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## **Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board**

Executive Board — Ninety-seventh Session  
Rome, 14-15 September 2009

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

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## **Recommendation for approval**

The Executive Board is invited to approve the revised Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board as set out in attachment I of this document.



## **Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board**

1. The Audit Committee has undertaken a review of its Terms of Reference and Rules of Procedure. In the process, the Committee took the opportunity to make proposals on how to incorporate certain recommendations made by the external quality assessment (EQA) of IFAD's internal audit function. The secretariat assisted the Committee by drafting a revised terms of reference and rules of procedure for its consideration, by providing the Committee with information and explanatory notes for each section and by updating the revised documents to reflect the evolving consensus of Committee members. In the interests of simplicity, the Committee decided to combine the two documents (i.e. the Terms of Reference of the Audit Committee and the Rules of Procedure of the Audit Committee) into a single document. The secretariat's support to the review and revision efforts was facilitated by the establishment by the President of a task force to address the EQA recommendations. The task force – led by the Assistant President, Finance and Administration Department – conducted a comparative survey of the functional aspects of the audit committees of 21 international financial institutions and United Nations organizations and provided the results to IFAD's Audit Committee as an input for its ongoing discussions.
2. After an extensive review and due diligence process, the Committee reached consensus on the text of the proposed Terms of Reference and Rules of Procedure of the Audit Committee at its 107<sup>th</sup> meeting. The final version is hereby attached (attachment I) and recommended for approval by the Executive Board. The current Terms of Reference and Rules of Procedure of the Audit Committee are set out in attachments II and III respectively for comparison purposes.
3. The main changes with respect to the current versions are:
  - Private sessions to be held between the Director of the Office of Audit and Oversight (OA) and the Audit Committee.
  - Review by the Audit Committee of the OA workplan and, if necessary, amendments to the OA charter proposed for the approval by the President.
  - Review by the Audit Committee of the OA budget in the context of the Committee's review of IFAD's annual budget exercise.
  - Consultation by the President with the Audit Committee chairperson on the selection, appointment and dismissal of the Director, OA.
  - Feedback by the chairperson on the performance of the Director, OA.
  - Access to internal audit reports by the Audit Committee.
  - Use of experts in exceptional circumstances, subject to resource availability.
  - Participation of Executive Board Directors as observers in Audit Committee meetings.
4. The proposed terms of reference are generally in line with those of the audit committees of similar institutions, but have been formulated within IFAD's governance framework and address EQA recommendations, which are based on professional standards. The Executive Board is consequently invited to approve the revised Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board as set out in attachment I of this document.

## **Proposed Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board**

### **1. Establishment and composition**

- 1.1. The Executive Board, acting under rule 11 of the Rules of Procedure of the Executive Board, hereby establishes the Audit Committee.
- 1.2. The Audit Committee shall be composed of nine Executive Board members or alternate members appointed by the President pursuant to rule 11 of the Rules of Procedure of the Executive Board, as follows: four members from List A, two members from List B and three members from List C. The term of office of the Audit Committee shall be three years.
- 1.3. The Committee shall elect its chairperson from among its List A Committee members. In the absence of the chairperson during a scheduled meeting of the Committee, the chair will be temporarily assumed by another member from List A selected by the Committee.

### **2. Role and conduct of business**

- 2.1. As a subsidiary body of the Executive Board, the role of the Audit Committee is to assist the Executive Board in exercising supervision over the financial administration and internal oversight of the Fund.
- 2.2. A quorum of any meeting of the Audit Committee shall be constituted when representatives of a majority of its members are present.
- 2.3. The Audit Committee shall not vote but shall set out the views expressed by its members in the reports it submits to the Board. Notwithstanding the foregoing, the chairperson shall attempt to secure consensus in order to present in its reports to the Executive Board, as far as possible, the unanimous views of the Audit Committee. In the absence of a consensus, the minority views and opinions shall be reflected.
- 2.4. The Audit Committee shall hold regular meetings. The dates of each regular meeting shall be determined by the Committee at each preceding meeting. Meetings can also be convened by the chairperson at any other time if required.
- 2.5. The official record of the discussions and decisions taken during Audit Committee meetings shall be the Audit Committee minutes. The minutes shall be approved by all participating members and may be submitted to the Executive Board. The chairperson will report to the Board on the deliberations of Audit Committee meetings.
- 2.6. The meetings of the Audit Committee shall be open to such staff members of the Fund as the President may, from time to time, designate for that purpose, except:
  - (i) When the Audit Committee requests the President to limit such designation to the Director of the Office of Audit and Oversight to attend a particular Audit Committee meeting for the purpose of providing information and views on matters concerning internal control and audit systems;
  - (ii) When the Audit Committee wishes to meet with the external auditor without the presence of staff members; and
  - (iii) When the Audit Committee wishes to have a closed session.
- 2.7. Subject to the availability of resources within the administrative budget, the Audit Committee may, under exceptional circumstances, obtain outside expert advice in accounting, financial, legal and other matters to assist it in the discharge of its responsibilities, giving reasonable advance notice to the Executive Board and the President of its intention to do so.

- 2.8. Executive Board members who are not members of the Committee may also attend the meetings as observers, except for the meetings foreseen by paragraph 2.6.(i), (ii) and (iii) above.

### 3. **Responsibilities**

- 3.1. The Executive Board may refer to the Audit Committee any question related to the financial administration and internal oversight of the Fund for which the Executive Board is responsible under the Agreement Establishing IFAD and the Financial Regulations of IFAD adopted by the Governing Council. In addition, the Audit Committee shall have the following permanent responsibilities:
- (a) Every year, prior to consideration by the Board, review the annual budget of the Fund in accordance with section 10 of article 6 of the Agreement Establishing IFAD, and regulation VI, paragraph 1 of the Financial Regulations of IFAD;
  - (b) Oversee the process for the selection of the Fund's external auditor and recommend to the Executive Board the appointment of a firm as the Fund's external auditor, review any significant changes in the scope or financial terms of such appointment and report to the Executive Board on any issues related thereto that require the attention of the Board;
  - (c) Every year, prior to the inception of the external audit, meet with the external auditor to discuss its scope and design in accordance with regulation XII, paragraph 2 of the Financial Regulations of IFAD, and report to the Executive Board on any issues related thereto that require the attention of the Board;
  - (d) Every year, review the report(s) of the external auditor and the audited financial statements of the Fund to be submitted by the Board to the Governing Council in accordance with regulation XII, paragraph 6 of the Financial Regulations of IFAD, and provide its opinion and comments thereon to the Executive Board;
  - (e) Every year, review the risks faced by the Fund and assess the risk management practices and procedures in place, and provide its opinion and comments thereon to the Board;
  - (f) Review, at least every three years, the level of the General Reserve and provide a report thereon to the Executive Board;
  - (g) Determine whether the internal control and audit systems established by the President in accordance with regulation X of the Financial Regulations of IFAD are adequate and whether the internal audit function is efficient and effective, and report to the Executive Board on any issues related thereto that require the attention of the Board;
  - (h) Commission special investigations from the external auditor or any other suitable entity concerning one or more specific aspects of the financial administration and audit systems;
  - (i) For the purpose of making the determination referred to in subparagraph (g), the Committee shall, particularly:
    - (i) Examine the annual reports of the Office of Audit and Oversight in all aspects of its work, which include all audit activities, results of audits undertaken, results of investigations undertaken and sanctions applied;
    - (ii) Examine the internal audit annual workplan and, if necessary, make proposals for the consideration of the President;
    - (iii) Examine all amendments to the internal audit charter and, if necessary, make proposals for the consideration of the President;

- (iv) Examine whether the internal audit recommendations have been adequately taken into account and promptly acted upon;
- (v) Have access to internal audit reports upon request of one or more members and examine such reports as deemed necessary;
- (j) Determine whether the recommendations of the external auditor provided in accordance with regulation XII, paragraph 3 of the Financial Regulations of IFAD have been adequately taken into account, and report to the Executive Board on any issues related thereto that require the attention of the Board. For that purpose, should it so desire, the Committee may call periodically for the external auditor to make observations with respect to the efficiency of the financial procedures, the accounting system and internal financial controls;
- (k) Be consulted on the appointment, performance and termination of the Director of the Office of Audit and Oversight;<sup>1</sup>
- (l) Review the applicability of generally accepted international auditing and accounting standards and special directions of the Executive Board to the Fund's yearly audit, in accordance with regulation XII, paragraph 2 of the Financial Regulations of IFAD, and provide its opinion and comments thereon to the Board; and
- (m) Examine regularly the adequacy of the internal oversight mechanisms put in place by the organization.

#### 4. **Final provisions**

- 4.1. Information obtained by the members of the Audit Committee pursuant to the present terms of reference shall be used exclusively for the tasks of the Committee as defined herein, and shall not be disclosed in any way to third parties other than in the reports of the Committee to the Executive Board. The Rules of Procedure of the Audit Committee contained in EB 98/65/R.38 are hereby cancelled. In conformity with rule 11.3 of the Rules of Procedure of the Executive Board and with the exception of rule 28 of the same, unless otherwise determined in the present terms of reference, the said Rules of Procedure of the Executive Board shall apply, *mutatis mutandis*, to the proceedings of the Audit Committee.

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<sup>1</sup> This provision may be subject to further review in order to align IFAD with best practice as recommended by the External Quality Assessment of the internal audit function and with evolving international standards.



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ATTACHMENT

**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.
- (b) Nominate the external auditor to the Executive Board, following a review of the scope, costs and contractual terms of the appointment.
- (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.
- (e) Commission special investigations from the external auditor where it sees fit.
- (f) Every five years, review the case, from first principles, for rotating the appointment of the external auditor.
- (g) Satisfy itself that the internal audit function is effective and efficient, and that audit reports are promptly acted on by Management.
- (h) Review the application to the Fund of new or revised accounting standards and principles.
- (i) Conduct a triennial review of the level of the General Reserve.
- (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.
- (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.
- (l) Examine in November the budget document to be submitted to the December Board session and prepare a report to that same session containing an account of its meeting.
- (m) Undertake other tasks, within the scope of the above terms of reference, remitted to it by the Executive Board.



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## **RULES OF PROCEDURE OF THE AUDIT COMMITTEE**

The Rules of Procedure of the Executive Board shall apply, *mutatis mutandis*, to the proceedings of the Audit Committee, except as specified below:

### **Rule 1 Convening of Meetings**

The Audit Committee shall hold regular meetings periodically. The dates of each regular meeting shall be determined by the Committee at each of its preceding sessions. Special meetings of the Committee may also be called by the Chairman upon the request of any two members ~~representing different categories.~~

### **Rule 2 Membership and Terms of Office**

The composition of the Audit Committee shall consist of nine Executive Board Members or Alternate Members: the Chairman and three Members from List A, two Members from List B and three Members from List C. The term of office of the Audit Committee shall be three years.

### **Rule 3 Quorum**

The quorum for any meeting of the Audit Committee shall be constituted by five Members. ~~by four members provided that each category is represented.~~

### **Rule 4 Chairman**

The Committee shall elect its Chairman from List A Committee Members. In the absence of the Chairman during a scheduled meeting of the Committee the Chair will be temporarily assumed by another Member from List A selected by the Committee.

### **Rule 5 Method of Taking Decisions**

~~In general, the Chairman's ruling should reflect a consensus. However, such rulings shall stand when supported by two Members. The Committee will make every effort to arrive at decisions by consensus. Where such efforts have been exhausted, the Chairman's rulings shall stand when supported by four other Members.~~

### **Rule 6 Attendance at Meetings**

The President of IFAD or, in his absence, a member of staff designated by the President as his representative, may participate in the deliberations of the Committee. The President will designate the appropriate staff member or members who are to provide, pursuant to the Committee's



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request, such information as may be required in carrying out the Committee's responsibilities under its terms of reference.

**Rule 7**  
**Documentation, Records and Reports**

The proceedings of the Committee, documents provided to the Committee, and the records of the Committee's deliberations, shall be restricted ~~strictly confidential~~ and available only to Members of the Committee and Members of the Executive Board. The proceedings of the Committee shall be reflected in the Minutes of the Audit Committee Summary Records, unless the Committee decides otherwise.