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to overcome poverty

Report of the 109th meeting of the Audit Committee

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document:

Bambis Constantinides

Director, Financial Services Division

telephone: +39 06 5459 2054

e-mail: c.constantinides@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer

telephone: +39 06 5459 2374

e-mail: d.mcgrenra@ifad.org

Report of the 109th meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 109th meeting of the Committee held on 5 November 2009.
2. The new Rules of Procedure of the Audit Committee approved by the Executive Board in September 2009 allow for the attendance of Executive Board members at Committee meetings as observers. Two Executive Board members attended the 109th meeting in an observer capacity. Based on a proposal by the Audit Committee chair, the Committee endorsed the practice of providing observers with access to Audit Committee documents through temporary access to the Audit Committee restricted website. Access will not be provided to documents of a sensitive nature that are to be discussed in a closed Committee session.

Project audit reports for fiscal year 2008

3. Management presented a report on the results of the project audit review for fiscal year 2008. These audits are conducted by local external auditors hired by project management and are then submitted to and reviewed by IFAD. The report highlighted that the positive trend observed and reported over the last two years as regards the timeliness of submission and quality of audits continued in fiscal year 2008. This positive result comes at a time of significant operational transition in IFAD towards direct supervision. Management drew attention to the ongoing improvements in this area, which include increased training activities, the issuance of guidance material to borrowers and the launch of a project aimed at automating the submission and processing of project audit reports in 2010.
4. In response to queries from Committee members, Management clarified the process followed in selecting auditors, setting the terms of reference, finalizing the reports and following up on audit recommendations. The Committee appreciated the positive developments and supported the measures being taken by Management to strengthen the project audit mechanism.

Code of conduct for IFAD Executive Board members

5. The Executive Board has requested that the Committee proceed with the development of a code of conduct for Executive Board members. To pursue this task, the Committee asked the secretariat to prepare a framework document that covers: (i) the legal and institutional parameters for a code of conduct; and (ii) a comparative overview of codes of conduct in other international financial institutions. This item will undergo substantive discussion by the Committee once the framework document is available.

Audit Committee's work programme for 2010

6. The Executive Board at its ninety-seventh session approved the new Terms of Reference and Rules of Procedure of the Audit Committee. The Committee was presented with a tentative programme of work for 2010, which was drafted by the secretariat based on the revised terms of reference.
7. Committee members generally found the tentative programme appropriate to the responsibilities of the Committee under its revised terms of reference. However, there were concerns that several of the items included in the programme would have workload and scheduling implications. Members also requested the General Counsel for more precise guidance as to the type of items that would fall within the scope of the revised Audit Committee mandate and for an opinion as to whether papers of a financial nature presented to the Board only for information would need prior review by the Committee.
8. In order to facilitate further discussion of this item, the Committee requested the secretariat to conduct an analysis of these aspects and of the workload and

scheduling implications of including additional items in the Audit Committee agenda.

Review of IFAD's project procurement guidelines and their implementation

9. Management provided an overview of the current status of this effort and tabled a paper comparing in detail IFAD's guidelines to those of the World Bank, the African Development Bank and the Asian Development Bank.
10. With the advent of direct supervision, IFAD has assumed responsibility for the supervision of project procurement, a task previously entrusted to cooperating institutions. Alignment with the practices of other international financial institutions (IFIs) would have necessitated the development of extensive sets of procurement procedures, rules and templates. Management noted that IFAD projects rarely involve large procurement actions and concluded that the Fund's limited resources would be better used in streamlining procurement requirements and opting for greater reliance on borrowers' procurement systems, where these prove consistent with IFAD's procurement principles and guidelines. An outline was provided of the approach being taken to revising the guidelines and Management's steps to strengthen IFAD's capacity in the oversight of project procurement activities (EB 2009/98/R.12). Management seeks the views of the Board to guide the revision of IFAD's procurement guidelines, which has been postponed to 2010. This postponement will primarily allow Management to obtain and incorporate Committee and Board feedback on the approach prior to launching the revision process.
11. Committee members generally supported the objectives and the approach that IFAD is taking, but sought clarification as to the extent of the streamlining foreseen of IFAD's procurement requirements; the ongoing procurement certification training; the use of the World Bank's procurement assessments; and IFAD's approach to procurement with community participation. Members commented on the need to have guidelines of sufficient substance to permit a meaningful comparative assessment of national procurement guidelines. IFAD's guidelines should not merely be a set of principles and should contribute indirectly to building the capacity of the borrower institutions involved in IFAD procurement. The difficulty encountered by other IFIs in relying on national systems in this area was mentioned as a note of caution.
12. Management confirmed their intention to produce revised guidelines with the requisite content to facilitate a comparative assessment of borrowers' procurement guidelines and to develop operational procedures to support implementation. Comparison with the guidelines of other IFIs confirmed that IFAD's guidance on procurement with community participation was more extensive. The experiences and studies of other IFIs in this area will also inform the further shaping of IFAD's approach.
13. In revising the guidelines, Management will take into consideration both the comments of the Committee and the comments to be made by the Board. The revised guidelines are to be presented for the Board's approval in September 2010.

