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Investing in rural people

Report of the Chairperson on the 144th meeting of the Audit Committee

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Executive Board — 121st Session
Rome, 13-14 September 2017

For: Review

Report of the Chairperson on the 144th meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 144th meeting of the Committee held on 13 July 2017.
Adoption of the agenda
2. The agenda was adopted, with the inclusion of a sub-item related to IFAD's Enterprise Risk Management System under other business.
Minutes of the 143rd meeting of the Audit Committee
3. The minutes of the 143rd meeting and of the closed session held during the meeting were approved without comments.
External auditor's report on internal control and accounting procedures
4. The external auditors, Deloitte & Touche S.p.A., presented the report on internal control and accounting procedures, noting that the recommendations included had arisen during the course of the audit for the year ended 31 December 2016. None of the recommendations had given rise to a qualification of either their audit opinion on the consolidated financial statements or Management's assertion report regarding the effectiveness of internal controls over financial reporting.
5. It was noted that all of the prior year's recommendations had been fully implemented and that Management had already undertaken proactive measures to implement new recommendations issued during the 2016 audit exercise.
6. The document was considered reviewed.
External Auditor's audit strategy memorandum for the year ending 31 December 2017
7. In presenting the strategy memorandum, the audit engagement partner informed the Committee that, in line with the prior year's recommendation, four key audit risks had been identified for the audit of the 2017 accounts: fair value calculation on loans in consistency with the International Financial Reporting Standards (IFRS); accuracy of foreign currency translation calculation; revenue recognition as required under the International Standards on Auditing; and Management override of internal controls. Such key risks focus on Management's judgement or estimation as an audit risk in itself and appropriate consideration is required under the International Standards on Auditing for all audits. Moreover, the external auditors noted that during the audit exercise some preparatory work would be undertaken for the implementation of the new accounting standard (IFRS 9) in 2018.
8. Clarification was requested and obtained from Deloitte about IFRS 9 implementation planned controls. Management also provided clarifications on the activities surrounding estimates. The Chair noted that the Audit Committee would have to be kept updated on the process of the estimation of expected credit losses with the new methodology, and Management gave assurance in this respect. Management will present an oral update on the progress made towards the implementation of IFRS 9 at the forthcoming September meeting.
9. The document was considered reviewed.
Update on IFAD borrowing from financial markets
10. Management provided an oral update on the steps taken to explore borrowing from financial markets. These included presentation of the planned strategy and some operational activities.
11. It was highlighted that the IFAD borrowing strategy, which would include access to capital markets, would strengthen the linkage between contributions and the programme of loans and grants, while maintaining prudent leveraging ratios.

12. From an operational point of view, it was highlighted that some steps had been successfully completed, such as the re-engineering of IFAD's financial model. Management was working on other critical factors affecting IFAD's rating such as compensation related to the Debt Sustainability Framework (DSF), the possibility of entering into derivative contracts through International Swaps and Derivatives Association (ISDA) master agreements, and ensuring further capacity-building of the Accounting and Controller's Division, Information and Communications Technology Division, and Treasury Services Division.
13. The Committee was also informed that IFAD had been in contact with the Secretariat of the Basel Committee on Banking Supervision at the Bank for International Settlements. This was the body responsible for assigning the capital risk weights on the debt issued by international financial institutions (IFIs) globally.
14. Management provided feedback on the cost of the rating exercise confirming, at the request of the Committee, that stress test scenarios could be run in the new financial model.
15. The Chair confirmed that the Audit Committee had an important role in shaping the discussion of the proposed Concessional Partner Loan (CPL) framework. Management and Committee members agreed to hold a special Audit Committee meeting on Concessional Partner Loans on 6 September with the aim of clarifying items not fully addressed during the technical seminar held on 11 July. The full document on the proposed CPL framework would be shared with the Committee for that meeting. The Board will be updated on the AC discussion of this item in the Chairperson's report on the 145th session.
16. The update was considered noted.
Update on IFAD's Sovereign Borrowing Framework
17. Management provided an oral update on IFAD's Sovereign Borrowing Framework (SBF) noting that Management was preparing a second formal review, which would be presented to the 145th Audit Committee meeting and to the 121st session of the Executive Board in September 2017.
18. It was noted that this second review would be based on lessons learned from the implementation of the SBF to date including the experience gained from the KfW Development Bank facility and the Agence Française de Développement agreement.
19. Preliminary findings confirmed the continuing relevance of the challenges identified in the past in implementing the SBF.
20. It was noted that other forms of borrowing – such as market borrowing or CPLs – might be able to address those challenges more effectively. However, a new borrowing framework would be required to govern such agreements.
21. It was noted that the way forward and related potential changes to the SBF would therefore largely depend on the financial strategy for the period of the Eleventh Replenishment of IFAD's Resources (IFAD11), which was currently being discussed.
22. The second SBF review confirmed the conclusions of the first review and no changes were recommended at this time.
23. The update was considered as noted.
Update on IFAD's new approach to corporate planning and budgeting to enhance the focus on results
24. Management presented an update on IFAD's new approach to corporate planning and budgeting with an enhanced focus on results.
25. It was noted that the new approach was aligned with other corporate initiatives across IFAD directed at refocusing on results, without altering the planning

architecture based on the medium-term plan, divisional management plans and staff performance plans.

26. It was highlighted that development of the methodology was an ongoing process and that Management would continue to identify new outputs to match the refined objectives while sharpening the link between objectives, outputs and budget. Rigorous planning elements such as strategic workforce planning would be retained and outputs would be stipulated even earlier in the budget process.
27. The emphasis of the process on both corporate planning and budgeting would ensure that planning at the divisional level was better aligned with resource allocation.
28. The update was considered as noted.

Procedure related to the drafting and finalization of the Chairperson's report to the Executive Board

29. Following the discussion at the 143rd meeting of the Audit Committee, the Office of the Secretary presented two options for the drafting and finalization of the Chairperson's report to the Executive Board.
30. Audit Committee members agreed that the Office of the Secretary should continue to circulate the Chairperson's report for their comments prior to its finalization for the Executive Board. The Committee adopted this arrangement as a formal practice. Additionally, members expressed their preference for the procedure described below.
31. When an Executive Board session was scheduled for a date falling:
 - (i) Eight or more working days after an Audit Committee meeting, members would be asked to provide their comments on the Chairperson's report within two days.
 - (ii) Fewer than eight working days after an Audit Committee meeting, members would be asked to provide their comments on the Chairperson's report within one day.
 - (iii) Fewer than five days after an Audit Committee meeting, the decision on whether to circulate the report would be taken by the Chairperson.

Proposed dates for meetings of the Audit Committee in 2018-2019

32. The Committee was presented with a list of proposed dates for meetings of the Audit Committee in 2018 and 2019. The dates had been identified well in advance to avoid scheduling conflicts given the increasing number of events organized by the Rome-based agencies.
33. The proposed dates were approved by the Committee, with a change to the date of the second meeting in 2018 which would now be held on 26 June.

Standard financial reports presented to the Executive Board

34. Management presented the report on IFAD's investment portfolio for the first quarter of 2017 for Audit Committee review.
35. The Director and Treasurer, Treasury Services Division (TRE) introduced the document, highlighting that the portfolio's good performance in 2016 was continuing in 2017. The net rate of return for the first semester of 2017 was estimated at 1.36 per cent.
36. It was also noted that as a cost-efficiency measure, half of the portfolio was now managed internally.
37. In response to questions from members, Management provided clarification about the changes in asset allocation including increasing investments in floating notes

and high-quality securities. This was also being done in preparation for the rating exercise and in line with best practices of other IFIs.

38. The reports were deemed reviewed.

Other business

39. Three sub-items were considered by the Committee under other business.
- (a) Review of internal audit reports
40. The Audit Committee held a closed session with the Office of Audit and Oversight to review a number of internal audit reports.
- (b) Preliminary discussion of access to Audit Committee documents
41. SEC gave a detailed presentation on current procedures for accessing Audit Committee documents. It was noted that many documents presented to the Audit Committee were also presented to the Executive Board for subsequent review and/or approval. Additionally, it was stressed that all Audit Committee documents apart from internal audit reports were accessible to Board representatives.
42. It was noted that the Audit Committee acted as a subsidiary body of the Executive Board; therefore it would be relevant to seek the Board's views on what it actually expects in terms of access and subsequent actions, taking into account the need to appropriately consider the issues of privacy, confidentiality, sensitivity and security.
43. Management confirmed that it would prepare a document clarifying procedures and risks.
- (c) IFAD's Enterprise Risk Management
44. The Chairperson provided information on his discussion with Management about IFAD's Enterprise Risk Management (ERM). The discussion focused on the options available to improve the information to the Board about ERM, given the anticipated growing complexity of IFAD's operating model, particularly in the financial area and in that of its presence abroad. Management clearly indicated that it was ready to support the Committee on this topic, and was considering proposing a risk dashboard to the Board. A presentation on ERM would be given at the Audit Committee meeting in September.
45. No further agenda items were discussed under other business.