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Selection of the external auditor of IFAD for the period 2012-2016

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Executive Board — 104th Session
Rome, 12-14 December 2011

For: Approval

Recommendation for approval

The Executive Board is invited to approve the appointment of Deloitte & Touche as the Fund's external auditor for 2012-2016, as nominated by the Audit Committee at its 121st meeting..

Selection of the external auditor of IFAD for the period 2012-2016

I. Introduction

1. Provisions related to the selection and appointment of the Fund's external auditor are contained in section 9 of the By-laws for the Conduct of the Business of IFAD and regulation XII.1 of the Financial Regulations of IFAD. The Financial Regulations provide that the appointment of IFAD's external auditor and the determination of the terms of reference of the same are the prerogative of the Governing Council, on the recommendation of the Executive Board. Resolution 77/2 adopted by the Governing Council authorizes the Executive Board to exercise all powers of the Governing Council, except for certain enumerated powers specifically reserved by the Council to itself. The powers relating to the selection and appointment of the external auditor were not reserved; therefore, at its third session, the Council explicitly delegated to the Executive Board the power to appoint and supervise the external auditor.
2. The terms of reference of the Audit Committee stipulate that the Committee shall 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. Pursuant to the Policy on rotation and on services to be provided by the external auditor, approved in 2006, the external auditor should be awarded a yearly contract, renewable for a period of up to five years, with a maximum of two consecutive mandates of five years each. After the first mandate, the external auditor would be eligible to bid for the second mandate.
3. Management facilitated the internal procurement process of selecting the Fund's external auditor for the period 2012-2016 on behalf of the Audit Committee. At its 121st meeting, the Audit Committee approved the recommended firm for nomination to the 104th Executive Board. The mandate for the current auditor ends with the audit of the 2011 financial year accounts.

II. Background

4. Following the endorsement of the proposed approach by the Audit Committee at its 118th meeting in May 2011, Management proceeded to expedite the selection process as stipulated. Management consulted with and involved the Audit Committee throughout the process to ensure that the Committee drove the process and Management's role was solely one of facilitation. This document provides an update on the status of the selection process, the outcome thereof will be a final recommendation for the approval of the Audit Committee, which will in turn form the basis for the nomination to be proposed to the Executive Board at its December session.

III. Status of the selection process

5. The last update, provided at the 120th meeting of the Audit Committee on 8 September 2011, informed the Committee of the steps undertaken to date and covered the outcomes of the request for expression of interest and the request for proposals (RFP). The RFP resulted in the receipt of four proposals. These were

received from Mazars LLP (United Kingdom); Reconta Ernst & Young (Italy); KPMG (Italy); and Deloitte (a team combining United Kingdom and Italy practices).

6. A technical evaluation panel was set up to undertake an evaluation of the technical bids. Audit Committee members were invited to attend the technical presentations to be made by the bidding firms in July 2011. Management received no advance expressions of intention to participate in the technical evaluation from Audit Committee members. The technical presentations took place on 18 and 19 July 2011.

IV. Evaluation Results

7. The overall result of the technical evaluation was that, of the four firms invited to make technical presentations, one failed to meet the minimum threshold set and was automatically eliminated. This meant that the related commercial bid was not opened. The firm in question was KPMG (Italy). The other three firms – Deloitte, Ernst & Young and Mazars LLP – all exceeded the threshold.
8. The score weighting was set at 70 per cent for the technical evaluation, due to the highly technical nature of the services being solicited, and 30 per cent for the commercial evaluation.
9. The technical evaluation scores are provided in table 1.

Table 1

<i>Ranking</i>	<i>Name of bidder</i>	<i>Score out of 100%</i>	<i>Score out of the 70% technical evaluation weighting</i>
1	Deloitte & Touche SpA.	84.65	59.26
2	Mazars LLP	80.66	56.46
3	Reconta Ernst & Young	72.34	50.64

10. The technical evaluation of each firm is set out below:
 - **Deloitte & Touche SpA:** The team presented by Deloitte was technically sound and comprised both Italian and United Kingdom practices. The team demonstrated international financial institution (IFI) experience. Its Senior Manager is currently the engagement manager auditing the European Bank for Reconstruction and Development and would bring much needed industry expertise to the IFAD audit team. The team members showed technical understanding of financial reporting and handled their questions very well. The United Kingdom practice component would be involved from inception through execution and possesses the required experience and expertise.
 - **Mazars LLP:** The team was technically sound and the firm appeared very professional. However, no experience in providing similar services to IFIs was evident and some of the responses to technical questions were very general. However, the team members possessed the required technical qualifications, and were enthusiastic and creative in their presentation and dynamic in their approach. The overall impression was that of an international and diverse team with particularly strong communication skills.
 - **Reconta Ernst & Young:** The team was technically sound and delivered a satisfactory presentation. The engagement partner is not a qualified accountant, even though the team included a number of qualified professional accountants. Their responses to technical questions were generally good.
11. The commercial bids were subsequently opened and evaluated. The results of the commercial bids and the related assigned scores are provided in table 2.

Table 2

<i>Summary of Commercial Evaluation</i>			
<i>Ranking</i>	<i>Name of bidder</i>	<i>Total Fee Quoted (EURO)</i>	<i>Assigned Score in percentage</i>
1	Deloitte & Touche SpA	169,000	30
2	Reconta Ernst & Young	212,500	24
3	Mazars LLP	219,000	23

12. The consolidated scoring for the bidding firms for both the technical and the commercial evaluations are summarized in table 3.

Table 3

<i>Summary of Commercial Evaluation</i>			
	<i>Deloitte & Touche SpA</i>	<i>Reconta Ernst & Young</i>	<i>Mazars LLP</i>
Technical score	59.26	50.64	56.46
Commercial score	30.00	24.00	23.00
Total score	89.26	74.64	79.46
Overall ranking	1	3	2

V. Presentation of results to the Contracts Review Committee

13. Following the above evaluation, the next step was the presentation of the results of the tender to the Contracts Review Committee (CRC) for review and recommendation to the Chief Procurement Officer. The CRC members were informed of the details of tender IFAD/2011/009/RFP for the selection of the external auditor. The CRC was then invited to endorse the recommendation based on the results of the above evaluation. Audit Committee members were encouraged to participate in this process. The following Committee members were present at the CRC meeting as observers: Mr Ronald Elkhuizen (Netherlands) and Mr Agustín Zimmermann (Argentina). The CRC reviewed the tendering process and the outcome of each stage of the process and recommended as follows:

“Considering the above, the CRC endorsed the recommendation to the Chief Procurement Officer of awarding a one-year contract (renewable yearly for a period of up to five years) for the audit of the Consolidated Financial Statements of IFAD, of the individual financial statements of the Belgian Fund for Food Security Joint Programme, the Global Mechanism of the United Nations Convention to Combat Desertification, the International Land Coalition, the High-Level Task Force and the Global Environment Facility, for the review and evaluation of internal controls over financial reporting, and for the issuance of an attestation report, to the firm Deloitte & Touche S.p.A. (Italy) for a total of EUR 169,000.00 for the first year.”

VI. Next Steps

14. Table 4 outlines the next steps to be undertaken following the recommendation of CRC and subsequent decision of the Chief Procurement Officer.

Table 4

<i>Step</i>	<i>Responsibility</i>	<i>By when</i>
Presentation of the nominated firm of auditors to the Executive Board for approval	Audit Committee	December 2011