



Meeting: International Federation of Accountants
Council

Meeting Location: Cape Town, South Africa

Meeting Date: November 14–15, 2012

From: Olivia Kirtley
Chair, Governance and Audit
Committee

Agenda Item 8.7

For:

☒ Approval

☐ Discussion

☒ Information

Governance and Audit Committee Report

Objective(s) of Agenda Item

1. To update the Council on the activities of the Governance and Audit Committee (GAC) since November 2011.
2. To recommend the reappointment of the auditors for the 2013 financial statement audit.

Meetings

3. The GAC met six times since the November 2011 Council meeting, including three times in person and three times via conference call. The GAC is scheduled to meet again in person on November 15, 2012.

Terms of Reference

4. This past year, the role of the Audit Committee of the IFAC Board was expanded to include responsibilities to oversee and monitor IFAC governance-related matters arising from the last Board self-assessment and other governance reviews. To reflect this expanded scope, the committee name was changed to the Governance and Audit Committee (GAC). A revised Terms of Reference was approved by the IFAC Board in March 2012.
5. The GAC's primary objectives are to:
 - (a) Monitor and oversee IFAC's governance-related matters;
 - (b) Monitor and oversee the integrity of IFAC's financial and non-financial reporting processes and systems of internal control regarding finance, accounting, service delivery and legal compliance;
 - (c) Monitor and oversee the work of the external auditor, review the independence and performance of the external auditor, and make a recommendation regarding auditor appointment or reappointment to the Board and Council; and
 - (d) Provide an avenue of communication among the external auditor, management, and the Board.

6. The GAC completed the following during 2012:
 - (a) Reviewed the objectives, scope and responsibilities for the audit of the 2011 financial statements and the assurance engagement on the 2011 service delivery statement
 - (b) Reviewed the 2011 financial statements and the 2011 service delivery statement and recommended their approval to the Board
 - (c) Reviewed the required communications from the external auditor
 - (d) Received the auditor's letter of independence
 - (e) Reviewed the auditor's written comments to management (as discussed below) and management's responses
 - (f) Approved audit and non-audit fees and the non-audit services provided by the auditor
 - (g) Met privately with the auditor to discuss any matters the auditors might want to bring to the attention of the GAC without management present
 - (h) Reviewed governance-related matters, including the implementation status of enhancements flowing from the 2010 Board self-assessment, the Constitutional Working Group, and other areas. The GAC also discussed other potential improvements to enhance the efficiency and effectiveness of governance processes.
7. Additional information on the audit and assurance engagements and enhancements to IFAC's governance is provided below.

Audit and Assurance Engagements

Audit of the 2011 Financial Statements

8. The auditors performed interim work on the financial information prepared through September 30, 2011 in November 2011. The final audit was completed in February 2012. Partners of Citrin Cooperman briefed the Board in March 2012 on the 2011 financial statements audit, the assurance engagement on the service delivery statement and the required communications that had been reviewed with the GAC.
9. The auditors used a risk-based approach to design their audit procedures, with emphasis placed on those areas identified as being most susceptible to misstatement. The auditors performed their work in accordance with both International Standards on Auditing and auditing standards generally accepted in the United States. Those standards require them to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. In performing their work, the auditors sought evidence on a test basis to support amounts and disclosures in the financial statements. The auditors also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
10. The auditors confirmed that there were no significant matters identified by them during the audit and provided an unqualified opinion on the 2011 financial statements.
11. The auditors have made a declaration of continued independence in relation to the engagement.
12. The GAC discussed and confirmed its satisfaction with the performance of the auditors.

Auditor's Comments and Management's Response

13. In addition to the audit work, the auditors prepared a letter of comments to highlight potential improvements to IFAC's internal control environment and financial reporting processes. The GAC reviewed management's responses to the auditor's comments. The comments include:
- (a) Continue efforts to identify and implement new accounting and financial reporting software to satisfy the growing needs of the organization. The new software should be able to link actual and budgeted amounts, better facilitate estimating expenses and accruals based on outstanding purchase orders, and provide users with access to both actual and budget information in a format that meets the financial reporting requirements and information needs of the organization
 - (b) Consider adding a section dedicated to the financial close and reporting cycle in the Internal Control Manual
 - (c) Consider establishing an efficient and systematic document retention policy that provides guidelines for managing, retaining and disposing of records
 - (d) Consider developing an inventory of software, and assessing compliance with IFAC's software licensing agreements
 - (e) Consider installing or renting remote virtual servers in case the on-site servers are damaged or unavailable. These could be installed at the Canadian office or an IT data center
14. The auditor's comments have been added to the follow-up matrix, which is used by staff to monitor implementation of finance and IT-related improvements. The status of the implementation of each item will be reviewed with either the GAC or the Planning and Finance Committee (PFC) as appropriate. As discussed in agenda item 4.4, the Finance team has identified an accounting software solution to be implemented in 2012 and used from January 1, 2013. The IT function has been outsourced to an IT consulting firm, Another 9, on August 1, 2012, and the IT-related recommendations are currently being addressed by them.
15. The GAC is satisfied with management's responses and follow-up to date.

2011 Financial Statements

16. The following highlights key issues in regard to the presentation of the 2011 financial statements:
- (a) A few presentation changes have been made to the financial statements. Most notably, the 2011 information per activity area (segment) has been enhanced to align more closely with the requirements of International Public Sector Accounting Standard 18, *Segment Reporting*. In the past, information per activity area was limited to the expenses reported in Note 3 of the financial statements. The enhanced information includes allocation of revenues, PIOB funding, and assets and liabilities to the activity areas. Management was of the view that the benefits of presenting enhanced 2010 comparative information did not outweigh the resources required to prepare the information. As a result, the enhanced information is presented for 2011 only.
 - (b) Limited reclassifications have been made to the 2010 comparative information to conform to the current period presentation. The reclassifications had no effect on the previously reported surplus.

- (c) The GAC is of the view that the financial statement presentation and level of disclosure will assist readers in their understanding of IFAC's financial performance and position.
- 17. The 2011 financial statements were signed by the President, Göran Tidström, and the Chief Executive Officer, Ian Ball, indicating approval thereof. The annual report can be accessed at <http://www.ifac.org/publications-resources/ifac-2011-annual-report>.

Reappointment of the Auditors

- 18. Citrin Cooperman LLP has been IFAC's auditor since the 2005 audit. The GAC discussed the performance of the auditor among themselves and with staff. Staff confirmed their satisfaction with the performance of the auditor and recommended reappointment for the 2013 audit.
- 19. The GAC recommends that Citrin Cooperman LLP be reappointed for the audit of the 2013 financial statements. The Board endorsed this recommendation at its September 2012 meeting.

2011 Statement of Service Delivery and Related Assurance Engagement

- 20. The auditors performed their work on the service delivery statement in accordance with International Standards on Assurance Engagements. Those standards require that they comply with ethical requirements and plan and perform the assurance procedures to obtain reasonable assurance whether the service delivery statement is free from material misstatement. Their procedures involved obtaining evidence to determine whether the service delivery statement is a reasonable description of the services delivered by IFAC during 2011. The procedures selected depended on their judgment, including their assessment of the risk of material misstatement.
- 21. The GAC reviewed the statement of service delivery and received a report from Citrin Cooperman LLP with regard to their work.
- 22. The auditors confirmed that there were no significant matters identified by them during the engagement. The auditors provided an unqualified opinion on the 2011 statement of service delivery. The statement forms part of the annual report and can be accessed at the link noted in paragraph 17.

Governance–Related Matters

- 23. The GAC is continuing its work on the review and implementation of various governance-related items in a matrix of governance matters. The matrix lists governance-related recommendations flowing from the 2010 board self-assessment, governance questions set forth on the annual tax return for not-for-profit organizations in the United States, the work of the Board's Constitutional Working Group in 2010, and the results of an internal governance review conducted by staff in 2009. For the latter, staff used a checklist of principles and practices of good governance in the Code of Governance for the Voluntary and Community Sector published by the Charity Commission in the United Kingdom. The matrix consists of items which are designed to enhance the efficiency and effectiveness of the Board's processes.
- 24. The GAC completed work on the following governance items in 2012:
 - (a) Reviewed the whistleblower policy developed by management, which is available at <http://www.ifac.org/sites/default/files/callouts/20120103-OPS-WhistleblowerPolicy.pdf>.
 - (b) Established an expanded review group for the purpose of reviewing the CEO's performance and compensation composed of the President, Deputy President, and Chair of the GAC.

- (c) Discussed with the Board its information needs with regard to strategy, operations, service and financial oversight, and the work of the GAC and PFC.
 - (d) Supported restructuring the agenda of Board meetings to focus on strategic and policy issues.
 - (e) Reviewed the Authority to Commit Policy, which details authorities of the Council, Board and management, and provides approval levels.
 - (f) Suggested enhancements for Board meetings, including:
 - i. Changing posting dates for Board and Council meeting papers to allow more review time from the last posting and to recognize that time zone differences cause some board members to obtain materials a day later in their local time, and
 - ii. Encouraging Board members to suggest agenda items, particularly for the open discussion on strategy.
 - (g) The GAC also reviewed and provided feedback on the new format for Board and Council agenda materials, which was used for materials for this Council meeting.
25. The GAC is continuing its work on other initiatives on the governance matrix, including:
- (a) *The development of a written Code of Conduct for IFAC.* The development of the Code was a topic at IFAC's Annual Staff Meeting held on August 27-28, 2012 in New York and August 29-30, 2012 in Toronto. Staff members provided input into the development of the Code, and staff engagement was high. The draft Code is scheduled to be submitted to the Board in February 2013.
 - (b) *The revised Terms of Reference for the IFAC Board and the Board Member Roles and Responsibilities.* These documents were presented to the Board for feedback in September. Final documents will be presented for approval at the Board meeting on November 16, 2012.
26. *Operational Risk Assessment.* In addition to its work on governance-related matters, the GAC also reviewed and commented on the operational risk assessment. The operational risk assessment complements the strategic risk assessment that is presented quarterly to the Board. Staff agreed to rate and map the top operational risks for presentation at future GAC meetings, and to provide additional detail on the top risks.
27. *2011 Efficiency Review.* The GAC received a report on IFAC's 2011 efficiency review of strategy, finance and human resource systems and processes. The GAC will be updated on any implementation issues that affect the financial systems.

Action(s) Requested

28. **It is recommended that the IFAC Council approve the reappointment of Citrin Cooperman LLP for the audit of the 2013 financial statements. The Board endorsed this recommendation during its September 6-7, 2012 meeting.**
29. **It is recommended that the Council note the remainder of this report.**