



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

**ANNUAL REPORT
OF THE AUDIT AND RISK COMMITTEE
TO THE EXECUTIVE BOARD – FY 2015**

December 2015

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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 its charter, the ARC has overreaching duties and responsibilities on the external audit and internal audit activities as well as the risk management functions of the Foundation.
2. The ARC Charter requires the Committee to meet at least four times in a year in order to discharge its responsibilities. Accordingly for FY2015, the Committee meet four times in the month of April, July, September and December 2015.
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 FY2015.

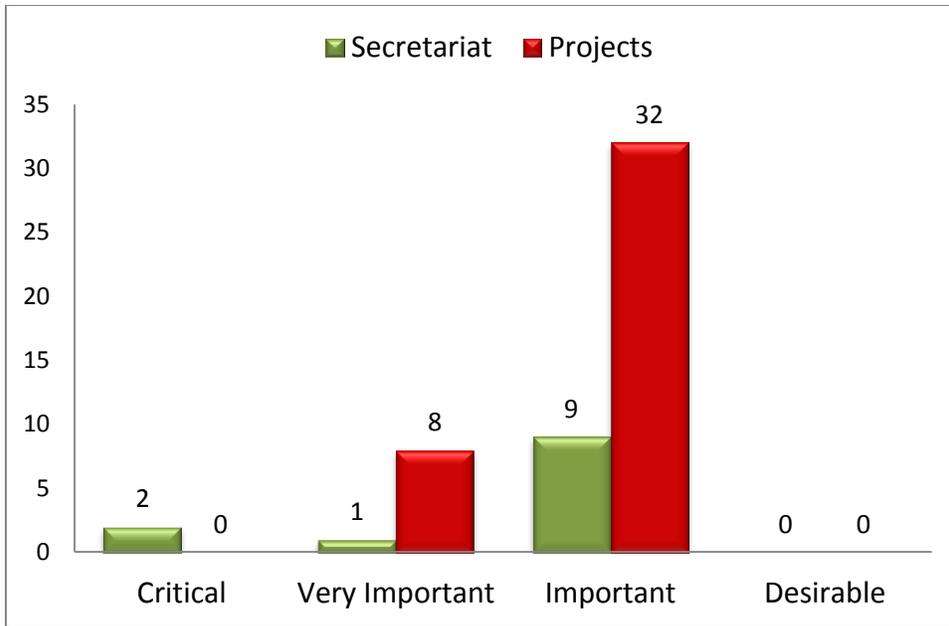
INTERNAL AUDIT

4. In line with the ARC Charter, the Committee continued working closely with Internal Audit Department (IAD) in order to ensure independence and effectiveness in discharging its responsibilities. During FY2015, the Committee assessed the work of IAD and reviewed various documents and reports including: (a) annual audit plan, (b) internal audit activity reports, and (c) External Audit report for FY2014. The Committee also approved the revised IAD Audit Charter.
5. The implementation of the FY2015 audit plan however proved challenging especially in the first half of the year. This was due to resource constraints facing IAD at the time. As a stop gap measure, the Committee had to outsource IAD services to an External Audit Firm between April and August 2015. The initial audit plan for FY2015 included sixteen (16) audit activities consisting of one (1) comprehensive audit at the Secretariat, one (1) follow up audit of recommendation, twelve (12) review activities of Projects and two (2) Investigation audits. This was later reviewed in the last half of the FY2015 to include seven (7)

audit activities, one (1) comprehensive audit at the Secretariat and six (6) audits of Projects.

- 6. The Committee followed the implementation of the planned activities through periodic activity reports. The Committee observed that four (4) review activities were successfully completed by IAD in the first half of the FY 2015 and a further eight (8) in the 2nd half bringing to twelve (12) the total number of completed activities in FY2015. Further to this IAD, also concluded two (2) outstanding whistle-blower cases and one (1) investigation based on management request. Besides IAD continued to provide technical support to management on the Risk Management and Control processes.
- 7. Following the audits carried out during the FY2015, the Committee noted that IAD had made a total of 52 audit recommendations as shown in the table below:

Recommendations Made FY 2015					
	Critical	Very Important	Important	Desirable	Total
Secretariat	2	1	9	0	12
Projects	0	8	32	0	40
Total	2	9	41	0	52

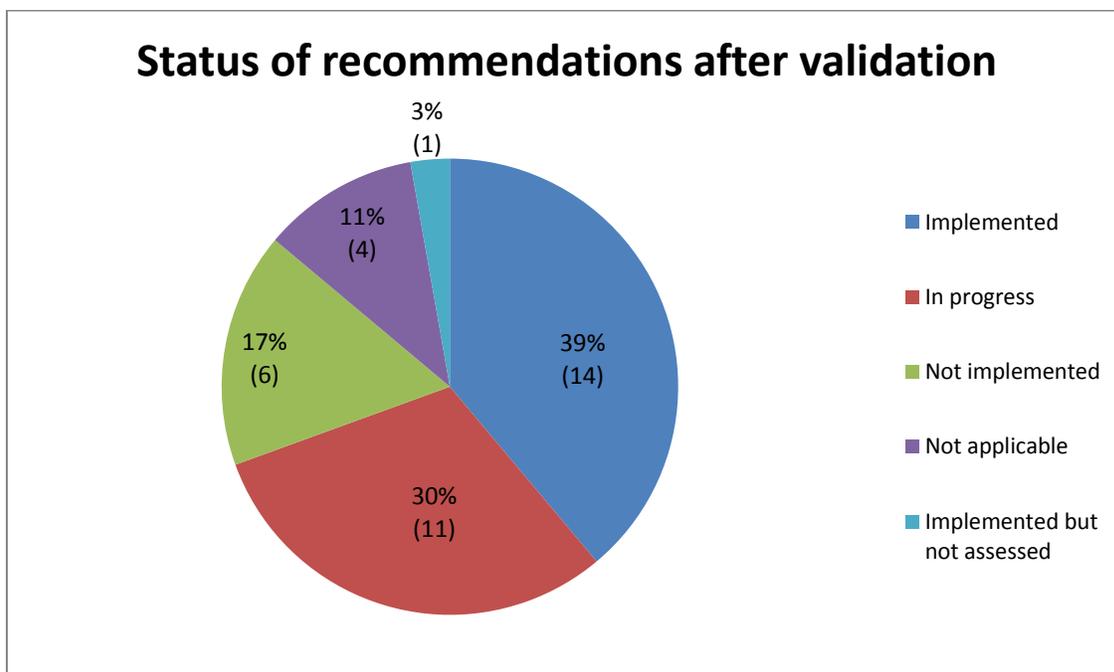


8. IAD has submitted the Annual Internal Audit report for FY2015 containing, among other things, analysis of the audit issues raised during the year. Common cross-cutting issues noted on Project audits related to Governance, Project Management and Operations. On Governance, issues relating to the effective functioning of Steering Committees and compliance with Grant Agreements were generally observed while on Project management, issues relating to delayed implementation and low absorption rates were noted. On operations, general recurring issues related to compliance with procurement guidelines.

9. At the Secretariat, the Committee noted that pertinent project information was not frequently being updated as was required in the Sunflow system. This resulted in inaccurate project information that could not be relied upon in the Sunflow system. In addition the Committee noted the high amount of outstanding advances on already closed projects and one instance where payments were being made based on expired contract of service.

10. The Committee continued to monitor the implementation status of outstanding audit recommendations through periodic reports and provided necessary guidance to management. During its 13th Meeting, the Committee directed IAD to validate all the critical outstanding audit recommendations on the issue tracker at the Secretariat. The result of this validation exercise was the table below:

Status	No. of recommendations	Percentage of total
Implemented	14	39%
In progress	11	31%
Not implemented	6	17%
Not applicable	4	11%
Implemented but not assessed	1	2%
Total	36	



11. As at 31st October 2015, 15 recommendations remained outstanding after taking out the implemented, not applicable and duplicated recommendations. The new status was as follows: (a) In progress, ten (10); (b) Not Implemented, four (4); Implemented but not assessed, one (1).

12. With regard to resources, the Committee noted that the IAD was allocated sufficient budget to undertake planned activities for the FY2015. The Committee however noted that during the first half of FY2015, the Department faced a major resource constraint and as a stop gap measure had to outsource the services to an External Audit firm between April and August 2015. The new Head of Internal Audit together with the Internal Auditor were recruited and took over in the 2nd half of FY2015. The position of Senior Risk Management and Control Officer

(SRMCO) however remained vacant. The Department currently has two professional audit staff and an Administrative Assistant.

EXTERNAL AUDIT

13. The 13th ARC meeting held on 8th of April 2015, received and considered the report of the External Auditors for the FY2014. The report identified five audit findings, four of which were classified as moderate and one as significant. The Committee directed management to immediately address all the issues regarding long outstanding liabilities that had inordinately been delayed. The financial statements were recommended for Board approval.
14. During the year the Committee recommended to the EB the appointment of Deloitte Zimbabwe to undertake the financial audit for the year ending 31st December 2015.
15. The Committee also reviewed and recommended to the EB the approval of the policy on appointment of External Auditors.

RISK MANAGEMENT

16. 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.
17. As at 31st of October of the FY2015, the Committee noted that the following risks were applicable to the Foundation:
 - a. Achieving the 80:20 efficiency ratio for FY2015,
 - b. Risk of raising USD 4.23 million in FY2016 from African Member States to bring the total to USD 28.15 million within Five years (2012 to 2016),
 - c. Risk of funding gaps,
 - d. Risk relating to staff,
 - e. Risk of managing new funding opportunities with new partners,

- f. Business continuity risks,
- g. ICT Risks, and
- h. Foreign Exchange Risk.

18. The Committee noted that the risk of shrinking portfolio remained critical to the Foundation hence the need for management to continue to diversify its resources in order to cover for any future funding gaps.

19. In consideration of the financial position as well as the overall context in which the Foundation is operating, ARC reviewed and recommended to the EB the approval of a revised risk appetite statement.

OTHER MATTERS

20. During the year the Committee reviewed and approved the revised Charter of Internal Audit. The Committee also reviewed its current Charter, and will recommend to the Executive Board the approval of the revised document as Terms of Reference and Rules of Procedures of ARC. The Committee at the same time reviewed and approved the Staff Financial Disclosure Policy and further recommended to Management the setting up of an ICT Governance Committee.

OVERALL OPINION ON CONTROL ENVIRONMENT

21. For the financial year 2015, the Audit and Risk Committee's overall opinion is that the control environment at ACBF 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.

22. Despite staff departure, the outsourcing of the IAD function for a period of time, and the recruitment of the new team, there were seamless transitions and nothing

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.

came to our attention that may have adversely impacted the control environment at the Foundation.

CONCLUSION

23. In line with its charter, 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.

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