

Document: EB 2021/133/R.37
Agenda: 18(c)
Date: 17 August 2021
Distribution: Public
Original: English

E



Investing in rural people

Report of the Chairperson on the 161st Meeting of the Audit Committee

Note to Executive Board representatives

Focal points:

Technical questions:

Advit Nath
Controller and Director
Financial Controller's Division
Tel.: +39 06 5459 2829
e-mail: a.nath@ifad.org

Allegra Saitto
Chief
Financial Reporting and Corporate Finance
Tel.: +39 06 5459 2405
e-mail: a.saitto@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 133rd Session
Rome, 13-16 September 2021

For: **Information**

Executive summary

In light of the COVID-19 pandemic, the 161st meeting of the Audit Committee was held remotely.

The Audit Committee discussed a large number of documents, most of which would be presented to the Executive Board for review or approval at its 133rd session. Items included the following:

- Update on the selection of the external auditor for the period 2022-2026
- Capital Adequacy Report as at 31 December 2020
- Enterprise Risk Management Policy
- Update on the implementation tools of the Integrated Borrowing Framework.

The Committee also discussed and reviewed other agenda items as follows:

- External auditor's report on internal control and accounting procedures
- External auditor's audit strategy memorandum for the year ending 31 December 2021
- Update to the Policy on Rotation and Services to be provided by the External Auditor of IFAD
- Business continuity and effectiveness of working methods – Impact of COVID-19
- Update on investigations undertaken by the Office of Audit and Oversight for the first five months of 2021.

Report of the Chairperson on the 161st meeting of the Audit Committee

The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 161st meeting of the Committee held on 28 June 2021. In light of the COVID-19 emergency, the meeting was held remotely through Zoom videoconferencing.

Election of the Chairperson of the Audit Committee

1. Subsequent to the appointment of the Audit Committee members in April 2021, and in accordance with rule 11.1 of the Rules of Procedure of the Executive Board, Audit Committee members were called upon to elect the Chairperson for the period ending with the first session of the Executive Board in 2024. Italy, from List A, was unanimously elected as Chair of the Audit Committee.

Adoption of the agenda (AC 2021/161/R.1)

2. The agenda was adopted with no changes.

Minutes of the 160th meeting and its closed session (AC2021/161/R.3/Rev.1) – for approval

3. The minutes were approved with no changes.

Proposed dates for meetings of the Audit Committee in 2022 (AC 2021/161/R.7 + Corr.1) – for approval

4. The Committee agreed to hold its meetings as proposed in the document.

Business continuity and effectiveness of working methods – Impact of COVID-19 – for information

5. Management provided an oral update on the business continuity measures adopted during the COVID-19 emergency. It was noted that decisions rest with the President in this regard.
6. A task force had been established to define IFAD's response to the pandemic. Several scenarios had been developed to respond to the evolving circumstances, from extreme scenarios with everything closed, to lighter restrictions. Reference was made to the close collaboration with and guidance from the Government of Italy, the World Health Organization, the United Nations medical directors, and local authorities at the IFAD Country Office level.
7. Management noted that ICT systems remained a vital aspect of business continuity. A significant increase in cyber-attacks and other incidents had been noted during the pandemic, all of which had been effectively addressed. All ongoing IT projects had been maintained. Over the period, more than 100,000 meetings had been held virtually and all governing body meetings had been conducted remotely.
8. Management had also provided all staff with continuous updates and information on physical safety measures to be adopted through regular taskforce reports. A COVID-19 testing facility had been established at IFAD headquarters and IFAD had participated in the Italy/United Nations vaccination campaign that was organized through the Office of the Designated Official for Italy (the Director-General of the Food and Agriculture Organization of the United Nations [FAO]).
9. Going forward, Management highlighted the need to define the "new normal", and the necessary steps to strengthen the existing business continuity framework, including through critical service providers, the further implementation of e-signatures, further reinforcement and consistent application of the existing sound records management practices across all areas of the organization worldwide, and enhanced teleworking modalities.

10. Committee members expressed their appreciation for the update and for the measures taken by Management during the crisis.

**Standard financial reports presented to the Executive Board
Report on IFAD's Investment Portfolio for the First Quarter of 2021
(AC 2021/161/R.11) – for review**

11. In welcoming IFAD's positive returns despite volatile market conditions and in encouraging maintaining a high guard vis-à-vis risks, Committee members reviewed the above-referenced document, which contained information as at end-March 2021.

**Draft provisional agenda for the 162nd meeting of the Audit Committee
(AC 2021/161/R.10/Rev.1) – for review**

12. Committee members approved the provisional agenda for the 162nd meeting, with the addition of the following items:
- Smart Budget Allocation-Budget segregation;
 - IFAD's ordinary term loans: Update of elements of pricing; and
 - Update on COVID-19.

**External auditor's report on internal control and accounting procedures
(AC 2021/161/R.4) – for review**

13. Prior to discussion of the item, the Committee was informed about the levels of audit fees for 2021, which were aligned to prior years, plus a minor cost-of-living adjustment.
14. 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 there was only one recommendation with medium priority pending implementation, while the other recommendation had been closed during 2020.
15. Committee members expressed appreciation for the report. They requested details about progress made on implementing the open recommendation on borrowing liabilities and information on the actions taken to close the recommendation on country offices. The external auditor and Management provided the requested details, noting that Management was working to implement a treasury, accounting, reporting and control management (TARM) system and that this project would address the open recommendation on borrowing liabilities. It was also noted that the recommendation on internal controls and decentralization had been closed as a result of the actions taken to set up and implement the Financial Controller's Division Controllership function.
16. The document was considered as reviewed.

**External auditor's audit strategy memorandum for the year ending
31 December 2021 (AC 2021/161/R.5/Rev.1) – for review**

17. In presenting the strategy memorandum, Deloitte & Touche informed the Committee that their 2021 audit would be consistent with the prior year: fair value calculation on loans for consistency with the international financial reporting standards; accuracy of foreign currency translation calculations; revenue recognition as required under the International Standards on Auditing; and Management override, focusing on Management's judgement or estimation as an audit risk. Deloitte also highlighted extra audit activities to be performed in order to address the possible risks deriving from the COVID-19 crisis. The effects on global financial markets could have accounting implications for the Fund and, in particular, repercussions could be foreseen for IFAD's loan portfolio, contributions

and investment portfolio, including an overall higher risk of fraud. It was noted that the assessment of financial sustainability risks was standard audit practice.

18. Members confirmed their agreement with the audit approach. The document was considered reviewed.

External auditor's selection process

Update on the selection of the external auditor (2022-2026) – for information.

19. Management provided an oral update on the process for the selection of the external auditor for the period 2022 to 2026.
20. It was noted that, in April 2021, Management had issued a call for expressions of interest on behalf of the Committee, which was published on the main procurement websites. A technical panel comprising IFAD staff reviewed the expressions of interest received against pre-set evaluation criteria. Only one out of the five parties expressing interest was found to be technically qualified.
21. Management consulted with Audit Committee members (i.e. Italy and the United Kingdom) and, in order to secure a highly qualified independent audit firm while ensuring a wider competitive base, IFAD launched a full tender on 2 June 2021, informing highly qualified audit firms of the opportunity. Management will continue to work closely with the Audit Committee members for Italy and United Kingdom (the focal points for this process) and involve them in the process. Management also provided details about selection procedures, highlighting that due to the technical nature of this service and in line with prior selections, the technical elements had a weight of 70 per cent while the financial elements were weighted 30 per cent. It was also noted that the offers would be reviewed by a technical evaluation panel and a separate commercial review would be conducted in line with IFAD procurement rules.
22. Management also informed Committee members that final results and a detailed report would be presented at the Audit Committee meeting in September, and final approval by the Executive Board was expected in December 2021.

Update to the Policy on Rotation and Services to be provided by the External Auditor of IFAD (AC2021/161/R.6) - for review

23. Management introduced the agenda item noting that the main purpose of the document was to align the current policy, approved in 2006, with those of its peers to ensure consistency of practice and to keep IFAD competitive, while safeguarding independence and transparency of audit services.
24. Committee members expressed their support for the policy revision, which was grounded on peer reviews, best practices and regulatory approaches. As a safeguard to the auditor's independence, it was agreed that a fee cap and a list of prohibited services would also be included in the policy.
25. A document including such revisions would be presented at the Audit Committee meeting in September 2021.

Capital Adequacy Report (AC 2021/161/R.8) – for review

26. Management provided an overview of the Capital Adequacy Report as at December 2020. It was explained that the deployable capital ratio had decreased slightly, from 40 per cent in December 2019 to 39 per cent in December 2020. The ratio complied with the 0 per cent limit, indicating that IFAD's current capital position was sufficient to absorb potential losses arising from its development operations, including potential losses that could arise from unlikely stress events.
27. It was noted that credit deterioration remained one of the main risks faced by the Fund. It was further noted that IFAD's deployable capital ratio had not been materially affected, despite the COVID-19 pandemic. It was pointed out that the

computations included in the report were key inputs for the determination of the risk-based country limits within the new Borrowed Resource Access Mechanism (BRAM). It was also highlighted that this complementary management tool would contribute to ensuring that capital consumption was maintained within sustainable levels.

28. Committee members requested details about the impact of increased borrowing levels and Debt Sustainability Framework computation in the capital adequacy. Management provided the necessary details, highlighting possible impacts on liquidity levels and capital availability levels.
29. The document was considered as reviewed.

Enterprise Risk Management Policy (AC 2021/161/R.9) – for review

30. Management presented for review the Enterprise Risk Management (ERM) Policy. It was highlighted that the ERM policy played a central role in the operationalization of IFAD's risk management framework. It was not a risk management manual, but rather the anchor to which the governance structure and the tools for achieving risk management effectiveness were tied. It was further clarified that without an ERM policy in place, it would be very difficult to bring forward all the needed enhancements to the risk management architecture, including a risk culture enhancement programme. It was further noted that the ERM policy plays a central role as it details the key features of an effective framework and is aligned with high-level principles, taking into account the institutional profile, the financial architecture, and the organizational structure, capacity and resources of IFAD.
31. The Committee was also informed that:
 - No major changes had been introduced in the governance structure since the first presentation of the policy to the Audit Committee in March 2020, only a substantial number of refinements. In line with the Committee's recommendation, the Chair of the ERM Committee was now the Vice-President. The adopted governance structure reflected best practices and was tailored to IFAD's risk taxonomy, specific status, size and complexity.
 - The timing of presentation and approval of the ERM Policy was critical for the success of risk management in IFAD and to support the preservation of IFAD's credit rating.
 - The ERM Policy would underpin additional developments in procedures and guidelines.
32. It was noted that the Office of Enterprise Risk Management (RMO) was also starting work on a risk culture enhancement programme. A large part of the programme modules were already available, and adequate coordination reinforcements for delivery had been identified.
33. Committee members requested details on the role of the Office of Audit and Oversight (AUO), on the roll-out of the programme of risk culture enhancement training and on the risk taxonomy.
34. Management provided clarifications, noting the role of AUO as third line of defence, and its coordination with RMO and the Independent Office of Evaluation of IFAD. Management also provided details about the training programme and the recent establishment of technical committees for the oversight of risks, along with clarifications about the risk taxonomy and the relevance of modelling and stress testing, specifically for financial scenarios.
35. Having raised, inter alia, the above points on which Management provided clarifications, the Committee considered the Policy reviewed and proposed its submission to the Executive Board.

Update on investigations and anticorruption activities by the Office of Audit and Oversight

36. The Office of Audit and Oversight provided an update on the investigation and anticorruption activities undertaken in the first five months of fiscal year 2021. It was noted that the rate of incoming new complaints in 2021 was stable, thus allowing AUO to address and reduce an investigation backlog (main reasons for which being the high numbers of complaints received in 2019-20, the COVID-19 related restrictions hampering the investigative processes in 2020, and the significant turnover in staff and consultants experienced in AUO during the past year).
37. AUO noted that a new investigator had joined IFAD during the second quarter of 2021 and the recruitment of a further two new staff members was at an advanced stage.
38. The Committee was also informed about AUO advocacy activities, in particular that:
 - AUO had hosted, jointly with the World Bank, the annual meeting of Integrity and Investigation functions of the MDBs and IFIs.
 - AUO had hosted, jointly with FAO and the World Food Programme, the annual Conference of International Investigators.
 - an AUO investigator had moderated the annual Rome-based agency meeting of investigation staff.
39. Committee members requested additional details about backlog and asked if there were risks of underreporting and trends in the internal cases. AUO provided some explanations and agreed to provide additional details on the impact of backlogs at forthcoming Committee meetings.
40. The update was noted.

Update on the implementation tools of the Integrated Borrowing Framework, and next steps – for information

41. Management provided an update on the implementation tools of the Integrated Borrowing Framework (IBF), noting that subsequent to the IBF's approval by the Executive Board in December 2020, in February 2021 the Governing Council had approved related amendments to the Agreement Establishing IFAD. Since then, Management had been progressing with the implementation of the IBF, aiming to be ready for the IFAD12 period. It was noted that Management was establishing standard documents and mechanisms for the issuance of private placements.
42. With the guidance of leading external financial and legal advisers, IFAD was setting up a Euro Medium-Term Note (EMTN) Programme. This was a standard tool necessary for implementing the IBF that will allow the issuance of private placement bonds in a timely and cost-effective manner.
43. Management highlighted that the EMTN Programme was not in itself a borrowing transaction. In line with the IBF, the issuance of private placement transactions pursuant to the EMTN Programme would be submitted separately to the Executive Board for approval. Management would present the EMTN Programme for review by the Audit Committee and subsequent approval by the Executive Board in September 2021.
44. In parallel, IFAD had also developed the necessary communications and outreach tools to support its engagement with private institutional investors. The most important one was IFAD's Sustainable Development Finance Framework (SDFF). The SDFF is an outreach tool for the private institutional impact investor that the Fund would be targeting for its private placements. In line with other institutions' best practices, IFAD had also prepared an investor presentation, summarizing important information for investors regarding the Fund, its mission and operations.

45. Management also provided information about audit fees associated with the comfort letter to be issued by IFAD's external auditor in connection with the EMTN Programme and requested the Committee's review of this item.
46. Committee members noted the update and requested details on the frequency and amounts of such audit fees and details on best practice. These were provided by Management.
47. The update was noted and reviewed.

Other business

48. No additional items were discussed under other business.