



INTER-AMERICAN BOARD OF AGRICULTURE - IABA

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**Tenth and Eleventh Annual Report of the
Audit Review Committee (ARC) of IICA**

Guayaquil, Ecuador

TENTH REPORT OF THE AUDIT REVIEW COMMITTEE (ARC)

ESTABLISHMENT OF THE COMMITTEE:

The Audit Review Committee (ARC) was established in September 1993 by Resolution 231 of the Inter-American Board of Agriculture (IABA).

MANDATE

Pursuant to the Statute of the Audit Review Committee, the only reporting requirement of the Committee is to report to both the Executive Committee and the Inter-American Board of Agriculture anything that, in the judgment of the Audit Review Committee, may constitute a violation of the rules and procedures governing the operations of the General Directorate.

MEMBERS OF THE COMMITTEE

The present members of the Committee are:

1. Mr. Raymond G. Poland – Regional Inspector General, Office of the Inspector General, United States Department of Agriculture (USDA). – United States of America.
2. Mr. Luis Carlos Gutierrez Jaime - General Director, Directorate of Financial Efficiency and Accountability, Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food of Mexico (SAGARPA). – Mexico.
3. Mrs. Sharman Ottley - Assistant Auditor General, Auditor General's Department – Trinidad and Tobago.

ACTIVITIES OF THE AUDIT REVIEW COMMITTEE

The Committee met at IICA Headquarters, in Coronado, Costa Rica, on May 19-20, 2004, with the purpose of conducting the annual review of the Financial Statements for the fiscal year that ended in December 2003.

Discussions were held with the following management personnel of IICA:

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| Ms. Karen Kleinheinz | - Head, Finance Division |
| Mr. Harry Scott | - Head, Control and Analysis Unit |
| Ms. Susana Dancourt | - Deputy Internal Auditor |

Mr. Jose Miguel Perez	- Directorate of Performance Management and Evaluation
Ms. Lynda Landry	- Director, Human Resources
Mr. Yanko Goic Cortes	- Head, Budget and Control Division

The Committee also attended a presentation on the system used by IICA in its Offices in the countries to evaluate performance management.

The Committee also reviewed the draft Report of the External Auditors, Deloitte & Touche, and the draft management letter, and held discussions with the Audit Partner, Mr. Francisco Blanco, and the Manager, Audit Services, Mr. Juan Carlos Espinoza.

Based on these discussions, the Committee found that the work performed by the External Auditors complies with international auditing standards and IICA's rules.

REPORT TO THE EXECUTIVE COMMITTEE OF IICA

We are not aware of any violation of the rules that govern the operations of the General Directorate; nevertheless, we bring the following matters to the attention of the Executive Committee so that appropriate action may be taken:

1. QUOTA ARREARAGES

Once again the External Auditor and the members of the Audit Review Committee (ARC) highlight IICA's lack of economic viability, due to the increase in the amount of quotas owed by the Member States. These quotas totaled US\$13,540,545 at December 31, 2002, and by December 31, 2003 increased to US\$17,473,795. This increase came in spite of the resolutions approved at the Twelfth Regular Meeting of the Inter-American Board of Agriculture, held in Panama City, Panama, on November 13, 2003. Specifically, Resolution 392 presents several payment alternatives for debtor countries to bring their quota arrearages with IICA up to date. Because of the serious impact of these arrearages on IICA's financial position, the ARC recommended that the 2004 audited financial statements reflect the status of delinquent countries' efforts to bring their quotas current.

2. BANK CREDIT LINE

In December 2003, to cover current expenses, IICA obtained a bank credit line for US\$4 million with the Bank of America N.A., which becomes due on November 30, 2004 and for which an interest rate equal to the Prime Rate is charged. This credit line is guaranteed with a promissory note. As at December 31, 2003, IICA had drawn US\$1.5 million on this credit line.

This highlights the increasing deterioration in the Institute's finances which would hinder the Institute from fulfilling its objectives.

3. INCOME AND EXPENDITURES ASSOCIATED WITH THE INSTITUTIONAL NET RATE (INR)

In view of expenditures greater than income generated in 2003, and the use of funds on hand in the INR Fund in the amount of US\$341,708, and in order to improve the transparency of expenses associated with the Institutional Net Rate, we suggest to IICA management that expenditure under certain line items be more detailed, principally under the budget item "contracts, works, grants and allowances."

4. INTERNAL AUDIT

We recommend that the internal audit place greater emphasis on the review of internal controls in the Offices in the countries, according to their level of importance and by activities. The internal audit should also adhere more strictly to the Financial Rules of IICA, as set out in CHAPTER V, SECTION A. INTERNAL AUDIT.

Presented by:

Raymond G. Poland
U.S.A.

Luis Carlos Gutiérrez Jaime
Mexico

Sharman Ottley
Trinidad and Tobago

ELEVENTH REPORT OF THE AUDIT REVIEW COMMITTEE (ARC)

ESTABLISHMENT OF THE COMMITTEE

The Audit Review Committee (ARC) was established in September 1993 by Resolution 231 of the Inter-American Board of Agriculture (IABA).

MANDATE

Pursuant to the Statute of the Audit Review Committee, the only reporting requirement of the Committee is to report to both the Executive Committee and the Inter-American Board of Agriculture anything that, in the judgment of the Audit Review Committee, may constitute a violation of the rules and procedures governing the operations of the General Directorate.

MEMBERS OF THE COMMITTEE

The present members of the Committee are:

1. Luis Carlos Gutierrez Jaime – Director General, Directorate of Financial Efficiency and Accountability, Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food of Mexico (SAGARPA). – Mexico.
2. Raymond G. Poland – Regional Inspector General, Office of the Inspector General, United States Department of Agriculture (USDA). – United States of America.
3. Sharman Ottley – Assistant Auditor General, Auditor General’s Department – Trinidad and Tobago.

ACTIVITIES OF THE AUDIT REVIEW COMMITTEE

The Committee met at IICA Headquarters, in Coronado, Costa Rica, on March 30-31, 2005, with the purpose of conducting the annual review of the Financial Statements for the fiscal year that ended in December 2004.

Discussions were held with the following management personnel of IICA:

Mario Seixas	- Acting Director General
Francisco Barea	- Director of Administration and Finance
Karen Kleinheinz	- Director of Finance
Yensy Casanova	- Coordinator of Consolidation Unit, Finance
Laura Mora	- Coordinator of Country Office Unit, Finance
Luis Condines	- Internal Auditor
Susana Dancourt	- Deputy Internal Auditor
Emanuel Picado	- Head, Informatics and Information Systems Unit

The Committee also reviewed the draft Report of the External Auditors, Deloitte & Touche, and the draft management letter, and held discussions with the Audit Partner, Mr. Francisco Blanco, and the Manager, Audit Services, Mr. Juan Carlos Espinoza.

Based on these discussions, the Committee found that the work performed by the External Auditors complies with international auditing standards and IICA's rules.

REPORT TO THE EXECUTIVE COMMITTEE OF IICA

We noted a violation of the rules that govern the operations of the General Directorate that resulted in an embezzlement at one country office. Additionally, we bring the following matters to the attention of the Executive Committee so that appropriate action may be taken:

1. QUOTA ARREARAGES

Once again the members of the Audit Review Committee (ARC) noted the extent of quota arrearages still due to IICA by Member States at December 31, 2004, namely US\$16,125,987. This situation arose in spite of the resolutions approved at the Twelfth Regular Meeting of the Inter-American Board of Agriculture, held in Panama City, Panama, on November 13, 2003 (specifically, Resolution 392 which presented several payment alternatives for debtor countries to bring their quota arrearages with IICA up to date) and the serious effort made by IICA's executive group to redress the situation with overdue payments.

Because of the serious impact of these arrearages on IICA's financial position brought about by noncompliance with quota payments, the ARC recommends that the Director General of IICA inform the Executive Committee of the cost of each office that IICA has in each of the member countries which owe more than two complete fiscal years of quotas, and propose, in accordance with the Convention and Basic Rules of IICA, the actions to be taken since Resolution 392 of November 13, 2003 did not produce the results expected.

2. INCOME AND EXPENDITURES ASSOCIATED WITH THE INSTITUTIONAL NET RATE (INR)

In the 2003 report, the Audit Review Committee suggested to the IICA Administration that expenditures under certain headings should be more detailed, mainly under the heading "performance contracts and transfers". Since this matter is of concern to the member countries of IICA, we again recommend that the Director General present to the Executive Committee a list of persons/entities who received transfers, the amount, and the purpose of the transfer. The policy of IICA with respect to transfers should also be stated.

3. INTERNAL CONTROLS

Last year, the ARC was advised that IICA was preparing to implement a new information system that would significantly improve controls over its widespread financial and accounting operations, and other operational areas. Also, we recommended in our report of 2003 activities that IICA's internal audit place greater emphasis on reviewing internal controls at country offices. Subsequently, in 2004, IICA suffered a material embezzlement in one country office. Consequently, the external auditors have now discussed related internal control deficiencies in their current management letter. The primary cause of IICA's inability to implement an effective automated information system is due to lack of funding resulting from the ongoing excessive quota arrearages. This year, the Internal Audit group advised us that they have increased their reviews of internal controls at country offices. The ARC recommends that IICA place primary emphasis on obtaining sufficient funds to acquire an automated financial and accounting system. Additionally, the ARC recommends that IICA improve through consulting, training, or other means, its ongoing assessment of its internal controls.

Presented by:

Raymond G. Poland
U.S.A.

Luis Carlos Gutiérrez Jaime
Mexico

Sharman Ottley
Trinidad and Tobago