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Report of the Chairperson on the 153rd Meeting of the Audit Committee

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Executive Board — 127th Session
Rome, 10-12 September 2019

For: Review

Executive summary

1. The Audit Committee discussed a large number of documents, most of which would be presented for review or approval at the 127th session of the Executive Board.
2. With regard to the following items:

External auditor's report on internal control and accounting procedures
 Committee members noted the additional controls in place in 2018 and the medium-priority recommendation to formalize controls surrounding country office transactions with an internal control framework. This framework has been prepared by Management. It was further recommended to put in place an IT system for borrowing transactions. This will be part of the Treasury, Accounting and Control Management System which is being planned for implementation.

External auditor's audit strategy memorandum for the year ending 31 December 2019

Deloitte will continue to focus on IFAD Country Office (ICO) transactions; the application of International Financial Reporting Standard (IFRS) 9; fair value accounting; and other key audit risks as required for the 2019 year-end audit.

IFAD's risk appetite statement

Committee members provided feedback on the document, which was considered as a zero draft. Members highlighted the need for underlying detailed analytical work as a basis for the appetite statement and the need for a roadmap to ensure appropriate sequencing of all elements of enterprise risk management (ERM).

Internal Control Framework

Committee members welcomed the document and made some suggestions to clarify and support the practical implementation of the Framework and interaction between the lines of defence. Management will provide the Committee with updated documents at the next meeting in September 2019.

Update on investigations and anticorruption activities

The Committee noted the increasing workload of the investigation unit and welcomed the progress made on the implementation of the anticorruption policy and the update on the reforms carried out in the area of project procurement and oversight.

Other business

Noting the heavy workload and complexity of papers to be reviewed by the Committee in the upcoming period, the proposal to obtain non-binding, time-bound outside expert advice to assist the Committee was discussed and agreed by the Committee. Members would be kept informed via e-mail on progress and the item would be discussed at the September meeting.

Report of the Chairperson on the 153rd Meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 153rd meeting of the Committee held on 20 June 2019.
Adoption of the agenda
2. The agenda was adopted with the inclusion of an item proposed by the Chair under Other business: External expert advice to assist the Audit Committee in the discharge of its responsibilities.
Minutes of the 152nd meeting and of the closed session of the 152nd meeting (for approval)
3. The minutes were approved with no changes. The Committee members agreed that efforts should be made to improve the text of the minutes in the future to more clearly reflect positions taken by the Committee.
IFAD's interest rates for the second quarter of 2019 (for review)
4. Management presented the document, highlighting the interest rates applicable to the second quarter of 2019.
5. Committee members requested details about pricing structure and trends, which were provided by Management. Members also requested that more narrative be included to explain the figures and that highly technical information be confined to annexes. Management agreed to so proceed in the next paper.
6. The Committee took note that the document would be presented to the Executive Board for information, and the document was considered reviewed.
Draft provisional agenda of the 154th meeting of the Audit Committee (for review)
7. The Secretary of IFAD introduced the agenda item.
8. Committee members requested some clarifications on suggested items for discussion and review at the next session, and agreed on the agenda items proposed for the forthcoming meeting. The Committee also discussed whether to include the private sector strategy as an additional item, with a view to consider, from a risk appetite perspective, the financial impact of any new products.
9. Management indicated that the strategy was not scheduled for the Committee's review as it is a high-level strategy and action plan at this point, without sufficient granular financial information (such as specific potential financial products) to warrant the Committee's review. It was noted that it is the Committee's prerogative to decide on the inclusion of any additional items during their meetings, and that – should the Committee wish to review the strategy even at this early stage – it could be added to the agenda.
10. A member then made a proposal to include a statement in the strategy clarifying that IFAD would not deploy any new financial instruments to fund the private sector directly until such time as: (i) the proposed instrument had been carefully reviewed (including by the Audit Committee, as appropriate); and (ii) any proposed project involving such an instrument had been fully reviewed and approved by the Executive Board.
11. The Committee took note of the above proposal. The Committee Chair and Management would be in touch to ensure a final decision by members as early as possible in July.

Standard financial reports presented to the Executive Board (for review)

- Report on IFAD's Investment Portfolio for the first quarter 2019.

12. Management presented the above-referenced document, which contained information as at end-March 2019. The document was considered reviewed.

External auditor's report on internal control and accounting procedures (for review)

13. Deloitte & Touche presented the report on internal control and accounting procedures, stating that 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. It was highlighted that although some improvements had occurred during 2018, one recommendation remained open from 2017 – on the need to formalize the controls surrounding ICO transactions in an internal control framework, particularly given IFAD's increased delegation of authority to ICOs. The external auditors mentioned a new finding raised in 2018 with medium priority regarding the need to reduce manual activities in the keeping and reporting of amortization schedules of borrowing liabilities. It was at the same time highlighted that Management had put in place detective controls as a mitigation measure.
14. Committee members welcomed the report and asked for clarifications about priority levels, reliance on internal audit support as well as reliance on hosting agencies.
15. The external auditors stated that they plan their key activities independently of the Office of Audit and Oversight (AUO) and that they hold discussions with AUO to determine areas of reliance, review AUO reports and perform some activities in coordination with AUO, such as the testing of Internal Controls over Financial Reporting (ICFR). The external auditors also stated that they review the effectiveness of controls over financial reporting (including manual controls) and that the results of such testing confirm that the controls in place are effective, with any areas for improvement noted in the report.
16. Management supplemented the clarifications by informing the Committee about progress made on preparations for a treasury, accounting and control management system. Management has prepared an internal control framework that would be presented for the Committee's review at the present meeting.
17. The Committee members expressed satisfaction with the feedback received, and the document was considered reviewed.

External auditor's audit strategy memorandum for the year ending 31 December 2019 (for review)

18. In presenting the strategy memorandum, Deloitte and Touche informed the Committee that four key audit risks had been identified for the audit of the 2019 accounts: fair value calculation on loans for consistency with the International Financial Reporting Standards (IFRS); accuracy of foreign currency translation calculations; revenue recognition as required under the International Standards on Auditing (ISA); and Management override, focusing on Management's judgement or estimation as an audit risk, as required under the ISA for all audits, as well as application of the IFRS 9 impairment sections.
19. Members requested details about IFRS9 lessons learned and criteria for the selection of journal entries, which were provided by the external auditors.
20. Members confirmed their agreement with the audit approach. The document was considered reviewed.

Proposed dates for meetings of the Audit Committee in 2020

21. The Secretary of IFAD introduced the agenda item, noting the proposed dates for meetings to be held in 2020.
22. The Committee members discussed the dates and two members requested that Management look into the possibility of proposing new dates for the meetings of September and November, due to national holidays falling very close to the suggested Committee dates. The Office of the Secretary would inform the Committee of such alternative dates, if available.

Enterprise Risk Management

IFAD's risk appetite statement (for review)

23. Management introduced the zero draft IFAD risk appetite statement (RAS), which was considered a key strategic element of IFAD's enhanced enterprise risk management system, and stated that the required analytical work was under way. The draft provided the basis for an initial discussion on how much risk IFAD is willing to take in delivering on its mandate and objectives, and also served as a governance tool to ensure an integrated approach to risk management by covering both financial and non-financial risk appetite statements.
24. Members asked for more clarity and refining of language given that this document may have multiple stakeholders, and recommended further work and clarifications as follows:
 - (a) Provide a roadmap of documents to be presented to the Committee, ensuring sequential implementation within a logical framework, including the overall ERM strategy under a holistic approach and one consistent approach to risk management and appetite, and setting clear objectives and language for a practical understanding of the RAS document, linking to the governance structure and internal controls, incorporating a quantitative approach to RAS and balancing risk and reward, and allowing for flexibility in the RAS so as not to limit innovation;
 - (b) Link the RAS to a particular scenario and consider other possible scenarios;
 - (c) Provide more granular information, data and quantitative analysis as a basis for risk appetite to understand how IFAD assessed the parameters and tolerance, clearly linking the analysis to criteria, how the RAS is and will be embedded into risk culture taking into account IFAD's capacity and risk profile, including the probability of potential risks, their impact and correlated risks; and
 - (d) Develop an annex to the RAS with key risk indicators at a high level for governing bodies and at the operational level for units, going beyond existing policies and limits towards areas of risk that are currently being undertaken.
25. Management thanked the Committee for the feedback, which it would take into consideration in developing the RAS scheduled for the Committee's review at the end of the year. Management also emphasized that risk culture is at the heart of the enhancement of IFAD's enterprise risk management and that, once the policies, a common risk language and governance are in place, dedicated training would be developed and carried out to contribute to developing a risk culture.
26. The document was considered reviewed.

IFAD's Corporate Risk Dashboard status report (for review)

27. Management presented the document, highlighting the progress made in incorporating comments deriving from previous sessions of the Executive Board and previous Committee meetings. The Committee reviewed the document, noting the feedback received from Management.

28. Committee members welcomed the improvements and requested that the dashboard include narrative on qualitative indicators and mitigation strategies, with regard to both the foreseen actions and the results already achieved. Some members requested further details and recommended the following improvements: (i) review the criteria used to select key indicators in order to ensure that they are based on risk relevance and help devise mitigation initiatives; (ii) provide an idea of the impact of specific risks; and (iii) include a brief narrative for each risk.
29. The Committee took note of the ample information provided by Management and of its commitment to further improve the dashboard. The document was considered reviewed.

Internal control framework (for review)

30. Management introduced the agenda item by noting that the document was part of the integrated accountability, risk and control system and set out optimal internal controls and monitoring systems.
31. Committee members welcomed the document and provided suggestions to consider the implications of its effective implementation, including ensuring some flexibility to allow for interaction between the lines of defence and to strengthen line capacity and skills. It was stressed that it is important not only to apply the best practice framework (COSO) but also to tailor and calibrate the whole internal control system on IFAD's actual operating model. Some members requested clarifications about the interaction between lines of defence and about staffing levels and capacity in the new function and at ICOs.
32. Management thanked the Committee for the feedback received, which would be incorporated in the next version to be presented to the Committee in September 2019, and the document was considered reviewed.

Update on investigations and anticorruption activities (for review)

33. AUO introduced the agenda item by presenting the trends and salient issues arising from 2019 investigation and sanction cases. AUO also provided an update on the implementation of the anticorruption policy. Management provided an update on the many reforms carried out in the area of project procurement oversight, and noted the following: the new Procurement Manual for IFAD staff and consultants released in May 2019 introduces a risk-based approach to procurement, which will ensure that procurement risks are systematically and consistently assessed and mitigated throughout the country programme and project cycle; ongoing revisions to the Procurement Handbook include measures to, inter alia, increase transparency; and initiatives were under way to strengthen technical procurement expertise by creating four new procurement specialist staff positions, setting up an accredited procurement consultant roster, and develop procurement capacity-building programmes for IFAD staff and project teams.
34. Committee members noted the increased workload and staff capacity of the investigation unit and indicated that the adequacy of AUO staffing must be kept under review. The document was considered reviewed.

Other business

External expert advice to assist the Audit Committee in the discharge of its responsibilities

35. In view of the heavy workload and the complexity of the papers to be reviewed by the Committee during the upcoming period, the Committee Chair proposed that the provision in paragraph 2.7 of the Terms of Reference and Rules of Procedure of the Audit Committee of the Executive Board be invoked. The aforesaid provision allows the Committee, under exceptional circumstances, to obtain expert advice to assist it in the discharge of its responsibilities. Such expert advice would be non-binding.

36. The case for exceptional circumstances was made by the Chair and confirmed by the members, who indicated their support for a temporary engagement to provide focused advice.
37. The Committee discussed the potential budget implications and Management provided some preliminary indications. The Committee Chair will discuss the details of next steps with Management, seeking support for the procurement process and related logistics given the urgency of the matter. Members would be kept informed via e-mail and the item would remain on the agenda for the September meeting.