



EB/R/ARC/61/4



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



61st Regular Meeting of the Executive Board
61^{ème} Session Ordinaire du Conseil d'administration

Africa capable of achieving its own development

Une Afrique capable de réaliser son propre développement

ANNUAL REPORT
OF THE AUDIT AND RISK COMMITTEE TO THE EXECUTIVE BOARD –
FY 2016

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INTRODUCTION

1. The Audit and Risk Committee (ARC) of the Executive Board (EB) was set up to assist the Board in fulfilling its governance and oversight responsibilities at African Capacity Building Foundation (ACBF). According to the Committee's Terms of Reference (TOR), the ARC has overreaching duties and responsibilities on the external audit and internal audit activities as well as on risk management functions at the Foundation.
2. The ARC TOR requires the Committee to meet at least four times in a year in order to discharge its responsibilities. Accordingly for FY2016, the Committee met four times in the month of April, July, September and December 2016.
3. This report summarises the activities of the Committee in relation to internal audit and external audit activities, on risk management, key accomplishments and observations. It also provides attestation on the Foundation's Internal Control system for FY2016.

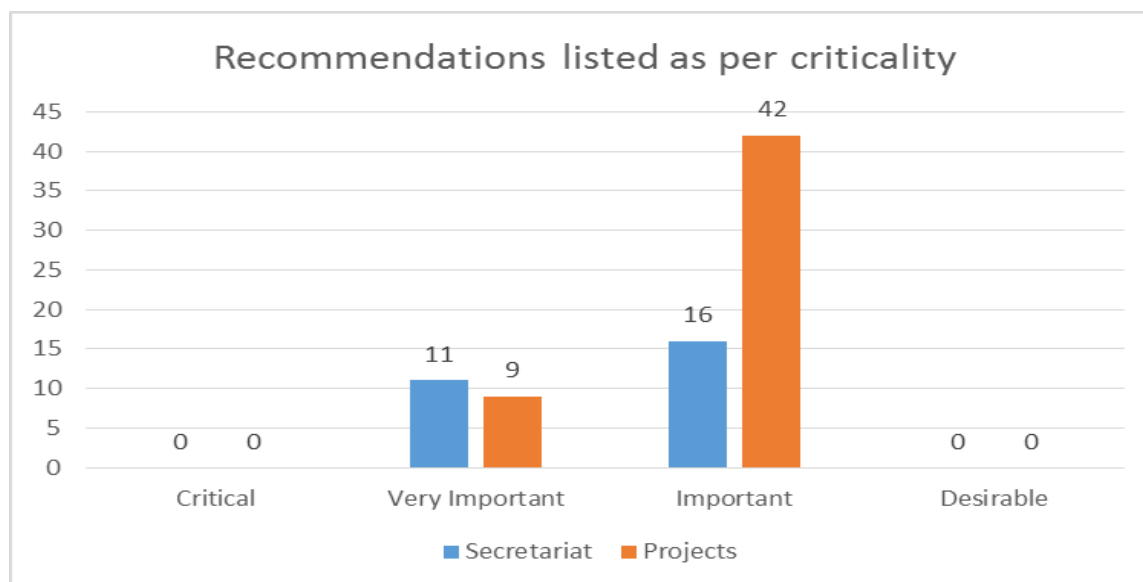
INTERNAL AUDIT

4. In line with the ARC TOR, the Committee continued working closely with Internal Audit Department (IAD) in order to ensure independence and effectiveness in discharging its responsibilities. During FY2016, the Committee assessed the work of IAD and reviewed various documents and reports including: (a) annual audit plan, (b) internal audit activity progress reports, and (c) External Audit report for FY2015. The Committee also discussed the Revised IAD Audit Manual and will be recommending for its approval in the EB meeting of March 2017.
5. The FY2016 audit plan had provision for IAD to conduct a total of thirty one (31) audit activities consisting of three (3) audit reviews at the Secretariat, eighteen (18) reviews of Projects, four (4) Financial Management Assessments (FMA), three (3) investigations, and three (3) Advisory Services.
6. The Committee monitored closely the progress of implementation of the planned activities through the quarterly progress activity reports as prepared and reported by IAD. The Committee noted with satisfaction that the three (3) planned audit review activities at the Secretariat were successfully completed within the reporting period. In addition IAD completed the review of seventeen (17) project audits out of the planned eighteen (18). IAD also undertook a total of four (4) investigations out of the planned three (3). Besides IAD continued to provide technical support to Management on the Risk Management and Control processes following a decision to move the function to FAD and pending the

filling of the vacant position. Besides IAD offered two (2) advisory services out of the planned three (3).

7. Following the audits carried out during the FY2016, the Committee noted that IAD made a total of seventy eight (78) audit recommendations as shown in the table below:

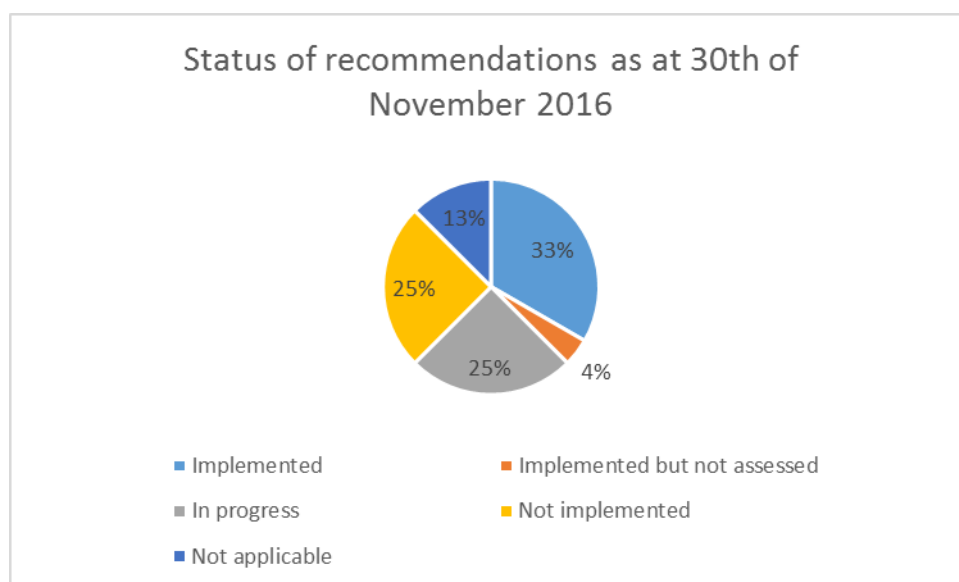
Recommendations Made FY 2016					
	Critical	Very Important	Important	Desirable	Total
Secretariat	0	11	16	0	27
Projects	0	9	42	0	51
Total	0	20	58	0	78



8. IAD has submitted the Annual Internal Audit report for FY2016 containing, among other things, analysis of the audit issues raised during the year. The review carried out during the reporting year on Projects/Programs revealed cross-cutting issues relating to compliance with grant agreement as well as ACBF policies (procurement and travel) and the coordination of program management.
9. At the Secretariat, IAD established significant issues relating to policies & procedures and on the IT system in the following areas: (a) travel management, (b) contract management, and (c) ICT.
10. 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, fifteen (15)

significant recommendations were pending at the Secretariat. Eleven (11) new recommendations were added as a result of audits performed during the reporting year, bringing the new total to twenty six (26). Two (2) out of the twenty four (24) recommendations were already raised in the previous reports hence no longer applicable. The new status of recommendations as at 30th of November 2016 therefore is twenty four (24) broken down as per the table below:

Status	No. of recommendations	Percentage of total
Implemented	8	33%
In progress	6	25%
Not implemented	6	25%
Not applicable	3	13%
Implemented but not assessed	1	4%
Total	24	100%



11. As at 31st December 2016, thirteen (13) audit recommendations remained outstanding from the twenty four (24) after taking out the implemented, not applicable and duplicated recommendations. Of the thirteen (13), two (2) recommendations relates to year 2011 and 2012, one (1) year 2013, and seven (7) to year 2016.
12. With regard to resources, the Committee noted that IAD managed to undertake its planned activities for the FY2016 within available resources. During the reporting period, the Committee recommended for the removal of the risk management function from IAD to FAD to foretell any likely conflict of interests between the two functions. The Department currently has two professional audit staff and an Administrative Assistant.

EXTERNAL AUDIT

13. The 17th ARC meeting held on 31st of March 2016, received and considered the report of the External Auditors for the FY2015 together with the Management Letter as presented by the External Auditors. The Committee noted that the overall audit opinion of the Financial Statement for FY 2015 was unqualified. The financial statements were recommended for Board approval.
14. The Committee also requested the EB to ratify the decision to appoint Deloitte Zimbabwe to undertake the financial audit of FY2015.

RISK MANAGEMENT

15. According to the ARC Charter, the Committee is entrusted to oversee the overall risk management framework at the Foundation. During the year under review, the Committee received and reviewed reports on the key Foundation risks and on the monitoring of the risk appetite policy.
16. As at 31st of December of the FY2016, the Committee noted that the following risks were applicable to the Foundation:
 - a) Risk of funding gap towards the implementation of ACBF strategic plan 2017 – 2021
 - b) Risk of shrinking portfolio;
 - c) Staff Risk;
 - d) Risk of managing funding opportunities with new donors;
 - e) Business continuity risk;
 - f) ICT risk;
 - g) Exchange rate risk; and
 - h) Host country risk.
17. The Committee noted that the risk of shrinking portfolio and that of funding gap required for the successful implementation of ACBF strategic plan 2017-2021 together with ICT risk remained critical to the Foundation. The Committee noted that ICT governance Committee needs to be suitably energized to review ICT risks and to bring about improvements in ICT operations to further the efficiency, effectiveness and economy of Management function.
18. The Committee noted that Management has in place a risk management function and that IAD has continued to offer assurance on risk within the resources at its disposal pending the filling of the position of a risk management officer.

OTHER MATTERS

19. Members of the Committee participated in the ACBF Consultative forum together and the 25th Anniversary celebrations that took place in Harare in the month of May 2016.

ADVISORY SERVICES TO MANAGEMENT

20. During the year, ARC recommended to Management to establish and set up an ICT Governance Committee to spearhead and coordinate reform efforts in ICT as a way of improving the overall control environment of ACBF.

BOARD COMPOSITION

21. During FY2016, serving Members of the Committee were as follows:

a) Dr. Huguetta LABELLE	Chair of ARC and Executive Board Member
b) Mr. Godfrey SIMBEYE	ARC Member and Executive Board Member
c) Mr. Edward OUKO	ARC Independent Member
d) Dr. Jessie Rose MABUTAS	ARC Independent Member
e) Niranjana PANT	ARC Independent Member

OVERALL OPINION ON CONTROL ENVIRONMENT

22. For the financial year 2016, the Audit and Risk Committee's overall opinion is that the control environment was **Satisfactory**¹ to give reasonable assurance that resources allocated were used for the intended purpose to achieve the objectives of the Foundation. This attestation is based on our judgment and on the information at our disposal, such as, Annual Internal Audit Report, External Auditors Report and Annual Statement of Declaration by the Executive Secretary.

CONCLUSION

¹ 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.

23. 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

24. To this end, the continued support and co-operation from ACBF Management and Internal Audit Department (IAD) is highly appreciated.

25. The Committee also appreciates the input and dedication of two of its outgoing members, Dr. Huguette Labelle and Eddie Ouko wishing them the best in their future endeavours.