

Document: EB 2018/123/R.18
Agenda: 6(a)
Date: 29 March 2018
Distribution: Public
Original: English



Report of the Chairperson on the 147th meeting of the Audit Committee

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Executive Board — 123rd Session
Rome, 16-17 April 2018

For: Review

Report of the Chairperson on the 147th meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 147th meeting of the Committee held on 30 January 2018.

Adoption of the agenda

2. The agenda was adopted with the inclusion of an additional item under other business, namely the interaction between the Audit Committee and the Evaluation Committee on the corporate-level evaluation of IFAD's financial architecture.

Minutes of the Audit Committee

3. The Committee reviewed the minutes of the 146th meeting. A member suggested some additions to capture a point raised about figures on gender sensitivity, budgetary implications relating to the mainstreaming of youth, and the inclusion in the transparency action plan of an item on the IFAD complaint mechanism.
4. It was agreed that the minutes would be revised accordingly and submitted to the 148th meeting for final approval.

Executive Board access to internal audit reports

5. The Office of Audit and Oversight (AUO) introduced the agenda item, highlighting that the document proposed a practical procedure for implementing decisions endorsed by the Executive Board in December 2017 on the transparency action plan and, in particular, the decision to provide Executive Board representatives with access to internal audit reports. It was noted that a revised version of the AUO Charter, to be presented to the 123rd session of the Executive Board in April 2018 for confirmation, will reflect this procedure. It was also noted that the proposed procedure would not require changes to the terms of reference of the Audit Committee.
6. Committee members suggested including more detail on the proposed procedure and on the substance of audit results in the Annual Report on the Activities of the Office of Audit and Oversight, to facilitate and support the understanding by Board representatives. AUO concurred with the suggestions.
7. The document was deemed reviewed.

Revision to the Charter of the IFAD Office of Audit and Oversight

8. AUO introduced the agenda item, highlighting that the AUO charter was last revised in 2010. AUO adheres to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors and the charter reflects such standards. AUO noted that the proposed revisions primarily reflected recent changes to the standards, recommendations from the 2018 external quality assessment of the internal audit function currently in progress and the revised procedure for disclosure of audit outputs as described in the previous item. It was clarified that feedback provided at the present meeting would be incorporated into the revisions to the charter, with the intention of finalizing the revised charter by mid-February and presenting it to the Audit Committee in March for review. The charter will become effective once approved by the IFAD President and confirmed by the Executive Board.
9. Committee members requested feedback on the external quality assessment and AUO confirmed that the results of the assessment would be shared with the Committee and captured, to the extent applicable, in the revised charter.
10. The Committee took note of the information provided.

Independent risk assessment – Terms of reference for the independent risk assessment provider

11. Management introduced the agenda item, highlighting that the proposed terms of reference had been drafted in response to Executive Board requests to hire an

external consultancy firm to review IFAD's financial risk management policies. The main purpose of the review was to examine the policies and procedures and to determine whether IFAD has the right institutional and risk management framework in place. It would also ensure that IFAD has the capacity to honour its present and future debt obligations as well as safeguard and protect IFAD's balance sheet from risks arising as a result of an expanded set of borrowing instruments. It was noted that the review would address the following risks and policies: credit risk (the risk that IFAD cannot make its contractual interest and principal repayments if its borrowers are not making their loan repayments); liquidity risk (the risk that due to delayed inflows on loans, a decrease in investment income or quicker than expected disbursements, IFAD is unable to meet its debt obligations); size of borrowing (ensuring that the correct borrowing limits are set and respected, calculated as a percentage of total contributions); financial ratios and leverage (having adequate and market standard financial ratios in place, such as debt/equity, liquidity and other leveraging ratios); and determination of resources available for commitment (ensuring an optimal policy for resources available for commitment in relation to the lending programme). It was also noted that the independent risk assessment would cover the asset liability management framework, which addresses potential mismatches between the terms of IFAD's own borrowings and the loans it makes to Member States.

12. While expressing appreciation for the document, Committee members requested that it be revised to address other important risks, such as those relating to staffing, legal procedures and IT systems, and to provide clarity on the risk terminology.
13. Both Management and Committee members noted that the Fund had undertaken other commitments to review or assess policies and frameworks also but not exclusively from the risk profile perspective. This carried the possibility of some overlapping. It was agreed that in the future these processes should be streamlined.
14. Responding to a comment on risk appetite, Management clarified that risk appetite measures were contained in the Sovereign Borrowing Framework.
15. It was noted that for the time being, there was no specific budget allocation for the independent risk assessment. This issue would be discussed with the Office of Budget and Organizational Development to find the appropriate resources from the corporate budget. Management also agreed that Committee members would be involved in the procurement process to engage the provider.
16. It was agreed that a revised document would be submitted to the Audit Committee in March.

Other business

17. Under other business, Committee members discussed the interaction between the Audit Committee and the Evaluation Committee on the corporate-level evaluation of IFAD's financial architecture.
18. It was noted that this item was scheduled for discussion by the Evaluation Committee at its session on 27 June and by the Audit Committee at its September meeting. Therefore, there would be an opportunity between the two meetings for the Chairpersons of the two Committees to meet to discuss this matter.
19. Under other business, some Committee members enquired about the rating methodology used in internal audits.
20. AUO clarified that the rating methodology would be reviewed by the external assessment and that the Committee would be informed accordingly.
21. No other items were discussed under other business.