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Report of the 103rd meeting of the Audit Committee

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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Report of the 103rd meeting of the Audit Committee

1. At the 102nd meeting of the Audit Committee, members determined that it was time to clarify the Committee's position with respect to such issues as the Committee's composition and terms of reference, the participation of external experts in Committee meetings, access to internal audit reports, oversight and the appointment of the chief audit executive. It was agreed that the secretariat would provide draft updated terms of reference of the Committee, reflecting the decisions taken to date with regard to external quality assurance (EQA) recommendations, as a basis for a discussion at a special meeting of the Committee before the December session of the Executive Board. That meeting, the 103rd meeting of the Audit Committee, was held on 11 December 2008.
2. The agenda of the 103rd meeting included only one substantial item, the "terms of reference and rules of procedure of the Audit Committee of the Executive Board". In producing the document for this agenda item, the secretariat sought to clarify the role of the Audit Committee within the institutional governance framework of the Fund. Furthermore, since the implementation of some of the EQA recommendations affect the operational modalities of the Committee, the secretariat took this opportunity to revise the Audit Committee's rules of procedure. The Committee was consequently provided with a document containing the draft updated and combined rules of procedures and terms of reference of the Committee, together with explanatory notes on the proposed changes. A slightly revised version of the document was circulated in hard copy during the meeting. The secretariat clarified that it would provide its formal view of the various issues as the current draft evolved into a final document.
3. Committee members made some general comments before their thorough discussion of the text, as follows:
 - Some members felt that the Committee's overall mandate should not be limited to financial matters but should also include ethics, governance and possibly other matters; and
 - Other members felt that, in interpreting the text of the draft, they would require support from legal experts in their home countries and would therefore favour finalizing their position after having received such support.
4. Following a detailed examination of the draft, Committee members generally agreed on most of the changes that had been introduced into the document. In particular, they concurred that the revised and now combined terms of reference and rules of procedure of the Audit Committee should reflect the following:
 - **Voting on decisions:** Since the Audit Committee is an advisory body for the Board and not a decision-making body, there should be no specific voting procedure. Furthermore, although efforts would be made to arrive at a consensus, the Board should not be deprived of the benefit of having the divergent views of Audit Committee members;
 - **Closed sessions:** The Committee should have the option of having private sessions with the external auditors and the Director of the Office of Audit and Oversight (OA), and other closed sessions as it deemed appropriate, without the presence of other IFAD staff;
 - **Appointment, termination and evaluation of the Director of the Office of Audit and Oversight:** The appointment of staff, including the Director of OA, is the responsibility of the President of IFAD. However, the Audit Committee should be consulted in relation to the appointment, performance evaluation and termination of the Director of OA;

- **Disclosure of internal audit reports:** Audit Committee members could request to receive internal audit reports, and the Audit Committee could decide to examine these as deemed necessary;
 - **Internal audit charter, annual report and workplan:** The Committee should review the internal audit charter, and, on a yearly basis, the annual report with respect to all aspects of the work of OA. This would include all of OA's activities, the results of audits undertaken, the results of investigations undertaken and the sanctions applied, audit recommendations and the status of their implementation as well as the workplan. Following this review, the Committee would, if necessary, make proposals for approval by the President; and
 - **Risk management:** The Committee's review of risk management practices and procedures should become annual instead of triennial and should use as its basis the annual report on enterprise risk management submitted by the President to the Executive Board.
5. Some draft provisions did not meet with a full agreement and will be finalized once members are able to obtain appropriate legal advice. These include the following:
- **Participation of external experts in Audit Committee meetings:** There was support for allowing external experts to participate in Audit Committee sessions in an advisory capacity, when required, provided that costs were reasonable. It was felt that this would improve the quality, transparency and objectivity of the Committee's advice to the Board. However, two members had concerns, citing, inter alia, the potential cost of such an arrangement as an issue, and expressed a preference for assessing the implications further. The secretariat indicated that the cost need not necessarily be excessive given that the practice of other United Nations organizations, when experts from United Nations organizations participated in such meetings, was to pay for travel-related costs only.
 - **Reporting to the Executive Board:** It was agreed that the reporting of the Audit Committee to the Board should be streamlined. However, it was recognized that consideration would need to be given to the practical difficulties arising from both the scheduling of some Audit Committee meetings too close to Executive Board sessions and from the required approval by the Committee of the minutes of its meetings.
6. Members were in full agreement with the fact that the draft proposal retained the current responsibilities of the Audit Committee in all key areas, including the Committee's oversight role over the external audit arrangement, the annual review of the budget and financial statements, and the Committee's responsibility for assessing the efficiency and effectiveness of the internal audit function. The secretariat also clarified that the arrangements for the election of the chairperson had not been modified given that changes would need to be considered in conjunction with the relevant arrangements in place for the Evaluation Committee.
7. As a result of its discussions, the Committee agreed to a revised "draft terms of reference and rules of procedure" paper, which will be annexed to the minutes of the meeting. The Committee considered it important to inform the Board at its current session about the main orientation of the discussions it had held thus far on this item. It expects to present a final proposal on its terms of reference and rules of procedures for discussion and approval by the Board at its April 2009 session.

