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Enabling the rural poor  
to overcome poverty

## **Report of the Audit Committee**

Executive Board — Ninetieth Session  
Rome, 17-18 April 2007

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For: **Approval**



## **Recommendation for approval**

The Executive Board is invited to endorse the recommendation on IFAD's consolidated financial statements for 2006 for presentation to the thirty-first session of the Governing Council for approval as stated in paragraph 6.



## Report of the Audit Committee

1. At its ninety-sixth meeting, held on 30 March 2007, the Audit Committee discussed the following matters, which it wishes to bring to the attention of the Executive Board.

**Review of the audited financial statements of IFAD for 2006 (AC 2007/96/R.3) and high-level review of the consolidated financial statements of IFAD for 2006 (AC 2007/96/R.4)**

2. The Committee reviewed the audited consolidated financial statements of IFAD for the year ending 31 December 2006, and agreed to present them to the Executive Board for endorsement prior to their submission to the Governing Council for approval, in accordance with Regulation XII(6) of the Financial Regulations of IFAD.
3. The secretariat informed the Committee that, in line with prior years and best practice, the financial statements had been prepared in accordance with international financial reporting standards. The secretariat highlighted some of the main changes in the consolidated financial statement balances, as reported in the high-level review document.
4. The Committee commented on general and specific issues. In particular, the following matters were discussed:
  - (a) The increase in IFAD-only operating expenses from US\$108 million to US\$122 million was the result of various factors, including the General Service salary increase pursuant to the International Civil Service Commission recommendation, and the significant increase in expenditure under the Programme Development Financing Facility (PDFF) associated with the expanded programme of work and financed with the PDFF carry-over from previous years. It was noted that the IFAD-only operating expenses also included costs of the Office of Evaluation in the amount of US\$4.9 million.
  - (b) The presentation of cumulative contributions in appendix E to the financial statements.
  - (c) Loan and grant amounts at year-end, in particular for purposes of comparison with the budgeted programme of work.
  - (d) The level of the investment portfolio and resources available for commitment. In this regard, the secretariat clarified that the investment portfolio represents resources committed for effective loans.
  - (e) The costs related to IFAD's Action Plan for Improving its Development Effectiveness. The secretariat highlighted the special nature of the Action Plan's costs and its different objectives in order to achieve a more efficient and effective administrative and operational structure.
  - (f) The changes in the adjustments of the fair value.
5. The external auditor reported that it expected to issue a clean (unqualified) audit opinion on IFAD's consolidated financial statements, as per the draft attached to the financial statements. It further noted that, despite the complexity of IFAD's accounts, during the course of the audit no matters had come to its attention that were felt necessary to be brought to the attention of the Audit Committee in terms of control deficiencies. The external auditor shared some highlights from the internal control memorandum that would be submitted to the next meeting of the Audit Committee.

6. The Committee recommended that the Executive Board endorse the IFAD consolidated financial statements for 2006 for presentation to the thirty-first session of the Governing Council.

**Report on the implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (AC 2007/96/R.5)**

7. The IFAD anti-corruption policy was approved by the Executive Board in November 2005. The actions planned by the Fund to implement the policy were set out in the action plan that was attached to the policy. The action plan aimed at strengthening IFAD processes for the prevention, detection and investigation of fraud and corruption complaints and for the application of sanctions. The document presented – for review – reports on the implementation of those actions.
8. The Committee noted that IFAD had managed, in the short term and with minimum incremental resources, to achieve significant progress in each of the areas covered by the action plan. The main achievements included: (i) the launch of the anti-corruption website in all four official languages and an awareness campaign, including distribution of an anti-corruption brochure to all IFAD projects, operations and partners, was undertaken during the year; (ii) confidential channels for reporting allegations were established and operational through the year; (iii) an investigation section was set up within the Office of Internal Audit (renamed the Office of Audit and Oversight); and (iv) internal and operational procedures and legal instruments were updated.
9. An external review of the IFAD investigative and sanctions processes was undertaken during 2006 and the results led to the overhaul of these processes. This involved the creation of a sanctions committee having the sole mandate of dealing with sanctions, for which rules of procedure and guidelines are presently being elaborated in-house. At the request of the Audit Committee, it was decided that the executive summary of the external review would be made available prior to the ninetieth session of the Executive Board.
10. With regard to the receipt of allegations from rural poor people in very remote areas, the Committee noted that IFAD had distributed an anti-corruption awareness kit in the Fund's official languages to all projects (in other words, not available in the local languages of many people), but felt it should focus more in 2007 on developing further the existing communication channels, including through better interaction with cooperating institutions that are closer to project areas. Nevertheless, the Committee highlighted that the low level of reporting of cases of fraud and corruption in projects might be related to the low capacity of some end beneficiaries of IFAD funds to detect and report irregular practices.

**IFAD Oversight Committee, 2006 annual report (AC 2007/96/R.6)**

11. The Audit Committee was informed that this would be the last report of the Oversight Committee and that, in the future, reports on investigations would be issued by the Office of Audit and Oversight.
12. A significant increase in the investigation caseload was reported in 2006: the Oversight Committee received and considered 30 new complaints, 20 of which were related to IFAD staff and consultants. Twenty-seven cases were completed or closed, two of which had been brought forward from 2005. The secretariat also informed that a debarment procedure with due process rights for external parties had been introduced for the first time in 2006 and that a formal case registration and tracking system had been developed and implemented.

13. The Audit Committee examined and discussed some of the cases presented in the report.

**Internal audit activities for 2006, plans and implementation of internal audit recommendations (AC 2007/96/R.7)**

14. The Committee considered the internal audit activities undertaken by the Office of Audit and Oversight during 2006, the strategic directions and plans for 2007 and the status report on the implementation of internal audit recommendations. Five audit reports were issued on processes of critical operational importance (two covered core processes in the programme development implementation cycle and two covered critical security items of the new corporate application PeopleSoft). Additionally, ten draft reports were in circulation for comment at the end of 2006. A slow-down in the implementation rate of internal audit recommendations had been noted, partly attributable to the priority placed by divisions on initiatives taken under the action plan.
15. The Committee further noted that the approved plan for 2007 reflects the high priority placed by IFAD management on streamlining business processes, and this will be a main objective of audit assignments in 2007. In 2007 IFAD will organize an external quality assessment review of internal audit as required by the internal standards for the professional practice of internal auditing. The results of this review will be included in the next annual report of the Office of Audit and Oversight.
16. The Committee requested that the next report on the level of implementation of the recommendations incorporate management's comments and answers as appropriate.