



INTER-AMERICAN BOARD OF AGRICULTURE - IABA

Twelfth Regular Meeting
November 13, 2003

IICA/JIA/Doc.274 (03)
Original: Spanish
Nnovember13, 2003

EIGHTH AND NINTH REPORTS OF THE
AUDIT REVIEW COMMITTEE (ARC)

Panama City, Panama

EIGHTH REPORT OF THE AUDIT REVIEW COMMITTEE

FOREWORD

1. The Audit Review Committee (ARC) was established in September 1993 by Resolution 231 of the Inter-American Board of Agriculture. The following are the present members of the Committee:

<u>Name</u>	<u>Member Country</u>
Mr. Robert Young	U.S.A.
Mrs. Alma Rosa Zepeda	Mexico
Mrs. Jocelyn Thompson	Trinidad and Tobago

Mr. James Ebbitt of the U.S.A. retired from the Committee in the year 2001 at the end of his term, and Mr. Luis B. Correa Sanchez of Mexico resigned with effect from July 2001.

MANDATE

2. According to the statute of the Audit Review Committee, the Committee's only reporting mandate is to call to the attention of the Executive Committee and the Inter-American Board of Agriculture, anything that in its judgment may constitute a violation of the Rules of Procedure governing the operation of the General Directorate.
3. The present members of the Audit Review Committee report that based on the work performed, we have found no instance nor do we have any indication of violations of the Rules of Procedure governing the operation of the General Directorate.

AUDIT REVIEW COMMITTEE ACTIVITIES

4. The Committee met at IICA Headquarters in Coronado, Costa Rica during the period 1st and 2nd May, 2002. Discussions were held with senior personnel of the Directorate of Administration and Finance, the Internal Audit Unit, Informatics and Head of Directorate of Performance Management and Evaluation.
5. We reviewed the Report of the External Auditors, Deloitte and Touche for the financial year 2001 with the financial year 2000 comparatives. We also reviewed their Management Letter which was submitted to the Director-General pointing out inter alia, the findings of the audit exercise.
6. We met with the Audit Partner and Senior staff of Deloitte and Touche and held fruitful discussions. Based on these discussions, we are pleased to report that we find the work performed by the External Auditor to be thorough and in accordance with the Rules of Procedure of IICA and International Auditing Standards.

7. The External Auditor reports that:

“The financial statements of IICA have been prepared in conformity with generally accepted accounting principles, except for the recognition of approximately US \$450,000. and US \$1,300,000. as expenses for the years 2001 and 2000 respectively, which correspond to purchase commitments of goods and services not yet received at year end. This accounting practice is based on the regulations of the Inter-American Board of Agriculture and is incorporated into the Rules of the General Directorate and the financial rules, as indicated in note 1- l.

In our opinion, except for the effects of the matter discussed in the above paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of IICA as of December 31, 2001 and 2000, and the results of its activities, changes in net assets, and cash flows for the years then ended, in conformity with generally accepted accounting principles.”

8. The External Auditor also reports that:

“As of December 31, 2001 and 2000, the balances of quotas due from Member States amounting to US \$12,644,106. and US\$14,663,528, respectively, include US\$3,783,876 and US\$2,486,184 in 2001 and 2000, respectively, of quotas overdue for more than one year. The General Directorate of IICA considers such balances to be collectible and continues making efforts to collect these balances from each Member State.”

OBSERVATIONS

9. During the course of our discussions and review we noted the following:

Purchase Commitments (Closing Obligations)

9.01 The external auditors pointed out at 1(e) of the External Auditor “Finding and Recommendations” that significant progress had been achieved in the reduction of outstanding purchase commitments at year end 2001. These purchase accruals decreased by 84% since 1999 from US \$2,846,463. to approximately US \$ 450,000. at 2001 year end. The External Auditor considers it important that the efforts to further reduce the year end balance of purchase commitments be continued. We of the ARC strongly recommend a continuation of this effort.

Permanently Restricted Fund

9.02 At Note 1(b) or Note 4 to the Financial Statements, the original donation of land to IICA by the Government of Costa Rica is shown as \$8,713,171. In view of the fact that on conclusion of IICA’s official mission or termination of its functions in Costa Rica, the property and any improvements thereto shall be returned to the Government of Costa Rica, we feel that the information should clearly present that the buildings and other improvements at IICA’s

headquarters are located on permanently restricted land. The Finance Division promised to look at this matter, and proceeded to include the additional information in Note 4 in the Financial Statements for 2001.

Frozen Quotas

9.03 The ARC noted that quotas have remained frozen for more than three years viz., (1999, 2000, 2001).

Capitalization Rate of Assets

9.04 The ARC recommends that IICA review its capitalization rates in respect of property, furniture and equipment with a view to streamlining the recording and accounting processes in this area.

Statement of Movements of Member State Quotas Receivable - Exhibit No. 1

9.05 The ARC also noted the present treatment of revenue collectible from the suspended member Cuba. This revenue collectible is expensed as shown at Exhibit No. 2. The ARC felt that the present treatment should be reviewed.

Internal Audit

9.06 The ARC notes that there is an urgent need for relevant Auditing Software and training of the Internal Audit officers in the use of this software. This will allow them to better audit the newly installed BAAN software which was installed at Head Office, Brazil, Chile and Uruguay as at the date of our review. The ARC was informed that there were plans to address this matter.

9.07 The ARC recommends that this matter be given priority.

Submitted,

Robert Young
U.S.A.

Alma Rosa Zepeda
Mexico

Jocelyn Thompson
Trinidad and Tobago

NINTH REPORT OF THE AUDIT REVIEW COMMITTEE

Establishment of Committee:

Resolution 231 of the Inter-American Board of Agriculture established the Audit Review Committee in September 1993.

MANDATE

The statute of the Audit Review Committee requires the Committee to call to the attention of the Executive Committee and the Inter-American Board of Agriculture, anything that in its judgement may constitute a violation of the Rules of Procedure governing the operations of the General Directorate. This is the only reporting requirement of the Committee.

MEMBERS OF THE COMMITTEE

The present members of the Committee are:

1. Mr. Raymond G. Poland - Regional Inspector General, Office of the Inspector General, U.S. Department of Agriculture. - U.S.A.
2. Lic. Luis Carlos Gutierrez Jaime - Director General, Directorate for Financial Efficiency and Accountability of SAGARPA, Mexico. - Mexico
3. Mrs. Jocelyn Thompson - Auditor General of Trinidad and Tobago.

Mr. Robert Young of the United States and Mrs. Alma Rosa Zepeda of Mexico resigned during 2002.

AUDIT REVIEW COMMITTEE ACTIVITIES

The Committee met at IICA – Sede Central- Coronado, Costa Rica during the period 20th and 21st May 2003 in order to carry out the annual review of the Financial Statements for the year ended December 2002.

Discussions were held with the following senior officers of IICA:

- | | |
|--------------------------|---|
| Mrs. Karen E. Kleinheinz | - Head of Finance Division |
| Mr. Harry Scott | - Head of Control and Analysis Unit |
| Mr. Luis Condines | - Internal Auditor |
| Mr. Terry Vogt | - Deputy Director General |
| Mr. Ricardo Caceres | - Specialist, Directorate of Performance Management and Evaluation. |
| Ms. Lynda Landry | - Director of Human Resources |

The Committee viewed the following two [2] electronic presentations:

1. Modernization of the Institute Management Information System—a Presentation by the Deputy Director General
2. Continuity Plan for Operations – a KPMG presentation.

We reviewed the draft Report of the External Auditors, Deloitte and Touche as well as the draft Management Letter and held discussions with the Audit Partner Señor Blanco.

Based on these discussions, we find the work performed by the External Auditors to be in accordance with International Auditing Standards and in accordance with the Rules of Procedure of IICA.

REPORT TO THE EXECUTIVE COMMITTEE OF IICA

We have found no instance nor do we have any indication of violations of the Rules of Procedure governing the operation of the General Directorate.

We however draw the following issues to attention for the appropriate action by management.

1. Purchase commitments of goods and service not yet delivered by year-end.

The External Auditor has again qualified the Auditor's Report in connection with year-end commitments of **US. \$453.895.** and **US. \$450.000.** in respect to the years 2002 and 2001 respectively as this practice does not comply with generally accepted accounting principles. However this accounting practice used by IICA is in accordance with the Rules of the General Directorate and the Financial Rules of IICA.

2. Outstanding Quotas

The External Auditor has also drawn to attention that "As of December 31 2002, the balances of quotas due from Member states amounting to **US\$13,540,545.** , include US\$8,233,953 of quotas overdue for more than one year. The General Directorate of IICA considers such balances to be collectible and continues making efforts to collect these balances from each Member State."

The amounts at year- end 2002 overdue for more than one year have increased and represent about 60% of the total outstanding.

3. Office in Brazil

In our discussions with the External Auditor we learnt that internal controls at the Brazil Office were weak. We saw indications of this by the failure of the Brazil Office to reconcile nine [9] Bank accounts as at December 31. The External Auditor stated that they were unable to vouch these transactions by means of alternate auditing procedures. We also observed that Brazil Office paid remuneration packages in excess of IICA rates and made certain purchases, which did not comply strictly with IICA guidelines.

4. Frozen Quotas

The ARC is very aware that Quotas are determined by the Member States. The ARC recommends that the Executive Committee continue to draw attention to the need for

review of this situation. Frozen quotas coupled with the failure of some Member States to pay their quotas on a timely basis, can compromise IICA's ability to continue to function efficiently and effectively.

5. Advances to Employees

As at December 31, 2002 amounts totaling US. \$15,647. were not accounted for by the employees who received the advances. The amounts were all outstanding in excess of the stipulated time of 30 days in which to account. The ARC recommends that IICA strengthen its follow up procedures and controls with respect to employees requesting and repaying advances.

6. Management Information System [MIS]

The ARC was informed that the Management of IICA has decided not to proceed further with the implementation of the BAAN system but instead consider the implementation of an Oracle system since the Oracle system was more suited to the needs of IICA and was more user- friendly. The ARC strongly supports prompt implementation of a Management Information System in order for the IICA Headquarters management to have more control over the County Offices' activities.

7. Internal Audit

The ARC noted that the Internal Audit Section had been strengthened and that the staff had received training in the use of an IT auditing software package.

Submitted,

Raymond G. Poland
U.S.A.

Luis Carlos Gutiérrez Jaime
México

Jocelyn Thompson
Trinidad and Tobago