

**IMMEDIATE  
ATTENTION**

EBAP/09/111

July 14, 2009

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: **Selection of an External Audit Firm**

Attached is a report to the Executive Board on the recommendation of the Audit Selection Committee concerning the selection of an external audit firm in accordance with Section 20(c) of the Fund's By-Laws.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Tuesday, July 21, 2009**. In the absence of such a request, the proposed decision, which appears on page 3, will be deemed approved by the Executive Board and it will be so recorded in the minutes of the meeting thereafter.

This document will shortly be posted on the extranet, a secure website for the Executive Directors and member country authorities.

Att: (1)

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Department Heads



# INTERNATIONAL MONETARY FUND

## **Selection of an External Audit Firm**

Prepared by the Finance and Legal Departments  
(In consultation with the Secretary's Department, and  
The Office of Internal Audit and Inspection)

Approved by Thomas Krueger and Sean Hagan

July 13, 2009

1. The Fund's five-year contract with the external audit firm, Deloitte and Touche (D&T), expires on October 31, 2009 after the completion of the FY 2009 audit. An ad hoc Audit Selection Committee (ASC)<sup>1</sup> was constituted to identify an external audit firm for the next five-year period, beginning with FY 2010. Under the Fund's By-Laws, the Executive Board, in consultation with the External Audit Committee (EAC), selects the audit firm, and the Managing Director is responsible for appointing the audit firm. The ASC met on June 2, 2009 to initiate discussions on identifying an audit firm and, without prejudging the outcome of its deliberations regarding audit firm selection, recommended that certain elements of the 2004 decision governing audit firm selection be amended. This paper sets out the proposed amendments to that decision for Board approval. Assuming that the Board approves the proposed amendments, the ASC would take up the matter of audit firm selection, in the context of the Fund's procurement guidelines, and would revert to the Board with a recommendation for selection of the audit firm.

2. The 2004 decision on audit firm selection requires that the audit contract be subject to bid every 5 years and specifies that there shall be mandatory rotation of the audit firm every 10 years.<sup>2</sup> D&T, the Fund's current auditor, has served for 5 years and would be eligible to be appointed for a second 5-year contract after a bidding process. The ASC, taking into account informal consultations with the EAC,<sup>3</sup> saw merit in allowing for the possibility of the Board appointing an audit firm for a second contract for a period that is shorter than 5 years. The ASC also saw merit in providing for the possibility of renewal of the contract without a bidding process but subject to the Fund's

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<sup>1</sup> The ad hoc ASC comprises Mr. Gibbs, Mr. Horgan, Mr. Itam, Mr. Kishore, Ms. Lundsager, Mr. Mojarrad, and Mr. Bakker as Chair (EBAP/09/61, 4/8/09).

<sup>2</sup> Decision No. 13323-(04/78), adopted August 5, 2004.

<sup>3</sup> UNDOC/09/10, 5/20/09 and *Supplement 1*, 5/28/09.

procurement guidelines.<sup>4</sup> These guidelines specify that purchases of services over US\$25,000 should generally be subject to competitive procurement and recommend rebidding of supplier contracts every 3–5 years but recognize that, under certain circumstances, Fund objectives may be met most effectively through a noncompetitive purchase provided that specific exception criteria are met.<sup>5</sup>

3. In this light, it is proposed that the 2004 decision be amended:<sup>6</sup>

- to allow for a second contract for a shorter period than 5 years.
- to eliminate the specific clause on bid requirement, which would instead be guided by the Fund’s general policy on procurement of services.

4. The 2004 decision also stipulates the mandatory rotation of both the engagement partner and the audit manager after 5 years at the time of the new contract. The ASC saw merit in amending the decision so as to provide that both rotations (i.e., of both the engagement partner and the manager) would not occur at the same time. Their terms of service should be staggered so as to ensure an element of continuity of institutional knowledge at the more senior level on the audit team.

5. The ASC, based on advice from the EAC, has assured itself that the Fund’s procedures following adoption of the proposed amended decision would be in line with best practice. Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

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<sup>4</sup> <http://www-int.imf.org/depts/tgs/asg/procure/new/ProcManual.asp>

<sup>5</sup> For example, where only one supplier is able to meet the specific requirement or the Fund has highly specific requirements, or where the pricing by a provider is considered fair and competitive—as demonstrated by significant discounts or comparisons with recent prices paid for similar services. Such exceptions must be approved by the Chief of the Procurement Division and maybe declined if a competitive re-bid is overdue and there is a pressing need to ensure transparency and fairness.

<sup>6</sup> Attachment I.

**PROPOSED DECISION**

Decision No. 13323-(04/78), adopted August 5, 2004, regarding the mandatory rotation of the external audit firm and the limits on the provision of audit-related and non-audit-related services shall be amended as follows:

1. Paragraph 1 shall be amended to read as follows:

"1. The contract to conduct the annual external audit of the financial statements of the Fund required under Article XII, Section 7(a) of the Fund's Articles of Agreement and Section 20 of the Fund's By-Laws shall be for a 5-year term and may be renewed for up to an additional five years."

2. Paragraph 2 shall be amended to read as follows:

2. The Fund's external audit firm shall be rotated at least every 10 years. In cases where the Fund's external audit firm is awarded a second contract after the first 5-year period, the new contract will require that the audit firm shall, if and in the manner directed by the Fund, rotate the engagement partner and the audit manager.

**Attachment I. Decision No. 13323-(04/78)**

1. The contract to conduct the annual external audit of the financial statements of the Fund required under Article XII, Section 7(a) of the Fund's Articles of Agreement and Section 20 of the Fund's By-Laws shall be for a 5-year term and may be renewed for up to subject to bids every an additional five years.
2. ~~There shall be a mandatory rotation of the~~ Fund's external audit firm shall be rotated at least every 10 years. In cases where the Fund's external audit firm is awarded a second ~~consecutive 5-year~~ contract after the first 5-year period, the new contract will require that the audit firm shall, if and in the manner directed by the Fund, rotate the engagement partner and the audit manager.
3. The Fund's external audit firm shall not be eligible to bid for, and shall not be awarded, the provision of non-audit-related consulting services to the Fund. The provision of audit-related consulting services to the Fund by the Fund's external audit firm shall be subject to the prior approval of the Executive Board after consultation with the External Audit Committee (EAC), provided that, under no circumstances, shall the remuneration of the Fund's external audit firm for such services exceed 33 percent of the value of the five-year contract for conducting the annual audit of the financial statements of the Fund.
4. This decision shall not preclude the Fund's external audit firm from submitting in accordance with this decision and completing any other existing contracts with the Fund.

Decision No. 13323—(04/78) adopted

August 5, 2004