

Document:	<u>EB 2020/129/R.21</u>	E
Agenda	<u>8(a)</u>	
Date:	<u>17 April 2020</u>	
Distribution:	<u>Public</u>	
Original:	<u>English</u>	



Investing in rural people

Report of the Chairperson on the 156th Meeting of the Audit Committee

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Executive Board — 129th Session
Rome, 20-22 April 2020

For: **Review**

Report of the Chairperson on the 156th Meeting of the Audit Committee

Executive summary

Due to the COVID-19 pandemic, and the decision to hold the 156th meeting virtually with a reduced agenda, the Audit Committee focused discussions on items that would be presented for review or approval at the 129th session of the Executive Board, namely:

- Minutes of the 155th meeting of the Audit Committee (AC 2020/156/R.2 + Add.1)
- Targeted Capacity Investment Implementation Action Plan (AC 2020/156/R.3)
- IFAD Financial Statements
- Capital Adequacy Report (AC 2020/156/R.14)
- Enterprise Risk Management
- Oral update on the credit rating exercise (closed session)
- Other business

It was noted that Committee members had been invited to provide comments on documents for agenda items originally foreseen for discussion at the session. These items were listed in document AC 2020/156/R.1/Rev.1. The commenting feature was available on the Member States Interactive Platform and open until 1 April 2020.

Report of the Chairperson on the 156th meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 156th meeting of the Committee held on 31 March 2020. In light of the public health emergency, the meeting was held remotely through Zoom videoconferencing.

Adoption of the agenda

2. The agenda was adopted with the following items:
 - Minutes of the 155th meeting of the Audit Committee (AC 2020/156/R.2 + Add.1)
 - Targeted Capacity Investment Implementation Action Plan (AC 2020/156/R.3)
 - IFAD Financial Statements
 - Capital Adequacy Report (AC 2020/156/R.14)
 - Enterprise Risk Management
 - Oral update on the credit rating exercise (closed session)
 - Other business

Minutes of the 155th meeting and its closed session

3. The minutes were approved with no changes.

Targeted Capacity Investment (TCI) Implementation Action Plan

4. Management provided a detailed presentation incorporating elements arising from the recent Executive Board informal seminar. The presentation focused on three areas: the impact of COVID-19, Management's response to feedback from the informal seminar and proposed revisions to the TCI budget.
5. Audit Committee members expressed their appreciation for the work done by Management in producing a good quality document and the effort made to capture the feedback provided during the Executive Board informal seminar. Committee members also expressed their appreciation for the update on the COVID-19 response.
6. Some Committee members requested information about the separation packages for staff, details about IT investments, clarification about time horizons and queried specific line items within the TCI budget proposal.
7. Management agreed that a revised document to reflect the feedback provided during the Executive Board informal seminar and the Audit Committee would be prepared for the forthcoming Executive Board session.

Review of the Consolidated Financial Statements of IFAD as at 31 December and High-level Review of the IFAD-only Financial Statements for 2019

8. Management introduced this agenda item, noting the external auditor's unqualified/clean audit opinion on the Consolidated Financial Statements of IFAD as at 31 December 2019. For fiscal year 2019, Management confirmed the operational effectiveness of all key internal controls over financial reporting in the Management assertion report, with an independent external attestation by IFAD's external auditor.
9. Management identified the key factors affecting IFAD's financial position and reported results, emphasizing that the overall financial situation was sound and that long-term viability was being monitored closely. It was noted that at the end

of December 2019, all financial ratios were within the thresholds established by the Sovereign Borrowing Framework and that liquidity was above the minimum liquidity requirement.

10. Committee members thanked Management for the high-quality financial statements and report and requested clarifications about the level of grant approvals and consultancy costs.
11. Management provided the necessary clarification. Management also noted that external audit fees would remain at the same level as in 2019, i.e. EUR 146,215.
12. The Consolidated Financial Statements were deemed reviewed and would be presented to the 129th session of the Executive Board for endorsement, prior to the Governing Council's formal approval in February 2021.

Capital Adequacy Report

13. Management introduced the report noting that for the first time the Audit Committee and Executive Board would discuss the availability of capital and the concepts affecting IFAD's capital ratio. It was noted that the results relative to IFAD's capitalization were broadly satisfactory and in line with best practices and peer institutions. It was also noted that the Fund's capitalization is sufficient to plan further operations. Nonetheless, IFAD's deployable capital ratio is expected to decrease over time and the size and composition of the programme of loans and grants in each replenishment cycle will determine the pace at which capital is consumed.
14. Committee members were informed of the outcome of the independent assessment of the Capital Adequacy Policy carried out by Alvarez & Marsal, whose representatives intervened at this session of the meeting. It was noted that IFAD's capital quantification method is based on a sound methodology and takes adequate account of multilateral development bank comparators and private-sector institutions when applicable. As such it is fit for its purpose as a tool to assist IFAD's internal decision-making process. Alvarez & Marsal provided some recommendations regarding refinements. The Capital Adequacy Report was reviewed for Audit Committee members by the external consultant Marsh Risk Consulting (in partnership with Oliver Wyman). This consultant provided some observations and recommendations as well.
15. Audit Committee members expressed their appreciation for the work done by Management on this topic. Some Committee members requested clarifications on: the periodicity of the review of capital adequacy; the relevance of external reviewers; the possibility of using conditional value-at-risk; and the possibility of allocating resources on the basis of capital consumption. Details were also requested about how administrative expenses could trigger capital consumption.
16. Management provided the needed clarifications.
17. The document was considered as reviewed.

Enterprise Risk Management (ERM)

(a) Draft Revised Enterprise Risk Management Policy and Risk Appetite Framework

(b) Corporate Risk Dashboard

18. Management introduced the agenda item, focusing on COVID-19-related risks and mitigating measures, and informed members that the planned enterprise risk management deliverables reflected in the ERM roadmap were on track. The Committee was advised of the creation of a COVID-19 task force headed by the Associate Vice-President, Corporate Services Department, under the leadership of the President of IFAD. The task force would focus on areas such as staff security; the use of streamlined project design modalities; accelerating the exploration and leveraging of high-tech monitoring and evaluation modalities; and replenishment

and potential reputational and legal risks. The set of documents related to ERM was reviewed for Audit Committee members by the external consultant Marsh Risk Consulting, which provided some observations.

19. Committee members expressed their appreciation for the quality of the documents and the update provided on the COVID-19 response. Some members requested additional details about governance of the Enterprise Risk Management Committee; the risk taxonomy of the Office of the General Counsel; and reporting mechanisms and processes to operationalize the ERM policy, including training, risk appetite setting and the development of key risk indicators.
20. Management provided the necessary details.
21. The agenda item was considered as reviewed.

Oral update on the credit rating exercise (closed session)

22. In a closed session, Audit Committee members were updated on developments in IFAD's credit rating exercise.

Other Business

23. No items were discussed under other business.