

# Memo

<b>To</b>	Kees Blokland - Agriterra
<b>Cc</b>	
<b>From</b>	Patrick Giffaux - BDO (Paris)
<b>Date</b>	20 <sup>th</sup> October 2009
<b>Subject</b>	Summary of Review Findings - Agricord Projects 4837 & 4973

## INTRODUCTION

### Setting

We carried out a review of the Agricord projects 4837 and 4973, for years 2008 and 2009 (9 months to 30/09/09), at the offices of the International Federation of Agricultural Producers (IFAP) between the 5<sup>th</sup> and the 15<sup>th</sup> of October 2009. Our key contacts were Mme M. Gay-Peiller (Finance Director) and Mr. D. King (General Secretary).

### Difficulties encountered

- **Delays**

Mme. Gay-Peiller and Mr. King were welcoming and happy to supply all information and explanations demanded related to the Agriterra funded projects under review.

However, we found IFAP reluctant to open their books for the 2009 review. Despite starting our work on Monday the 5<sup>th</sup> of October, it was not until the 8<sup>th</sup> of October that we were given permission to see an information that was not considered to be directly connected to the Agriterra funded projects, and not until the 13<sup>th</sup> of October that we were presented with a situation as at 30/09/09 to review. It should however be noted that a review as at 30/09/09 is outside the normal audit requirements of IFAP and so some delay in the supply of information was to be expected.

- **Quality of Information**

### **Annual report**

The Annual report of 31/12/08 is poorly constructed and does not present a clear representation of its composite numbers.

For example, monies received from Agriterra and sent to recipient countries under the ESFIM project are all presented as Income Statement items, despite the fact that c.50% of the money was advanced in 2008 with only c.10% of work completed. Such basic miss-representations can cause confusion and devalues the document, the key purpose of which is to present a true and fair summary of the accounts.

The methodology applied (cash accounting vs business accounting) is not appropriate for giving pertinent information about the financial situation of IFAP and of the contracts.

### **Financial Report**

In more specific terms, the connection between the Financial Reports (the summary documents produced for Agriterra in the Agriterra format) and the Annual report and not a clear as they should be, certain items required considerable time to reconcile between the two.

- **Accounts of 30/09/09**

IFAP's closure of the accounts as at 30/09/09 was not performed to an acceptable standard. Items were miss-placed within the accounts, no proper cut-off procedures were performed, adequate provisions (such as for depreciation of fixed assets) were not entered, and the bank reconciliation was not properly done. We have thus had to expend considerable time and effort to reconstruct the 30/09/09 accounts.

While we have noted above that a 30/09/09 closure is outside the normal operations of IFAP, we would assert that there was sufficient time from the start of our assignment to get the work done. We would also make a general observation that implementing formalised close procedures at every month end should be a normal part of the operations of every organisation. The procedures what could be implemented are not so complex regarding the size of the organisation and could improve significantly the quality of the reporting provided to the parties.

### **Evidence availability**

We found the supporting evidence files (invoices etc.) complete and this enabled our detailed expenses testing be a normal part of the operations of every organisation.

## **Projects 4837 & 4973**

The two projects concerned exist to aid farming development in less developed countries. They fund both workshops in those countries, and also act as a fund to help delegates from them attend important conferences (such as the World Farmers' Congress of 2008 in Warsaw, Poland) by paying travel and accommodation costs. The biggest single funder for these projects, accounting for in the region of 60% of the total costs, is Agriterra.

The projects have an agreed full time staff of 8, made up as follows:

- Programme Manager
- Regional Co-ordinators x4
- Junior Policy Officer
- Communications Officer
- Administrative Assistant

There is currently no Programme Manager in place. All accounting work is carried out at the IFAP offices in Paris by Mme. Gay-Peiller and an external accountant.

## **Scope & Review Approach**

### **Scope**

We have carried out our assignment according to your instructions (which were received in an email of the 2<sup>nd</sup> of October 2009). Where it has not been possible to follow these instructions, we have noted below and explained why not.

We were given access to the accounting system for all entries pertaining directly to the two projects under review in our first week on site. We were presented with the 30/09/09 books on Tuesday 13<sup>th</sup> October 2009.

We tested both tickets and allowances and staff costs back to supporting documentation. For our testing of tickets and allowances, we chose certain events and then controlled the exhaustively of backing information. We did not employ a materiality figure for errors found within these samples and investigated any difference between accounting entries and backing information. We such detailed testing we can take assurance that the results are reliable.

For salaries work, we tested all employees to gain the necessary assurance.

## 1. EXECUTIVE SUMMARY

- **Accounting purposes:**

### ***Accrual accounting***

With regard to the size of the organisation, we recommend the implementation of accruals based bookkeeping, so that relevant information can be extracted from accounting system during the year.

### ***Updating the Audit Report***

We are of the opinion that the format of the IFAP Audit Report is not sufficient to serve its purpose of communicating the results of the organisation. We find that it does not properly present the results of IFAP and as such can lead to misunderstandings.

We would advise using a format that shows the true expenses that go through the accounts of IFAP in full, with lines lower down to show the allocation of those expenses to the different projects undertaken.

A cost accounting system would help to allocate the costs to the projects.

- **Margin on IFAP's costs**

We would like to underline the fact that IFAP charges, for each project examined (4837 and 4973), a margin, that is considered to be for administrative costs incurred by IFAP during the time of the project.

These margins were valued to €209k for FY 2008 and €462k YTD 2009 and appear to be unsupported by the actual costs incurred.

- **IFAP contribution to contract**

The contract for project 4837 specifies a financial contribution of IFAP to the execution of the projects.

Budgeted contributions amounted to €1,125k for 2008 (34% of the total budget) and €1,260k in 2009 (30% of the total budget).

Our analysis of the administrative expenses of IFAP compared to the budgeted contributions invalidates the budgetary split.

## 2. IFAP ACCOUNTS

The following discussion is based on:

- Annual report for FY 2008
- Accounts of 30/09/09 after BDO adjustments

We want to emphasize that the 30/09/09 accounts that we were presented with could not be considered a true closure of the accounts. Among other problems:

- No cut-off had been done
- Provisions had not been calculated
- The bank reconciliation had not been properly performed
- Many 2008 entries had not been matched off against payments

Our task thus became to analyse, pass adjustments and produce the accounts for the 9 months to 30/09/09. We have passed in the region of 50 adjustments and produced a Balance Sheet, an Income Statement, and Summary of the Cash Position at 30/09/09. It should be noted that it was not possible to produce a standard Cash Flow Statement given the problems over the opening Balance Sheet (see ESFIM project for an example of this).

We draw your attention to the following limitations that IFAP should address, and which act as limitations on our work:

- The September BOA bank statement was not available. We have been informed that this account has not moved since the last statement and have as such had to use this balance. In the absence of the September bank statement, we have reviewed August's and confirmed this to the accounts. IFAP should demand the September from BOA so that we can confirm the balance as unchanged.
- No bank statements were available for the Barclays and two Crédit Agricole accounts (as they have not moved in 2009). We have thus had to use the amounts presented in the accounts for these. The amounts stated in the accounting system for these bank accounts are not significant, and there has been no movement in 2009. IFAP should demand the September bank statements for these accounts so that we can confirm the balances as unchanged.
- We have not reviewed the accounts concerning the IFAD Programme.
- We have not been able to review the account concerning the World Sugar and Beet Growers Association (to which IFAP charge a service charge).
- The holiday provision has not been updated for the period to 30/09/09. The balance in the accounts has not changed since 31/12/08.
- IFAP have not taken into consideration (and made no provisions for) the following:
  - Provisions for any costs arising from the employment tribunal relating to the ex-employee Gouet (Ex-Programme Manager)
  - Provisions for severance compensation that would be needed for the 7 people currently employed for the Agricorn project (in the event that it were to end).
  - Provisions for the retirement of Mme. Gay-Peiller, who retires in 2 months. This is likely to be significant given her longevity at IFAP.
  - Provisions for the retirement of Mr King, who retires in 4 years. This is likely to be significant given his longevity at IFAP.

a. Profit and loss accounts

Income Statement	2009/09	2008
<b>IFAP</b>		
IFAP 2009 Subscriptions from members	866 315	964 969
Others		202 038
<b>Total Income</b>	<b>866 315</b>	<b>1 167 007</b>
Salaires	696 482	880 418
Other expenses	342 536	320 195
Financial Expenses	3 205	2 497
Exceptional Expenses	24 089	
<b>Total Expenses</b>	<b>1 066 312</b>	<b>1 203 110</b>
<b>NET IFAP</b>	<b>-199 997</b>	<b>-36 103</b>
<b>AGRICORD</b>		
Income AGRICORD - AGRITERRA	1 468 576	1 863 842
Expenses AGRICORD- AGRITERRA	1 037 280	1 658 954
<b>NET AGRICORD</b>	<b>431 296</b>	<b>204 888</b>
<b>ESFIM</b>		
Income ESFIM - AGRITERRA	102 334	142 681
Expenses ESFIM - AGRITERRA	70 972	138 403
<b>NET ESFIM</b>	<b>31 362</b>	<b>4 278</b>
<b>OTHER PROJECTS</b>		
Income OTHER PROJECTS	40 459	
Expenses OTHER PROJECTS	25 252	
<b>NET OTHER PROJECTS</b>	<b>15 207</b>	<b>0</b>
<b>Net Income/(Expense)</b>	<b>277 868</b>	<b>173 063</b>

The P&L shows that AGRITERRA contributes to the net income for:

	2009/09	2008
- AGRICORD Project:	€ 415 100	€ 204 888
- ESFIM Project:	€ 31 362	€ 4 278
- Cut Off entries	€ 16 150	N/A
	<u>€ 462 658</u>	<u>€ 209 166</u>

This contribution can be analysed as a margin for IFAP in order to finance part of administrative costs. The margin appears to be unsupported by the actual costs incurred, as demonstrated in Part 4.C of this report.

**b. Balance sheet**

Assets			Equity & Liabilities		
	30 09 2009	31 12 2008		30 09 2009	31 12 2008
Fixed Assets	28 218	30 617	P&L Reserve	497 714	459 757
			Income for the Period	277 869	40 000
AGRITERRA Debtor (Note 1)	1 415 851	583 097	Bank Overdraft	158 511	32 369
IFAD Debtors (Note 3)	243 675		Trade Creds & Accruals	316 364	357 569
Other Debtors	28 159	40 031	World Sugar.. Assoc. Creditor	34 580	0
Cash	218 801	279 682	IFAD Creditor (Note 3)	391 889	
Prepayments	10 117	2 561	Payroll and Related Tax Creditors	164 310	5 305
			Deferred Revenue (Note 2)	87 707	40 988
<b>Total Assets</b>	<b>1 944 822</b>	<b>935 988</b>	<b>Total Equity &amp; Liabilities</b>	<b>1 944 822</b>	<b>935 988</b>

**Note 1: AGRITERRA account**

	2009/09	2008/12
Contribution 2008	€47 260	€583 097
Contribution 2009	€1 358 591	
<b>Total</b>	<b>€1 415 851</b>	<b>€ 583 097</b>

**Note 2: Deferred Revenue**

Member contributions 2009 in advance (i.e. the difference between amounts actually received and 9/12 of amounts budgeted).

**Note 3: IFAD project**

IFAD is a new project engaged in 2009. The entries related to this project have been booked on the balance sheet only (expenses as receivables and funding as debt). We didn't examine these accounts in detail as they were out of the scope of this review. It seems that entries should be booked on the P&L and cut off adjustments put through the accounts to more fairly present this contract.



### 3. Project 4973 - 2008/9

From the final Financial Review (which is dated 31<sup>st</sup> July 2009), it can be seen that the total variance on budget for this project is -€6,244, that is to say, 2.5% less than budget. This variance appears reasonable. This programme is now finished.

It should however be noted that the figure listed as Agriterra's expenses in the project is just the sum of the amounts advanced from Agriterra (that is to say, €245,015). This does not however correspond to what has actually been spent on the project. The total expenditure was €209,375, with the difference essentially a margin (explained by IFAP as representing amounts where they have been the service provider). It should also be noted that this "margin" is not the same as the margin on salaries for project 4837. There are no salary costs included in this project.

The project can be summarised as follows:

<b>ESFIM - 2008/9</b>		
<b>Total Expenses</b>		
Per accounting system	€	€
2008	142 681	
2009	66 693	
	<hr/>	209 375
<b>Total Funding</b>		
Per accounting system		
2008	125 620	
2009	119 395	
	<hr/>	245 015
<b>Total IFAP margin</b>		<hr/> <b>35 640</b>
<b>Margin breakdown</b>		
2008 margin	4 278	
2009 margin	31 362	
	<hr/>	35 640

In the summary above, *Total Advances from IFAP* are the amounts sent by IFAP to fund the projects in the countries included in the programme.

As can be seen above, the fact that the exact amount advanced by Agriterra is deemed to be the receipts gives rise to a margin. As per the 2008 Annual report, this was € 4,278.

This leaves a "margin" of €31,362 in 2009. We would also note that there is still an amount of €6,224 unpaid as the balance on the contracted amount. We have not accounted for this amount in the above analysis as IFAP do not believe it will be forthcoming. Given the way this project has been accounted for, adding it on would be to add to the 2009 margin.

**The "margin" seems us to have been recognised without preliminary agreement.**

The accounting for the ESFIM project in the 2008 Annual report does not represent the reality of the project in that period. All amounts were accounted for as Income Statement

items which ignores that fact that most of the monies advanced by Agriterra (€125,620, or 50% of contracted costs), and the monies in turn advanced by IFAP to the countries within the project, had not been spent by 31/12/08. Only 1 workshop took place in 2008 (which corresponds to the cost of €23,107 shown in the Financial Report of 31/12/08). There should be corresponding Balance Sheet entries to reflect this accrued and deferred income with an Income Statement showing just the monies spent as follows:

<b>Audit Report 31/12/08 (corrected)</b>	
<b>Balance Sheet</b>	
	€
Deferred Income (Agriterra)	- 102 513
Accrued Revenue (Project ESFIM)	119 574
	<b>17 061</b>
<b>Income Statement</b>	
	€
Spend per Financial Report	23 107
Non-IFAP spend	18 829
Marign/IFAP spend	<b>4 278</b>

#### 4. Project 4837

##### a. Summarizing the financial position of the contract as at December 2008 and September 2009

The following table gives an overview of the budgeted contribution of Agriterra and IFAP.

2008	IFAP	AGRITERRA	Other donors	Total
	€'k	€'k	€'k	€'k
<b>Budget</b>	1 125	1 868	338	3 331
%	33,8%	56,1%	10,1%	100,0%

2009	IFAP	AGRITERRA	Other donors	Total
	€'k	€'k	€'k	€'k
<b>Budget</b>	1 260	2 123	760	4 143
%	30,4%	51,2%	18,3%	100,0%

2009/09	IFAP	AGRITERRA	Other donors	Total
	€'k	€'k	€'k	€'k
<b>Budget</b>	945	1 468	570	2 983
%	31,7%	49,2%	19,1%	100,0%

We draw your attention to the fact that the contributions of the Others Donors aren't booked in IFAP accounting system. The AGRITERRA contributions have been reconciled with the IFAP accounting system as at both 31/12/08 and as at 30/09/09.

**b. Revenue consideration**

**2008**

We have reconciled the Financial Report as at 31/12/08 to the underlying accounting system and then compared it to the agreed budget. It should be noted that the Financial Report of 31/12/08 received by Agriterra was not the final version. There were audit adjustments that meant the amount spent was reduced by €4,929:

The following reconciliation explains the variances by expense type:

<b>Reconciliation - Budget vs Actual</b>		
	€	€
Initial Budget	1 790 726	
Additional Project - 3 women workshops	37 100	
<b>Budget</b>	<b>1 827 826</b>	
<b><i>Variances on budgeted projects</i></b>		
Salary Related	-	
Ticket and Other Exepenses	7 624	
Chairman Costs	881-	
Policy Prep and Communications	16 018-	
		9 275-
<b><i>Additional Project</i></b>		
Additional Project - Communication Workshop	50 220	
		50 220
Total Over/(Under) Spend		<b>40 945</b>
Actual Spend - per Financial Report		<b>1 868 771</b>
Net audit adjustments		4 929-
Actual Spend - per Audit Report		<b>1 863 842</b>

As can be seen from above, the largest variance (an over-spend of €50k) comes from the additional Communication Project which was not in the original budget. We have been informed that although this project was additional, no additional funding has been requested or received from Agriterra

The net of the other variances is a net under-spend of €9k. Within this figure there was a net over-spend on to tickets and other related expenses of €8k (which is 0.86% of the ticketing budget). This variance is not considered significant.

It should also be noted that the there was no variance with the salary related expenses. This is due to the fact that the budgeted expenses, being based on a tariff system, and which are signed off by Agriterra at the budgeting stage, are used as the actual costs to compute the financial report (see below for a fuller explanation of how the salary costs work).

From the work performed, we find that expenses generally conform with budget and that any variances can be adequately explained.

**2009**

We have been provided with the 2009 budget for this project. This project was presented to (and subsequently rejected by) Agriterro, by IFAP at the end of July 2009. Given the timeframe for presentation, these budgets contain approximately 6 months of “actual” figures, and thus comparison to actual (to 30/09/09) figures gives less variance than might otherwise be expected.

Our analysis of this project has been based on the Financial Report as at 30/09/09 which presents a budget amount as at September 2009, after audit adjustments of € 1 468k. The budget is attached in **Appendix 2**.

We have broken down the income recognised as at 30/09/09 for the AGRICORD Project (4873) as follows:

- Expenses engaged as at September 30 :	€ 1 053 473
- IFAP recharge for managing the project:	<u>€ 415 100</u>
	€ 1 468 575

*c. Consideration of the expenses*

**2008**

In 2008, expenses relating to project 4837 amounted to €1 658 954:

- Allowances / Tickets and other:	€1,060,955
- Staff costs:	<u>€597,999</u>
	€1,658,954

The numbers given above have been reconciled with the Annual Report 31/12/08.

**Allowances/Tickets**

The amount shown as allowances/tickets financed both the expenses of the 8 employees listed below, and the costs of carrying out the project work. From our detailed testing of the expenses incurred across a range of projects and workshops in the year, it appears that the expenses incurred are reasonable (that is to say, all can be explained and all flights etc. were taken in economy class). Corroborative documentation (invoices etc.) was readily available to support and numbers in the accounting system.

## Staff costs

Position	Cost (€)
Programme manager	116 078
Regional coordinator - Africa	84 526
Regional coordinator - Med	75 450
Regional coordinator - Lat Am	75 507
Regional coordinator - Asia	66 876
Junior Policy Officer	58 836
Admin Assistant	52 575
Communication Officer	68 152
	<b>597 999</b>

These figures for salary costs have been reconciled with the accounting system.

We draw your attention to the way in which IFAP pays expenses to staff (including the staff members employed specifically to work on the Agricord projects). IFPA pay €186 per day to all staff for business travel (of which half is payable for sustenance and half for hotels). This amount can rise depending on travel location (e.g. For New York in 2009 it was €350 per day). No invoices are required to receive this amount and the full amount is paid whether or not the full amount is required. The amount used for this purpose in the tariff calculation is €150 per day.

This amount is above the fiscal limit per diem of €17 per day (which is the maximum allowable outside the tax regime in France) and so risks being considered subject to social charges and tax if there is a social security audit.

**Consideration of the appropriate use of Agriterra funding: Was Agriterra cash used to fund IFAP's non-Agricord expenses in 2008?**

We find that the amount listed as the contribution from IFAP in table 3 of the 31/12/08 Financial Report, to the project 4837, cannot be deemed a cash contribution. We have analysed the costs incurred to run IFAP and compared them to the declared contributions to the budgets of the two projects under review.

Expenses:	2008		Notes
	€	€	
Salaries et charges	880 598		
Services Linguistiques	24 873		
Loyers et charges locatives	137 094		
Papeterie et fournitures de bureau	9 670		
Affranchissement, téléphone, télécopie	19 674		Agreed to Audit Report - 31/12/08
Mobilier matériel bureau	19 456		
Frais de déplacement	43 030		
Publications/Communications	51 630		
Divers	14 588		
Frais financiers	2 497		
		<b>1 203</b>	
<b>Total Spend ex. Agriterra</b>		<b>110</b>	
<b>Margin on Agriterra contribution</b>		<b>-204 888</b>	Agreed to Financial Report - 31/12/08
Total costs attributable to ifap and Agricord projects		<b>999 222</b>	
Contribution IFAP to Agricord Project 4837	1 125 683		Agreed to Financial Report - 31/12/08
Contribution IFAP to Agricord Project 4973	26 217		Agreed to Contract. Assumed 50% advanced.
		<b>1 151 900</b>	
<b>Imputed cost to run IFAP</b>		<b>-153 678</b>	

As can be seen above, by taking IFAP's 2008 costs, deducting the margin on the Agriterra declared salary contribution for the projects under review, we are left with a figure of -€153k. This negative amount is due to the fact that a part of the general expenses is charged to the IFAP contribution which is "abnormal". "By analysing the tariff calculations, we have estimated this margin on the IFAP funded salaries to be somewhere in the region of €100k to €120k, although an exact figure cannot be calculated".

This figure assumes that all expenses engaged by IFAP are imputed to the Agricord contract. This appears unreasonable and invalidates the budgetary split (which comes from the signed 31/12/08 budget) and which can be seen below:

2008	IFAP	AGRITERRA	Other donners	Total
	€'k	€'k	€'k	€'k
Budget	1 125	1 868	338	3 331
%	33,8%	56,1%	10,1%	100,0%
Actual 1	1005	1868	338	3211
%	31,3%	58,2%	10,5%	100,0%
Actual 2	500	1868	338	2706
%	18,5%	69,0%	12,5%	100,0%

Actual 1 corresponds to a hypothesis where IFAP does only the Agricord project.

Actual 2 corresponds to a reasonable hypothesis where 50% of the activity of IFAP is accounted for by the Agricord project. The table above shows that the figure reported as budgeted (and in fact actual expenditure of IFAP on the Agricord project in 2008) is inflated.

Thus, although IFAP do have real costs associated with the Agricord project (and so do make a real contribution in terms of staff time, office running costs etc.) we are of the opinion that the amounts declared as IFAP funding are somewhat inflated.

However, that is not to say that Agriterra funding has in any way been used to fund the operations of IFAP that are unrelated to the Agricord projects. Our detailed testing of expenses has found no evidence of that. In fact all amounts appear to be backed by supporting documentation. The funds received from Agriterra have been properly allocated to the Agricord programme.

The margin on the project 4837 (€ 204 888) is a contribution to the significant costs incurred for the team of 8 people employed specifically to carry out the Agricord project to do their work, and what's more, it has been calculated under terms that we have been informed were agreed to by Agriterra. At the very least we can confirm that the actual charges correspond with those agreed by Agriterra through the budgetary process.

#### ***Further "margin" items***

The € 27,904 (question D) listed as a Supplementary Income connected to the Agricord project, has been explained to us as services, supplied by IFAP, charged to the Agricord project. It is mainly for Publication Costs. Supporting documentation is not available to support these amounts as these are estimates based on work done by IFAP employees.

## Total Margin 2008

Total Margin 2008	€	€	% of Total Costs
Total Agriterra expenses in Fin Rep		1 868 771	
<b>2008 margin</b>			
Margin on salaries	204 888		11%
Margin on Publication costs	<u>27 904</u>		1%
Total margin		232 792	12%
Direct Spending		1 635 979	

However, it should be remembered that this margin has been justified like a contribution to the general costs (rent, electricity etc.) that IFAP incur by hosting the Agricorn project and the 8 employees there involved.

We don't give you any kind of appreciation regarding the % applied

### Timecard database (lack of)

There is no timecard database to follow such work and as such the amounts are untestable. We do not suggest that these amounts are not based on actual time spent by IFAP employees, and so costs incurred, however it can be asserted that by not recording hours, the tariff system, and so the whole budgetary process, is invalidated. For project based work, the actual hours, and so costs, should be recorded so it can be properly assessed.

The way in which IFAP have used budgeted salary costs as actual costs is not a reasonable application of a tariff system. In effect, budgeted costs (which should be agreed before a project starts) are treated as actual costs incurred, so giving rise to the possibility that the margin on salaries discussed above can be inflated.

We recommend that IFAP implement a timecard database system as soon as possible. Furthermore, to reduce possible misunderstandings in the future, in both the Budget and Financial Report, the margin on salaries should be properly identified and explained. As with any other costs, differences between budgeted staff costs and actual costs (that would logically follow from the implantation of the timecard database) should be explained.

## 2009

Based on budget as at September 2009 (Appendix 2), expenses relating to project 4837 amounted to €1,053,476:

- Allowances/ Tickets	€712,720
- Staff costs:	<u>€340,756</u>
	€1,053,476

### Allowances/Tickets

From our detailed testing of the expenses incurred across a range of projects and workshops in the year, it appears that the expenses incurred are reasonable. Corroborative documentation (invoices etc.) was readily available to support and numbers in the accounting system.

### Staff costs

Position	Cost (€)
Programme manager	17 008
Regional coordinator - Africa	52 494
Regional coordinator - Med	52 663
Regional coordinator - Lat Am	56 600
Regional coordinator - Asia	48 591
Junior Policy Officer	43 536
Admin Assistant	36 736
Communication Officer	33 127
	<b>340 756</b>

These figures for salary costs have been reconciled with the accounting system.

As for 2008, from our detailed testing of the expenses incurred across a range of projects and workshops in the year, it appears that the expenses incurred are reasonable. Corroborative documentation (invoices etc.) was readily available to support and numbers in the accounting system.

As with 2008, the costs incurred are generally in line with the budget, however, as can be seen from our analysis below we found that the budget includes a large margin for IFAP for €415k.

### ***Consideration of the appropriate use of Agriterra funding: Is Agriterra cash being used to fund IFAP's non-Agricord expenses in 2009?***

As in 2008, we find that the amount listed as the contribution from IFAP to the project 4837, cannot be deemed a cash contribution.

We have analysed the costs incurred to run IFAP and compared them to the declared contributions to the budgets of the two projects under review.

	2009/09
	€
IFAP Expenses	1 066 312
Margin on Agriterra contribution	-415 100
<b>Total costs attributable to IFAP and AGRICORD project</b>	<b>651 212</b>
Contribution IFAP to Agricord Project	945 000
<b>Imputed cost to run IFAP</b>	<b>-293 788</b>

As can be seen above, by taking IFAP's costs for the period to 30/09/09, deducting the margin on the Agriterra declared salary contribution for the projects under review; we are left with a figure of -€294k.

This figure assumes that all expenses engaged by IFAP are imputed to the Agricord contract.

This appears unreasonable and invalidates the budgetary split (which comes from the Financial Report 30/09/09) and which can be seen below:

2009/09	IFAP	AGRITERRA	Other donors	Total
	€'k	€'k	€'k	€'k
<b>Budget</b>	<b>925</b>	<b>1 468</b>	<b>570</b>	<b>2 963</b>
%	31,2%	49,5%	19,2%	100,0%
Actual 1	651	1468	570	2689
%	24,2%	54,6%	21,2%	100,0%
Actual 2	326	1468	570	2363,5
%	13,8%	62,1%	24,1%	100,0%

Actual 1 corresponds to a hypothesis where IFAP does only the Agricord project.

Actual 2 corresponds to a reasonable hypothesis where 50% of the activity of IFAP is accounted for by the Agricord project. The table above shows that the figure reported as budgeted is inflated.

Thus, although IFAP do have real costs associated with the Agricord project (and so do make a real contribution in terms of staff time, office running costs etc.) we are of the opinion that the amounts declared as IFAP funding are somewhat inflated.

However, that is not to say that Agriterra funding has in any way been used to fund the operations of IFAP that are unrelated to the Agricord projects. Our detailed testing of expenses has found no evidence of that. In fact all amounts appear to be backed by supporting documentation. The funds received from Agriterra have been properly allocated to the Agricord programme.

## Margin 2009

As noted above the figures included in the 30/09/09 Financial Report as salary costs, are simply the pro rata of the Budget. We find that these budgeted costs are significantly more than the actual costs incurred, and give rise to a margin that is larger than that of 2008 in both absolute and relative terms (even when directly comparing the 9 months of 2009 with the 12 months of 2008).

We have calculated the margin as follows:

<b>Costs per the Financial Report, 30/09/09</b>		
	€	€
Basic Programme	206 329	
Other Lobby	29 521	
Executive Direct Costs	25 750	
IFAP Policy Conference	22 473	
Women in Agriculture...Conference, July 2009	31 274	
IFAP G-14 Farmers' Conference	7 045	
Regional Committee Africa	24 373	
Workshops Africa	33 434	
Regional Committee Asia	17 697	
Workshops Asia	37 755	
Regional Committee Latin America	28 213	
Workshops Latin America	44 421	
Regional Committee Mediteranean	20 186	
Workshops Mediterranean	28 106	
Workshops Policy working groups	33 565	
Policy Preparation Work	91 465	
Comunications HHRR/work and related	45 000	
		<b>726 606</b>
Salary costs per the Accounting System		<b>340 756</b>
Margin on salaries		<b>385 850</b>

The margin on salaries in the 9 months to 30/09/09 contained in the Financial Report is €385,850. This increase on the prior year can be partially explained by the following.

### ***Programme Manager - Impact €81,050***

The Programme Manager was fired in February 2009; however no adjustment has been made to the Financial Report to remove his costs. We have estimated the effect of this as an increase to the margin of € 81,050.

### **Change of Communications Officer - Impact €25,029**

The change of Communications Officer from Sorensen to Goodfellow (who is paid less) without any adjustment to the Budget/Financial Report, has meant that the Financial Report (and so the margin) is €25,029 more than it otherwise would be.

The Financial Report should be updated (i.e. costs reduced) for these two items which it cannot be said are a fair application of the margin.

### **Comparative Margin**

The margin displayed above has been produced in just 9 months. Scaling up to 12 months would give a margin on salaries of €514,466. In relative terms, this margin on salaries is 26% of the entire costs in the Financial Report. In 2008 the rate of margin was 11%, leading to the conclusion that it is wholly unsupported by the reality of the costs incurred or the tariff system that is supposed to underpin it.

The logical conclusion is that the budget is not realistic in terms of the salary costs it includes. Please note that we make no such statement with regard to expenses which, from our detailed testing, we find fairly stated.

### **Additional margin - Publications and Communication costs**

It should also be noted that as for 2008 (add to 2009) there is a line in the budget where IFAP is the main service supplier (the line *Publications and communication costs*). In 2008, most of this cost was supplied by IFAP and so formed a part of the "Recettes Supplementaires" in the Audit Report 31/12/08.

In 2009, no such entries have been entered in the accounts. Mme. Gay-Peiller has informed us that it operates in exactly the same way in 2009 as 2008 (i.e. payment for services that IFAP provides). It has been explained to us that these costs are a contribution to the costs of work done by IFAP staff in this area. However, we have been provided with no justification for these amounts and so believe they should be considered an additional margin.

### **Total margin to 30/09/09**

We believe that the total margin for 2009 can be shown as follows:

<b>Total Margin 2009/09/30</b>	€	€	<b>% of Total Costs</b>
Total Agriterra expenses in Fin Rep		1 468 576	
<b>2009 margin</b>			
Margin on salaries	385 850		26%
Margin on Publication costs	<u>29 250</u>		2%
Total margin		415 100	28%

As can be seen, we believe that only 72% of the costs listed in the Financial Report correspond to actual end spending, with the balance being the IFAP "margin".

We have not obtained any explanation about the significant increase in the recharge made by IFAP to the Agricord project.

## Appendix 1 Answer to questions

### *First question*

#### *Difference between the amounts in the report and the financial report of the Agriterra project*

1) In the report an amount of € 1.863.842 is given for the Programme AgriCord (project 4837).

The expenditure project 4837 in 2008 is: € 1.790.726,00.

The expenditure project 4937 in 2008 is: € 37.100,00.

total € 1.827.826,00

The difference is € 36.016,00.

### **BDO Answer**

We have reconciled the difference noted above. The difference is due to variances on certain costs, as can be seen from our reconciliation:

<b>Reconciliation - Budget vs Actual</b>		
	€	€
Initial Budget	1 790 726	
Additional Project - 3 women workshops	37 100	
<b>Budget</b>		<b>1 827 826</b>
<b>Variances on budgeted projects</b>		
Salary Related	-	
Ticket and Other Exepenses	7 624	
Chairman Costs	881-	
Policy Prep and Communications	16 018-	
		9 275-
<b>Additional Project</b>		
Additional Project - Communication Workshop	50 220	
		50 220
Total Over/(Under) Spend		<b>40 945</b>
<b>Actual Spend - per Financial Report</b>		<b>1 868 771</b>
Net audit adjustments		4 929-
<b>Actual Spend - per Audit Report</b>		<b>1 863 842</b>

The €36,016 the client talks about is the net of the variances shown above (which have been calculated against the Financial Report submitted to Agriterra for the year-ended 31/12/08) and the audit adjustments. These audit adjustments were passed after the year-end Financial Report had been submitted. Mme. Gay-Peiller

has explained that this report is always submitted “Subject to the approval of the auditor”.

It can be seen that the primary reason for the variance is the additional project, the communication workshop (which we have confirmed to a letter sent by José Levelink on the 18<sup>th</sup> of June 2008).

Please see our answer to question 4. *Conformity of expenses with estimated budget(s)*, for explanation of the variances encountered.

2) In the report an amount of € 142.681,00 is mentioned under Programme ESFIM (project 4973).

The expenditure of Agriterra in this project is: € 156.804,00.

The difference is € 14.123,00

### BDO Answer

The €142,681 is the figure per the Annual report of 31/12/08.

The €156,804 is the total amount advanced by Agriterra, in relation to the project ESFIM (project 4937). This amount made up of two amounts:

	€	€
Transfer - 24/07/08	125 620	50% Main budget
Transfer - 15/08/08	<u>31 184</u>	80% Special Services
<b>Total Transfers</b>		<b>156 804</b>

The transfer of the 24<sup>th</sup> July 2008 represented 50% of the total Agriterra portion of the initial budget for project 4973 (Total budget of €251,239 has been agreed to the signed contract of 21/04/08 and confirmed and to the Financial Report)

The transfer of 15<sup>th</sup> August 2008 represented 80% of the budget from Special Services, that is to say additional consulting services that were not in the original budget (Total Budget of €38,980 agreed to Appendix 3 of the signed contract dated 30<sup>th</sup> June 2008)

Two facts explain the fact that the amounts classified as receipts (*recettes*) in the 31/12/08 Annual report do not match the amounts transferred during 2008 by Agriterra. The first is that IFAP transferred more money to the project countries than they received from Agriterra.

The other, which works in the opposite sense, is that the Special Services amounts were not included in the Annual report as part of the project ESFIM (4973):

<b>Reconciliation - Financial Report 31/12/08 vs Audit Report 31/12/08</b>		
	€	€
Transfer - 24/07/08	125 620	
Transfer - 15/08/08	31 184	
<b>Total Transfers</b>	<u>156 804</u>	
<b>Recettes per Audit Report 31/12/08</b>		142 681
<b>Difference</b>		<u>14 123</u>
<b>Explanation</b>		
Special Services	31 184-	
Advanced Spend	17 061	
	<u>48 245-</u>	14 123-
<b>Remaining diffence</b>		-

It was felt that, as all of the work related to the Special Services was performed in 2009, it was best to post the income and expenses in 2009. Thus neither the amounts received or paid out with regards to this project have been posted to the ESFIM project in 2008. An amount of €29,184 plus associated bank charges of €48.52 was paid to the consultant (Mr. Wilkinson) on the 19/12/08. Thus as at 31/12/08, there was a credit balance on the account of €1,941.48. This amount appears in the Annual report of 31/12/08 as a Sundry Creditor, and can be found in note 5 on the final page. Mme. Gay-Peiller has informed us that in the Annual report of 31/12/08, the amounts concerned with this project (including the final 20% amounting to €7,796, and other costs) will be shown as part of the ESFIM project.

## **Second question**

### ***Difference in total costs of the report and Total costs in financial report of the project.***

*The total expenses related to the AgriCord projects (4837 + 4937) according to the financial report as received by Agriterra are € 3.332.454*

*The total expenses in 2008 according to the audit are:*

*€ 3.000.467 + € 126.396 = € 3.126.863.*

## **BDO Answer**

This question asks how can the total expenses of IFAP (as drawn from the Annual report 31/12/08) can be lower than the expenses related to just the main Agricord project and its associated additional women's workshops.

The reason is because only the expenses that pass through the accounts of IFAP are included in the Annual report, that is to say, those paid for by funding from Agriterra and directly by the IFAP itself. Costs borne by other donors, who are included in the Financial Reports, are not therefore included in the Annual reports.

In 2008, Agriterra funded 58% of project 4837.

One must also remember that the figures per the Financial Report include salaries calculated on a tariff basis compared to the real costs basis used in the Annual report.

Please see the answer to point 10 for more on our opinion on this.

### **Third Question**

#### **Project costs related to salaries and overhead costs**

*The differences in amounts between the different categories in the financial report and the overview of costs of the AgriCord Programme in the audit are caused by the fact that salaries and overhead costs have been filtered out. Where in the financial report tariffs are used, in the Annual report all actual costs are given.*

*To be able to check and compare the financial report with the audit, Agriterra needs to have insight in the way the tariffs have been build.*

*Clarification could be given by IFAP on: “contribution of operating expenses”, mentioned on page 13 and 15.*

#### **BDO Answer**

The detail given in the question is correct. The difference between the tariff based salary costs (as used in the Financial Report) and the actual costs (as are used in the 31/12/08 Annual report) result in a “margin” of €204 888 on the Agircord Programme.

We have been supplied with the excel calculation for the tariffs used in the Financial Report, which IFAP have informed us were developed in conjunction with Agriterra, and tested the constituent components to backing documentation (i.e. to employment contracts and other supporting documentation). We have found the figures used for the salary components of the tariff calculation to be in line with real costs and so reasonable.

The basic concept behind the tariff system is to apply an employee cost that represents the true cost of the employees’ work on the Agircord Programme. That is to say, a cost that includes not only the easily identifiable salary costs, but also allocates a portion of the OFAP overheads, without which such work could not be undertaken.

Four daily tariffs have been calculated (to cover the classes of employee from executive to administrative). Each tariff is calculated in the same way. The annual salaries of the employees in each class (including social security costs), plus an amount for training, plus a contribution for general costs (which is based on chargeable days per year) are totalled, and divided by the chargeable days in the year to give a daily tariff. The tariff calculated for each employee is then averaged with the others in the same class to give a tariff for the class. The tariffs for 2008 were as follows:

<b>Class</b>	<b>Tariff (€)</b>
A (Executive)	1281
B (Prog Manager & Sen Pol. Officers)	755
C (Reg Co-Ord & Jun Pol Officers)	577
D (Administrative)	428

The budgeted figures for salary and related expenses for each project form part of the annual budget that is signed by Agriterra. These figures are calculated on the basics of the employment of the 8 full time personnel (since the Programme

Manager left there are now 7 people working on the programme), who have been employed specifically for the two projects under review. No time from any other employees is added to the Agriterra budget (which precludes time from either the DAF or the Secretary General).

The budgeted figures are calculated using the Calculations Budget excel file (See explanation above), and then injected to the budgeted template, as signed off in 2008 and rejected in 2009. For 2008, we have tested that the figures in the Financial Report are indeed those that appear in the 2008 budget. We have also confirmed these figures to the underlying accounting system.

#### Fourth question

#### Income

In the Statement of Income and Expenditures is a category "Supplementary income". Agriterra would like to receive some detail and clarification about this income.

#### BDO Answer

The supplementary income is made up of several items, the most important of which is service charges from the Association of Beet and Sugar Growers. This organisation is run from the same office as IFAP.

A breakdown of the expense is given below:

<b>Breakdown of Recettes Supplémentaires</b>		
	€	€
Supplementary Income		<b>84 211</b>
World Bank Project	6 385	
<b>Total World Bank</b>		<b>6 385</b>
World Beet and Sugar Growers - Service Charge	- 723	
" "	200	
" "	47 647	
" "	1 800	
" "	1 000	
" "	3 500	
" "	2 700	
<b>Total Service Charge</b>		<b>56 124</b>
Bank Charges	- 16	
" "	- 36	
<b>Total Bank Charges</b>		<b>- 53</b>
<b>Agricord - Project 4837</b>		
Publication and communication	17 017	
Policy conferences Beet and Cane growers, publicati	6 697	
Women's Workshops	2 795	
Women's Workshops	1 395	
<b>Total Agricord - Project 4837</b>		<b>27 904</b>
<b>Write-Off of old balances</b>		
Trias Fees	- 206	
Agricord - Project 2578	- 900	
Agricord - adj 2007	- 5 614	
<b>Total write-off of old balances</b>		<b>- 6 720</b>
Other Amount	570	
		<b>570</b>
<b>Total</b>		<b>84 211</b>

These items should be considered a margin as they are IFAP receipts from the Agricord work in addition to those shown already - are they if already in project lines? The margin is surely just the element of these supp receipts in advance of the actual IFAP costs - which we can't know as not identifiable. Therefore, if saying this they are a margin as no evidence that additional costs were engaged by carrying out this work in addition to the work performed. Mme P says there was time for IFAP staff etc. Therefore is hard to say.

The items related to Agricord can be explained as follows. Those listed as *Agricord-Project 4837* in the reconciliation above, are those items concerning this project where IFAP was the supplier of a service. For example the items listed Women's' Workshops are the costs for the extra logistical assistant needed.

There are also two balances related to Agricord in the *Write-off of old balances* line. These relate to projects from before the reporting period where amounts received as payment were less than expenses incurred.

Other income, such as that from *World Association of Beet and Sugar Growers* appears correctly classified here. This particular income is a service charge that arises because the association is managed from the same office and by the same people (e.g. Mr. D. King is the Secretary General, and Mme. M. Gay-Peiller is the Finance Director).

Appendix 2  
Project 4873- Adjusted Budget as at September 2009

Budget items	<i>Agriterra's expenses in Euros Per BDO</i>
<b>1. Assistance to international Policy meetings/events</b>	<b>311 652</b>
Basic program (Jan 2009)	276 430
Other lobby/representation missions (chairs/board)	35 222
President's Missions (contribution to)	
<b>2. Participation of DCC members in IFAP Policy conf./Reg. and Ex. com. Meetings</b>	<b>347 505</b>
Exec. Com, Cooperatives and Climate Change Policy Conference, Copenhagen May 2009	117 045
IFAP Policy conf. and Ex. com. Meeting, Niagara, Ont. Oct,2009	22 473
Women in Agriculture, Young Farmers, Commodities Conference, July 2009	184 748
IFAP G-14 Farmers' Conference, Treviso, Italy	23 239
<b>3. Regional Activities (Workshops/meetings; Missions and Chairs)</b>	<b>558 371</b>
<b>AFRICA</b>	<b>146 142</b>
<i>Regional Cttee Nairobi</i>	103 588
<i>Workshops-Missions Africa</i>	42 553
<b>ASIA</b>	<b>109 319</b>
<i>Regional Cttee Cambodia</i>	44 262
<i>Workshops-Missions Asia</i>	65 057
<b>LATIN AMERICA</b>	<b>138 906</b>
<i>Regional Cttee San José</i>	73 201
<i>Workshops-Missions LAC</i>	65 705
<b>MEDITERRANEAN</b>	<b>143 097</b>
<i>Regional Cttee Catana</i>	79 669
<i>Workshops-Missions Mediterranean</i>	63 429
Chairs' costs (4 regions: admin., repres., comm., and contingencies) and Prog manager missions	<b>20 907</b>
<b>4. Policy preparation, communications and publications</b>	<b>251 048</b>
Policy preparation work	91 465
Workshops Policy working groups	85 333
Publications and communication costs	29 250
Communications HHRR/work and related	45 000
<b>Total</b>	<b>1 468 575</b>