



Fund

## **Fund Council**

**11<sup>th</sup> Meeting (FC11)—Mexico City, Mexico**  
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### ***WORKING DOCUMENT***

*IITA Update*

*Submitted by:*  
*Fund Office*

# IITA Update

## Action Requested

The Fund Council (FC) is requested to end its requirement that the Consortium Office (CO) conduct site visits to monitor implementation of IITA's Financial Recovery Action Plan (FRAP).

## Events at IITA and FC Action

On July 25, 2012, the Consortium Board Chair and CEO informed the Fund Council Chair and Executive Secretary of the Fund Council of the IITA's loss of \$15 million dollars of its reserves. (See Annex 1 of a timeline of events relating to the ill-advised investment, Annex 2 of talking points about IITA failed investment and subsequent outcomes and actions). After a Fund Council meeting, the FC froze funding to IITA.

On November 9, 2012, the FC agreed to lift the freeze on funding to IITA, contingent on a number of conditions that would need to be met on an ongoing basis by IITA's management and leadership. **It was noted that the conditions will prevail until such time as the FC decides to lift them.** As part of the conditions, the CO has been required to monitor implementation of IITA's FRAP and regularly update the FC.

In compliance with this condition, the CO has conducted four monitoring visits to IITA and reported its findings to the FC. As with previous reports, following its last monitoring visit in November 2013, the CO concluded that IITA is doing well and is meeting the conditions set by the Consortium Board (CB) and FC (see conclusion below). Based on this positive assessment, the CO further proposed that the CB recommend to the FC the cessation of monitoring visits, provided that IITA agree to stipulations, as outlined in the conclusion of this report. The CB agreed with the recommendation.

At the Tenth Fund Council Meeting in November 2013, the Consortium CEO suggested that if IITA continues to show good health and progress, there should be a review of the monitoring visit requirement.

## Background: Summary of Information

The following information is being provided to aid in reviewing the investment losses and IITA performance to date. Below are:

- (i) Conclusion of the IITA Monitoring Report following the November 2013
- (ii) Summary of the discussion and decisions on IITA for FC8, FC9 and FC10

**(1) "Conclusion" excerpt from IITA Monitoring Report Nr 4**

*The conclusion from the most recent IITA Monitoring Report nr 4 submitted by the CO is provide below. (The entire report is Annex 3):*

“In line with the previous reports, we continue to believe that IITA has adopted good strategies to enable it to restore its financial health, and also made excellent progress towards restoration of its reputation in the donor community.

Phase 1 of the FRAP is for the three years 2012-2014, and IITA is progressing well and ahead of its financial target. The first milestone was the 2012 result, and this exceeded expectations in terms of rebuilding reserves. While 2013 figures can only be confirmed after the year is closed, the institute is on target to achieve its 2013 targets. We would expect that 2014 will follow a similar pattern, so overall we are confident that IITA will satisfy all the objectives of Phase 1.

The Consortium Office proposes to the Consortium Board to approve the following recommendations in its meeting of December 17:

1. That the IITA Board and Management be congratulated on IITA’s financial recovery ahead of its Financial Recovery Action Plan, as well as its exceptionally strong growth, but that IITA Board and Management need to remain vigilant as both cash flows and the reserves lower than the recommended 70 days minimum will remain a concern in coming years.
2. That IITA Board and Management be urged to take all necessary actions to ensure that a maximum amount of the lost funds will be recovered.
3. That IITA Board and Management commit to join OCS with Implementation to be planned for 2015.
4. That IITA Board and management commit to implement a formal time recording system in parallel to the implementation of OCS, also in 2015.
5. That, provided the IITA Board and Management agree with the OCS and time-recording system recommendations, the Consortium Board will recommend to the FC to end the monitoring by Consortium Office staff of IITA’s financial management.

We shared the draft report with IITA and understand that the IITA Board, in its meeting of November 29, has agreed to commit to join OCS and implement a time-recording system as recommended above – both to be implemented in 2015.

The overall conclusion of the Consortium Office is that IITA is doing well and is meeting the conditions set by the Consortium Board and the Fund Council.”

## **(2) Summaries of Discussions and Decisions on IITA at Previous FC Meetings**

*The problems at IITA have been discussed at several FC meeting. Summaries of the discussions, conclusions, and decisions are below. (Full details from the FC meeting notes are in Annex 4.)*

### **A. FC8: Summary of discussion, conclusions and decisions on IITA matter:**

The FC8 Meeting highlighted findings from an independent investigation report which was conducted by Andrew Mackie, indicating that there had been systematic and widespread governance failures at IITA. Based on this independent consultant’s report, discussion among FC members, and views and information

solicited from CO, the FCWG suggested that the FC consider resuming funding to IITA, subject to the five following conditions:

1. The CO monitor implementation of the Financial Recovery Plan submitted by IITA as set out in the Consortium transmittal note, including a monitoring visit by CO finance staff to IITA in early December 2012 and thereafter at the frequency required, and regularly update the FC on the following four action points that IITA will need to take.
2. IITA will provide the FC with details of the institutions and types of accounts in which IITA will keep any donor funds. All W1 or W2 funds will be used for the intended research purposes, kept in cash holdings invested in short-term savings accounts, and none will be placed in reserves until a robust investment policy has been drafted and approved by the CO.
3. IITA will provide the CO with monthly rolling cash forecasts, as well as at least quarterly monitoring reports including detailed statements of activities, balance sheet, cash flow statement, and rolling cash flow forecasts, with supporting notes to have a comprehensive understanding of IITA's financial position. The CO will issue a monthly summary statement to the FC within 30 days of the month's end.
4. IITA Board will act immediately to strengthen IITA's financial systems and staff competencies particularly with respect to strategic and forward looking financial issues, including putting in place a strong system to ensure all costs are absorbed into programs.
5. IITA will include in the financial recovery plan specific governance, administrative, and management policies and practices which have been, and are being addressed, by the Board and management, with an expected time line and regular progress reporting of implementation with due consideration given the findings of the independent consultant's report on management and governance failures.

***Conclusions and decisions:***

- FC members will consult with their governments and provide comments, if any, on the text of the revised FCWG paper to the Fund Office (FO) by November 9, 2012. If no disagreement is voiced by close of business in Washington DC on that date, the document will serve to lift the freeze on the funding to IITA.
- In agreeing to the document, the conditions contained in the text will prevail until such time as the FC decides to lift them. The decision can be communicated to the Director General of IITA and to the broader audience at the Funders Forum scheduled to take place on November 2, 2012.

**B. FC9: Summary of discussion, conclusions, and decisions on IITA matter:**

A forensic audit was supported by the FCWG on IITA, including the process of drawing up the TOR and selection of the auditors. PricewaterhouseCoopers (Belgium office) was hired to conduct the audit. The consultants were able to reconstruct the sources of the annual operational surpluses and their build-up since 1985. Based on reasonable assumptions, the consultants also apportioned the annual operational surplus for each year in question to the donors who had contributed to either restricted core or unrestricted core funding and clarified issues pertaining to the legal ownership of the reserves.

By way of introducing the discussion on the IITA Monitoring Report, FC members were reminded the decision made at FC8 that the FC lifted the suspension of funding to IITA with a number of conditions, including close monitoring of IITA by the Consortium regarding IITA's progress on its financial recovery plan and overall management and governance in financing. This is the third monitoring report.

According to the report, the lost investment will be written off in the 2012 financial reports of IITA due to low expectations of recovery of any lost funds. IITA is doing well and meeting all conditions set by the CB and FC.

***Conclusions and decisions:***

- Working with CO, the FO will provide the FC with a note that outlines the timeline for implementation of the recommendations, including the qualifications necessary to chair the Finance and Audit Committees of Boards.
- The Forensic Audit is considered confidential and there is no intention at the moment to make it a public document.

**C. FC10: Summary of discussion, conclusions, and decisions on IITA matter:**

Given that the governance review was in large part a response to the IITA crisis, some members requested an update on IITA. In particular, whether the IITA Board member who was involved in the scam, and received some funds from the swindlers, had refunded the money to IITA.

***Conclusions and decisions:***

- The Consortium CEO noted that IITA is in compliance with the plan for financial recovery and other conditions, and is progressing well. The next monitoring visit will be in late November. If that visit shows continued good health and progress, and if the FC has regained sufficient confidence in IITA, there should be a review of the need to continue the monitoring visits. The CEO explained that while it was agreed in principle that the IITA Board member implicated in the scam should give the money back, the current report is that he is bankrupt and unable to make reparations.

## **ANNEX 1: Chronology of Events: Timeline Provided by IITA on August 27, 2012**

### **Re: Actions taken relating to the IITA investment situation**

- In March 2007, the IITA Board asked the Audit Committee Chair (Lewis) to present a revised investment policy that had the possibility of increasing returns and minimizing exposure to risk – for Board review and approval at next meeting.
- In October 2007, the Board agreed to change the Investment policy for a one-year trial period and, if successful, a proposal for a longer-term change in investment guidelines would be considered in a year's time.
- In March 2008, the Board approved a plan of action over the next 6 months to identify diverse instruments of investment over a three year period yielding maximum returns with minimum risks;
- During the period March to September 2008, Lewis identified an investment opportunity in medical receivables in the USA and conducted his due diligence;
- In September 2008, Lewis submitted to the Board for approval a proposed Investment Policy geared specifically to this investment opportunity;
- In October 2008, the Board approved an investment of US\$10 million by way of a secured loan;
- In April 2009, Lewis recommended a second investment of US\$5 million in a different intermediary company formed for the express purpose of accepting loan monies from IITA. He also advised the Board Chair that he was an Advisor to this company – but did not reveal any other economic interest in the company or the investment;
- In April 2009, on the basis of positive reports on the original investment, the Board approved the reinvestment of the funds for another year at an interest rate of 14%;
- In May 2009, the Board approved a second investment of US\$5 million;
- In November 2009, IITA received the first partial payment on the original loan;
- In December 2009, another partial payment was received but investment was not returning the promised funding and company was behind in these partial payments;
- In April 2010, Lewis' investment report to the Board noted payment arrears on both investments but expressed confidence in full repayments: recommends further investments plus more time to deliver results;
- In April 2010, Board approved instructions to Lewis to work to resolve the arrears situation, to reinvest the US\$5 million but to opt out of the first (US\$10 million) investment, to seek alternative investment opportunities and to report to the Board at its next meeting;
- In June 2010, IITA serves Notice of Default to party involved in first loan;
- In October 2010, Lewis informs DG that investment repayments will be slower than anticipated;
- In February 2011, Company offers to transfer all portfolios of uncollected receivables to IITA in exchange for a full release from any/all claims against it. IITA did not sign;
- In March 2011, Lewis, acting on behalf of IITA Board files a complaint against company with FBI;
- In April 2011, Company makes last payment under this first loan: payments to IITA now total approx. US\$642,000
- In May 2011, Lewis and IITA's lawyer (a friend and business partner of Lewis who was relieved of his responsibilities in February 2012) met with the FBI, along with representatives of the United States Attorney's Office and the Office of the Inspector-General of one of IITA's major donors, USAID, to discuss the fraudulent activities of the various companies involved in this scheme;
- In June 2011, second and third FBI meetings;

- In September 2011, IITA's Finance Director comes to Baltimore to join Lewis in meeting with FBI. FBI then requests separate meeting with IITA Finance Director alone and reveals Lewis' financial involvement in this scheme;

(Only in September 2011, did the FBI informally alert IITA that Lewis received a Finder's Fee on these loan transactions, plus a 'loan' from the company of what was/is essentially IITA funding for his own investment in the scheme. Further, in February 2012, IITA's Counsel learned that Lewis also had a handshake agreement that he, Lewis, would also receive one-third of all funds in excess of the returns guaranteed to IITA on the loan);

- In September 2011, Lewis advises Board Chair and DG of current value and outlook for investments and status of FBI investigation;
- In October 2011, the new Audit Committee Chair Tom Medlycott, asked external auditors to specifically review the current value of the two medical receivable portfolio investments held by IITA as part of their audit work on the 2011 financial statements;
- In November 2011, Lewis sent a draft report for IITA Board meeting in December on current value and outlook for investments and status of FBI investigation to Board Chair and Audit Committee Chair;
- In December 2011, Lewis completes his 6 year term on IITA Board;
- In December 2011, the IITA Board formed an Investment Task Force, consisting of Incoming Board Chair Coulman, Audit Committee Chair Medlycott and new Board Member Griffiths, to examine the investment situation and also reinstated its original conservative investment policy;
- In December 2011, Medlycott informed a member of the CG Consortium staff of the FBI investigations and reasons for it, and this information was passed on to the Chair of the Consortium Board's Audit Committee and another staff member;
- In December 2011, Griffiths, met with FBI to get update on the issues, reports back to Investment Task Force on conflicts of interest by Lewis and lawyer;
- In January 2012, IITA reviews two potential legal firms (Arnold & Porter and Dickstein Shapiro) to represent it: selects and appoints Dickstein Shapiro to undertake a complete independent review of the case and, simultaneously, cancels previous lawyer contract with IITA;
- In February 2012, IITA's DG and the Vice Chair of the Board informed the Chair of the Consortium Board of the IITA investment situation;
- During the period January – May 2012, Dickstein Shapiro interviewed IITA selected board members, the previous IITA DG and Board Chair, the legal teams of the companies involved in the fraudulent activities, and the FBI and Attorney General's Office;
- In April 2012, IITA's Audit Committee Chair discussed the investment situation with the Chair of the Consortium Board's Audit Committee;
- In May 2012, the law firm and Investment Task Force briefed the IITA Board on the findings of the investigation and options that could be pursued to recover the funds. The Board approved further investigation of options and their probable costs and outcomes.
- In June 2012, the Board's conflict-of-interest policy was extensively revised and approved.
- On July 19-22, 2012, the IITA Board Chair and Management gave the CGIAR Consortium CEO and Board Chair an extensive briefing on the matter during their visit to IITA headquarters.
- On July 25, 2012, the Consortium Board Chair and CEO informed the Fund Council Chair and Executive Secretary of the Fund Council of the IITA investment matter.
- On July 27, 2012, the Fund Council Chair informed the Fund Council Members by letter of the IITA failed investment and provided a 1.5 page Statement by the CGIAR Consortium on the situation.

- In July 2012, IITA asked for and received the resignations of the three remaining Board members who had served in 2008 – 2009 when the investment decisions were made.
- On July 24, 2012, IITA submitted a preliminary financial plan to the Consortium.
- On August 17, 2012, the IITA Board Chair informed the Consortium CEO and Fund Council Executive Secretary of the Investment Task Force's recommendation not to pursue a civil legal action against the investment scheme perpetrators or the former IITA Board member who had the alleged conflict-of-interest. The recommendation was made based on the poor prospects for recovery of funds relative to the likely costs, and the greater likelihood of recovering funds through the FBI's expected criminal case against the perpetrators of the fraudulent scheme. The Investment Task Force plans to present this recommendation to the IITA board for discussion and approval by the end of September.
- As part of a review of management and Board governance initiated in 2011 independently of the investment issue, IITA formed an ad hoc governance sub-committee that is expected to become a permanent Board committee in November 2012, with the remit to review all Board processes in light of current governance standards.
- The ad hoc governance committee has circulated a Charter for the new Governance Committee to the IITA Trustees for approval by September 15, 2012 so that the Committee can be fully functioning by the November 2012 Board meeting.
- The IITA Board is reviewing the appointment of an expert third party to review any future Board investment policy decisions.



## **ANNEX 2: Talking Points about IITA failed investment and subsequent outcomes and actions, April 21, 2014**

### **Background**

- In 2008-2009, IITA made a failed investment that led to the loss of public monies. The funds invested came from IITA reserves, which were generated through the accumulation of annual operational surpluses.
- When the investment ceased to yield returns after 18 months, IITA took steps to secure recovery of the \$15 million. The IITA Board contacted the U.S. Federal Bureau of Investigation (FBI), which initiated a formal investigation in mid-2011. IITA has been cooperating fully with the FBI and the U.S. Attorney's Office.
- IITA's current Director General, who assumed this position on November 1, 2011, and its current Board Chair, who joined the Board in April 2011, were not involved in the investment decisions.
- When the details of the failed investment became known in July 2012, the CGIAR Consortium informed the Chair and Executive Secretary of the Fund Council about the matter, and they in turn informed Fund Council members.
- The CGIAR Fund Council subsequently commissioned an independent investigation to determine the full facts of the case, requested detailed information regarding actions by IITA and the Consortium to address the situation and its fallout, and suspended the disbursement of funds while pertinent information was being sought.
- The suspension of funding to IITA and the Consortium took into account the fact that each donor has its own processes, constraints, and concerns, including, in some cases, strict rules and procedures relating to suspected corruption, fraud, and mismanagement.
- On October 3, 2012, the Consortium provided its and IITA's comprehensive responses to the Fund Council's queries. Fund Council members had the opportunity to thoroughly review and assess the information provided and consult with their internal advisors.
- Based on this information, on October 17, 2012, the Fund Council approved the resumption of funding to all CGIAR Centers except IITA.

### **Resumption of funding to IITA**

- On October 28, 2012, Fund Council members received a report on the findings of the independent investigation of the IITA incident for their consideration, along with IITA's Financial Recovery Action Plan.
- During its meeting on October 31 and November 1, 2012, the Fund Council discussed the report findings and decided that a number of conditions would need to be met on an ongoing basis by IITA's management and leadership, in conjunction with the Consortium Board, in order for funding to be resumed to IITA.
- Fund Council members were given several days to consult with their advisors regarding the conditions, which will prevail until such time as the Fund Council decides to lift them.
- On November 9, 2012, following agreement by all Fund Council members to the conditions, the freeze on funding to IITA was lifted.
- As part of the conditions, the Consortium Office is required to monitor implementation of IITA's Financial Recovery Action Plan and regularly update the Fund Council, including on actions to be taken by IITA.
- In compliance with this condition, the Consortium Office has conducted four monitoring visits to IITA and reported its findings to the Fund Council.

- Following the most recent monitoring visit on November 18-21, 2013, the Consortium Office concluded that IITA has adopted good strategies for restoration of its financial health and its reputation among donors, is meeting the conditions set by the Consortium Board and the Fund Council, and is on target to meet the goals set out in its Financial Recovery Action Plan.
- Based on the Consortium Office's findings and recommendations, the Consortium Board has recommended to the Fund Council that the monitoring of IITA's financial management can be terminated. The Fund Council is due to take a decision on the matter during its meeting on May 7-8, 2014.
- The Fund Council moved deliberately and expeditiously to be able to resume funding in an appropriate way. The conditions set are meant to support the current IITA management in rectifying the situation and give confidence to donors that such a situation will not happen again.

#### **Forensic audit of IITA**

- The European Commission, on behalf of the Fund Council, commissioned a forensic audit by a leading global accounting firm to establish the source and ownership of the reserves that were lost in the failed investment. The reserves were generated by IITA through the accumulations of annual operational surpluses.
- The audit report, which was issued in March 2013, concluded that IITA has legal ownership of any funds received, barring any contractual agreement between IITA and a donor that would enable the latter to claim back any funds granted.
- The report also lists the contribution of each IITA donor in the accumulated operational surpluses and the type of funding provided (e.g., unrestricted).
- The forensic audit is considered confidential and there is no intention at the moment to make it a public document.
- The audit report was discussed by the Fund Council Governance Committee when it met in late September 2013.

#### **CGIAR governance review**

- During its meeting on October 31 and November 1, 2012, the Fund Council agreed to jointly commission with the CGIAR Consortium an independent CGIAR corporate governance review, in two phases, in order to fully understand and address the governance failures that led to the IITA incident, so that we can be completely confident that such a situation will not happen again.
- On February 18, 2013, the report of Phase 1 of the review was submitted. It provided a preliminary review and assessment of the governance structures and controls in place across CGIAR, including an early risk assessment for each Center of the issues highlighted by the IITA failed investment.
- The report includes a number of findings, including scope for further improvements in investment policies and practices, as well as recommendations, many of which are already being implemented by the CGIAR Centers and Consortium.
- On October 3, 2013, the CGIAR Consortium Board approved a CGIAR Investment Policy Guideline -- one of the recommendations from the report.
- The report also notes that the consultants who conducted the review "did not find any examples of practices or investments at...any of the Centers that are similar to those which had given rise or could give rise to failed investments such as in the past incident with IITA."
- Phase 2 of the governance review was conducted by a leading global accounting firm to analyze the governance structures and controls in place across CGIAR.
- In late July 2013, the accounting firm submitted its draft interim report to the Governance Review Reference Committee, which includes representatives from both the Fund Council and the Consortium.

- The final report was shared with the Governance Review Reference Committee on September 18, 2013. The report identifies governance improvements and actionable solutions that will make CGIAR more efficient and effective, and better able to reap fruits of reform.
- Outcomes from the governance review will feed into the Mid-Term Review of CGIAR Reform, which was launched in late 2013.

#### **Update on FBI Investigation**

- On September 4, 2013, a U.S. federal grand jury indicted two individuals on charges of conspiracy and wire fraud, in connection with a scheme to defraud equity investors and asset-based lenders in medical accounts receivable of more than \$275 million. The defendants have been arrested.
- The U.S. Justice Department has identified IITA as a potential victim of the crimes by the named defendants.
- If found guilty by a court of law, the two defendants will face up to 20 years in jail and their assets will be impounded. If the latter occurs, IITA's legal counsel will apply for a share of the recoveries, and IITA could potentially receive some of its lost investment.
- Two other individuals pleaded guilty to conspiracy to commit wire fraud on September 3, 2013 and October 11, 2012.

#### **Concluding messages**

- CGIAR sees the IITA incident as a teachable moment and is fully committed to using the lessons learned to improve governance across the entire system so that CGIAR will be even stronger going forward, and better equipped to make lasting impact in the lives of poor people throughout the developing world.
- CGIAR has always considered the IITA incident a very serious matter and wants to assure its valued partners and investors that we will do everything within our power to ensure that their contributions are properly utilized for the benefit of the poor.
- CGIAR will continue to make every necessary effort to protect donors' interests and restore full faith and confidence in CGIAR so that we can fulfill our mission of sustainably reducing poverty, hunger, and malnutrition.

## ANNEX 3: IITA – Monitoring Report Nr 4

### Introduction

This report presents the findings of a monitoring visit, on behalf of the Consortium, to IITA Headquarters in Ibadan by Gerard O’Donoghue from 18 - 21 November 2013.

The first monitoring visit to IITA was carried out in November 2012 by Gordon MacNeil and Bruce Fraser. The findings of that visit comprised the first monitoring report, which was submitted to the Consortium Board (CB) and Fund Council (FC) in December 2012. A second monitoring report was submitted on 22 January 2013 in response to the updated Financial Recovery Action Plan (FRAP) that IITA provided the same month. A second visit was carried out by Gerard O’Donoghue and Bruce Frazer in March 2013 and a third monitoring report submitted to the CB and FC following the visit.

This report is set out in sections as follows:

1. Review of 2012 Results and Audited Financial Statements.
2. Review of 2013 Projected Income & Expenditures
3. Review of Cash Flows
4. Review of the 2014 Operating Budget.
5. Update on any possible recovery of failed investment
6. Update on Governance, BOT and IITA policies
7. Meetings and Due Diligence
8. Conclusions

#### 1 - Review of 2012 Audited Financial Statements.

The figures below have been taken from the audited 2012 financial statements which were approved by the IITA Board of Trustees on 8 March 2012. The external auditors, Ernst & Young, gave a clean audit opinion on the 2012 financial statements.

**Table 1 – 2012 Financial Result (USD 000’s)**

<b>Revenue</b>		
Unrestricted Grants	13,774	4,738
Windows 1/2		15,701
Window 3		13,051
Bilateral	43,082	34,234
Other Revenue	571	984
<b>Total Revenue</b>	<b>47,427</b>	<b>68,708</b>
<b>Operating Expenses</b>	<b>46,710</b>	<b>66,176</b>
<b>Operating Surplus</b>	<b>717</b>	<b>2,532</b>

Some comments on the 2012 result:

The surplus of \$2.5million is \$1.6 million greater than the forecast amount of \$0.9 million that was in the original FRAP. This is primarily due to a combination of unrestricted funding of \$1.4 million and center generated income of \$1.0 million.

2012 Revenue for IITA represents a 45% increase on the comparable figure for 2011. This rate of growth reflects that donor support for IITA has not only been maintained but has increased significantly. Grant revenue from individual donors included the following:

USAID	\$12.1m
Bill & Melinda Gates Foundation	\$6.9 m
Nigeria	\$3.5 m
Sweden	\$3.1m
African Development Bank	\$2.1m
TZ	\$1.2m
Common Fund for Commodities	\$1.2m
Japan	\$0.8m

The *net* free reserves (ie those not invested in fixed assets and available for use by the institute) amounted to \$5.339 million and the movement in 2012 is set out in table 2:

**Table 2: Net free reserves at 31 December 2012**

Free Reserves	US\$'m
Balance b/f at 1 January 2012	19,640
Write off of failed investment	(14,782)
Operating surplus for year	2,532
Net investment in Fixed Assets	(2,051)
<b>Balance c/f at 31 December 2012</b>	<b>5,339</b>

## 2 - Projected 2013 Income & Expenditures

The 2013 projected income & expenditures are set out in table 3. Projected income is \$84.1 million which is an increase of \$15.395 million or 22% over 2011 and demonstrates continuing strong donor support for IITA. The projected operating surplus is \$2.1 million and comprises unrestricted contributions from Nigeria of \$495,000, Germany of \$456,000, and the Rockefeller Foundation of \$0.5 million together with center generated income of \$0.7 million.

**Table 3: 2013 Projected Income & Expenditure**

	2012	2013
	US\$'000	
Unrestricted income	4,738	1,451
Center generated Income	984	700
W1-2	15,701	18,784
W3/bilateral	47,285	63,168
<b>Total income</b>	<b>68,708</b>	<b>84,103</b>
<b>Total expenditures</b>	<b>66,176</b>	<b>81,952</b>
<b>Operating Surplus</b>	<b>2,532</b>	<b>2,151</b>

In addition to the projected operating surplus of \$2.1 million the institute intends to spend \$1.6 million less on fixed assets than its annual depreciation charge. Total available reserves will, therefore, grow by this amount.

Total free reserves at the 31 December 2013 are projected to be \$9.0 million. This comprises an amount of \$5.3 million brought forward at 1 January 2013 plus an operating surplus of \$2.1 million plus the \$1.6 million as set out above to give a total of \$9.0 million. This equates to approximately 41 days of reserves.

The primary objective of the FRAP is to restore IITA's financial reserves. The actual 2012 financial results together with the projected 2013 result shows very good progress in that direction. The increase in reserves to \$9.0 million is better than the forecast amount of \$5.1 million in the original FRAP so that serves as a good indicator that overall the FRAP targets are achievable by IITA.

### 3. Review of Cash Flows

The cash flows of IITA for the three year period 2011-2014 are set out in Figure 1. As can be seen IITA does have sufficient cash flows to continue operations over the period. The lowest monthly cash balance being \$5.9 million at the end of any one month. Given the scale of its operations and the likely increase in funding in 2014 this is an area which IITA need to monitor carefully. We have discussed this with management and they are aware of the need to manage the institute's cash flows carefully. Cash flows are monitored on a weekly basis so any potential problems can be identified and resolved at an early stage.

**Figure 1. Monthly Cash Requirements & Cash Flows, 2012-2014**

(in US\$ million)													
<i>2012 actual</i>	Balance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash Requirement		4.000	4.078	5.242	5.099	4.986	4.954	4.854	5.934	5.448	6.571	5.991	5.825
Member & Center Income		3.794	1.061	4.259	2.117	2.571	4.047	4.733	7.336	6.830	6.244	2.429	5.468
Net Monthly Position		(0.206)	(3.017)	(0.983)	(2.982)	(2.415)	(0.907)	(0.121)	1.402	1.382	(0.327)	(3.562)	(0.357)
Accumulated Position	26.218	26.012	22.995	22.012	19.030	16.615	15.708	15.587	16.989	18.371	18.044	14.482	14.125
<i>2013 actual / projection</i>	Balance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash Requirement		6.004	10.958	6.349	6.491	6.508	6.498	8.157	7.667	8.739	9.100	7.600	7.100
Member & Center Income		1.827	13.935	4.957	6.825	2.082	9.005	4.147	11.890	6.759	13.149	10.000	7.000
Net Monthly Position		(4.177)	2.977	(1.392)	0.334	(4.426)	2.507	(4.010)	4.223	(1.980)	4.049	2.400	(0.100)
Accumulated Position	14.125	9.948	12.925	11.533	11.867	7.441	9.948	5.938	10.161	8.181	12.230	14.630	14.530
<i>2014 projection</i>	Balance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash Requirement		6.850	9.400	6.900	9.400	7.000	7.000	9.500	7.150	7.150	9.650	7.200	7.200
Member & Center Income		2.000	12.500	5.000	9.000	2.500	9.000	10.000	7.500	8.500	11.000	9.000	9.000
Net Monthly Position		(4.850)	3.100	(1.900)	(0.400)	(4.500)	2.000	0.500	0.350	1.350	1.350	1.800	1.800
Accumulated Position	14.530	9.680	12.780	10.880	10.480	5.980	7.980	8.480	8.830	10.180	11.530	13.330	15.130

### 4 – Review of Budgeted 2014 Income & Expenditures

The 2014 operating budget is set out in table 4 together with the actual 2012 results and the projected 2013. Total income is budgeted at \$93.4 million which is an increase of \$7.5 million or 9% over 2013. Budgeted expenditures of \$91.6 million should result in an operating surplus of \$1.8 million. We have examined the underlying documentation and consider that the budget is reasonable and achievable. The 2014 operating budget was approved by the IITA Board of Trustees at its meeting during the week of 25 November 2013.

**Table 4 –2014 Budgeted Income & Expenditure (USD millions)**

	2012	2013	2014
	Actual	Projected	Budget
<b>Revenue</b>			
Unrestricted Grants	4.8	1.5	0.6
Windows 1/2	14.0	18.8	21.7
Restricted Grants (W3 and Bilateral)	47.2	63.1	70.5
Other Revenue	1.0	0.7	0.6
<b>Total Revenue</b>	<b>67.0</b>	<b>84.1</b>	<b>93.4</b>
<b>Operating Expenses</b>	<b>64.5</b>	<b>82.0</b>	<b>91.6</b>
<b>Surplus</b>	<b>2.5</b>	<b>2.1</b>	<b>1.8</b>

Note that Unrestricted Grants in 2012 includes Transition Funding for those CRP's which were not fully operational in that year.

Projected grant revenue in 2014 from individual donors includes the following:

Bill & Melinda Gates Foundation	\$13.1 m
USAID	\$10.1 m
African Development Bank	\$9.5 m
Nigeria	\$4.0 m
Belgium	\$1.9 m
Netherlands	\$1.9 m
GTZ	\$1.7 m
Common Fund for Commodities	\$1.3 m
Sweden	\$1.5 m

IITA is forecast to have free reserves of \$12.5 million by the end of 2014 as set out in table 5. This compares to a total of \$7.8 million as set out in the original FRAP. The institute is projected to be \$4.7 million ahead of target. Reserves of \$12.5 million equates to 55 days of reserves.

**Table 5 – Financial Recovery Action Plan – Reserves Forecast Phase 1**

Free Reserves	US\$' m
Balance b/f at 1 January 2013	5,339
2013 projected operating surplus	2,151
Movement on capital account	1,600
<b>Balance c/f at 31 December 2013</b>	<b>9,090</b>
2014 projected surplus	1,830
Movement on capital account	1,600
<b>Balance c/f at 31 December 2014</b>	<b>12,520</b>

Explanatory note – for CGIAR Financial Indicators “Available or Free Reserves” are all those reserves which are not invested in Fixed Assets. It matters not if they are designated for particular purposes as that designation is a choice made by the center at some stage, and can be changed as and when the Board of Trustees decides to do so. Property, on the other hand, cannot be turned into cash so quickly, and is therefore “not available”.

## Reserves days

In the original FRAP IITA's reserve days were projected to initially decline in 2013 to 20 days before increasing in later years. Reserves days are computed as unrestricted net assets minus net fixed assets, divided by per-day operating expenses less depreciation (denominator). The reason for the original projected decline in 2013 is because of the increased funding and hence increased day to day operating expenses (denominator).

As can be seen from the table 6 IITA's reserve days are projected to increase in 2013 to 41 days and 55 days by the end of 2014. They are projected to be back within the recommended CGIAR range by the end of 2017. Thus IITA has been successful in increasing reserve days despite a rapidly growing budget.

**Table 6: Reserve days**

	Reserve Days	
	Original FRAP	Actual/Projected
2012	31	31
2013	20	41
2014	25	55
2015	30	62
2016	35	69
2017	39	77
2018	44	80

## 5 - Update on any possible recovery of failed investment

This was discussed with the DG, senior staff and members of the Board of Trustees.

A US federal grand jury, on 4 September 2013, formally indicted two defendants on charges of conspiracy and wire fraud, in connection with a scheme to defraud equity investors and asset based lenders in medical accounts receivable of more than \$275 million. IITA is formally named in the federal criminal lawsuit (against the defendants of the fraud) as one of the organizations that lost monies, along with other individuals and organizations. In connection with the lawsuit and related investigations, the U.S. Justice Department formally notified IITA that IITA has been identified as a possible victim of a crime by the named defendants. United States Federal law allows victims of crimes to apply (as IITA's legal Counsel will do automatically at the appropriate time) for a share of any recoveries received from the defendant(s) as a result of a restitution order or plea agreement.

Absent any separate plea deal agreed by the federal government in IITA's favor, IITA is just one of a number of entities awaiting a share of any proceeds from the outcome of the criminal lawsuit. IITA's share of any such recoveries will be determined by the Judge in the case. (One obvious solution would be a proportionate share of recoveries based on the actual amount, but management do not know at this time if there would be such a proportional distribution nor which "possible" victims would be included as "actual" victims qualified to share in any recovery.)

Based on the ongoing case management has not budgeted for any recoveries but are hopeful that something will be recovered. However, it is not possible to quantify any such possible recoveries.

## 6 - Update on Governance, BOT and IITA policies

a - The senior management team is now complete since the appointments of:



- Kwame Akuffo-Akoto as Deputy DG, Corporate Services.
- Kwesi Atta-Krah as leader of CRP 1.2 Humid Tropics

b - IITA has its own Internal Audit Department consisting of a manager and 4 staff. The institute rejoined the CGIAR system-wide Internal Audit Unit at 1 January 2013 and has agreed a work program with the unit to oversee its internal audit function in 2014. The IAU will carry out some independent audits and also exercise a quality-control function over the audit conducted by the institute's own internal audit staff.

c – IITA has been using Oracle for its financial systems for some time now – their IT staff have build up considerable competence, and for several years now they have considered that a support contract with Oracle was not necessary. We can accept that decision, but the down side is that IITA's system does not receive Oracle "patches" or benefit from free software for any upgrades. IITA need to consider whether the current system is still adequate for its management information needs. We strongly recommend that the institute considers joining OCS and moving to implement the common ERP system which has been developed by the group of 9 CG Centers and the Consortium Office.

e - It had been mentioned in the previous reports that IITA has plans to introduce a time recording system. For now IITA advise they do not have the systems or Human Resources to introduce this. The recently approved revised CGIAR Financial Guideline No 5; Cost Allocation Guidelines states that "Given that personnel costs is usually the most significant cost component of research activities, a formal time registration system is mandatory. This ensures that relevant costs are allocated accurately, and there is an audit trail built on time sheets. This is the most effective and efficient approach, especially for those researchers who may be contributing to multi activities." We strongly recommend that IITA management introduce a formal time recording system and this should be an integral part of any new Management Information System (OCS) that the center implements.

## **7 – Meetings and Due Diligence:**

### Meetings

- Director General (Nteranya Sanginga)
- Director of Corporate Services and Deputy Director General (Kwame Akuffo-Akoto)
- Director of Partnerships and Deputy Director General (Ken Dashiell)
- Finance Director (Sholola Shalewa)
- Internal Auditor (Rasheed Fagbenro)
- IT Director (Jim Scott)
- Leader CRP for Tropical Systems (Kwesi Atta-Krah)
- Chair, BOT Audit Committee [by telephone] (Tom Medleycott)
- Senior IITA finance staff.

### Reviews

- Review of bank accounts, bank reconciliations and investments
- Review of cash flows
- Review of Fixed Assets (Infrastructure)
- Review of accounting system, inc cost allocation methodologies
- Review of internal control environment
- Review of Risk Management Policies and Process and Framework
- Review of selected internal Audit reports

## **8 - Conclusion**

- In line with the previous reports, we continue to believe that IITA has adopted good strategies to enable it to restore its financial health, and also made excellent progress towards restoration of its reputation in the donor community.
- Phase 1 of the FRAP is for the three years 2012-2014, and IITA is progressing well and ahead of its financial target. The first milestone was the 2012 result, and this exceeded expectations in terms of rebuilding reserves. While 2013 figures can only be confirmed after the year is closed, the institute is on target to achieve its 2013 targets. We would expect that 2014 will follow a similar pattern, so overall we are confident that IITA will satisfy all the objectives of Phase 1.

***The Consortium Office proposes to the Consortium Board to approve the following recommendations in its meeting of December 17:***

1. That the IITA Board and Management be congratulated on IITA's financial recovery ahead of its Financial Recovery Action Plan, as well as its exceptionally strong growth, but that IITA Board and Management need to remain vigilant as both cash flows and the reserves lower than the recommended 70 days minimum will remain a concern in coming years.
2. That IITA Board and Management be urged to take all necessary actions to ensure that a maximum amount of the lost funds will be recovered.
3. That IITA Board and Management commit to join OCS with Implementation to be planned for 2015.
4. That IITA Board and management commit to implement a formal time recording system in parallel to the implementation of OCS, also in 2015.
5. That, provided the IITA Board and Management agree with the OCS and time-recording system recommendations, the Consortium Board will recommend to the FC to end the monitoring by Consortium Office staff of IITA's financial management.

We shared the draft report with IITA and understand that the IITA Board, in its meeting of November 29, has agreed to commit to join OCS and implement a time-recording system as recommended above – both to be implemented in 2015.

The overall conclusion of the Consortium Office is that IITA is doing well and is meeting the conditions set by the Consortium Board and the Fund Council.

## **ANNEX 3: Discussions and Decisions on IITA from Previous FC Meeting**

### **FC8 Meeting Agenda Item 2: Update on IITA and Governance in CGIAR**

The Chair reminded the FC that two separate issues are being discussed under this item, namely, the specific circumstances in IITA and issues related to the wider governance within CGIAR, including a proposal for a CGIAR Governance Review commissioned by the CGIAR Consortium.

#### ***Specific circumstances in IITA***

Jonathan Wadsworth, Executive Secretary of the Fund Council and Head of the Fund Office (FO) gave an update on the work of the FC Working Group (FCWG) on the IITA investment situation.

Jonathan reminded the FC of the sequence of events:

- In August, the FC held an extraordinary meeting (teleconference) to discuss the IITA issue;
- It was decided to suspend funding from the Fund to the whole of the CGIAR;
- A number of factual requirements and explanations were requested from the Consortium on what had happened and what was being done by IITA;
- A working group consisting of Bill and Melinda Gates Foundation, Canada, Switzerland, United Kingdom, USA and World Bank was created by the FC to set up an independent investigation to obtain a timeline and an understanding of all the facts around the case;
- The working group sent two updates to the FC with suggestions on the information the FC would require to make decisions on resumption of funding;
- The Consortium responded to the request for information in October which allowed the suspension of funding to all Centers except IITA to be lifted.
- Approximately \$32million have already been disbursed since the resumption of funding to Centers;
- The final message to the FC from the Working Group set out the conditions that require to be met for the resumption of funding to IITA.

The update on FCWG's work was followed by a report (via a telephone link) from Andrew Mackie, a consultant who was engaged by the FCWG to carry out an independent investigation to identify the origins of the lost funds, assess the decision-making process that led to the failed investment, and determine IITA's current financial status. Noting that his written report had been shared with the Fund Council before the meeting, he gave a brief overview and only highlighted the main findings of his investigation as follows:

- His own work substantially supported the findings of the independent U.S. law firm commissioned by IITA, one of which was that the failed investment primarily resulted from the actions of a single IITA Board member;
- There was a complex series of significant institutional and governance failures within IITA that contributed to the failed investment decision;
- One Board member significantly breached the trustee's code of conduct in accepting financial incentives related to the IITA investment loan and had not disclosed significant personal investments in the same companies in which IITA subsequently made investments. The center's Director General and Board Chair were not alert to the conflict of interest;
- The IITA Board of Trustees failed to provide an adequate investment policy in accordance with CGIAR financial guidelines. Had there been due process and had a formal investment policy been put in place as is laid out in the CGIAR Financial Guideline<sup>1</sup>, it might have demanded the Board to think a little more carefully about the decisions that were made. The Board's Executive and Finance

Committee failed to provide adequate oversight over the investment policies and the investment strategy;

- IITA failed to take independent investment advice, or to develop the institutional structures which would have made informed investment decisions appropriate to the risk appetite within the Institute;
- The required consultation with any of the other CGIAR centers on the investment as part of the Board's decision was not undertaken;
- IITA Trustees lacked sufficient financial skills to critically analyze the appropriateness of the proposed investment;
- A peer review process managed by the former CGIAR Secretariat in May 2010 highlighted concerns regarding those investments; however, these concerns were not followed up;
- The external auditors failed to address the lack of disclosure in the 2008 and 2009 financial statements, which would have been an early warning sign;
- The investigation's attempt to determine the origin of the IITA funds that were lost did not receive comes from a number of sources which had comeled making it impossible to attribute every dollar received;
- On the liquidity and solvency position of IITA over the short- to medium-term, the financial recovery plan submitted by IITA and endorsed by the Consortium was a reasonable statement to the situation. However, generating operating surpluses may be difficult, and this is recognized in the transmittal note of the Consortium;
- The financing plan assumes that no reserves will be generated from restricted grants, and that may not be a reasonable assumption, given the growth of bilateral funding that IITA is projecting in 2012 and 2013. While there is no way of judging whether IITA has adequate financial management systems in place, the systems in the center headquarters seemed to be operating reasonably well. Given that the Consortium is closely monitoring the financial situation with a proposed monthly reporting, the risk of over-trading leading to a working capital shortfall needs to be monitored.

FC members concluded that the independent consultant's report clearly indicated that there had been systematic and widespread governance failures at IITA. It was further noted that the checks and balances in place at IITA are essentially the same throughout the system; hence it is not inconceivable that a similar incident may occur at another Center.

The discussion then focused on whether there was agreement with the FCWG's recommendation, or whether FC members had in mind additional, different or modified conditions. Suggestions on the way forward or concerns related to what is required to resume funding to IITA were also opened for discussion.

Jonathan Wadsworth informed the FC that based on the Consultant's report, discussion among FC members, and views and information solicited from the Consortium Office regarding their transmittal note and plans for follow-up and monitoring of the recovery plan, the FCWG suggested that FC consider resuming funding to IITA, subject to five conditions. Resumption of W1/W2 funding to IITA will be conditional on IITA and the Consortium committing to the following:

- The Consortium Office monitoring implementation of the Financial Recovery Plan submitted by IITA as set out in the Consortium transmittal note, including a monitoring visit by Consortium Office Finance staff to IITA in early December and thereafter at the frequency required and regularly update the FC on the following 4 action points that IITA will need to take;
- IITA will provide the FC with details of the institutions and types of accounts in which IITA will keep any donor funds. All W1 or W2 funds will be used for the intended research purposes, kept in cash

holdings invested in short term savings accounts and none will be placed in reserves until a robust investment policy has been drafted and approved by the Consortium Office;

- IITA will provide the Consortium Office with monthly rolling cash forecasts as well as at least quarterly monitoring reports including detailed statements of activities, balance sheet, cash flow statement, and rolling cash flow forecasts with supporting notes to have a comprehensive understanding of IITA's financial position. The Consortium Office will issue a summary statement to the Fund Council monthly within 30 days of the month end;
- IITA Board will act immediately to strengthen IITA's financial systems and staff competencies particularly with respect to strategic and forward looking financial issues, including putting in place a strong system to ensure all costs are absorbed into programs;
- IITA will include in the financial recovery plan specific governance, administrative and management policies and practices which have been, and are being addressed by the Board and management, with an expected time line and regular progress reporting of implementation with due consideration given the findings of the independent consultant's report on management and governance failures.

***Discussion:***

- Clarification was sought on the details of the monthly feedback that will be provided to FC members. For example, it was asked whether the report would contain any analysis on the safety of the financial instruments and/or financial institutions.
- Some FC donor members stated that they would be unable to resume funding to IITA, on the basis of the documentation that has been received so far. A stronger narrative would be required, including a clear definition by the World Bank which part of the lost investment was fraud and which part was due to bad governance. It was also not evident that the governance system in place would prevent any other such occurrences.
- It was suggested that a detailed justification be included in the FCWG's note including references to earlier decisions and conditions, and arguments supporting the recommendation for resumption of funding. A clear timeline of actions which need to be met was also requested.
- It was also pointed out that there would be recurring questions regarding whose investments were affected and who would take the responsibility for the lost investments.
- Some FC members requested time to analyze the consultant's report, to assess and respond to the suggestions made by the FCWG. Norway specifically requested to be given one week to consult with home institution before being able to endorse the proposal to resume funding to IITA.
- Some FC members were supportive, in principle, of the recommendation to resume funding to IITA, through Windows 1 and 2, provided funds are disbursed only on an as-needed basis and they are held in safety.
- Clarification was requested on the "triggers" that would activate further decision making by the Fund Council in the event the financial recovery plan did not eventuate;
- Some FC members observed cases where center Board becomes involved in the day to day operation of the Center and is also the one appointing the external auditors.
- FC members suggested that structures to strengthen the governance and transparency of all Centers' activities should be built. As a temporary measure to prevent the IITA situation from recurring, it would be necessary to ensure transparency of Centers' investment by mandating that Centers inform the Fund Council through the Consortium of all investments over a certain threshold.
- Concern was raised that there may be other Centers that have made similar investment decisions prior to the governance policy being set, and that there is no mechanism that includes a timetable to prevent such action.

- Funding should be covered by the conditions set forth, and the FC, at any time, can approach the Consortium for more information, if needed.
- A further condition on conflict of interest guidelines and criteria for Board member selection requires to be added to the FCWG's recommended set of conditions.
- A clear plan of action to address the governance and management weaknesses at IITA that were indicated in the consultant's report needs to be formulated.

In his response, the Consortium CEO noted that the IITA incident is a teachable moment and will have consequences not only in the immediate sphere, but longer-term in terms of governance of the system.

Appreciation was expressed for the willingness of the funders to resume funding to the other 14 Centers, albeit under provision of the Consortium following up on all the actions that have been agreed to. It was pointed out that the Consortium is aligned with the FC on the conditions that will satisfy funders; they are well understood and many were already present in the transmittal note of the Consortium Finance Director. The requirement for a strong narrative was understood, however, it was pointed out that the analysis provided on the money lost to failed investments and due to failed governance was the best that could be provided.

IITA has also shown willingness to cooperate on all fronts by accepting all the conditions that have been discussed with them so far. The Consortium CEO added that there was some urgency in resuming funding to IITA, as the level of reserves has reached 30 days of operations.

The CEO noted that the financial impact on other Centers is partly through decisions from donors that are independent of the FC decision to resume funding and through the network of relations IITA has as a partner in CRPs.

At the next day's session on this agenda item, Alan Tollervey (UK) summarized the process and thinking of the working group on IITA investments when redrafting the paper on the conditions under which FC is likely to resume funding to IITA. He clarified that the paper was drafted keeping in mind the requirements government ministries of donor countries may need to make an expeditious decision. Thus, it was endeavored to come up with a clear, concise document, explicit on key issues which also provides a basis for future action.

In response to requests of FC members, the FCWG included the following sections in the revised paper:

- Whose money was lost?
- Why did IITA hold these funds?
- Who would write this off?
- How did this happen?
- Conditions upon which funding can be resumed, including a timeline for implementation of the required actions.

No attempt was made to distinguish the amounts lost due to fraud and/or governance failures. The intention was that the document would be coupled with the Governance Review ToR to provide a holistic view of actions being taken by FC in response to the events at IITA and to avoid any future governance failures.

In response to a query regarding what would trigger the resumption of payments to IITA, as many of the conditions are ongoing requirements, it was explained that for many donors this is an indefinite

administrative management structure that will apply until sufficient confidence in the management and governance systems at IITA is restored to the satisfaction of all FC members.

***Conclusions and Decisions:***

- FC members will consult with their governments and provide comments, if any, on the text of the revised FCWG paper to the Fund Office by November 9, 2012. If no disagreement is voiced by close of business in Washington DC on that date, the document will serve to lift the freeze on the funding to IITA.
- In agreeing to the document, the conditions contained in the text will prevail until such time as the Fund Council decides to lift them. The decision can be communicated to the Director General of IITA and to the broader audience at the Funders Forum scheduled to take place on November 2, 2012.

**FC9 Meeting Agenda Item 4: Update on IITA**

***Forensic Audit***

Bernard Rey of the European Commission framed the discussion. He pointed out that the exercise emerged from discussions held at FC8 on the lost investments of IITA. After discussions with a number of FC members, the EC commissioned and financed a forensic audit. This effort was supported by the FC Working Group on IITA, including the process of drawing up the TOR and selection of the auditors. An important step was to agree on the methodology and the focus of the forensic audit, which was to look at the annual operational surplus of IITA and its build up.

PricewaterhouseCoopers (Belgium office) was hired to conduct the audit. The consultants were able to reconstruct the sources of the annual operational surpluses and their build-up since 1985. Based on reasonable assumptions, the consultants also apportioned the annual operational surplus for each year in question to the donors who had contributed to either restricted core or unrestricted core funding and clarified issues pertaining to the legal ownership of the reserves.

***IITA Monitoring Report***

By way of introducing the discussion on the IITA Monitoring Report, Jonathan Wadsworth reminded members that at FC8, the Fund Council lifted the suspension of funding to IITA subject to a number of conditions, including close monitoring of IITA by the Consortium regarding IITA's progress on its financial recovery plan and overall management and governance in financing. This is the third monitoring report.

According to the report, the lost investment will be written off in the 2012 financial reports of IITA due to low expectations of recovery of any lost funds. IITA is doing well and meeting all conditions set by the Consortium Board and Fund Council. The FC Governance Committee will provide a summary of and comments on the report for the FC's consideration within the next month.

***Discussion***

- Members expressed concern about IITA's ability to manage its working capital needs in 2013 given its current level of reserves and suggested that the IITA financial recovery plan be revised to include a 12-24 month cash flow and working capital needs analysis.
- Members encouraged the Fund Office to draw lessons from the IITA experience for overall system governance and to consider what this experience means in terms of the prospects for moving Window 3 donors to Windows 1 and 2.

- Members were pleased to see that IITA is gradually rebuilding its reserves and would like to know more about how and where the new reserves are invested, as well as details of the investment guidelines.
- Members requested an update on the qualifications and experiences of financial experts on Center Boards.
- Members requested that Center investment policies and guidelines become more robust, standardized and harmonized across the whole CGIAR.
- Members inquired about the plans for the public release of the consultant's report and expressed interest in exploring how best to coordinate communications to ensure that this incident does not tarnish the reputation of CGIAR. (Note: It was emphasized in a pre-meeting discussion with the EC representative that before releasing the report as a public document, a factual correction should be made on the characterization of the World Bank's grants to IITA, i.e. that those grants were intended to support IITA's approved work program and did not include use of funds for reserves.)

### ***Response to discussion points***

Jonathan Wadsworth assured the FC that the Fund Office will work with the Consortium to ensure that a 12-24 month cash flow analysis is included in future monitoring reports.

Lessons are already being drawn from the ongoing governance review.

The FO will update and share talking points on the IITA situation to ensure clear and consistent messaging on the issue.

Frank Rijsberman confirmed that the requested cash flow analysis is included in the CO's monitoring of IITA's progress. He also noted that harmonized and system-wide investment and reserves policies are under development and will later be up for adoption.

The recommendation of Phase 1 of the Governance review to have two Board members with financial expertise on Consortium and Center Boards was adopted by the Consortium Board, which in turn recommended that Center Boards do the same. However, while the Review Team recommended that financial experts on Center Boards have a formal accounting background, the Consortium Board felt that what is needed most are individuals who are able to read and interpret financial accounts and draw conclusions on them. Each Center Board will have two members with financial expertise, at least one of which with an accounting background.

Members strongly suggested that the whole point of this very critical recommendation on having financial expertise on Boards is to move from an informal assessment, where Boards can determine for themselves what qualifies as financial competency, to a formal assessment where compliance with competency standards can be verified externally.

### ***Conclusions and decisions***

- Working with CO, the FO will provide the FC with a note that outlines the timeline for implementation of the recommendation, including the qualifications necessary to chair the Finance and Audit Committees of Boards.
- The Forensic Audit is considered confidential and there is no intention at the moment to make it a public document.

### **FC10 Meeting Agenda Item 5: Governance Matters**



## **(a) CGIAR Governance Review Phase 2 Report**

The Fund Council and the Consortium jointly commissioned Phase 2 of the CGIAR Governance Review, which reviewed and assessed the governance structures and controls in place across the CGIAR and how these operated in practice (including compliance with internal governance policies and main CGIAR agreements at all levels). The review was undertaken by PricewaterhouseCoopers (and Meridian Institute as subcontractor). The PwC report was discussed by the joint Fund Council-Consortium Governance Review Reference Committee (GRRC) prior to its finalization and issue. The FC Governance Committee (FCGC) subsequently considered the PwC report with a view to making recommendations for FC action.

The Chair of the GRRC, which oversaw the governance review, framed the discussion by talking about the process to the finalization of the PwC Report. He noted that:

In the view of the GRRC, the PwC panel considered the CGIAR reform a blueprint rather than a completed effort, especially in terms of the operations, and roles and decision-making. The PwC report noted that the lack of consensus regarding CGIAR's goals and the reform's objectives made making system governance difficult especially since governance should follow from the vision and strategy.

Both PwC and GRRC found it useful to have a dialogue between the two main pillars of the CGIAR system.

The GRRC modified some of the PwC's more strongly held views, particularly their suggestion that an entirely structural new model should be adopted. While respecting their insights as management experts, the GRRC tried to impress on the reviewers that CGIAR is not a corporate model and that the timing for a major overhaul at this point was far from ideal as the new system has yet to be adequately tested. After tempering some of their strongly held views, PwC presented recommendations on how CGIAR could make incremental progress. The GRRC Chair concluded that the PwC Report was a very useful report and he noted that the working relationship between the GRRC and PwC was very professional and collegial, and thanked the members of the former.

A member of the Fund Council Governance Committee (FCGC) presented recommendations of the committee. He noted that:

The FCGC reviewed the report to identify and comment on the report's major findings and analytical points, and evaluated each of the 68 recommendations to decide what action is needed. The FCGC classified each PwC recommendation into four groups: matters for no immediate action, matters for action by the Fund Council, matters for consideration in the MTR, and matters to be revisited in the final reform review in 2017.

The FCGC commented on the Report's major findings in 3 areas: (i) that they concluded that in balance the PwC Report found that the CGIAR was "in good health." (ii) that the FCGC counsels that the FC is strategic in any decision to undertake the business planning process suggested by PwC; (iii) the FCGC counsels the FC that the single vs. dual boards question could be addressed during the MTR, but more prudently, it should be considered in the scheduled system wide evaluation due in 2017.

The FCGC recommended that CGIAR take up immediately five of the 68 recommendations: 1) improve CGIAR's strategic leadership function, 2) develop a system-wide resource mobilization approach, 3) develop an RM strategy, 4) refine CGIAR's brand, image and visibility, including by defining roles and expectations at global meetings, and 5) enhance CGIAR's risk management, particularly its conflict of interest policy. The committee also thought that it could be useful to further assess the Report and, where useful, adopting ideas for improving Fund Council operation.

Finally, the committee recommended that the entire report be made available as an input to the MTR. The FC Chair concurred and then opened the floor for discussion about the five recommendations as well as the entire report.

### ***Discussion***

- a) Members highlighted the challenges related to resource mobilization, given that different Centers and programs are in competition for the same set of funds, causing confusion for donors. Further, better communication of the results and impacts of CGIAR's work would enhance the resource mobilization efforts. In another potential enhancement of resource mobilization strategy, more attention needed to be given to the governance and implications of Window 3 funding.
- b) In providing an example of effective fundraising and donor engagement with the Fund, one member noted that after the Executive Secretary's RM visit to Scandinavia, his agency was prompted to approve a significant multi-year commitment.
- c) Members expressed concern over the apparent difficulty of the PwC in understanding any value of the two pillar system and questioned if it reflected a wider view throughout the CGIAR system that was shared with PwC in their interviews within CGIAR community. Further, perhaps it was a strategic communication issue to ensure that all system entities and partners understand the nature of the reforms and the two pillar system. Thus a real-time management information system to track the reform's progress may be needed. A member also noted that the PwC's focus on the one board option versus two pillar system was consistent with other recommendations, such as a joint approach to RM, and suggested that the recommendation of a one-board model be seriously considered going forward.
- d) With regard to the CGIAR reform and two pillar system, the Chair questioned if it's an issue of communications or if it reflects the feeling that this two pillar model is no longer optimal. She asked that the MTR explores this issue. Further, the Chair suggested that the MTR also explore the meaning and intent of the PwC's proposal for a better process for appointing Fund Council members to ensure an appropriate level of seniority and skills at meetings.
- e) Members discussed additional matters arising from the PwC to be explored further, including: (a) the MTR assess the relationship between the Consortium Board and Center Boards and their respective roles; (b) the GRRC pulls together the views of the Consortium and views of the Fund Council Governance Committee on the 68 recommendations and distills them in a way that would be useful for input to the MTR.
- f) A member questioned if emphasis on the PwC report could undermine the MTR, and another asked if any important items or issues were missing from the PwC report.
- g) Members requested additional clarity on Consortium's reaction and response to the review, in particular, which recommendations were being implemented by the Consortium.
- h) Given that the governance review was in large part a response to the IITA crisis, some members requested an update on IITA. In particular, whether the IITA Board member who was involved in the scam and received some funds from the swindlers and had refunded the money to IITA.
- i) Members noted the importance of being tactical and practical around the issue of branding, so as not to compromise the brand equity built up in Centers, some of which are well-known globally and known much better than the CGIAR itself. Co-branding (Centers and CGIAR as a system) needs to be better promoted and enforced. In addition, branding was also an issue for partners at local and regional levels.
- j) Members supported the panel's observation regarding the need for a business model that describes the desired strategy and operational arrangements, including a vision for how the entire system fits together.
- k) Members noted that the PwC review recommended both a system-wide conflict of interest policy, as well as a conflict of interest policy for the Fund Council.

### ***Response to discussion points***

- i. The Consortium CEO noted that IITA is in compliance with the plan for financial recovery and other conditions, and is progressing well. The next monitoring visit will be in late November. If that visit shows continued good health and progress, and if the Fund Council has regained sufficient confidence in IITA, there should be a review of the need to continue the monitoring visits. The CEO explained that while it was agreed in principle that the IITA Board member implicated in the scam should give the money back, the current report is that he is bankrupt and unable to make reparations.
- ii. The CEO noted that both the Consortium Board and Centers accepted all recommendations from the Phase 1 governance review and are already implementing a number of them. He will ensure that the FC members receive the latest progress report.
- i. In early October, the Consortium Board and Office held extensive discussions with Center Directors General and Board Chairs of the PwC Phase 2 Report. The Consortium CEO suggested that a joint view of the Consortium and Fund Council be prepared, perhaps by the GRRC. The CEO also noted that the Consortium would be happy to share their comments to the recommendations, including what is in progress and acceptable, and what is not.
- ii. The CEO also noted that PwC very likely understood well CGIAR's dual structure, but nonetheless PwC believes that a one-board structure would be more efficient and effective.
- iii. The CEO reminded the FC that both the phase 1 and phase 2 governance reviews suggested that the Consortium's resources were too limited and recommended increased capacity. He noted that the Centers support three of the four recommendations (from phase 2) for additional capacity and suggested that the FC at some point may want to explore the issues and rationale behind these recommendations.
- iv. With regard to the recommendation on branding, the CEO noted that the Centers are often looking to profile themselves as Centers, while the Consortium is trying to represent the CGIAR. Donors and Fund Council members can help by making their expectations clear, when inviting a Center to an event, if they would like the Center to represent the CGIAR.

### ***Conclusions and decisions***

1. The GRRC consolidates CB and FC positions on PwC Phase II recommendations for input to the MTR.
2. The Fund Council will direct MTR Panel's attention to including the PwC Report as a potential input into the MTR process with the caveat that many FC members consider that any major structural changes would more prudently be considered by the scheduled system wide evaluation due in 2017.
3. FO to circulate the Consortium's progress report on PwC review Phase 1 recommendations to FC
4. FO will discuss ways to improve Fund Council business and communications with a view to setting up soon a new system or platform, such as SharePoint.
5. Recommendation one - improve CGIAR's strategic leadership function - was accepted.
6. Recommendations two and three - develop a system-wide resource mobilization approach and resource mobilization strategy - were accepted.
7. FC Resource Group and the Consortium to develop collaboratively a system-wide resource mobilization approach and a RM strategy.
8. The FC Resource Group to undertake/commission analytical work to better understand behavior as donors and incentives, or disincentives, that donors are giving to the reforms, including an exploration on the role and use of Window 3. The RG is to propose initial recommendations for the Fund Council's consideration at FC11 on how to move forward to build more coherence on RM as an input to the MTR.

9. Recommendation four - refine CGIAR's brand, image and visibility - was accepted. The recommendation raised at least two issues: (i) efforts of CO to establish itself, and (ii) who represents the CGIAR, highlighting the need to define roles and responsibilities and lay out clear expectations.
10. Consortium and Fund Council to collaborate to develop a process for branding and co-branding, visibility of CGIAR, and representation at meetings and events, being mindful of individual brands (i.e., Centers) and need to enhance CGIAR's brand visibility.
11. Recommendation five – enhance risk management/conflict of interest policy – was accepted.
12. FO to prepare a system wide conflict of interest policy for FC's review at FC11.
13. FO to provide opinion and advice to FC on whether or not FC should take on a bigger risk management review at this time or develop a risk management policy.