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Enabling poor rural people  
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## Report of the Chairperson on the 119<sup>th</sup> meeting of the Audit Committee

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Executive Board — 103<sup>rd</sup> Session  
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For: **Review**

## Report of the Chairperson on the 119<sup>th</sup> meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 119<sup>th</sup> meeting of the Committee held on 20 June 2011.

### Adoption of the agenda

2. The agenda was amended to include the following changes:
  - Removal of the item "Oral update on progress in the development of the Loan and Grant System replacement project".
  - The item "Review of all proposals and shortlisting of proposals for the Fund's external auditor to be considered for presentation to the Committee" was amended to "Oral update on progress towards the selection of the Fund's external auditor for 2012-2016".
  - Removal of the item on the "Review of the adequacy of the internal oversight mechanisms (closed session)".
  - Proposal to drop the item "Revisions to the Financial Regulations of IFAD".
  - A new item on the advance commitment authority (ACA) and financing requirements and modalities for IFAD9 was introduced.
3. Members requested clarification of what was to be discussed under the ACA item referred by the second session of the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9) and asked that the item be included as part of the main agenda. Members also requested a brief oral preview of the expected revisions to the Financial Regulations. The Chairperson clarified that the mode of discussion of the ACA matter was at the discretion of Committee members. The agenda was amended accordingly and approved.

### Minutes of the 118<sup>th</sup> meeting of the Audit Committee

4. The minutes were approved with one proposed amendment – a reference to a member who had sent apologies in advance for non-attendance. A follow-up question was raised on the issue of whether a firm that had previously provided services to IFAD had an undue advantage in the external auditor selection. Management indicated that this would be addressed under the related agenda item.

### External auditor's report on internal control and accounting procedures

5. The external audit partner presented the report and stated that the internal control memorandum was similar to those produced in prior years in terms of format and layout of priorities. Of the four main issues that had also been raised sometime back, three related to the Loans and Grants System (LGS) and one related to IT tools for the Heavily Indebted Poor Countries Debt Initiative and fair value accounting. All three LGS-related issues were expected to be resolved with the completion of the LGS replacement project. The fourth issue, on IT controls, was of lower priority. The partner assured the Committee that, all things considered, there was no specific risk to the organization.
6. Members requested more information on the obstacles to implementing recommendations on time and the related risks. The external auditor clarified that manual interventions in controls introduced risks, however sufficient controls were in place to mitigate these.
7. Management informed the Committee that the LGS replacement project was scheduled for completion in 2013.
8. The external audit strategy memorandum for the year ending 31 December 2011 was discussed in a closed session.

### **Financing requirements and modalities for IFAD9 and the advance commitment authority**

9. The Chairperson introduced the item and invited suggestions from members regarding the approach that should be taken to this matter. In response, members requested clarification of the expectations of the IFAD9 Consultation in requesting the Committee's review of these issues and also of the type of assurance that an external party could provide on the robustness of the contents of the Financing requirements and modalities for IFAD9 paper that was presented to the second session of the IFAD9 Consultation.
10. The external auditor informed the Committee that he was unable to provide information without a clearer definition of the work involved, an indication of the timing of the assignment, understanding the underlying model and assumptions. He assured the Committee of the ability of PricewaterhouseCoopers (PwC) to work within tight deadlines, and the fact that there would be no conflict with their current mandate. He declined to estimate the costs in the absence of a clear understanding of the work involved.
11. The Chairperson requested the members to confirm whether the review was to be conducted of the ACA implications for future replenishment papers or the Financing requirements and modalities for IFAD9 paper.
12. It was agreed that the review would deal with the financing modalities paper. Management was requested to draw up the terms of reference for the exercise. Given the urgency of the matter, the Audit Committee members would review these and convey their agreement by correspondence. The terms of reference would be shared with PwC to obtain an estimate of time frame and fees. The Chairperson wrapped up the item and informed the Committee that the proposal would be presented to the Board for approval in September.
13. The Committee was informed by the PwC partner that the fees for the audit of the 2011 financial statements would not increase, except for an inflation adjustment. The Committee took note and the item was closed.

### **Oral update on the revisions to the Financial Regulations of IFAD**

14. Management informed the Committee that the item had been dropped from the agenda because the internal consultation process was still ongoing. On completion of the consultation process, a paper would be prepared, reviewed by Senior Management and presented to the Audit Committee. Members requested details of the expected revisions. Management responded that these related mainly to an amendment to regulation VIII and to some budget ambiguities. Members wished to know the exact nature of the amendment to regulation VIII. They were informed that it pertained to the roles of the President and the Executive Board in the investment of funds and that the President would be making a recommendation in this regard to the Board.
15. The oral update was noted.

### **Oral update on progress towards an independent attestation of internal controls over financial reporting**

16. Management provided an oral update. The Committee was informed that following the previous briefing on the subject, Management had focused on implementing the recommendations emerging from the report of the external assessment. The key areas of implementation were identified as follows:
  - Project methodology scoping paper. A draft had been prepared and would be subjected to further assessment.

- Top-down risk assessment. This was an ongoing process that would also include drafting entity-level control documentation. This was expected to be completed by the end of July 2011 and would be reviewed by the Office of Audit and Oversight.
  - Documentation for individual processes was being enhanced by the “process owners” and was expected to be finalized by the end of June 2011.
17. The Committee was informed of the next steps in the initiative, namely: an external review of documentation; documented entity-level controls by independent experts; and independent testing of key controls and control design effectiveness by the Office of Audit and Oversight.
18. The oral update was noted.

**Oral update on progress towards the selection of the Fund’s external auditor for 2012-2016**

19. Management reminded the Committee of the plan and approach for the selection that was endorsed at the 118<sup>th</sup> Audit Committee meeting. The Committee was informed that Management had since taken up the agreed responsibility of facilitating the appointment of the external auditor through a procurement process on behalf of the Audit Committee.
20. The steps undertaken to date were as follows:
- Requests for expression of interest had been published and requests for proposals (RFP) were circulated to Audit Committee members for their review and clearance prior to publishing. Having received no comments, Management proceeded with the RFP as circulated.
  - Having received limited responses to the request for expression of interest, Management issued a global RFP as per the tender plan approved by the Audit Committee. The closing date for the RFP was set for 30 June 2011.
21. Management informed the Committee of the next steps and the parties responsible. These were: formation of a technical evaluation panel; opening of proposals and commencement of technical evaluation; technical presentations by candidate firms; review of commercial bids and presentation of results to the Contracts Review Committee; presentation of final outcome with recommendations and options at the November meeting of the Audit Committee; and presentation by the Audit Committee of the nominated firm of auditors at the Executive Board session in December 2011.
22. In response to a comment by a Committee member on the possibility of undue advantage in the case of a firm that was involved in the external assessment of internal controls over financial reporting, the Committee was informed that Management had included an invitation in the RFP to all potential bidders to review the internal control mapped processes that were reviewed by that firm. A potential conflict of interest situation with regard to another audit firm was also clarified.
23. A member wished to know whether external auditors could offer attestation services while carrying out an annual audit of financial statements. The Chairperson explained that specific authorization for this was needed from the Audit Committee and the Executive Board. Management confirmed that this was the case.