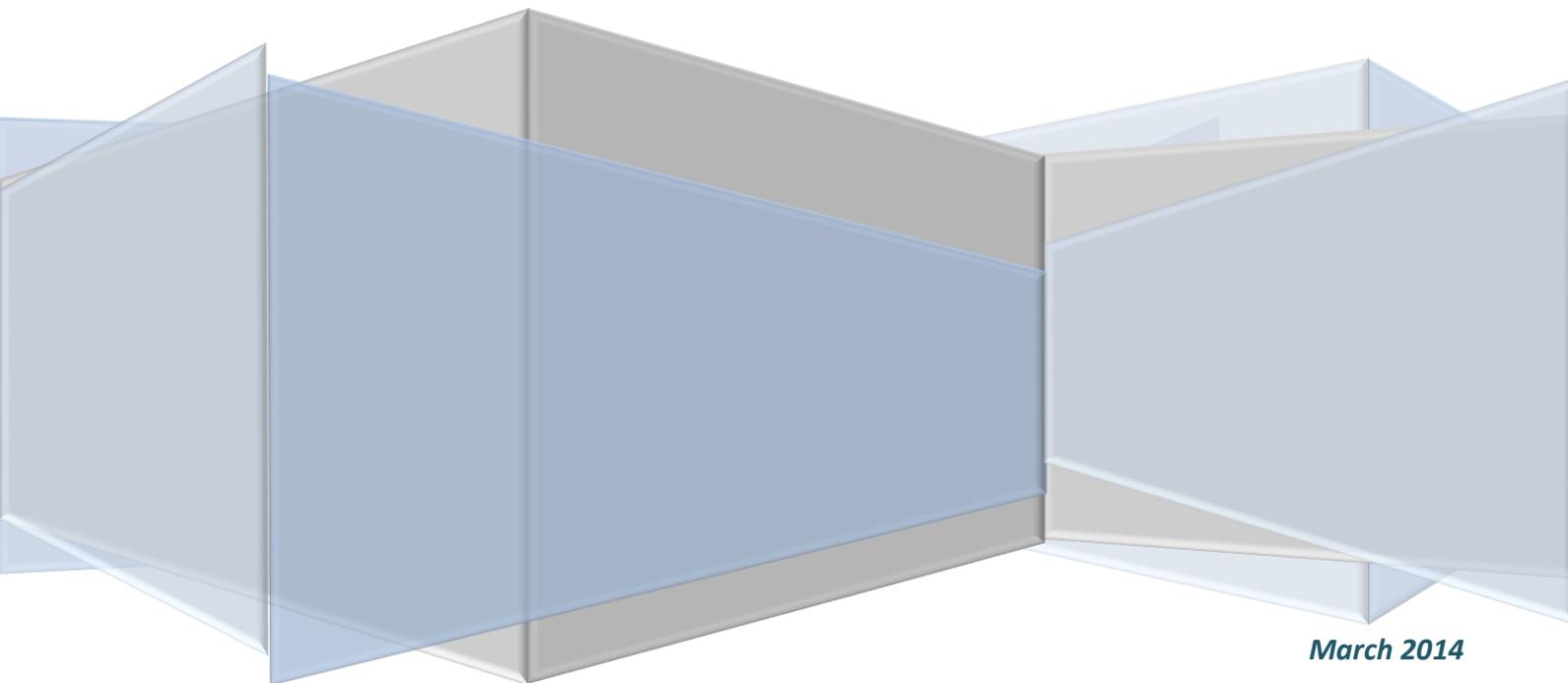




THE AFRICAN CAPACITY BUILDING FOUNDATION | FONDATION POUR LE RENFORCEMENT DES CAPACITES EN AFRIQUE

**ANNUAL REPORT
OF THE AUDIT AND RISK COMMITTEE
TO THE EXECUTIVE BOARD – FY 2013**



March 2014

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INTRODUCTION

1. The Audit and Risk Committee (ARC) of the Executive Board was set up to assist the Board in fulfilling its governance and oversight responsibilities at the African Capacity Building Foundation (ACBF). According to its charter, the ARC has broader mandate to oversee the internal audit and external audit activities as well as the risk management function of the Foundation.
2. The ARC Charter requires the Committee to meet at least three times annually in order to discharge its responsibilities. During the year 2013, the Committee was able to meet twice in April and August 2013. The meeting in August 2013 was a virtual meeting through teleconference.
3. This report summarises the activities of the Committee in relation to internal audit and external audit activities as well as risk management together with key accomplishments and observations in these areas. It also provides attestation on the Foundation's Internal Control system for the financial year 2013.

INTERNAL AUDIT

4. In line with the ARC Charter, the Committee has been working closely with the Internal Audit Department (IAD) to ensure independence and effectiveness in discharging its responsibilities. During the year 2013, the Committee assessed the work of internal audit and reviewed various documents and reports including: (a) annual work plan, (b) progress reports on the implementation of internal audit recommendations, (c) periodic activity reports on internal audit activities, and (d) reports of individual audit engagements.
5. In December 2012, the Committee approved the annual work plan of the Department for the financial year 2013 to undertake 15 review activities consisting of 5 audits at the Secretariat and 10 audits at ACBF funded projects. At its meeting held on 25th April 2013, the Committee further endorsed amendment to the plan by postponing outsourcing the ICT audit in light of the cash constraints at the Foundation. It is also worth mentioning that due to the liquidity problem, both the IAD and Risk Management and Control Unit (RMCU) suspended missions to projects from second quarter of the year. In this regard, to establish adequate basis for the Committee in providing overall annual opinion, in August 2013, the ARC endorsed

the proposal to resume missions and increase the number of projects to be reviewed by additional 20 projects. However, the missions to the selected projects were put on hold again as the cash problem has worsened.

6. The Committee has been following implementation of the planned audit activities through periodic reports, and reports of each audit engagement. Notwithstanding the cash constraints, the Department has conducted 12 review activities representing 80% of the original audits planned. The Committee noted that on the basis of the audits carried out, the IAD made a total of 75 audit recommendations (41 at projects and 34 at the Secretariat) for management consideration and action. Out of the total recommendations, 24 (32%) are rated as 'critical', 49 (65%) are rated as 'important' and 2 (3%) are rated as 'desirable'.
7. On the two comprehensive audits carried out at the Secretariat (i.e. audit on AusAID/AGO/ACI/FICAD programs and audit on HR Management), the IAD highlighted some critical weaknesses that require immediate management attention. Following the review of these reports, the Committee provided necessary guidance to management on the importance of timely implementation of the audit recommendations, and directed the IAD to closely monitor on how improvements are made on these areas.
8. From the review of the annual Internal Audit report for FY2013 and the audit engagement reports, the Committee noted that timely implementation of planned activities, mobilizing resources from co-funding partners as well as financial management/procurement matters remain major risks at the projects. With regard to the Secretariat, audit issues on systems and processes, compliance with ACBF policies/procedures and some aspects on policy matters are areas that require management attention.
9. The Committee further noted that the IAD has conducted two investigations at projects based on whistleblowers complaints. In addition, the Department carried out other engagements including: (a) assessing the Foundation's key risks, (b) reviewing the system on projects disbursements, (c) conducting evaluation on internal audit function at the projects, and (d) preparing users' guide on whistleblowing policy/system.
10. The Committee has been monitoring implementation of internal audit recommendations through periodic reports and providing necessary guidance to

management on those outstanding issues. During the FY2013, the Committee received two reports on the status of implementation of audit recommendations in March 2013 and September 2013. Management attestations during the two follow up exercises indicated that a total of 76 internal audit recommendations were implemented. As at 30th September 2013, the Committee noted that implementation of 168 recommendations were either in progress or yet to be started. The Committee requests management to enhance efforts in implementing audit recommendations with a view to address all associated risks in a timely manner.

11. With regard to resources, the Committee noted that the IAD was allocated with sufficient budget to perform the planned activities for the year 2013. However, there was low absorption of the approved budget due to serious cash constraints leading to cancellation of some planned activities. The Department has been functioning with two professional audit staff and an Administrative Assistant.
12. Based on the activities carried out, the ARC reiterates that the Foundation has an effective internal audit function and commends the quality of work carried out by the department.

EXTERNAL AUDIT

13. At its meeting held in April 2013, the Executive Board approved the reappointment of Deloitte & Touche as External Auditors of ACBF for the financial year 2013.
14. In December 2013, the external auditors submitted an Inception Report highlighting the scope of work, approach, materiality, key audit risks and the time frame to complete the audit. Besides, the Audit Engagement Letter was also submitted, in which the Committee reviewed and noted the contents of these documents. The ARC noted that the external audit for the financial year 2013 is progressing well and the report will be reviewed by the Committee in the next meeting.

RISK MANAGEMENT

15. According to the ARC Charter, the Committee is entrusted to oversee the overall risk management at the Foundation. During the year under consideration, the Committee noted that management has taken some measures to strengthen the risk management system by revising the Risk Management Framework and conducting

assessment on strategic risks affecting the Foundation's operations. Following such assessment, management reported that the three 'high' residual risks at ACBF are: (a) approving projects without adequate resources, (b) liquidity risk, and (c) non-payment of pledges.

16. Meanwhile, in April 2013, the Committee also received a report from IAD on the six key emerging risks and it was subsequently shared with the Executive Board. The key risks highlighted include: (a) funding gaps on active and approved projects, (b) serious cash constraints to effectively run the Foundation or fully discharge its contractual obligations, (c) non-responsive organizational structure, job profile and grades with the prevailing operational environment and the demand to rationalize costs, and (d) reputation risk due to unattended grant applications which do not match with the available funding envelope.
17. At its 8th meeting held on 25 April 2013, the Committee discussed in-depth with management on the key risks and noted that a lot has been done to mitigate these risks by engaging in a high level dialogue with major donors. During a subsequent meeting in August 2013, the Committee has given due attention to deliberate on this matter and it was assured that management has put adequate mitigation measures to address these risks.
18. To sum up, the Committee reiterates the recommendation of IAD that Management and the Executive Board need to continue efforts to further reinforce the current risk management function and ensure that a robust system is in place to manage key risks timely and effectively.

OVERALL OPINION ON INTERNAL CONTROL

19. During the financial year 2013, the ARC confirms that nothing came to the attention of the Committee that demonstrates serious internal control weakness within the Foundation or that may harm its mission. Furthermore, except for the funding risk, no other significant risk threat was drawn to the attention of the Committee which may significantly affect the operations of the Foundation and its grantees. This attestation is based on our judgment and on the information at our disposal, such as, Annual Internal Audit Report, Reports and Statements from External Auditors' and Annual Statement of Declaration by the Executive Secretary.

CONCLUSION

20. During the financial year 2013, in line with its charter, the Audit and Risk Committee was able to discharge its oversight responsibilities in relation to the risk management, internal control systems, accounting policies and practices, internal and external audit functions and financial reporting. To this end, the support and co-operation from ACBF management and Internal Audit Department is highly appreciated.