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Update on IITA

Submitted by:
Consortium Office

IITA – Monitoring Report Nr 3

Introduction

Gerard O'Donoghue and Bruce Fraser from the Consortium Office visited IITA from 9 – 15 March 2013 to conduct a monitoring review. This report presents their findings. The visit was timed to take place after IITA had closed its 2012 financial year and the draft audited 2012 Financial Statements would be available.

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 and Fund Council 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.

IITA have incorporated the actual figures for 2012 into the FRAP as an update of the forecasts previously delivered. These are contained in Appendix 1 & 2. This monitoring report is set out in sections as follows:

1. Review of 2012 Results and draft financial statements.
2. Review of 2013 Program of Work and Budget
3. Review of updated 2012-2018 Financial Recovery Action Plan
4. Update on any possible recovery of failed investment
5. EC-commissioned investigation/audit re the investment loss.
6. Update on Governance, BOT and IITA policies
7. Meetings and Due Diligence
8. Conclusions

Appendix: Revised FRAP (prepared by IITA)

1 - Review of 2012 Results and draft financial statements.

The 2012 financial results are set out in table 1. In summary IITA had total revenue of $67 million, expenditures of $64.5 million resulting in an operating surplus of $2.5 million. The operating surplus was $1.6 million more than the planned $0.9 million as set out in the September 2012 FRAP. This was primarily due to improved recoveries of internal services and indirect costs. Revenues of $67 million were 38% higher than 2011 and demonstrate strong continuing donor support for IITA.

Table 1 – 2012 Financial Result (USD 000's)

	2011 Actual	2012 Actual
Revenue		
Unrestricted Grants	13,774	4,738
Windows 1/2		14,032
Window 3		13,015
Bilateral	43,082	34,234
Other Revenue	571	984
Total Revenue	**47,427**	**67,003**
Operating Expenses	**46,710**	**64,471**
Surplus	**717**	**2,532**

The primary objective of the FRAP is to restore IITA's financial reserves, and the 2012 result shows good progress in that direction. The increase in reserves was, as noted above, $1.6 million better than the forecast amounts in the FRAP so that serves as a good indicator that overall the FRAP targets are achievable by IITA.

2 - 2013 Program of Work and Budget (POWB)

The detailed POWB for 2013 is built on the eight CRPs in which IITA is a participant and the CRP for Humid Tropics where IITA is the leader. Amounts for Window 1 and 2 funding are in accordance with the overall Consortium Financing Plan for 2013, and amounts for restricted grants (Window 3 and Bilateral) are largely based on confirmed agreements with donors. Total budgeted revenue in 2013 is $71.8m, which represents an increase of about 7% compared with 2012 revenue of $67.0m. We have reviewed the underlying assumptions and documentation to the 2013 POWB and consider that it is both reasonable and achievable.

3 - Consortium commentary on the FRAP

IITA have prepared a revised FRAP which takes into account the actual results for 2012, and this FRAP is attached as an Appendix.

The first component of the FRAP are the operating results, and the figures for Phase 1 are set out below (USD millions):

Table 2 –FRAP Revenue Forecast Phase 1 (USD millions)

	2012 **Actual**	**2013** **Budget**	**2014** **Forecast**
Revenue			
Unrestricted Grants	4.8	0.5	0.6
Windows 1/2	14.0	18.7	18.0
Restricted Grants (W3 and Bilateral)	47.2	51.5	52.0
Other Revenue	1.0	1.1	0.5
Total Revenue	**67.0**	**71.8**	**71.1**
Operating Expenses	**64.5**	**70.3**	**70.0**
Surplus	**2.5**	**1.5**	**1.1**

The Consortium confirms the figures in the above table are realistic and achievable - amounts shown for 2012 are in agreement with the audited financial statements, and amounts for 2013 are in line with IITA's 2013 Program of Work and Budget. Figures for 2014 and Phase 2 (2015 – 2018) show cautious growth, and are unchanged from the previous FRAP. In addition to the forecasted surplus IITA also plan to use restricted donations for capital investments rather than the annual depreciation charge. In this way the annual depreciation charge will also flow to and increase the available level of reserves.

Table 3 – Financial Recovery Action Plan – Reserves Forecast, Phase 1

Description	**Reserves invested in Property/Equipment**	**Available Reserves**
Balances 31/12/2011, as per FS	**10.2**	**19.6**
Less Failed Investment		-14.8
Net Capital Investment 2012	2.0	-2.0
Surplus 2012		2.5
Actual Balance 31/12/2012	**12.2**	**5.3**
Net Capital Investment 2013	-1.8	1.8
Surplus 2013		1.5
Forecast Balance 31/12/2013	**10.4**	**8.6**
Net Capital Investment	-1.8	1.8
Surplus 2013		1.1
Forecast Balance 31/12/2014	**8.6**	**11.4**

Explanatory note – for CGIAR Financial Indicators "Available 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 centre at a certain point in time, 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". In any year when depreciation expense exceeds capital acquisitions, then "net capital investment" is a negative amount, and available reserves are increased accordingly.*

It is clear from Table 3 that the growth in Available Reserves stems not only from operating surpluses but also from not using the annual depreciation charge to reinvest in capital. IITA have adopted a short term financial strategy of minimal capital expenditure from unrestricted funds, and to a large extent have been able to ensure that much needed capital expenditure is funded by restricted grants. In Phase 2, capital expenditure is resumed from unrestricted funds.

If the Phase 1 forecasts set out in Tables 2 and 3 are achieved, IITA will not only have demonstrated their viability, but also have made big progress in restoring their level of reserves. The first major milestone has now been passed, with verification of Year 1 of the FRAP with the audited 2012 results.

4 - Update on any possible recovery of failed investment

This was discussed with the IITA Director General. The center received a proposal from a US based legal firm to assist IITA with the recovery of the failed investment. However, management and the Board are of the opinion that the level of fees (circa $1 million) far exceeds any realistic possibility of recovery. The center remains in contact with the FBI who are pursuing criminal charges, and there is a possibility of some award from that. However, overall there are low expectations of any recoveries.

5– EC-commissioned investigation/audit re the investment loss.

The European Commission had appointed the Brussels office of PriceWaterhouseCoopers to perform an investigation of the investment loss at IITA. Ms Kristien Delmotte visited the Consortium Offices in Montpellier on 16/17 January and was given full cooperation. Along with a staff member from the Lagos PWC office, she also visited IITA Ibadan from 4 to 15 February, and again was given full cooperation.

At the time of writing, we understand the findings of this audit have been presented to the EC, and we assume will later also be available to the Fund Council and the Consortium Board.

6 - Update on Governance, BOT and IITA policies

a. - The senior management team is now complete with 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. This will remain in place, but from January 2013 IITA will join the CGIAR system-wide Internal Audit Unit (IAU). The IAU will carry out some independent audits and also exercise a quality-control function.

c - IITA Board has decided to engage a different external auditor for 2013 and beyond. The selection process appeared to be thorough, and 6 candidate firms with international partnerships were considered. At the time of the visit by CO staff, the final decision had yet to be made between the best 2 candidates, both of whom satisfied all criteria.

d – IITA has used Oracle for its financial systems since the 1990's – IT staff have build up considerable competence, but for several years now they have considered that a support contract with Oracle was not necessary. The down side of that decision is that IITA's system does not receive Oracle "patches" or benefit from free software for any upgrades. IITA must very soon make some decisions regarding an Oracle upgrade. Consideration should be given regarding joining the OCS initiative.

e - It had been noted in the previous report that IITA has plans to introduce a time recording system. Our comment was "We regard that as excellent news, as it is an important step both for improved accountability and towards much better costing of research activities and planning and management of work". Our support for this approach remains, but for now IITA advise they do not have the systems or Human Resources to introduce this. Nevertheless, it should remain an objective in the near-term, and should be a key factor when considering OCS.

7 – Meetings and Due Diligence:

<u>Meetings</u>

- Director General (Nteranya Sanginga)
- Director of Corporate Services and Deputy Director General (Kwame Akuffo-Akoto)
- Finance Director (Sholola Shalewa)
- Internal Auditor (Rasheed Fagbenro)
- External Auditors [retiring] - Partner (Ms. Yemi Odutola) and the Senior Manager (Mr. Ugochukwu Okwechime).
- IT Director (Jim Scott)
- Leader CRP for Tropical Systems (Kwesi Atta-Krah)
- Chair, BOT Audit Committee [by telephone] (Tom Medleycott)
- Senior IITA finance staff.

<u>Reviews</u>

- Tour of IITA Ibadan facilities, inc Genebank
- Review of banks and investments
- Review of Fixed Assets (Infrastructure)
- Review of accounting system, inc cost allocation methodologies
- Review of Risk Management Policies and Process and Framework
- Review of process for selecting new external auditor
- Review of Internal Audit reports
- Review of External Audit management letters

8 - Conclusion

In line with the previous reports, we continue to be of the opinion that IITA has adopted good strategies for restoration of its financial health, and also made good progress towards restoration of its reputation in the donor community.

Phase 1 of the FRAP is for the three years 2012-2014, and IITA are on target to meet the goals set out in the phase 1 FRAP. 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 annual Program of Work and Budget is realistic, and should be achieved. 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. Phase 2 (2015 – 2018) forecasts are based on cautious growth, and also appear realistic.

The next monitoring visit is planned for October 2013 by which time there should be a clear indication of the 2013 financial results. We consider that unless there are exceptional circumstances, the FRAP should be updated only on an annual basis, so the next update would take place around March 2014.

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. I will of course be pleased to clarify any aspects of this report if needed.

With best wishes,

Frank R Rijsberman PhD

CEO

CGIAR Consortium

IITA - Financial Recovery Action Plan (FRAP)

Commentary by IITA – 15 March 2013

Following the failed investment of $14.8m, IITA Board and management submitted to the Fund Council through the Consortium Office a Financial Recovery Action Plan. The objective of the FRAP was to show how IITA will build up its financial reserves to an acceptable level by 2018. The FRAP is here updated to take into account the actual results for 2012 Financial Year to replace the forecasts used in the previous version.

The first year of the plan (2012) is now completed. The 2012 results posted a net operating surplus of $2.53m and this result well exceeded the FRAP expectation of $0.9m. The failed investment has been written off in full in the 2012 Financial Statements, and is reported as an Exceptional Item. The net effect of this outcome is that the total available reserves, after taking into account capital expenditure during the year, stand at $5.3m at the end of 2012 compared with the plan level of $4.4m.

The prognosis for 2013 is also very good. The senior management team is now fully in place. The plan figures are in line with the approved operating budget and the execution is currently going on as normal. We believe all the forecast revenues will come through and expenditure levels will hold, so that the plan will be fully achieved for this current year.

The long term outlook is good, and we have full confidence that the estimates in the plan will continue to be realized in future years, so that the desired level of reserves will be achieved by 2018. IITA has just finalized its strategy for 2012-2018. This has been received well in the donor community and gradually confidence in the ability of IITA to deliver its research outputs is being restored. This is evidenced by the strong project pipeline we have generated.

SUMMARY OF FRAP

The table below summarizes the projected results for the next six years:

			Phase 1				Phase 2			
	2012		**2012**	**2013**	**2014**		**2015**	**2016**	**2017**	**2018**
	Plan		**Actual**							
Revenue	74.3		67.0	71.8	71.1		73.1	75.1	77.1	79.1
Operating Expenses	(73.4)		(64.5)	(70.3)	(70.0)		(72.0)	(74.0)	(76.0)	(78.0)
Surplus	0.9		2.5	1.5	1.1		1.1	1.1	1.1	1.1
Reserves										
Invested in Fixed Assets	11.5		12.2	10.5	8.7		8.7	8.7	8.7	8.7
Available	4.4		5.3	8.6	11.4		12.5	13.6	14.7	15.8
Adequacy (Number of day	22.7		30.8	45.6	61.0		65.0	68.7	72.3	75.7

FRAP – in Detail

	Notes	Phase 1			Phase 2			
		2012 Actual	2013 Budget	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Revenue								
Unrestricted Grants	1	4.7	0.5	0.6	0.4	0.4	0.4	0.4
Windows 1/2	2	14.0	18.7	18.0	20.0	22.0	24.0	26.0
W3 & Bilateral Grants	3	45.9	50.9	52.0	52.0	52.0	52.0	52.0
Challenge Programs	4	1.4	0.6	-				
Philanthropy	5		0.1	0.1	0.3	0.3	0.3	0.3
Other Revenue	6	1.0	1.0	0.4	0.4	0.4	0.4	0.4
Total		**67.0**	**71.8**	**71.1**	**73.1**	**75.1**	**77.1**	**79.1**
Operating Expenses	7	(64.5)	(70.3)	(70.0)	(72.0)	(74.0)	(76.0)	(78.0)
Surplus		**2.5**	**1.5**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Reserves								
Invested in Property/Equipment		12.2	10.5	8.7	8.7	8.7	8.7	8.7
Available Reserves - details below		5.3	8.6	11.4	12.5	13.6	14.7	15.8
Total		**17.5**	**19.0**	**20.1**	**21.2**	**22.3**	**23.4**	**24.5**
Adequacy of Reserves (number of days)		**30.8**	**45.6**	**61.0**	**65.0**	**68.7**	**72.3**	**75.7**
Invested in Property/Equipment:								
Opening Balance		10.2	12.2	10.5	8.7	8.7	8.7	8.7
Add: Additions	8	3.5			1.8	1.8	1.8	1.8
Less: Depreciation		(1.4)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Closing Balance		12.2	10.5	8.7	8.7	8.7	8.7	8.7
Details of Available Reserves:								
(A) Operating Reserve								
Opening Balance		1.1	3.6	5.1	6.2	7.3	8.4	9.5
Plus: Forecast Surplus		2.5	1.5	1.1	1.1	1.1	1.1	1.1
Closing Balance		3.6	5.1	6.2	7.3	8.4	9.5	10.6
(B) Capital Reserve								
Opening Balance		2.2	0.2	1.9	3.7	3.7	3.7	3.7
Less: Additions		(3.5)			(1.8)	(1.8)	(1.8)	(1.8)
Add: Depreciation		1.4	1.8	1.8	1.8	1.8	1.8	1.8
		0.2	1.9	3.7	3.7	3.7	3.7	3.7
(C) Institutional Stability Reserve								
Opening Balance		1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total Available Reserves		**5.3**	**8.6**	**11.4**	**12.5**	**13.6**	**14.7**	**15.8**

Notes

2012 and 2013: Nigeria - $667K and GTZ - $330K	6	Includes revenue from hotel and catering, disposal of assets, seeds sales, etc.
Based on signed CRP Agreements	7	All operating expenses are in this line.
Based on signed AgreementS with Donors	8	In 2012, Investments included $3m spent on Science Building in Tanzania
Based on signed Project Agreement		2013 and 2014, no investments in Fixed Assets from Core funds
Conservative estimates of fund raising activities.		2015 onwards, investments in Fixed Assets equate to annual depreciation.