B document,
- (ii) In addition, the December 2002 Board meeting will be extended by half a day in order to give the Board adequate time for review and discussion of the POW&B document.



- (b) Regarding the 2004 POW&B: Management will organize a half-day workshop at which it will present the POW&B. This workshop should be held at a time, which allows Management to react to the Board's comments and make any necessary amendments in time for submission for the December Board.

5. The committee currently meets for the equivalent of two full days per year, comprising three half-day sessions immediately before each Board and a fourth session in March to review the annual financial statements. Over the last two years, it has proved difficult to deal with the business of the committee in the time available, and postponement of items has often been necessary. Given that the proposed terms of reference reflect the scope of work that is currently on the Committee's agenda it is proposed that the Committee meet for four full days per year.

6. The Executive Board is invited to approve the revised Terms of Reference as contained in the Annex to remain in force for a period of two budget cycles and to approve that the Audit Committee meet for four full days per year.

Review of the Internal Audit Function

7. The Secretariat presented its oral report on its review of the internal audit function. The review previously conducted by Management did not reveal any major concern as regards the operation of the internal audit function, however it highlighted a need to improve the follow up of the recommendations made. Consequently, a concrete action plan has been initiated by Management to ensure that there is adequate and timely follow-up of the internal audit recommendations.

8. The Secretariat outlined the action that has already been taken or is underway in the following five key areas:

- (a) Project audit reports
- (b) Investment management
- (c) Procurement of goods and services
- (d) IFAD's grant programme
- (e) IFAD's Strategic Change Programme.

9. It was noted that senior management is working to strengthen the oversight function within IFAD through, *inter alia*, reinforcing mechanisms like the Oversight Committee. Although Management is satisfied that the internal audit function is properly staffed it notes that the current budget process (linked to the Strategic Framework) will be used in reassessing staffing throughout IFAD and that certain improvements may also be brought about through the implementation of the Strategic Change Programme.

10. The Committee requested that the Secretariat circulate, within two weeks, an information paper presenting the main points of its oral presentation to members.

11. The Committee also requested that a broader paper be presented to the December Audit Committee meeting outlining how IFAD deals with the oversight issue in the context of the standards that are being considered in this area by United Nations organizations and international financial institutions. This paper should also address the use of "best practices" and consider whether a review of the internal control framework should be made annually.



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

12. During the course of the annual audit of IFAD's accounts, the External Auditor submits recommendations on internal control and accounting procedures.

13. It was noted that various recommendations had appeared in previous years and the External Auditor advised that the issues were repeated since it was important to keep the issues visible and to monitor the action being taken on them.

14. The Committee took note of the observations and recommendations of the 2001 Memorandum on Internal Control and approved the President's draft responses.

Private Session with the External Auditor and Review of the 2001 Audit Fee

15. In a private session, the Committee reviewed the 2002 Strategic Planning Memorandum with the representatives of the External Auditor, PricewaterhouseCoopers. The Committee expressed satisfaction both with memorandum and with the proposed fee.

16. 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 2002 accounts, the external auditor has proposed a total fee of USD 85 400 comprising:

- USD 69 000 for the Regular Programme,
- USD 3 000 for the Belgian Survival Fund,
- USD 4 800 for Supplementary Funds,
- USD 4 300 for the Global Mechanism of the United Nations Convention to Combat Desertification,
- USD 4 300 for the Popular Coalition to Eradicate Hunger and Poverty.

It was noted that the proposed fee is in line with the cost proposal submitted by PricewaterhouseCoopers during the tender process.

17. The Committee discussed the proposal letter received from PricewaterhouseCoopers and noted that the limited liability clause that had appeared in prior proposals had been deleted. It also noted that an arbitration clause has now been inserted.

18. On the basis of its discussions, the Audit Committee recommends that the Executive Board accept the PricewaterhouseCoopers proposal and approve the proposed fee.

Reappointment of External Auditor

19. In order to streamline the process, the Committee agreed that the re-appointment of the External Auditor take place in April 2003 and thereafter in April on an annual basis.

ANNEX

The committee proposes that its terms of reference should be recast as follows. Comments and explanations are in italics.

Terms of Reference of the Audit Committee

The role of the Audit Committee is to assist the Executive Board in exercising control over the financial administration of the Fund. To this end, the committee will:

- (a) review the draft annual financial statements [*as now*];
- (b) nominate the external auditor to the Executive Board, following a review of the scope, costs and contractual terms of the appointment [*as now, but with a more explicit description of the duties of the committee*];
- (c) review the detailed scope, design and results of the audit in private sessions with the external auditor [*as now, but more explicit*];
- (d) satisfy itself that the recommendations of the external auditor are promptly acted on by Management [*existing practice, though not stated explicitly in the terms of reference*];
- (e) commission special investigations from the external auditor where it sees fit [*existing practice, e.g. the review of investment risk-management practice in 1998-99*];
- (f) every five years, review the case, from first principles, for rotating the appointment of the external auditor [*existing practice*];
- (g) satisfy itself that the internal audit function is effective and efficient, and that audit reports are promptly acted on by Management [*as now*];
- (h) review the application to the Fund of new or revised accounting standards and principles [*existing practice, e.g. IAS 39*];
- (i) conduct a triennial review of the level of the General Reserve [*existing practice*];
- (j) conduct a triennial review of the risks faced by the Fund and its risk-management procedures, satisfying itself, *inter alia*, that the internal control and risk-management systems established by Management in the areas of investment and procurement effectively safeguard the Fund's assets [*this would bring the Fund into line with emerging best practice in public- and private-sector bodies*];
- (k) report to the Executive Board on any matters arising from the above terms of reference and submit such conclusions and recommendations thereon as the Committee deems appropriate; and
- (l) undertake other tasks, within the scope of the above terms of reference, remitted to it by the Executive Board [*for example, review the use of advance commitment authority*].