



EXECUTIVE COMMITTEE

Twentieth Regular Meeting  
San Jose, Costa Rica  
1-3 November 2000

REPORT OF THE AUDIT REVIEW COMMITTEE  
(Sixth Annual Report)

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The Audit Review Committee (ARC) was established in September 1993 by Resolution 231 of the Inter-American Board of Agriculture. Present members are Jocelyn Thompson from Trinidad and Tobago, Luis B. Correa Sanchez from Mexico, and James R. Ebbitt from the United States. The Committee met at IICA Headquarters from May 1-3, 2000 and also visited the Cooperation Agency in El Salvador from May 4-6, 2000.

### **AUDIT REVIEW COMMITTEE ACTIVITIES**

During our visit to El Salvador in May 2000, we had the opportunity to have a meeting with the Director General, other Directors from IICA Headquarters and Representatives of the Cooperation Agencies in the Central Region, who were meeting in El Salvador regarding business of the Central Region. This was a very good opportunity for members of the Audit Review Committee to explain the workings of the ARC and to exchange views with these Representatives regarding internal controls over IICA operations. We also visited IICA's Cooperation Agency in El Salvador where we met with the Representative and staff from the Cooperation Agency and discussed issues related to the work of the ARC and the work of IICA in El Salvador.

We also had the opportunity to make a field visit in El Salvador and to see first hand, IICA projects in action and meet the people associated with those projects. We visited the Prochalate, Hillside Project in Chalatenango, El Salvador, and had the opportunity to meet project leaders as well as people involved in carrying it out. What was very clear to members of the ARC was the enthusiasm and dedication to the project of the people we had the opportunity to meet. All associated with the project expressed the importance of the project to the community and the real and positive impact the project had on their lives. Those we met spoke strongly, enthusiastically and emotionally about the project and its positive impact. We would like to express our appreciation to the officials of the Cooperation Agency and the people associated with the Prochalate project for their warm reception and for the courtesies they extended to us.

### **EXECUTIVE SUMMARY OF AUDIT REVIEW COMMITTEE OBSERVATIONS**

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. Based on our work, we have found no instances nor do we have any indication of violations of the rules of procedure.

We have also reviewed the External Auditors Report for the comparative financial statements for 1999 and 1998 and their Report on the Review of the Internal Control Structure for 1999. We met with the Audit Partner and audit staff of KPMG Peat Marwick (the External Auditor) and 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 Generally Accepted Auditing Standards. In the Report on the Internal Control Structure, the External Auditors point out a number of internal controls issues that IICA management must address. Some of our observations herein are based on the Report on Internal Controls.

## **OBSERVATIONS**

*1. Closing Obligations and Various Accruals* – We noted in previous reports that IICA does not follow Generally Accepted Accounting Standards in its handling of closing obligations. IICA rules establish that obligations to acquire goods and services that are PENDING at the close of each fiscal year shall be included as part of total expenses for that year and should be recorded as accounts payable at the close of the same year. Generally Accepted Accounting Principles require the accounting or recognition of goods or services when an entity has a current obligation as a result of a past event and it is probable that funds will be disbursed to settle the obligation and a reasonable estimate can be made of that estimate. IICA's rules for handling closing obligations cause the external auditors to qualify their opinion regarding the preparation of IICA's financial statements. The External Auditors report states that "the financial statements of IICA have been prepared in conformity with generally accepted accounting principles, except for obligations assumed during the year to acquire goods and services not yet received at the close of the respective year."

In 1997 the external auditors noted that IICA obligated US\$2.9 million for goods and services within the last few days of the financial reporting year, and that 19 percent of this amount affected the quota budget. In 1998, the external auditors reported a similar situation and they noted that US\$2.6 million was obligated in the last few days of the financial reporting year, and that 42 percent affected the quota budget. In 1999, the external auditors reported that US\$2.8 million was obligated in the last few days of the reporting year and that 57 percent affected the quota budget. The external auditors noted in their report on internal control in 1997 that there is a danger of misuse of funds by following current IICA procedures. In their report for 1998, the external auditors stated that: "Although financial regulations establish that budgetary reserves should remain available until two years after the close of the fiscal year in which the respective commitment was made, the possibility should be analyzed of defining prudent terms (based on the justification for recording the closing obligation) that govern the execution of commitments and facilitate control over management of this area. The establishment of prudent terms could help ensure that reserves correspond to commitments with a high certainty of realization."

In an effort to control year-end obligations, the Director General issued a letter in September 1999 providing guidance and caution on year-end expenditures. This letter and follow-up letters issued in October and December 1999 also provided that any closing year obligation should be executed in the following fiscal year. The ARC believes that these letters issued by the Director General, the Deputy Director General, the Director of Human Resources and the Director of Coordination and Planning, coupled with the continued emphasis by the Director of Finance, has moved IICA closer to a position which will lead to eventually being able to remove the qualification regarding *Generally Accepted Accounting Principles* by the external auditors. The removal of this qualification and the adoption by IICA of *Generally Accepted Accounting Principles* for these procedures will increase assurance in the financial procedures of IICA.

2. **Restatement of the Financial Statements** – The ARC would like to call the Executive Committee's attention to Note 10 of the audited Financial Statements. As a result of the Institute's work in Brazil in 1999, the Institute determined that an item amounting to US\$489,653 was included by error as miscellaneous income in the Regular Fund. The amount was correctly assignable to the Trust Fund being administered by the Cooperation Agency in Brazil. The correction to the financial statements results in a reduction of a like amount in the Regular Fund. The External Auditors verified the accuracy of this accounting adjustment. The resulting change impacts and changes the financial statements for 1996, 1997, and 1998, which are explained on pages 20 and 21 of the report on the Financial Statements for 1999.

3. **Internal Audit** – The ARC would like to recognize the continued high quality work of the Internal Audit Unit within IICA. The Internal Auditor and staff continue to do high quality work on behalf of IICA. Additionally, the overall coordination provided by the Committee on Internal Audit Coordination continues to function in an efficient and effective manner. This Committee brings focus and assures appropriate corrective action on findings and issues identified during their reviews. We would also like to recognize the coordination between the Internal Auditor and the *Consortium for Planning and Coordination, Directorate of Programming and Evaluation (DIPRE)*. This Consortium developed and has implemented a systematic process to monitor the Institute's technical cooperation, which allows the Institute to have an evaluative process to measure progress made in reaching the goals set out in the Medium Term Plan, as well as the impact of technical cooperation actions. In conjunction with the work of the Internal Auditor, this process allows IICA to have a comprehensive evaluation of its activities.

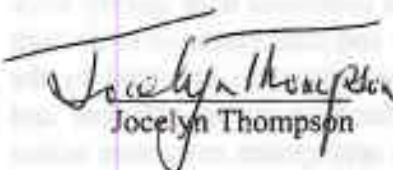
4. **BAAN** – IICA approved a new Management Information System, *BAAN*, in April 1999, and during our visit, the ARC was advised that the installation in Brazil had occurred and that testing was under way. If testing is successful, IICA was going to make a decision for further implementation to include Headquarters in San Jose and the Cooperation Agency in Panama.

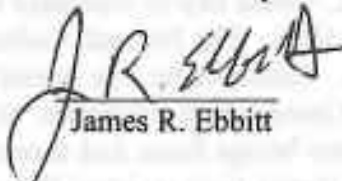
5. **INFORMATION TECHNOLOGY CONTROLS** – The ARC would like to bring to the attention of the Executive Committee, the External Auditor's report on IICA's Internal Control Structure as it relates to *General Information Technology Controls*. These controls, developed or implemented by IICA, are vitally important to the Institute's

information technology systems. The External Auditor, in its report, has noted "significant weaknesses" in security over these systems. The issues are detailed in the Auditor's Internal Control Structure Report, dated May 2, 2000, Part B, page 1-8. The audit report details a number of recommendations and management has established a corrective action plan to address the recommendations. The ARC believes that this area poses a significant risk for IICA and that strong and persistent corrective action is required.

6. **CONTINUITY OF OPERATIONS PLAN (COOP)** – The ARC would also like to bring to the attention of the Executive Committee the observation of the External Auditor regarding the ability to continue operations in the event of massive damage to computer servers. Presently, IICA has no alternative information processing options in the event of damage to the servers. The External Auditor recommends that IICA make a significant effort to initiate preparation of a Disaster Recovery Plan (COOP Plan), enabling it to establish mechanisms to confront undesirable events and minimize the potential effect on the continuity of Institute operations.

7. **DIRECTORATE OF FINANCE** – The ARC would also like to recognize the strong support and cooperation of the entire Directorate of Finance. The cooperation and assistance received from this Directorate in particular is vitally important to the role of the ARC and allows the ARC to function efficiently and effectively. We would like to thank everyone who works in this Directorate for their hard work and continued support.

  
Jocelyn Thompson

  
James R. Ebbitt

  
Luis B. Correa Sanchez