



EB/R/ARC/65/5



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



65th Regular Meeting of the Executive Board
65^{ème} Session Ordinaire du Conseil d'Administration

Africa capable of achieving its own development

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ANNUAL REPORT
OF THE AUDIT AND RISK COMMITTEE TO THE EXECUTIVE BOARD –
FY 2017

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INTRODUCTION

1. As per the (TOR), The principal purpose of the Audit and Risk Committee (ARC) as set out in its Terms of Reference is to assist the Executive Board (EB) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit processes, risk management, and the monitoring of compliance with accounting policies and practices, and the code of conduct of the Foundation.
2. The TOR requires the Committee to meet at least four times annually to discharge its responsibilities. For FY2017, the Committee meet three times in the month of April, July, and December 2017. The planned meeting in the month of September 2017 could not take place as Members were invited to attend the 20th Annual Meeting of the Board of Governors in Accra Ghana between the 4th and 5th of September 2017.
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 summarises the activities of the Committee in relation to the above stated purpose, key accomplishments and recommendations made to Management and to the Executive Board.

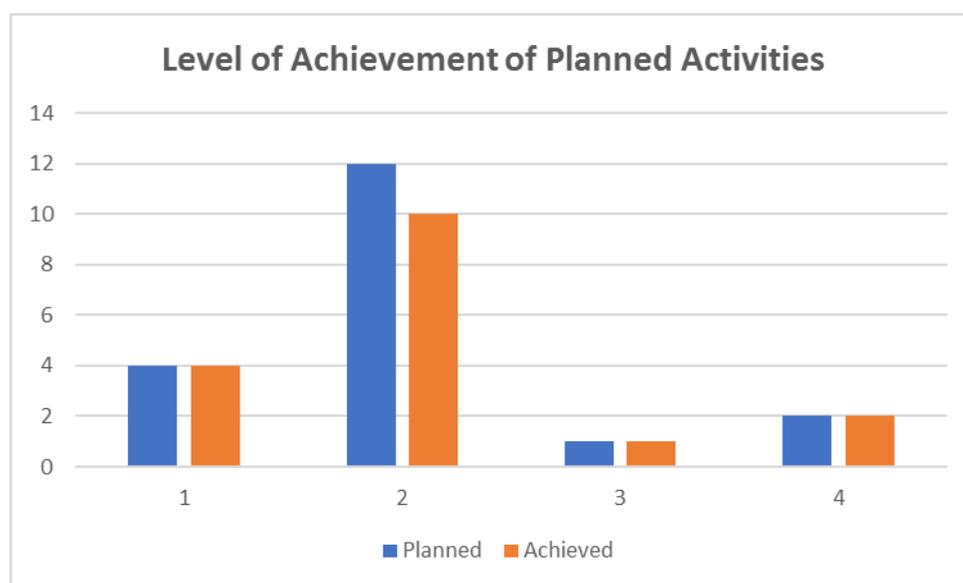
INTERNAL AUDIT

4. The Committee continued working very closely with Internal Audit Department (IAD) to consider the effectiveness of the Foundation's internal control system, including information technology security and control. In addition, the Committee was able to understand the scope of internal audit reviews by assessing the work of IAD and reviewing various documents and reports including: (a) Annual Audit Plan, Status of Outstanding Audit Recommendations, and (b) Internal Audit Activity Progress Reports.
5. The FY2017 audit plan had provision for IAD to conduct a total of twenty-two (22) audit activities consisting of four (4) audit reviews at the Secretariat, twelve (12) reviews of Projects, three (3) investigations, and three (3) Advisory Services. The Committee monitored very closely the progress of implementation of the planned activities through the quarterly progress activity reports submitted by IAD. The Committee noted that IAD completed seventeen (17) out of the nineteen (19) audit activities planned managing an achievement rate of 90% as shown in Table 1 and Chart 1 below.

Table 1 -Level of achievement of planned audit activities

Activity	Planned	Achieved	%
Audit activities at the Secretariat	4	4	100%
Project reviews	12	10	83%
Investigation ¹	1	1	100%
Advisory services ²	2	2	100%
Total	19	17	90%

Chart 1 – Level of achievement of planned audit activities



6. The results of audit reviews conducted on projects indicated that fourteen (14) out of the nineteen (19) or 74% of the total audit findings under Program Management were rated as Partially Satisfactory while all the twelve (12) audit findings under operational activities and two (2) under Governance were also rated Partially Satisfactory. In total twenty-eight (28) audit findings under program audits out of the thirty-three (33) or 85% were rated Partially Satisfactory.

¹ The approved annual work plan had provision to undertake 3 investigations on “as needed” basis. IAD received one request.

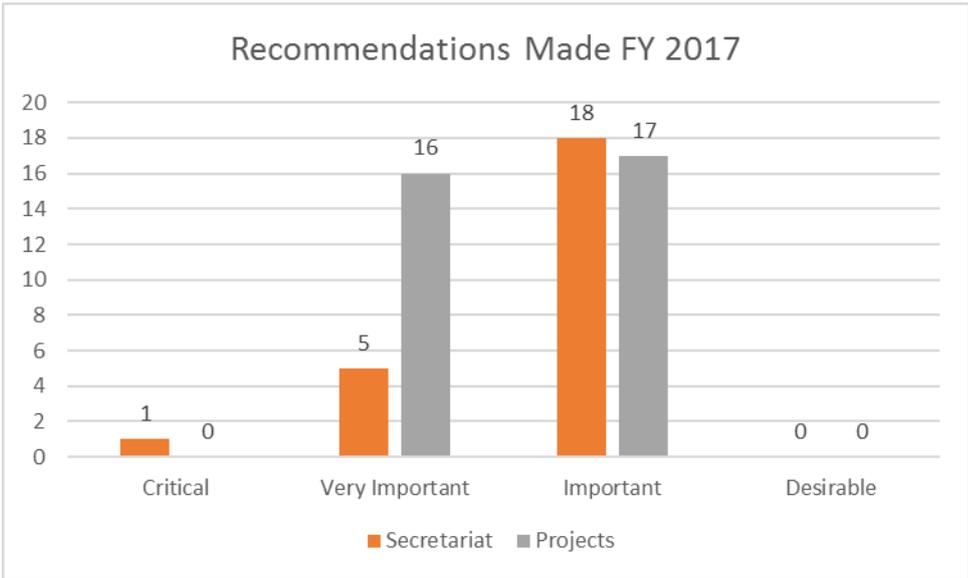
² The approved annual work plan had provision to undertake 3 on “as needed” basis. IAD received two requests out of the 3.

7. Following the audits carried out during the FY2017, the Committee noted that IAD made a total of fifty-seven (57) audit recommendations as shown in the table 2 and Chart 2 below:

Table 2 – Recommendations Made FY2017

Recommendations Made FY 2017					
	Critical	Very Important	Important	Desirable	Total
Secretariat	1	5	18	0	24
Projects	0	16	17	0	33
Total	1	21	35	0	57

Chart 2 – Recommendations Made FY2017



8. The Committee continued to monitor very closely the implementation status of outstanding audit recommendations through periodic reports prepared by IAD and provided necessary guidance to Management. At the beginning of the year, twenty-four (24) significant recommendations were pending at the Secretariat. The Committee noted with satisfaction that the new status of recommendations as at 30th of November 2017 as presented in the table 3 and Chart 3 and 4 below reduced significantly to sixteen (16) representing a reduction of 33%. This was due to ongoing Management’s concerted efforts to implement all the outstanding audit recommendations.

Table 3 – Status of Audit Recommendations as at 30th November 2017

Status	No. of recommendations	Percentage of total
Implemented	2	13%
In progress	13	81%
Not implemented	0	0%
Not applicable	0	0%
Implemented but not assessed	1	6%
Total	16	100%

Chart 3 – Status of Audit Recommendations as at 30th November 2017

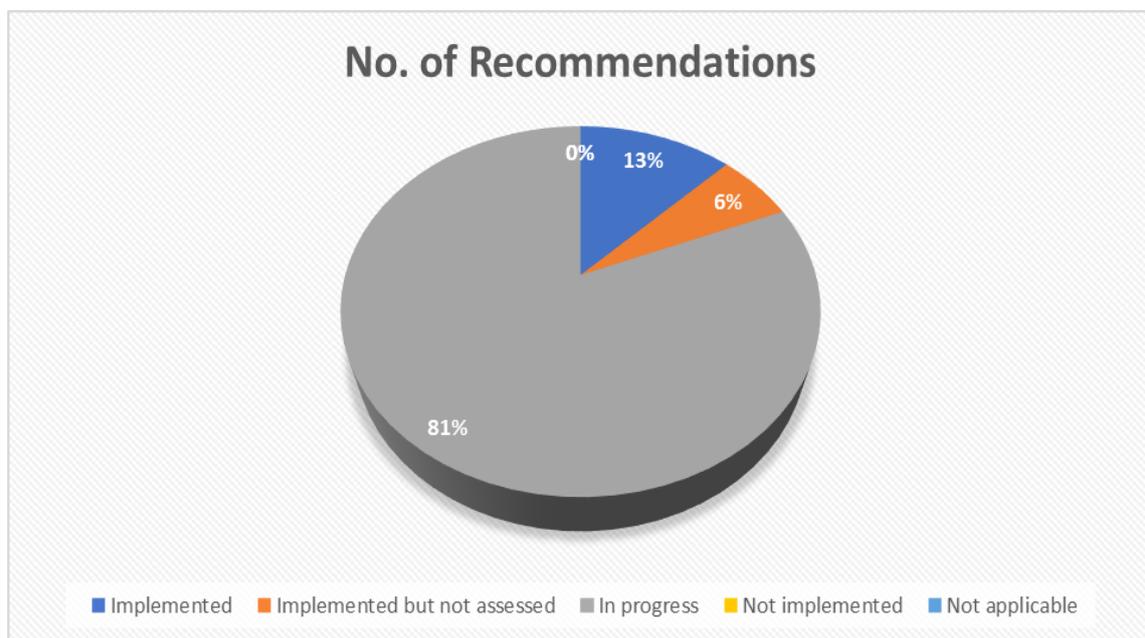
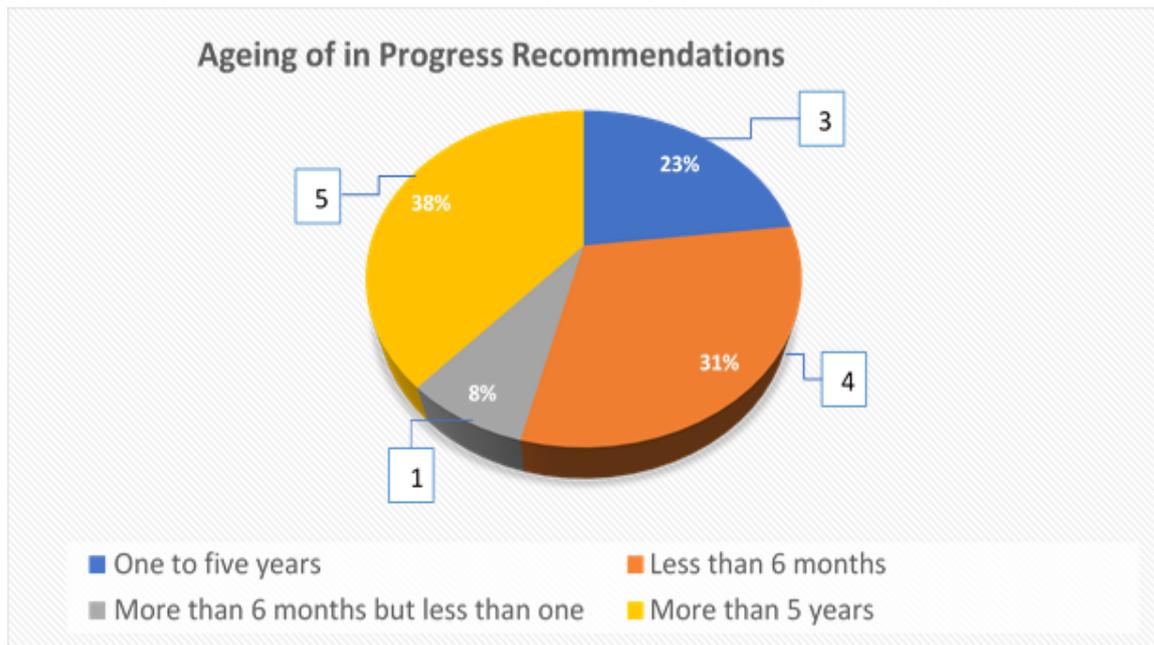


Chart 4 – Ageing of in progress Recommendations as at 30th November 2017



9. IAD submitted its Annual Internal Audit Activity Report for FY2017 which provided progress made against the approved Annual Audit Work Plan and other significant issues observed. The document also provided the Committee with an overview of the annual audit performances and key observations made.
10. IAD presented the proposed Annual Work Plan FY2018 together with the 3-year strategic plan 2018-2020 for consideration and approval of the Committee. The Committee discussed the two documents and approved both documents.
11. In addition, The Committee noted the following issues:
 - (a) The need to reclassify costs and to review the existing efficiency ratio encouraging Management to explore the development of a new efficiency ratio that is more meaningful to the current situation at the Foundation;
 - (b) With regards to implementation of audit recommendations, the Committee raised with the Management the need to complete all the long outstanding audit recommendations in particular the five (5) out of thirteen (13) that have remained in progress for more than 5 years.
 - (c) The results of project audits review indicated the need to strengthen programme/project management and other operational activities.

(d) The need for Management to assess the appropriateness of the existing staffing levels vis-a-vis the available resources.

12. With regards to resources deployed for conducting audit activities, the Committee noted that IAD managed to undertake its planned activities for the FY2017 within the available resources.
13. In assessing the performance of IAD for FY 2017 as required in the Committee's TOR, the Committee considered the results of work performed by IAD and concluded that this was satisfactory. The Committee noted that this was made possible due to the level of independence and good cooperation of Management, particularly the responsiveness and actions taken by the Executive Secretary on the results of audit work.
14. The ARC reviewed the Annual Audit Plan for FY2018 and the Strategic Audit Plan for 2018-2020 and agreed to approve tentatively these documents subject to ratification when a quorum of the Committee will be fully constituted. This tentative approval is needed for IAD to have a basis to conduct their work in FY2018. The ARC also stressed that the strategic plan is a rolling plan to be updated on a yearly basis to take account of any changes in the strategic direction of the Foundation.

INVESTIGATION

15. 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 the reporting period, The Committee directed IAD to conduct additional work on the External Auditor's observation from the management letter of FY2016 financial audit. This was undertaken in 2017 and results were conveyed to Management.

EXTERNAL AUDIT

16. The 21st ARC meeting held on 27th of April 2017, received and considered the audited financial statement and the report of the External Auditors for the FY2016 together with the Management Letter. The Committee noted that the overall audit opinion of the Financial Statement for FY2016 was unqualified. Following the presentation, the Committee directed Management to undertake certain actions aimed at strengthening further the internal control system at both the Foundation and Projects/Programs.
17. The Committee took note of the External Auditor's report highlighting deficiencies in internal control systems such as IT control- access security, long outstanding receivables from employees, write-off of long outstanding grant advances, and incomplete accrual of project expenditures at the Foundation. Some of these issues were rated critical and or Very Important and ARC brought these to the attention of Management recommending that these be addressed as soon as possible.

18. Based on the work performed by the External Auditors for FY2016 on going concern, their opinion was that nothing had come to their attention to suggest otherwise. The audited financial statements as recommended for Board approval were approved at the 63rd Board meeting in April 2017.
19. Under the Committee's responsibility of recommending to the Executive Board the appointment and continuation or otherwise of External Auditors on a yearly basis to conduct an independent audit of the Foundation's Financial Statements, the Committee reviewed and assessed the performance of the External Auditors for FY2016. Based on the results of the assessment, the Committee recommended for approval to the Executive Board the confirmation of External Auditors for FY2017. Further, as per the TOR, the Committee met separately with the External Auditors to confirm their independence.

RISK MANAGEMENT

20. As per its TOR, the Committee reviewed and monitored the effectiveness of the Enterprise Risk Management system within the Foundation to be assured that material risks have been identified and appropriate risk management processes put in place. This was by way of reviewing reports on the key Foundation risks and on the monitoring of the risk appetite policy.
21. The December 2017 risk management report as presented before the Committee identified six (6) categories of risk grouped as follows:
 - 1) Risk of funding gap towards the implementation of ACBF strategic plan 2017 – 2021;
 - 2) Risk of a shrinking portfolio;
 - 3) Staffing risk;
 - 4) ICT risk;
 - 5) Foreign Exchange risk; and
 - 6) Business continuity risk.
22. The Committee noted that the risk of funding gap towards the implementation of ACBF Strategic Plan 2017-2021 was ranked important (4) requiring both the Board and Management's full attention to mitigate the strategic risk to the Foundation. The Committee discussed these risks and the mitigating measures that are to be undertaken with the Executive Secretary and the Chairman of the Executive Board.
23. The Committee observed that Management appointed a Senior Risk and Control Officer within Finance and Administration Department(FAD) thereby instituting a clear separation of functions between risk management and audit, an issue that ARC had raised in the previous year.

24. The Committee also received and 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. The Annual Certification Statement is one of the documents ARC reviews to attest on the overall control environment at the Foundation.

ADVISORY SERVICES

25. IAD Charter mandates it to perform consulting and advisory services related to governance, risk management and control as appropriate for the Foundation. During the reporting period, IAD was involved in the review of various policies and manuals including the write-off policy, travel policy, rules on human resources, administrative manual and so on.

26. The Committee noted with appreciation that Management has put in place an ICT Governance Committee to spearhead and coordinate reform efforts in ICT as a way of improving the overall control environment of ACBF following its recommendation.

COMMITTEE COMPOSITION

27. The Audit and Risk Committee TOR provides for five (5) Members, three (3) of whom shall be External Independent Members and two (2) from the Executive Board. During FY2017, 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, and
- c) Niranjana PANT ARC Independent Member

28. The term of one Committee Member, Eddie Ouko came to an end during the reporting period and efforts are ongoing to fill the two-vacant positions of independent Members of ARC. In view of the departure of Mr. Ouko, there is only one independent member of the ARC and so the results of the 23rd meeting of the ARC will have to be ratified in the near future when a quorum is fully constituted.

OVERALL OPINION ON CONTROL ENVIRONMENT

29. For the financial year 2017, the Audit and Risk Committee’s overall opinion is that the control environment was **Satisfactory**³ to give reasonable assurance that resources allocated were used for the intended purpose to achieve the objectives of the Foundation.

³ This rating is given where overall the Committee is of the opinion that the internal control system in place provides reasonable assurance regarding the achievement of the objectives set up for the Foundation.

30. This attestation is based on the Committee's judgment and on the information at our disposal, such as, Annual Internal Audit Report and Annual Statement of Declaration by the Executive Secretary.

OTHER MATTERS

31. The Committee held bilateral meetings with the ES together with the Legal Counsel to discuss issues requiring their attention and decisions.

32. The Committee prepared and reported on all significant matters relevant to the Committee's objectives, duties and responsibilities in every EB meeting as required in its TOR.

33. Members of the Committee participated in the 26th Annual Meeting of the Board of Governors of ACBF in Accra Ghana between the 4th and 5th of September 2017.

CONCLUSION

34. In line with its TOR, 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.

APPRECIATION

35. 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.