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Investing in rural people

Report of the Audit Committee on IFAD's 2015 results-based programme of work and regular and capital budgets, and the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2015 and indicative plan for 2016-2017

Note to Executive Board representatives

Focal points:

Technical questions:

Ruth Farrant
Director and Controller
Controller's and Financial Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Allegra Saitto
Manager a.i.
Accounting and Financial Reporting
Tel.: +39 06 5459 2405
e-mail: a.saitto@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

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For: Review

Report of the Audit Committee on IFAD's 2015 results-based programme of work and regular and capital budgets, and the Independent Office for Evaluation of IFAD's results-based work programme and budget for 2015 and indicative plan for 2016-2017

1. Management presented the 2015 budget document drawing the Committee's attention to the fact that all comments made by the Audit Committee and Executive Board during their respective reviews of the high-level preview document in September 2014, and the clarifications sought, had been taken into consideration in preparing the final budget proposal.
2. Management informed the Committee of its efforts in keeping the nominal budget increase to a minimum. It was clarified that inflationary increases have been contained at zero for the past two years. For 2015, it had been possible to limit this increase to below the average inflation level on specific line items, but it was unlikely that similar absorptions could be achieved in the coming years.
3. Management pointed out that the weighted average rate of inflation assumption used was 1.9 per cent which was less than the 2.1 per cent rate used in the preview document. Furthermore, Management noted that the salary assumption in the 2015 budget was for a zero increase in salaries for all staff, except for those General Service staff on the new lower salary scale that had come into effect in January 2013. The Committee was also informed that the EUR:US\$ exchange rate assumption had been changed based upon the average year-to-date exchange rate and that subsequent trends showed a further weakening of the euro.
4. The following key areas within the 2015 budget document were highlighted:
 - (a) The final 2015 net budget proposal had been revised downwards from US\$152.25 million to US\$151.59 million;
 - (b) The proposed capital expenditure budget for 2015 was US\$2.69 million compared to US\$4 million estimated at the time of the preview document. The budget included US\$1.2 million of unavoidable IT-related annual capital budget and US\$990,000 for enhancing physical security and for extraordinary maintenance of the headquarters building facilities. As a result, the Fund had limited new IT initiatives to US\$600,000 in order to prioritize replacement of the Loans and Grants System and IT projects related to the corporate-level evaluation of IFAD's institutional efficiency and the efficiency of IFAD-funded operations, approved in previous years.
5. The Independent Office of Evaluation of IFAD (IOE) presented the final version of its work programme and budget, which incorporated input provided by the Evaluation Committee in June and October and by the Audit Committee and the Executive Board at their sessions in September 2014. IOE noted that the work programme had been formulated taking into account in-house consultations with IFAD Management and suggestions from the Fund's governing bodies. The proposed evaluation activities had been prioritized using a detailed selectivity framework, which was presented in annex VIII of the document.
6. IOE highlighted the following areas of evaluation in the 2015 work programme:
 - (a) Completion of the corporate-level evaluation on fragile states;
 - (b) Initiation of the corporate-level evaluation on the performance-based allocation system;

- (c) A number of country programme evaluations, which provided the building blocks for the preparation of new country strategic opportunities programmes;
 - (d) Several project evaluations, in the form of project completion report validations and project performance assessments; and
 - (e) Completion of the second impact evaluation in India and initiation of a further impact evaluation in a country to be determined according to the selectivity framework.
7. IOE's 2015 budget was proposed at US\$6.07 million, which represented a 1.45 per cent nominal increase (real increase 0.9 percent) compared to the 2014 allocation. It was underlined that this would be the first increase in IOE's budget in six years and that the IOE budget proposal was 0.53 per cent of the proposed programme of loans and grants and therefore within the 0.9 per cent benchmark adopted by the Executive Board.
8. The Chairperson thanked IFAD Management and IOE for their presentations. Overall, the Committee broadly supported the reduction in the 2015 budget with respect to the preview document, with clarifications being sought on the following items in the IFAD 2015 budget proposal:
- (a) The reduction in additional resources and cofinancing from US\$1.69 billion to US\$1.45 billion;
 - (b) The reasons for the reduction in the budget increase in the final budget compared to the preview document of US\$0.66 million;
 - (c) Whether the reduction in the capital budget – accounting for more than double the US\$0.66 million reduction in net budget proposal as compared to the preview document – was sustainable, i.e. whether this reduction signified postponement of capital outlay or a cancellation of projects;
 - (d) The extent to which the revised inflation rate and exchange rate were common to all the Rome-based agencies;
 - (e) The plan for capturing and reporting on efficiency savings;
 - (f) The methodology used to determine the rate of inflation and exchange rates;
 - (g) Clarification on how much of the Strategy and Knowledge Department's budget was allocated to knowledge management and whether further increases in the staffing of the Financial Operations Department would be necessary as IFAD moved towards borrowing.
9. Management took all comments on board and responded to the queries raised, providing the necessary details and explanations. Noting the need to introduce an agreed consistent criteria to guide the choice of inflation and exchange rates for the administrative budget, the Chairperson asked Management to develop a methodology to determine price inflation factors and exchange rate assumptions to be used starting from the next budget cycle. Management agreed to this request.
10. IFAD's 2015 results-based programme of work and regular and capital budgets, and IOE's results-based work programme and budget for 2015 and indicative plan for 2016-2017 were considered reviewed by the Committee for submission to the 113th session of the Executive Board for approval.