



THE AFRICAN CAPACITY
BUILDING FOUNDATION

FONDATION POUR LE RENFORCEMENT
DES CAPACITES EN AFRIQUE

ANNUAL REPORT

OF THE AUDIT AND RISK COMMITTEE

2018

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INTRODUCTION

1. The Terms of Reference (TOR) of the Audit and Risk Committee (ARC) indicates that the principal purpose of the Committee is to assist the Executive Board (EB) in fulfilling its oversight responsibilities for financial reporting process, the system of internal control, the audit process, risk management, the monitoring of compliance with accounting policies and practices, and the code of conduct.
2. The TOR requires the Committee to meet at least four (4) times annually but more often if desired or necessary to discharge its responsibilities. For FY2018, the Committee met five (5) times in the months of March (24th ARC Meeting held on 21st March 2018), June (25th ARC Meeting held on 21st June 2018), August (26th ARC Special Meeting held between 6th and 7th of August 2018), and December (27th ARC Meeting held between 12th and 13th December 2018).
3. ARC is required to prepare an annual report to the Executive Board addressing all significant matters relevant to the Committees' objectives, duties and responsibilities. Accordingly, this report sets out the activities of the Committee in relation to the stated purpose including recommendations made to Management and to the Executive Board for their appropriate actions or decisions.

FINANCIAL STATEMENTS

4. The Committee has a responsibility to review significant and reporting issues including complex or unusual transactions and highly judgmental areas, besides any recent professional pronouncements in order to understand their impact on the Financial Statement.
5. During FY2018, the Committee reviewed the Draft Financial Statements 2017 and raised issues on the inconsistencies between the audit opinion and going concern as per the notes to the Financial Statements. The Committee asked the External Auditors to reassess and to realign the two and subsequently requested EB's approval of the draft audited Financial Statements 2017 by electronic circulation. The Financial Statements for 2017 were approved by the Executive Board by circulation in April 2018 pursuant to Article VIII, Section 5 (f) of the ACBF Constitution.

INTERNAL CONTROL

6. The Committee reviewed the effectiveness of the Foundation's internal control system including information technology security and control by obtaining reports on significant findings and recommendations together with Management's responses.

7. The Committee noted Management’s commitment to fully utilize the Monitoring and Evaluation Information Management System (M&E IMIS) by September 2018. The Committee further obtained reports on significant audit findings and recommendations together with Management’s responses. These included periodic reports on status of implementation of audit recommendations which were reviewed and monitored.
8. As at 30th November 2018, thirty-one (31) audit recommendations were outstanding from audits conducted by both IAD and External Auditors as presented in table 1 below:

Table 1 – Status of Audit Recommendations as at 30th November 2018

Status	Internal audit recommendations		External audit recommendations	
	No. of Recommendations	% of total	No. of Recommendations	% of total
Implemented	1	6	7	50
Implemented but not assessed	1	6	0	0
In progress	15	88	4	29
Not implemented	0	0	0	0
Not applicable	0	0	3	21
Total	17	100	14	100

9. The Committee commended Management on measures taken to address long outstanding audit recommendations and directed the Executive Secretary to take appropriate executive decision to address some of the outstanding issues that can be resolved through administrative decisions.

INTERNAL AUDIT

10. The Committee reviewed the effectiveness of internal audit function by assessing the work of IAD which included among others:
 - a) Monitoring the implementation of the Audit Plan FY2018 by reviewing the IAD quarterly progress activity reports and the efficient use of internal audit resources, and
 - b) Approving the Risk Based Annual Internal Audit Plan FY 2019.
11. The Committee noted that the FY2018 Internal Audit Approved Plan had a total of twenty-one (21) audit activities consisting of five (5) reviews at the Secretariat, ten (10) reviews of Projects, three (3) investigations, and three (3) Advisory Services. IAD completed the review of twenty (20) out of the planned twenty-one (21) audit activities managing an overall achievement rate of 95% as shown in Table 2 below:

Table 2 -Implementation of planned audit activities FY2018

Activity	Planned	Achieved	%
Audit activities at the Secretariat-Assurance Services	5	5	100
Project review -Assurance Services	10	10	100
Investigation	3	3	100
Advisory services ¹	3	2	66
Total	21	20	95

12. The Committee expressed appreciation to IAD for having achieved 95% of its planned activities in FY 2018 within the available resources and having had a vacancy for a couple of months.
13. From the fifteen (15) audit reviews conducted under assurance services, fourteen (14) were rated **Partially Satisfactory**² while one was rated **Unsatisfactory**³. The audits conducted in FY2018 resulted in the presentation of fifty-eight (58) audit recommendations as shown in table 3:

Table 3 – Distribution Rating of internal audit Recommendations FY2018

Recommendations Made FY 2018					
	Critical	Very Important	Important	Desirable	Total
Secretariat	0	13	11	0	24
Projects	0	11	23	0	34
Total	0	24	34	0	58

14. Thirty-three (33) out of the fifty-eight (58) audit recommendations or 57% were audit issues related to operational activities at the both the Foundation and Project while Sixteen (16) or 31% related to Program Management, and nine (9) or 15% on Governance as further shown in Table 4 below:

¹ IAD was involved in five (5) advisory/consultancy services in FY2018 but for the purposes of reporting has conservatory rated these as two (2) since these were not major engagements.

² This opinion rating is given where the audit did not identify any 'Critical' observation/weakness and the auditor considers that overall the identified observations are not likely to impair the achievement of objectives set up for the audited activity/process.

³ This opinion rating is given where the audit identified 'Critical' and/or 'Very Important' observation/weakness and the auditor considers that the identified observations are so important that overall the internal control system in place does not provide reasonable assurance regarding the achievement of the objective set up for the audited activity/process.

Table 4 – Categorization of internal audit Recommendations

	Operational Activities	Program Management	Governance
Secretariat	15	7	2
Projects	18	9	7
Total	33	16	9

15. The Committee reviewed and approved the proposed IAD Risk Based Annual Work Plan (AWP) FY2019 which contained proposals to conduct twenty-two (22) activities, consisting of sixteen (16) under assurance services, three (3) under investigations services, and three (3) under advisory services.
16. The Committee congratulate IAD for successfully undergoing the Quality Assurance Improvement Program Review (QAIP) of its processes. The Committee noted that this is an attestation on the work of IAD being in compliance with the International Professional Practices Framework (IPPF) Standards.

EXTERNAL AUDITORS

17. The Committee reviewed the External Auditor’s inception report for FY2018 under the responsibility to review the proposed audit scope and approach to conducting financial audits. The Committee made the following two recommendations to Management:
 - a) Discuss the proposed audit fees for FY2018 with a view to having this revised downwards taking into consideration the reduction in the overall activities between year 2017 and 2018 of the Foundation, and
 - b) Benchmark against best practices among the International agencies in relation to applicable reporting functional currency in the Financial Statements of the Foundation.
18. The Committee assessed the performance of the External Auditors and recommended their reappointment for the 2018 audit. The EB approved the decision during the 66th meeting held on 23rd March 2018.

RISK MANAGEMENT

19. The Committee monitored the implementation of business unit and the Foundation’s risk management plans through periodic reports submitted by Management. The Committee

recommended that the current organizational structure of the Foundation be looked at holistically in 2019 during the midterm review of the 2017-2021 Strategic Plan.

20. The December 2018 risk management report as presented before the Committee identified seven (7) key risks and the corresponding risk ratings as follows:

Key Risk Identified	Risk Rating
Funding gap towards the implementation of ACBF strategic plan 2017 – 2021	Major -4 ⁴
Shrinking portfolio	Moderate -3 ⁵
Liquidity/financing risks	Moderate -3
Staffing risk	Moderate -3
ICT risk	Minor -2 ⁶
Foreign Exchange risk	Minor -2
Business continuity risk	Moderate -3

21. The Committee recommended that the risk of funding gap towards the implementation of ACBF Strategic Plan 2017-2021, Liquidity/Financing risk, and the risk of shrinking portfolio needed appropriate and urgent actions and/or decisions by both the Management and the Executive Board. The Committee discussed the key risks together with the Management Implementation Plan with the Executive Secretary and the Chairman of the Executive Board. The Executive Secretary committed to continue with the full implementation of the risk management policy.
22. The Committee also reviewed IAD's own assurance report on the effectiveness of the Risk Management Function in the Foundation as basis for obtaining assurance that material risks have been adequately identified and appropriate risk mitigation measures put in place. This was by way of reviewing reports on the key Foundation risks and on the monitoring of the implementation of the risk appetite policy.
23. The Committee further reviewed the Annual Executive Secretary's sign offer letter on identification and effective management of material business risks through the Annual Certification Statement on the Internal Control Framework for FY 2018. The Annual Certification Statement is one of the documents ARC reviews to attest on the overall control environment at the Foundation.

⁴ Prevents the achievement of ACBF's strategic goals.

⁵ Prevents the achievement of a departmental plan/objective

⁶ Prevents the achievement of business unit's plan/objectives

24. Besides, the Committee reviewed the Revised Risk Appetite Statement and will be recommending its approval to the EB during the 70th Executive Board.
25. Based on the Committee's review of the Risk Management reports together with IAD's assurance report on Risk Management, the Committee advised Management to ensure the effectiveness of the Enterprise Risk Management system within The Foundation and that material risks are identified, and appropriate risk management processes are in place, including the formulation and subsequent updating of appropriate policies.

INVESTIGATION

26. The Committee has the authority to conduct or authorize investigations into any matter within its scope of responsibility or of any matter brought to its attention. During FY2018, the Committee conducted one investigation and was informed by IAD on the outcome of another investigation request from Management.
27. The Committee held a special meeting in August 2018 (26th ARC Special Meeting 6th and 7th of August 2018) the results of which were presented at the 69th EB meeting held on 13th December 2018. The Committee presented the final written report of the Special Meeting to the EB by circulation subsequent to the decision during the 70th Executive Board meeting.
28. The Committee reviewed the outcome of the investigation request from Management conducted by IAD (IR/2018/01) and was satisfied by the subsequent actions taken on the matter.

OTHER RESPONSIBILITIES

29. The Committee monitored the effectiveness of the Foundation's policies and practices by among others reviewing and recommending to the Executive Board the approval of the write-off policy and directing Management to clean up all outstanding advances from closed projects upon the approval of the write-off policy. The Committee further directed Management to periodically report on the status of write-off as per the approved write-off policy.
30. The Committee indicated to the Executive Board that it will be reviewing the Administrative and the Procurement Manual and provide its inputs to Management before seeking the approval of the Executive Board. The Committee expects to complete the review of the Procurement Manual by end of March 2019.
31. The Committee further recommended to Management to seek the Executive Board's approval on the use of Endowment fund after a formulation of an investment policy that will

ensure protection of the principal, liquidity, careful analysis of the risks and potential earnings that may be generated.

PERFORMANCE REVIEW

32. The Committee is required to conduct an annual self-assessment of its performance and effectiveness by reference to the TOR and current best practice.
33. The EB during its 67th meeting also decided that going forward, there will be a systematic annual self-evaluation of the Board and its Committees. The evaluation will be based on a criterion agreed by the Board. The Committee will lead the way by conducting an annual self-assessment of its performance and effectiveness in reference to its TOR.

COMMITTEE COMPOSITION

34. During FY2018, serving Members of the Committee were as follows:

a) Mr. Godfrey SIMBEYE	Chair of ARC and Executive Board Member
b) Dr. Jessie Rose MABUTAS	Executive Board Member
c) Niranjana PANT	ARC Independent Member
d) Babajide ADEBIYI	ARC Independent Member
e) Thomas ASARE	ARC Independent Member

35. The two new Independent Members of the Committee, Babajide Adebisi and Thomas Asare joined in year 2018 and participated in their first Committee meeting on the 21st of March 2018 (24th ARC meeting).
36. Committee Members fulfilled the requirement on conflict of interest for each of the Committee meetings they participated in as stated in the Code of Conduct of the ACBF Executive Board by filling the Conflict of Interest Declaration Forms.

CONCLUSION

37. The Committee's attestation on the overall control environment at the Foundation for year 2018 is reasonable assurance that resources allocated were used for the intended purpose to achieve the objectives of the Foundation.
38. This attestation is based on the Committee's judgment and on the information at its disposal, such as, Annual Audit Activity Report (AAR) FY2018 and Annual Statement of Declaration by the Executive Secretary FY2018.

APPRECIATION

39. To this end, the continued support and co-operation from ACBF Management, the staff and other officers of the Foundation, Internal Audit Department (IAD) and the External auditor is highly appreciated.