



Operational Procedures for Project and Programme Audits

- ▶ Approved by the President of IFAD on December 2011

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Abbreviations and Acronyms

AUO	Office of Audit and Oversight
AVP	Associate Vice-President Programmes
CFO	Chief Finance Officer
CFS	Controller's and Financial Services Division
CI	Cooperating Institution
CPM	Country Portfolio Manager
DA	Designated Account
EMC	Executive Management Committee
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
MDB	multilateral development banks
PCU	Project Coordination Unit
PMD	Programme Management Department
PSR	Project Status Report
SA	Special Account
SAI	Supreme Audit Institution
SOE	Statements of Expenditure
TOR	Terms of Reference

I. Introduction

1. These “Operational Procedures for Project Audits” outline procedures to be applied for the management of the audit process of IFAD-funded projects and programmes (hereafter “projects”). The switch of IFAD operations from Cooperating Institutions (CIs) arrangements to Direct Supervision modality (EB 2006/89/R.4/Rev.1), required an update of the Operational Procedures also to include best practices in the fiduciary management of IFAD-funded projects.

II. Applicability

2. These procedures are applicable to all IFAD financing, except financing provided under the “Procedures for Financing from the Grants Programme” EB/2011/102 R.28
3. In case of projects not directly supervised by IFAD, where Cooperating Institution (CI) arrangements are in place, CI-relevant project audit procedures shall be applied. If the CI does not have documented procedures for the management of the project audit cycle, IFAD’s “Operational Procedures for Project Audits” shall apply.

III. The IFAD role

4. IFAD has overall responsibility for project supervision and loan administration, including the monitoring of compliance with audit covenants contained in the Financing Agreements. All major multilateral development banks (MDBs) provide financial management and auditing guidelines and sample forms for use by their borrowers and recipients (hereafter “borrowers”). In this regard, IFAD works closely with borrowers on accounting, financial management and audit matters throughout the project cycle.

IV. The role of IFAD regional divisions

5. Within the regional divisions, the country portfolio manager (CPM) is responsible for supervision of project implementation; CPMs interact with the related financial management specialist for the broad management of project's fiduciary aspects and specifically with CFS, especially in relation to a project's internal control environment, financial reporting, TORs for the audit and audit arrangements, including review thereof. The CPM also takes note of important audit recommendations and recommendations formulated as a result of project audit reviews for discussion and follow-up with the borrower, as necessary. CPMs should therefore work closely with the CFS responsible staff to ensure a timely receipt and review of audit reports, and appropriate follow-up action on the auditor's and IFAD reviewers' findings and recommendations, including adoption of any remedial actions on the borrower.

V. The role of the Controller's and Financial Services Division (CFS)

6. Within IFAD, CFS is responsible for the monitoring of project audit submissions, including review of audit reports. CFS has the primary responsibility for the review of financial accountability based on audit reports and the use of loan or grant proceeds. Based on audit review findings, CFS provides fiduciary advisory services to CPMs. Audit review findings are used for supervision missions and in the annual Portfolio Performance Review, and are also considered during the design phase of new projects; the design phase of new projects; this ensures appropriate application of the Fund's policies, procedures and recommendations and guarantees an adequate design of a project's financial management aspects. Where significant irregularities are noted in the audit report, CFS will inform the CFO and the AUO Investigation Unit. In addition to its regular follow-up actions with projects, if requested, CFS will support ad-hoc activities of the Investigation Unit.

The Executive Management Committee (EMC) will consider the recommendations, in deciding on corrective action, including application of remedies where deemed required.

VI. Responsibilities in the Audit Monitoring Cycle

7. Given the importance of an annual audit of project accounts, specific responsibilities are identified below with regard to: (i) the borrower's timely submission of audit reports to IFAD, and (ii) IFAD's actions relating to the review of audit reports received, as well as follow-up on those not received by the deadlines established in the financing agreements.
8. At project design, the IFAD mission (inclusive of a Financial Management Specialist) should assess the borrower's financial management capacity (budgeting, accounting, internal control, flow of funds, reporting, audit arrangements). The project documents, including the financing agreement, establish the appropriate audit arrangements and timeframe if different from the provision contained in the "General Conditions for Agricultural Development Financing" dated April 2009 - Section 9. As project implementation proceeds, the resulting responsibilities for the various steps involved in the audit report monitoring cycle are listed below:

Appointment of the Auditor

- i. Borrower prepares the TOR for the auditor in conformity with IFAD Guidelines on Project Audits, and sends it to CPM for review and 'no objection'.
- ii. The CPM, upon CFS confirmation, communicates "no objection" to borrower.
- iii. The borrower initiates the procurement process using the agreed TORs.
- iv. The borrower informs CPM of the name of proposed auditor and the procurement process followed for the selection.
- v. The CPM, after consultation with CFS, communicates 'no objection' to borrower on the selection of proposed auditor.
- vi. The borrower appoints the auditor.
- vii. The appointed auditor issues formal engagement letter.

Submission of the Audit Report

- viii Project accounts and financial statements are audited as at the end of each fiscal year, and the audit report and management letter are delivered to the borrower, generally within five months after the end of the fiscal year.
- ix Borrower sends an original audit report to IFAD and may upload scanned copy thereof in the corporate audit system within six months from the end of the fiscal year (or by any other date if specified in the financing agreement).

Review of the Audit Report

- x CFS carries out a comprehensive review of the audit report in order to establish the integrity of the audit process and reliability of financial statements (within 60 days from receipt of report/review).
- xi Upon completion of review, CFS sends out an appropriate communication to the CPM for information and discussion; subsequently, CPM communicates to the borrower main findings arising from the review of the audit report, detailing any issues of concern and, when necessary requires the set-up of a time-bound remedial action plan.
- xii Recommendations for the appropriate remedial measures/suspension caused by irregularities or non-compliance with financing agreement covenants may be brought to the attention of Senior Management after a consultation process between CFS and CPM.
- xiii The Borrower implements remedial action as needed and informs regional divisions and/or CFS.
- xiv CPM, in coordination with CFS, follows up with borrower on implementation of the agreed remedial action plan.

Throughout this procedure, IFAD manages the project audit process and monitors progresses.

9. The fiduciary section of all project supervision reports will include references to the most recent audit and issues arising therefrom. In the event of the borrower's non-compliance with audit provisions, the mission will recommend remedial action to be imposed, if deemed necessary. The review of audit findings and recommendations, as well as the adoption of remedial measures, is an essential part of project supervision.

VII. Establishment of Audit Arrangements

ASSESSMENT OF AUDIT CAPACITY AT DESIGN

10. The groundwork for a timely and comprehensive audit should be laid during project design. The availability and quality of auditors should be ascertained by the design mission in light of IFAD's experience in the borrower's country, and based on the nature of the project audit. The design mission should utilize the information available in the relevant Country Financial Management Capacity Assessment carried out by IFAD or other MDBs. The design mission should pay particular attention to the following aspects, as part of its assessment of the financial management capacity of the borrower and the Project Coordination Unit (PCU):
 - i. overall status of the accounting and auditing profession in the country;
 - ii. competence and independence of the national Supreme Audit Institution (SAI); and
 - iii. adherence to acceptable standards of accounting and auditing, preferably the adoption of International Financial Reporting Standards (IFRS), or International Public Sector Accounting Standards (IPSAS) and International Standards on Auditing (ISA) by the selected auditors. International standards issued by IFAC and INTOSAI are examples of standards acceptable to IFAD. Auditors may follow national standards where these are judged to be equivalent to those of IFAC or INTOSAI. In countries where National Accounting Standards are converging towards internationally recognized best practice, these standards can be accepted for reporting purposes (this possibility needs special attention during the Country Financial Management Capacity Assessment).
11. Assessment of the audit capacity should be described in the financial management, reporting and auditing section of the project design document. The design mission will also ascertain whether the project audit will be carried out by the SAI or by other independent auditors, such as a private firm, either directly or through a subcontract arrangement with the SAI. Financial provision for the audit should be included in the project costing as relevant.
12. During the discussion on audit arrangements for the project, the mission should perform a cost-benefit analysis and avoid possible fragmentation of project audit information, i.e. for projects implemented in 10 different provinces over a period of 5 years, it might be proposed that single audits for 10 provinces for 5 years are avoided, but replaced in the design with the solution for a single annual consolidated audit. Thus the overall number of audit reports decreases from 50 to 5 with benefits in terms of integrity of financial/audit information and in terms of efficiency/costs, including consolidation.

**AUDITOR GENERAL OR
SUPREME AUDIT
INSTITUTION (SAI)**

- 13.** As part of the assessment of the borrower's capacity to implement and manage the project effectively, the design mission will evaluate any internal audit mechanism foreseen for the project or the PCU.
- 14.** When the project auditor is the country's auditor general or the national supreme audit institution (SAI), the design mission should ensure that the SAI has satisfactorily fulfilled its audit responsibilities in previous IFAD-funded projects, by reference to comments made during previous audit reviews on the audit reports of past IFAD projects in the country for timeliness of submissions, quality of reports, adequacy of findings, and the country's record of compliance in general with IFAD's audit provisions.
- 15.** In general, but especially if the conclusion of the design mission's review is not positive, or if there is insufficient data to make a proper assessment, the design mission should ascertain whether the SAI belongs to the International Organization of Supreme Audit Institutions (INTOSAI) and if it is considered reasonably 'independent,' i.e. with regard to appointment and management of its staff and other resources, and in carrying out audit operations. In case of doubt, the design team should propose capacity-building initiatives for the SAI (also through ad-hoc grants) or recommend that the borrower consider appointment of other independent national or international auditors.
- 16.** In such cases, it is common for the SAI to subcontract project audits to private independent audit firms functioning in the country until the SAI is staffed adequately and otherwise ready to undertake the audits directly.
- 17.** IFAD missions should set up regular meetings with the SAI, to promote dialogue, outline IFAD needs in terms of audit services, support the enhancement of the country audit function, and promote knowledge sharing with special focus on project audits. Where weaknesses are identified, IFAD supports programmes to build capacity.
- 18.** Timeliness of the Auditor's report is important to IFAD. Common fiscal year-end closing of accounts by government entities and agencies may result in the government auditor's report not being available at the specified time. In such circumstances, IFAD will try to work out suitable, alternative auditing arrangements with the borrower which would meet the specific requirements of the project, or request for a private auditor to assist the government auditor in carrying out the audit, or that a private auditor provides an independent audit report in addition to the report prepared by the government auditor.
- 19.** The project design mission will review any such subcontracting arrangement that may exist and ensure that the project audit will be carried out in a timely manner and in compliance with IFAD's audit requirements. Where doubt persists, the CPM, loans officer and legal officer may jointly advise that the appointment of the independent project auditor should be made a condition of entry into force.

PRIVATE INDEPENDENT AUDIT FIRMS

- 20.** When a private audit firm is selected, the auditor should be appointed based on a transparent and competitive selection process with an agreed TOR for the project audit assignment, which should be normally subject to a no-objection by CPM, cleared by CFS. The selection of the project auditor should be from a list of three to six firms, and based on a technical evaluation, considered together with a financial evaluation. In addition, the selected auditor should:
 - i. adhere to International Standards on Auditing (ISAs) or to National Standards where these are compatible or converging to international standards;
 - ii. be a member of a professional body affiliated with the International Federation of Accountants (IFAC);
 - iii. provide evidence of relevant past experience and references; and
 - iv. provide an adequate level of staff expertise and resources, and ensure timeliness of submission of audit reports.
- 21.** CFS will establish a list of audit firms for which the use as service provider is discouraged. This list will be updated on a regular basis considering the multi-year performance record of independent audit firms in IFAD-financed projects and programmes and also the experience of other MDBs.
- 22.** In accordance with international best practice and as recommended by the International Ethics Standards Board of Accountants (IESBA), contracted audit firms cannot provide or have provided consultancy services to the project in the last two years.

AGREEMENT ON AUDIT ARRANGEMENTS

- 23.** Article IX (Financial Reporting and Information), Section 9.03 (Audit of Accounts) of the IFAD General Conditions for Agricultural Development Financing stipulates the borrower's obligations vis-à-vis project audits. Article X (Cooperation), Section 10.04 (Audits initiated by the Fund) applies for audits initiated by the Fund. Article XII (Remedies of the Fund), Section (a) - (xiv), and (b) state remedial actions in case of non-submission of audit reports. In particular, timing deadlines for submission of audit reports is stipulated in Section 9.03 (Audit of Accounts) of the IFAD General Conditions for Agricultural Development Financing. Usually audits are annual, but where risks are assessed to be particularly high, audits may be requested more frequently.
- 24.** During the project start-up mission there will be a follow-up discussion with the borrower on audit arrangements, i.e. TOR, fiscal year, timing of audit, and deadline for submission of audit reports. In addition, project audit arrangements should specifically provide for the following:
 - i. where the first fiscal year covers a period of less than six months of project implementation, activities in such a period will be audited together with the second fiscal year;
 - ii. when the project is cofinanced with another institution that has established audit guidelines, the financing agreement will specify which procedures shall apply;

- iii. in the case of multi-agency implementation, a consolidated financial statement and audit report will be submitted by the “lead agency” nominated for this purpose by the borrower and indicated in the financing agreement; reporting requirements shall be clearly communicated to the “lead agency”;
- iv. where loan or grant funds are channelled through intermediary agencies, such as participating banks or credit institutions, to the ultimate beneficiaries of the project, the audit should contain a review and opinion on the financial viability of significant activities vis-à-vis financing resources of the agencies, ensure full disclosure of the credit loan portfolio including: credit outstanding balance, repayment of loan amounts, loan defaults and write-offs; and
- v. the source of financing for the cost of the audit.

**AUDIT GUIDELINES
AND TERMS OF
REFERENCE**

- 25.** It is important to ensure that the auditors are provided with clear guidelines, including TOR, as to what is expected from them, what their report should cover, and the acceptable format of their report. TORs are reviewed and subject to no-objection by CFS, which communicates through the CPM as required. i. IFAD review of TORs should draw the attention of the borrower and the auditors to certain aspects specific to donor-funded development projects that might not be covered under a routine audit, such as compliance with financing agreement covenants, adherence to procurement procedures, eligibility of disbursements made under the Statements of Expenditure (SOE) procedure, maintenance of Special Accounts/Designated Accounts (SAs/DAs), and treatment of taxation. During field visits, but at least once a year, the project should normally arrange a meeting between the IFAD delegation and the SAI or the private audit firm to discuss audit arrangements and outputs, and to introduce changes as and when necessary. Also, in countries where the entire IFAD portfolio is audited by private audit firms, annual meetings with the SAI should be organized to promote dialogue and consultation for possible improvements of the overall project audit quality.

**CHANGE OR ROTATION
OF AUDITORS**

- 26.** In the event of a change in auditors, the borrower should notify IFAD of the fact, providing acceptable reasons, and obtain consent prior to the change if possible. While it may be desirable to rotate auditors after a number of years, it must be done carefully, taking into account the need for continuity and institutional memory concerning project information, the country-specific conditions, availability of qualified auditors, and any other relevant factor. The same procedures apply for selection and appointment of subsequent auditors as applied for the appointment of the original auditor. A full procurement process for audit services should be performed at least every four years. IFAD may request a change of auditor if, through the audit review, the quality of the audit work is assessed as not satisfactory.

VIII. Monitoring and Review of Audit Report Submissions

COMMUNICATIONS TO AND FROM BORROWERS

27. The obligations that IFAD and borrowers have with regard to the submission of audit reports include:
 - i. The Letter to the Borrower specifies initial audit arrangements, then subsequently:
 - ii. At least 3 months before the end of each project fiscal year, CFS will send to the borrower a reminder to ensure that auditors, if not appointed already, are appointed in time and before the end of the fiscal year. A standard letter to be used for this purpose is shown in Annex I.
 - iii. At least 30 days before the end of the fiscal year, the borrower confirms to IFAD that an auditor has been appointed.
 - iv. At least 90 days before the audit report due date stipulated in the financing agreement, IFAD will send a reminder to the borrower to ensure that financial statements have been prepared and the audit has begun so that the borrower will be able to comply with the timely submission of the audit report, when due. See the standard letter shown in Annex II.
 - v. If the audit report is not received in IFAD by the due date, within 30 days from that date, IFAD will notify the borrower and PCU of the fact that the audit report has not been received. Where appropriate, CFS, in consultation with the regional division and the borrower, may consider engaging an independent auditor of its choice to carry out the project audit.
 - vi. If IFAD determines that the borrower's documentation submission is not complete, CFS will communicate with the borrower, through the CPM as required, and follow up until all documentation is received in the required format.
 - vii. If the audit report is 90 days overdue from the stipulated due date, CFS, in consultation with the regional division, will confirm non-receipt of the audit report, and will prepare a "legal notice" to be sent informing the borrower that non-receipt of the audit report within 60 days will trigger the process of suspension of disbursements under the financing agreement.
 - viii. In accordance with section 12.01 (b) of the Revisions to the General Conditions, if the audit report is overdue for 180 days from the original due date and the borrower has not satisfactorily responded to the previous communications, CFS, in consultation with the regional division, will prepare a President's notice for suspension, which will set out the justification for the suspension. The President's notice for suspension must be cleared by the Office of the General Counsel.

RECEIPT AND REVIEW OF THE AUDIT REPORT

- 28.** As soon as the audit report is received by IFAD (original scanned and distributed by IFAD's mailroom or scanned copy uploaded in the corporate audit system), CFS carries out a Review of the Audit Report and the accompanying financial statements. Particular attention should be paid to the auditor's opinion, results of the compliance audit, and the contents of the management letter, which should all provide useful information concerning the use of loan funds and management of the project. Guidelines for Review of Audit Reports are set out in Annex III. Where CI arrangements are in place, the CI should confirm promptly (i.e. within 15 days) to the borrower (copy to IFAD) receipt of the audit report, notifying that any comments or issues will be communicated as soon as possible. As a first step, the CI should make sure that the audit has been carried out in accordance with IFAD's audit requirements.
- 29.** IFAD should review the borrower's submission to ensure that the audit of financial statements included an examination of the expenditure documents retained by the borrower in support of SOEs and SAs/DAs, and that these have been covered in the auditor's report. Upon completion of the Review, and consultation with the responsible CPM, CFS issues a letter to the borrower through CPM, as required, outlining the results of the review and any problems or irregularities identified by the auditor and by the CFS reviewer that may require follow-up with the borrower. The letter should also indicate any additional information required from the borrower or the auditor, as well as identify any corrective measures to be taken by the borrower, and any recommended remedial action to be taken.
- 30.** The Review of the Audit Report should be completed within 60 days from its receipt. If the audit report has not identified problems or irregularities, and does not contain any recommendations for significant improvements either in the use of project funds or management of the project, and if CFS is reasonably satisfied with the report based on the review and their knowledge of the project, no further action will be necessary. CFS will so inform the borrower, through the CPM as required, within 15 days after the completion of the review. The corporate audit system will allow the Project Coordinator the online monitoring of the audit review status.
- 31.** In general, the Review of the Audit Report would address the following aspects:

 - i. fulfilment by the auditor of all audit requirements specified in the TOR;
 - ii. qualifications or other significant points in the auditor's report;
 - iii. whether all financial reporting requirements have been met;
 - iv. comparison of the results shown in the project financial statements with required targets set in the financial covenants in the financing agreement;
 - v. overall project financial performance (i.e. actual versus budgeted);
 - vi. adequacy of internal control mechanisms in the project;
 - vii. presentation with respect to use of IFAD funds versus funds from other sources;

- viii. satisfactory use of SOE procedure for disbursements;
- ix. reconciliation and use of the project SA/DA;
- x. follow-up on actions noted in previous year's Review; and
- xi. compliance with procurement procedures as stipulated in the financing agreement.

PROBLEMS AND IRREGULARITIES

- 32.** Audit reports containing a qualified opinion, an adverse opinion or a disclaimer of opinion are prima facie indication of the existence of problems and irregularities in the implementation of the project (see description of Audit Opinions in Annex I to Guidelines on Project Audits (for borrower's use)). The review of the audit report should therefore make reference to the auditor's opinion, and seek clarification on the issues raised by the auditor. Through the audit review process, problems and irregularities can also be identified in audit reports containing unqualified opinions. Where problems and irregularities are identified during the audit review process, the review feedback shall include such findings. The borrower may also be asked to submit a time-bound Action Plan for correcting the irregularities identified by the auditor. The CPM, the financial management specialist and CFS will monitor progress in implementing such a plan. The non-implementation of the time-bound action plan can slow down the release of disbursements caused by the need of an increased due diligence. Where the audit report reveals fundamental weaknesses in financial accountability and project management, IFAD may propose a special investigative audit or suggest the need for technical assistance to the PCU, to be funded out of the loan, or both, as appropriate. In such cases, IFAD will send a communication to that effect to the borrower.
- 33.** If the audit report has identified ineligible expenditures, IFAD should inform the borrower of the borrower's obligation to refund the amounts disbursed. Where there is a dispute on the eligibility of any expenditure, IFAD may ask the borrower to provide satisfactory explanation and evidence supported by relevant documentation, within a reasonable time frame (generally one month) in justification of the expenditures in question.
- 34.** Issues identified during the Review can be addressed with the borrower through correspondence, or through supervision missions to the project which also monitor status of implementation of recommendations issued by auditors and by CFS reviewers. Review of audit reports, together with the results of implementation monitoring activities are relevant elements for the PSR ratings during the Portfolio Review exercise.

**BORROWER'S
FAILURE TO TAKE
REMEDIAL ACTION**

- 35.** If, following the issuance of an audit report or an audit review, identifying serious irregularities and concerns, the borrower does not implement, by the agreed deadline, the remedial measures based on the agreed Action Plan, IFAD shall suspend disbursements until the borrower has taken the necessary action (this is in line with section 12.01 (xiv) of IFAD General Conditions approved in April 2009). Within IFAD, appropriate consultation and collective decision-making will take place with the regional division director concerned, the AVP-PMD and the President before sending a communication to the borrower or PCU informing them of the suspension of disbursements under the relevant loan or grant.
- 36.** In case of repeated non-compliance by the borrower with audit requirements covering previous projects, IFAD will make full use of the range of available resources until the borrower satisfies basic audit requirements, such as the receipt of the audit to permit entry into force of a loan, or permit loan disbursements, or permit future financing negotiations, or permit presentation of future financing(s) to the Executive Board. This is to ensure that the borrower takes the sanctions seriously and satisfies the audit requirements. CFS is in charge for the provision of technical and financial related advisory services for the decision.

**UNSATISFACTORY
AUDIT REPORTS**

- 37.** If the audit report does not contain a clearly written expression of opinion on the financial information or the audited financial statements are unsatisfactory, CFS, through the CPM as required, will immediately inform the borrower, explaining why the borrower's submission was considered unsatisfactory, and requesting the submission of a satisfactory audit report and audited financial statements by the set deadline as specified by IFAD. Where the borrower's non-compliance relates to SOE or SA/DA procedures, the notice to the borrower on remedial actions needed will include a cautionary message that, unless compliance is achieved by the stipulated deadline, IFAD would discontinue the use of SOE procedure or withhold replenishment of the SA/DA, or both. Until satisfactory audited financial statements are received or a remedial action plan is agreed, IFAD normally does not extend the closing date on the loan and normally delays negotiations on Board presentation of any new loan to that country. Overdue or unsatisfactory audit reports normally lead IFAD not to extend closing dates or approve new loans. Once satisfactory compliance is achieved, SOE use and SA/DA replenishment may be reinstated, following notice to the borrower sent from IFAD.

**STATUS DURING
SUSPENSION OF
DISBURSEMENTS**

- 38.** Suspension of disbursements under any loan or grant is subject to the exceptions listed in the Loans and Grants Operational Manual (e.g. payments due under Special Commitments, direct payments to consultants in cases in which an interruption would cause personal hardship or disrupt critical work, payments against withdrawal applications that were submitted and received before the date of suspension, time-sensitive and critical aspects of civil works). The suspension notice shall detail all such exemptions clearly. While the borrower is permitted to withdraw funds from the SA/DA for eligible project expenditures, SA/DA replenishment will be made only after suspension is lifted.

- 39.** When suspension of disbursements is in force for any reason, IFAD will not agree to any borrower's request for re-allocation of funds or extension of the project or financing closing date. IFAD may also make the submission of the audit report(s) in question a condition of negotiation or presentation to the Executive Board of any new financing to the borrower.

IX. Monitoring and Tracking of Audit Reports

- 40.** Within IFAD, CFS is the focal point for all information related to audit reports, and an automatic audit report monitoring procedure is in use.
- i. A list of audit reports due for each year, the fiscal year of every project and the submission date is generated by the corporate audit system. The list includes all effective and disbursing loans and grants. Loans under suspension will be noted as such in the list.
 - ii. The control list includes the loan number and amount; project name and the borrower; entry into force, closing and completion dates; the name of the CI (if any) and the auditors; the dates on which the audit report was received in IFAD; the type of audit report; any comments; and follow-up action from IFAD, if any.
 - iii. In IFAD, audit reports will be received by the central Information Resources Centre of IFAD, scanned, and copies routed to the respective CPM and CFS, and uploaded in the corporate audit system. The corporate audit system allows direct upload of scanned copies of audit reports from the Project Coordinator and/or the Project Finance Officer.
 - iv. CFS will carry out the review of the audit reports using the corporate audit system; audit review results are available for consultation by the CPM, financial management specialists, Project Coordinators and Project Finance Officers.
 - v. The corporate audit system allows a real-time consultation of audit report submission.
- 41.** Based on data obtained from audit report monitoring, a regular report on project audit status covering IFAD's portfolio will be produced and submitted to Management. Ad hoc reports on the status of audit reports for any given project or for the entire portfolio will also be produced as needed. Such reports would be used for portfolio quality management purposes within IFAD and the preparation of the annual Portfolio Performance Review.

Annex I

(SAMPLE) AUDIT LETTER TO BORROWER OR PCU

Reminder to Borrower of Requirement to Appoint Auditors

To be sent 3 months before the end of the country fiscal year

Re: Loan/Grant _____ , Annual Audit for Year _____

Dear _____ ,

This is to remind you that the independent auditor should be appointed at least three months before the end of each fiscal year.

Please notify us of the name of the firm appointed and whether the same firm performed the audit in the prior year.

If the recruitment process is not yet completed, please ensure that the correct procurement procedure is applied, including IFAD approval of the TORs, and that IFAD “no-objection” to appointment is obtained.

The minimum requirements for the project audit are detailed in IFAD Guidelines on Project Audits - Annex III.

“IFAD Guidelines on Project Audits” are to be found at the following link:

Sincerely yours,

Annex II

(SAMPLE) AUDIT LETTER TO BORROWER OR PCU

Reminder to Borrower on Submission of Project Audit Report

To be sent 90 days before the audit report due date

Re: Loan/Grant _____ , Annual Audit for Year _____

Dear _____ ,

This is to remind you that the annual audit is required to be submitted to IFAD no later than six months after the year end as per "General Conditions for Agricultural Development Financing" Section 9.03.

We would appreciate your ensuring that the year-end audit work (if not done already) is planned in such a way as to ensure timely compliance with IFAD's audit requirements.

Please advise us promptly if you anticipate any constraints in meeting this requirement.

Sincerely yours,

Annex III

GUIDELINES FOR REVIEW OF AUDIT REPORTS

1. These guidelines are intended for use by IFAD staff assigned to administer projects, when they carry out Review of audit reports submitted by borrowers.
2. It is important to note that these guidelines do not cover all possible scenarios and that IFAD staff with responsibility for monitoring and reviewing of audit reports should seek the assistance of a professional accountant or financial management specialist whenever considered necessary.

PRELIMINARY STEPS – PREPARATION FOR REVIEW

3. The following preparatory steps should be taken by the staff before the actual review of the audit report and financial statements is undertaken:
 - i. Verify if the audit report received is in accordance with international or acceptable standards and the agreed TOR. The requirements would normally include: (i) financial statements of the project or project coordination unit (PCU), or both; (ii) related audit opinion and date thereof; (iii) statements of expenditure (SOE) review statement and audit opinion; (iv) special account (SA) or Designated Account (DA) statement and related audit opinion; and (v) management letter.
 - ii. Compare the name of the auditor with that agreed to by IFAD and the borrower at appointment of auditor.
 - iii. Ascertain from the audit covenants in the financing agreement and Letter to the borrower if there are any special conditions that require additional compliance by the borrower.
 - iv. If it is determined that the borrower's submission is incomplete, CFS, through the CPM as required, will communicate this to the borrower and follow up appropriately until complete documentation is received.

REVIEW OF FINANCIAL STATEMENTS

4. As part of the Review of audited financial statements, the reviewing CFS staff should:
 - i. Ensure that the audit report and financial statements are submitted as a complete set, with all relevant sections identified and in accordance to relevant international standards (on audit and on financial statements presentation);
 - ii. Where project financial statements are presented as an integral part of the PCU's financial statements, identify the section relating to the project;
 - iii. Identify loan or grant withdrawals based on SOEs and ensure that the related transactions are integrated into the project financial statements;
 - iv. Identify the linkage in the project financial statements with the SA, which should also be integrated in the project accounts;
 - v. Where interim un-audited financial statements have been received, compare such statements with the annual audited financial statements and identify any differences between the two, and seek explanation from the borrower for any significant discrepancy;

- vi. Review the contents of the financial statements as a whole to form a judgement on the performance of the project or the relevant organization, or both;
- vii. Compare actual expenditures by category as itemized in the project financial statements with cost estimates at design or as set out in the agreed project annual budget and work programme, and seek explanations from the borrower for large deviations, particularly significant project cost overruns;
- viii. Follow up on prior year's audit recommendations;
- ix. Reconcile loan, grant and SA/DA balances with IFAD records; and
- x. Assess the overall quality of the financial reporting and the audit work through a traffic-light methodology. Such assessment has to be considered for the degree of diligence to be applied for disbursements.

REVIEW OF AUDIT REPORTS

5. The actual review of the audit report and of the accompanying financial statements should be as comprehensive as possible and include the following:
 - i. The auditor's certification and opinion should be signed by the auditor and dated on the letterhead of the audit firm or on paper showing the official name and address of the auditor;
 - ii. The audit report should be addressed to the borrower's representative or PCU (e.g. the project manager or head of the PCU);
 - iii. There should be a definite and clear opinion given by the auditor;
 - iv. Ascertain if the audit opinion is unqualified, qualified, adverse or is a disclaimer (for explanation of these terms, refer to General Principles Governing Project Audits, included in Annex I to the Guidelines on Project Audits (for borrowers' use);
 - v. The audit opinion should identify which accounting principles have been applied (IFRS, IPSAS accruals basis, IPSAS cash basis or relevant national standards) in the preparation and presentation of the financial statements;
 - vi. If the auditor has given a qualified, adverse or disclaimer opinion, it is important to identify the reasons for the auditor's qualifications, and seek an explanation from the borrower or the auditor, or both, and take follow-up action as necessary;
 - vii. Follow up on the prior year's audit report and audit review recommendations;
 - viii. Verify whether a separate management letter is attached or has been sent separately; if there is such a letter, ascertain whether it includes a discussion of issues that are not directly material to the audit but contain material that could affect a true and fair view of the financial statements, so that the auditor considers them useful to communicate to the project management, the government and the donors;

- ix. Carefully review any notes to the financial statements and the contents of the management letter (where applicable) to ascertain that there are no critical concerns or issues that would require a change in the auditor's opinion as given. For example, the notes and management letter may indicate circumstances that would require that an unqualified opinion be changed to that of a qualified opinion;
- x. Where the SOE procedure has been used for disbursements, the auditor's opinion should have reference to the satisfaction or otherwise of the use of SOEs by the project and provide a clear separate opinion;
- xi. Where an SA/DA has been established, ensure that expenditures incurred out of the SA/DA are integrated into the project financial statements, and that a separate auditor's opinion in reference to the proper use of the SA/DA by the project is provided;
- xii. Where the auditor's TOR requires any compliance testing, ensure that the auditor has addressed these in the opinion, with appropriate reference to provisions in the financing agreement; and
- xiii. Form an overall conclusion on whether the auditor has performed to the reviewer's reasonable satisfaction, and whether the report and the financial statements, including SOEs and SA, are reliable.

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Enabling poor rural people
to overcome poverty

International Fund for
Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy
Tel.: +39 06 54591
Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org
www.ruralpovertyportal.org