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Report of the Chairperson on the 162nd Meeting of the Audit Committee

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

For: Information

Executive summary

1. In light of the COVID-19 pandemic, the 162nd meeting of the Audit Committee was held remotely.
2. The Committee approved the Policy on Rotation and Services to be Provided by the External Auditor of IFAD.
3. The Committee reviewed the following documents that will be presented to the Executive Board for approval:
 - At its 133rd session:
 - Implementation of the Integrated Borrowing Framework: IFAD's Euro Medium-term Note Programme
 - Target level of IFAD12 programme of loans and grants and pledges
 - At its 134th session:
 - Selection of the external auditor (2022-2026)
 - Revisions to the Policies and Criteria for IFAD Financing
4. The Committee reviewed several items to be presented to the Executive Board at its forthcoming session for review:
 - IFAD's ordinary term loans: Update of elements of pricing
 - Report on the Twelfth Replenishment of IFAD's Resources
 - High-level preview of IFAD's 2022 results-based programme of work and regular and capital budgets, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2022 and indicative plan for 2023-2024
5. The Committee was also provided with an update and reviewed other agenda items as follows:
 - Business continuity and effectiveness of working methods: Impact of COVID-19
 - Progress Report on the Workplan for IFAD's Office of Audit and Oversight for 2021
 - Enhanced Efficiency and Resource Management (Smart Budget Allocation)
 - Borrowed Resource Access Mechanism
 - Enterprise risk management

Report of the Chairperson on the 162nd meeting of the Audit Committee

1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 162nd meeting of the Committee held on 2 September 2021. In light of the COVID-19 emergency, the meeting was held remotely through Zoom videoconferencing.

Adoption of the agenda (AC 2021/162/R.1)

2. The agenda was adopted including, under "other business", the review of the internal audit report IAR 2021-09 on the Audit of the Supervision of the Country Programme in Burkina Faso for consideration in a closed session.

Minutes of the 161st meeting of the Audit Committee (AC 2021/162/R.2) – for approval

3. The minutes were approved with no changes.

Progress Report on the Workplan for IFAD's Office of Audit and Oversight for 2021 (AC 2021/162/R.4) – for review

4. The Office of Audit and Oversight (AUO) provided an update on the investigation and anticorruption activities already undertaken during fiscal year 2021. It was noted that AUO had completed the selection of country offices and country programmes to be audited in 2021, ensuring balanced coverage of different country office formats and geographical regions. The Committee was informed that AUO had experienced significant staff turnover in recent months and that staff capacity was now being strengthened through the recruitment of new staff, thus enabling AUO to deliver the updated workplan.
5. The Committee was informed about the completion of the audit on "Cross-cutting overarching issues and corporate issues arising from the hub audits". It was also noted that AUO had simplified the format of audit reports.
6. Committee members requested details on staffing needs, work planning and the current status of the workplan, progress on the implementation of audit recommendations, causes of and trends in investigation allegations, the use of external specialists, AUO national capacity-building activities, and the institutional implications of recurring findings in relation to hub and country office activities.
7. AUO clarified that the staff turnover and its impact on delivery of the workplan was generated by staff taking up promotion opportunities in other United Nations agencies and the institutional reassignment process. Although this had had an impact on the delivery of the 2021 workplan, AUO is making every effort to deliver the updated plan and minimize any carry-over to 2022. AUO informed the Committee that significant progress had been made in the implementation of some relevant recommendations, and that findings on hub audits pertaining to institutional processes had been addressed at an institutional level through the cross-cutting report. AUO noted that there was no clear indication as to the causes of the unpredictable incidence of allegations of prohibited practices and that the increasing trend in internal allegations could not be attributed to any single specific cause, and highlighted that most such issues are effectively addressed by the Ethics Office and very few are referred for investigation.
8. The update was noted.

Agenda item 7 – External auditor selection process

(a) Selection of the external auditor (2022-2026) (AC 2021/162/R.5) – for approval

9. Management informed the Committee of the results of the selection process of the external auditors for the period 2022-2026. Management mentioned the invaluable

support received throughout the process from Audit Committee representatives Ms Angela Cameron (United Kingdom) and Mr Gian Paolo Ruggiero (Italy). It was noted that the process was highly technical and oriented to ensure wide competition among audit firms. The Committee was informed that, upon completion of the tendering process, the only fully qualified proposal meeting all technical and commercial requirements was from PricewaterhouseCoopers S.p.A..

10. Committee members expressed their appreciation for the very robust process undertaken. Some members requested clarification on the steps undertaken during the tender to attract internationally recognized audit firms.
11. Management provided the necessary details on the phases of the procurement exercise. Management also noted that peers have experienced similar circumstances for various reasons mentioned.
12. The feedback was noted and the Committee endorsed the submission to the 134th session of the Executive Board for approval of the contract award to PriceWaterhouseCoopers S.p.A. for the provision of external audit services for the period 2022-2026.

(b) Update to the Policy on Rotation and Services to be Provided by the External Auditor of IFAD (AC 2021/162/R.6) – for approval

13. Management introduced the agenda item, noting that the purpose of the document was to align IFAD's policy to that of its peers for consistency of practice and to support IFAD's competitiveness. It was noted that the proposed revised text allowed for alignment with peers and leading legislation, as well as some flexibility, while ensuring the independence and transparency of audit services.
14. Committee members requested several clarifications on wording.
15. Management clarified the alignment of the proposed text to the practices of other international financial institutions (IFIs) and further clarified that the principle of auditors' independence is paramount and will be maintained with the revision.
16. The policy was therefore considered reviewed and approved.

Update on business continuity and effectiveness of working methods: Impact of COVID-19 – for information

17. Management provided an oral update on the business continuity measures adopted during the COVID-19 emergency. In particular, Management provided details on the flexible and phased return-to-office plan for headquarters and country offices.
18. It was noted that the plan is strictly aligned with the host country's guidance and the guidelines set by the World Health Organization, United Nations medical teams, the security management team and United Nations country teams. It was noted that from Monday, 6 September, the return-to-office plan for IFAD headquarters envisaged an occupancy of 250 staff, increasing to 350 by the end of the month. Additional health security criteria are in place, including self-quarantine and on-site COVID testing facilities. To be granted access to headquarters, personnel are required to have either a full vaccination certificate (European Union COVID-19 Green Pass) or a negative antigen test (available on-site) with one-week validity, with consequent issuance of an IFAD medical clearance pass. Management highlighted the efforts to strengthen the existing teleworking policies and reported that a pilot project on flexible teleworking arrangements will start as of 1 October. The Committee was informed that 19 country offices are adopting 100 per cent teleworking conditions, while 27 country offices are open with varying working conditions.
19. Committee members expressed their appreciation for the update and for the measures taken by Management during the crisis.

Draft provisional agenda for the 163rd meeting of the Audit Committee (AC 2021/162/R.12) – for review

20. The draft provisional agenda for the 163rd meeting of the Audit Committee was reviewed, noting the inclusion of several items as follows:
- Update on Enhanced Efficiency and Resource Management (Smart Budget Allocation);
 - Review of the IFAD After-Service Medical Coverage Scheme Trust Fund Investment Policy;
 - Asset Liability Management and Liquidity Monitoring Report;
 - Update on the implementation of Anti-Money-Laundering and Countering the Financing of Terrorism Policy and Controllership; and
 - Update on implementation of the Borrowed Resource Access Mechanism.
 - Other business:
 - Oral update on credit rating;
 - Oral update on interbank offered rates (IBOR); and
 - Oral update on digital signatures at IFAD implementation.
21. The agenda was considered reviewed and the Office of the Secretary will inform the Committee of the arrangements to extend the duration of the 163rd meeting.

Standard financial reports presented to the Executive Board

Report on IFAD's Investment Portfolio for the Second Quarter of 2021 (AC 2021/162/R.13) – for review

22. Committee members reviewed the above-referenced document, which contained information as at end-June 2021, and noted lower risk measures, which Management reported were partly due to actions taken to diversify and mitigate risks associated with the investment portfolio.

Agenda item 17(b) – Internal audit reports

23. In a closed session, Audit Committee members considered the Audit of the Supervision of the Country Programme in Burkina Faso. The Committee will continue to be informed of progress made in implementing the recommendations. Furthermore, some members proposed that AUO consider conducting a thematic audit on project procurement to assess the efficiency and effectiveness of new systems and processes implemented to address related risks.

Enhanced Efficiency and Resource Management (Smart Budget Allocation) – for information

24. Management provided an oral update on steps taken to address the Executive Board's request to clarify and simplify efficiency ratio measurements. It was noted that Management had undertaken a comprehensive analysis of practice adopted by other IFIs and United Nations agencies. It was also noted that the identification of direct costs and indirect costs, and the consequent attribution to project results, would be relevant to the enhancement of efficiency and transparency – and that this would imply the refinement of efficiency measures.
25. Committee members noted the update and highlighted the need to tailor efficiency measures to IFAD's business model and the importance of comparing IFAD's budgeting practices with those of similar financial institutions.

High-level preview of IFAD's 2022 results-based programme of work and regular and capital budgets, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2022 and indicative plan for 2023-2024 (AC 2021/162/R.3) – for review

26. Management introduced the agenda item, noting the main cost drivers of the 2022 budget. It was highlighted that the budget increase for 2022 comprised a 4.75 per cent real increase and a 1.5 per cent price increase. It was noted that the resulting 6.25 per cent nominal increase is driven by:
- Decentralization and the consequent redefinition of IFAD's field presence landscape and new field presence;
 - Rightsizing of IFAD staff in accordance with the McKinsey study; and
 - Delivery of IFAD12 commitments.
27. It was also noted that the projected increases are expected to be partly offset by a reduction in consultancies and travel costs.
28. The proposed 2022 budget would be as follows:
- Regular budget: the 2022 regular budget had been proposed at US\$169.37 million;
 - Capital budget: the total capital budget for 2022 was expected to be in the range of US\$6.2 million to US\$6.8 million; and
 - The 2021 budget utilization is currently forecast at approximately 95 per cent.
29. The Independent Office of Evaluation of IFAD (IOE) introduced its programme of work and budget for 2022, highlighting that IOE would start a new thematic evaluation on gender equality and a project cluster evaluation of rural finance projects in the East and Southern Africa region. It was noted that five new project performance evaluations are planned in 2022 and that IOE would validate 100 per cent of project completion reports.
30. The proposed IOE budget for 2022 would be US\$5.84 million (2021 IOE budget was set at US\$5.81 million). The proposed IOE budget would therefore be 0.51 per cent of IFAD's expected programme of loans and grants (PoLG) for next year, below the IOE budget cap of 0.9 per cent adopted by the Executive Board. The IOE budget proposal was well received by Committee members.
31. Some Committee members welcomed the budget proposal in light of IFAD's goal of doubling impacts by 2030. Other members requested clarifications and further details on decentralization, workforce planning, efficiency gains achieved through reforms, delivery of IFAD12 commitments and the carry-forward budget. The need to assess the budget increase was noted also in comparison to peer IFIs normally applying a more disciplined approach. Finally, it was underscored that there was an opportunity to clarify what are recurrent costs and what are one-time costs which could be financed by carry-over funds and the People, Processes and Technology Plan drawdown.
32. Management provided feedback, highlighting specific details on efficiency associated with the dynamic workforce planning and reforms already undertaken. Management reassured the Committee that additional details will be provided during the 163rd Committee meeting.
33. The document was considered reviewed and will be submitted to the Executive Board at its forthcoming session for review.

Agenda item 13 – Twelfth Replenishment of IFAD's Resources (IFAD12)

(a) Target level of IFAD12 programme of loans and grants and pledges (AC 2021/162/R.10) – for review

(b) Report on the Twelfth Replenishment of IFAD's Resources (AC 2021/162/R.11) – for information

34. Management introduced the agenda items, noting that as at 18 August 2021 the IFAD12 replenishment had reached effectiveness with a level of pledges at US\$1.16 billion. It was noted that, with a high degree of certainty, contributions are expected to reach at least US\$1.3 billion. Given this level of foreseen total IFAD12

contributions, the sustainable level of PoLG proposed for approval is US\$3.5 billion. Management noted that a PoLG of US\$3.8 billion, in the absence of the target replenishment being achieved, would result in much higher levels of borrowing in the short and medium term, exposing IFAD to a series of risks that could undermine its financial sustainability.

35. Committee members favourably considered the proposal as financially sound. Some Committee members expressed concern regarding the reduction in size of the planned PoLG and of resources devoted to low-income countries, and encouraged IFAD to explore all possible avenues to remedy this, in particular by undertaking additional resource mobilization exercises.
36. Management provided additional details and reassurance about the continued resource mobilization efforts, further noting that the level of IFAD12 pledges so far achieved, at this point in time of the process, represents one of the highest ever in IFAD history.
37. Both documents were considered reviewed and would be submitted to the Executive Board at its 133rd session for consideration, as follows:
 - Update on the Sustainable Level of IFAD12 PoLG for approval; and
 - Report on the Twelfth Replenishment of IFAD's Resources for information.

IFAD's ordinary term loans: Update of elements of pricing (AC 2021/162/R.7) – for review

38. Management introduced the agenda items, highlighting the proposed changes to ordinary terms loans, updates of IFAD's maturity premium differentiation and the proposed suspension of fixed spread offer for the IFAD12 period and discontinuation of the offer denominated in special drawing rights terms.
39. Committee members requested details about the timing for the review of the fixed spread loans and the possibility of their reintroduction in the future.
40. Management clarified that a possible reintroduction of fixed spread loans would depend on the outcome of the IBOR reform. It was also noted that Management would provide an oral update on the IBOR reform at the forthcoming Committee meeting in November 2021.
41. The document was considered reviewed and would be submitted to the Executive Board at its forthcoming session in September for review and then updated as required for submission to the Executive Board in December for approval.

Implementation of the Integrated Borrowing Framework: IFAD's Euro Medium-Term Note Programme (AC 2021/162/R.9) – for review

42. Management presented the agenda item, noting that the Integrated Borrowing Framework (IBF) is the main pillar of IFAD's borrowing strategy in IFAD12. It was noted that the IBF enables IFAD to issue private bond placements using tools such as a euro medium-term note (EMTN) programme. It was highlighted that an EMTN programme is a set of master documents that lay out the standard terms and conditions that will apply for all of the private placement bonds that investors and intermediaries therefore need to analyse just once, and thereafter focus on transactional details only. Management noted that this approach is both cost- and time-effective and aligned to best industry practice.
43. Committee members requested clarifications on maturities, and on denomination currency and listing exchanges being considered as cost drivers.
44. Management clarified that private placements will initially be denominated in euros and United States dollars to match IFAD's asset currencies. IFAD plans to list on the Luxembourg exchange, which has a dedicated green exchange for sustainable issuances such as the planned IFAD private placements. Management explains that IFAD aims to issue sustainable bonds, targeting maturities of seven years and above

to match the profile of IFAD's assets. Lastly, Management clarified that some costs for the establishment of the EMTN programme are one-off while rating costs, for instance, are recurrent.

45. The document was considered reviewed and will be submitted to the Executive Board for approval.

Update on the Borrowed Resource Access Mechanism – for information

46. Management provided an oral update on the new mechanism for borrowed resource access. It was noted that the Borrowed Resource Access Mechanism (BRAM) will be rolled out at the start of IFAD12 period, and that a list of eligible countries is being finalized and will be communicated to Member States for expressions of interest. Projects will subsequently be brought to the Executive Board for approval. The Committee was informed that further details will be provided for the 134th Executive Board session as part of the 2022 budget and programme of work document.
47. The update was noted.

Revisions to the Policies and Criteria for IFAD Financing (AC 2021/162/R.8) – for review

48. Management introduced the agenda item, highlighting that the proposed amendments to the Policies and Criteria for IFAD Financing (PCIF) and the adoption of the Framework on Financing Conditions are necessitated by the introduction of a second mechanism to access IFAD borrowed resources, the BRAM and the update to IFAD's financing conditions. Management noted the efforts to streamline the PCIF while keeping it as a high-level, principles-based document.
49. The document was considered reviewed with the inclusion of a strategic focus and alignment to IFAD's mandate. The document will be submitted to the Executive Board at its 134th session for approval.

Enterprise risk management – for information

50. Management provided an oral update on enterprise risk management (ERM) activities, highlighting that the ERM Policy will be presented to the Executive Board at its 133rd session for approval. It was noted that the Office of Enterprise Risk Management has continued to build internal capacity and refine important steps leading to further operationalization of the ERM Framework. Members noted the progress made in the area of operational risk oversight; in the improvements to the Corporate Risk Dashboard, which will be soon presented officially; and in the initiatives under way with regards to the collection of risk data.
51. The update was considered noted.

Other business

52. Management provided oral updates on the review of the investment policy of IFAD's After-Service Medical Coverage Scheme, noting that an advisory firm had been engaged to conduct an asset and liability management review with the purpose of diversifying the portfolio. Management noted that, based on the outcome of the study, amendments to the investment policy will be brought to the Audit Committee for review, with the final aim of submitting a revised policy to the Executive Board for approval at its 134th session.
53. Management also provided updates on the new borrowing agreement with KfW Development Bank, noting the negotiation of a new loan denominated in United States dollars for an equivalent amount up to EUR 400 million. As per previous practice, the proposal will be posted for e-review by the Audit Committee and then submitted to the Executive Board for approval through vote by correspondence. Management aimed to post the document for the Audit Committee's review in early October.
54. The updates were considered noted.