

**EAC COMMENT ON THE REPORT OF APRIL 9, 2008 BY THE INDEPENDENT  
EVALUATION OFFICE TITLED ASPECTS OF IMF CORPORATE  
GOVERNANCE—INCLUDING THE ROLE OF THE EXECUTIVE BOARD**

1. The EAC has read the above IEO report on IMF corporate governance and the background paper on financial oversight (BP/08/06) included amongst the accompanying papers. The EAC supports the main thrust of the report which recommends there be more clarity in the role of the Executive Board and the suggestion that more emphasis be put on the supervision and oversight of the functions of the Fund.

2. The report (paragraphs 77 and 78) also refers to the EAC and suggests that it does not continue in its present form. It suggests that the Executive Board form an audit committee of the Board in the more normal model (with the ability to include outside experts if necessary to get the level of knowledge appropriate for the role if they do not have it within their ranks). The separate background paper develops that theme at some length. While the EAC thinks there is a degree of negative bias put on the current arrangements and some inaccuracies in the description of how the EAC currently operates, the position recommended of an audit committee primarily of Executive Directors (provided the role of the Executive Board is changed to a supervisory and oversight role) is a reasonable conclusion.

3. The EAC recognises that the role of the Executive Board and the composition of an audit committee is an issue of governance for the Fund to reflect on and determine. However, from the relatively limited viewpoint of the EAC there does appear to be a significant degree of ambiguity in the role of the Executive Board. In the view of the EAC that is unhelpful and some clarification would be of assistance. In terms of the function of an audit committee, the key issue is that the Fund has access to the level of risk management, internal and external audit and financial reporting expertise currently represented on the EAC. Having financial reporting and related expertise on the audit committee is very important in terms of proper governance of an organisation like the Fund and should be the primary consideration in appointments to an audit committee regardless of how it is constituted.

4. If the Fund was contemplating moving to a situation where the audit committee was appointed

from within the Executive Board the current EAC would welcome the opportunity of having proposed Executive Board audit committee members working with the EAC in the interim while the formal structures were being changed. This would be a useful means of assisting the proposed appointees with an understanding of the role.

5. On a further related matter, the recent changes in senior staff at the Fund and the Institute of Internal Auditors (IIA) Quality Assessment of International Monetary Fund Internal Audit Activity has given rise to a further matter which the EAC wishes to draw to the attention of the Fund. The EAC agreed with the recommendation of the IIA that the EAC should be consulted on the appropriateness of the qualifications and experience of proposed appointees to the position of Director of OIA. Not seeking the views of the EAC in terms of the qualifications and experience needed to fulfil senior audit and finance roles is failing to make full use of the contribution the EAC could make. The EAC is disappointed that it was not consulted on the recent appointment to this position on the retirement of Mr. Keuppens.

6. It would also be part of a typical audit committee role for it to be consulted on the appointment of the chief financial officer of the entity. The retirement of Mr. Kuhn, Director of the Finance Department, is also a circumstance where the EAC could reasonably be expected to be consulted on the appropriateness of the qualifications and experience of a proposed appointee to the role.

7. The issue of consultation on appointments to the roles of Directors of Internal Audit and Finance are matters that the EAC anticipates will be included in its June 2008 report and will consider recommending a change to its Terms of Reference to explicitly address this aspect of its role.

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