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## **Report of the Chairperson on the 165<sup>th</sup> Meeting of the Audit Committee**

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**Action:** The Executive Board is invited to note the report.

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**Technical questions:**

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## **Executive summary**

1. The Audit Committee reviewed the Capital Adequacy Report as at 31 December 2021 and the Investment Portfolio Report for the first quarter of 2022, which will each be presented to the Executive Board at its 136<sup>th</sup> session for review.
2. The Committee, inter alia, also reviewed the following items:
  - External auditor's report on internal control and accounting procedures
  - External auditor's audit strategy memorandum for the year ending 31 December 2022
  - Update on investigations undertaken by the Office of Audit and Oversight
  - Enterprise risk management:
    - (a) Update on Enterprise Risk Management Framework operationalization
    - (b) Corporate Risk Dashboard

## Report of the Chairperson on the 165<sup>th</sup> meeting of the Audit Committee

1. The 165<sup>th</sup> meeting of the Audit Committee was held on 6 June 2022 in presence.

### **Agenda item 2 – Adoption of the agenda (AC 2022/165/R.1)**

2. The agenda was adopted with the inclusion, under other business, of the internal audit report on the audit supervision of the country programme in Mali. It was noted that the item on the Medium-term Strategic Direction and Budget had been removed from the agenda.

### **Agenda item 3 – Minutes of the 164<sup>th</sup> meeting of the Audit Committee (AC 2022/165/R.2) and its closed session (AC 2022/165/R.2/Add.1) – for approval**

3. The minutes were approved, with a comment on the importance of highlighting action points.

### **Agenda item 4 – External auditor’s report on internal control and accounting procedures (AC 2022/165/R.3) – for review**

4. Deloitte & Touche presented the report on internal control and accounting procedures, stating that none of the recommendations had given rise to a qualification of their audit opinion on either the consolidated financial statements or Management's assertion report regarding the effectiveness of internal controls over financial reporting. One open recommendation of medium priority remained, which had been raised in prior fiscal years. This pertained to systems and procedures associated with borrowing. In the course of 2021 audit activities, a new recommendation had been raised, pertaining to the establishment of procedures for private sector operations.
5. The document was considered as reviewed.

### **Agenda item 5 – External auditor’s audit strategy memorandum for the year ending 31 December 2022 (AC 2022/165/R.4) – for review**

6. The Committee and Management welcomed PricewaterhouseCoopers (PwC) to their first Audit Committee meeting, noting that PwC had been appointed by IFAD's Executive Board in December 2021 for a five-year mandate beginning with the 2022 accounts.
7. PwC provided an overview of their preliminary audit strategy. It was clarified that PwC would assess IFAD's internal control environment to determine substantive audit practice. As key potential risks, it was noted that inflation pressure could lead to increased credit losses, therefore tests on expected credit losses would be relevant. PwC also noted that the assessment of decentralization and of the revision of key accounting policies – such as loan fair value and issuance of bonds – could have an impact on the final audit strategy. PwC had undertaken a preliminary review of materiality. It was noted that the handover from Deloitte was imminent.
8. Committee members welcomed the introduction to the strategy and requested clarification about collaboration with the Office of Audit and Oversight (AUO).
9. PwC clarified that it would continue working with AUO and anticipated that the audit strategy could be finalized by October 2022.
10. The document was considered reviewed.

### **Agenda item 7 – Proposed dates for meetings of the Audit Committee in 2023 (AC 2022/165/R.5/Rev.1) – for approval**

11. The Committee approved the dates for its meetings in 2023 with one amendment: rescheduling the 168<sup>th</sup> meeting from 5 April to 6 April 2023.

**Agenda item 8 – Capital Adequacy Report – December 2021  
(AC 2022/165/R.6) – for review**

12. Management introduced the agenda item, explaining that the document was submitted semi-annually to provide the Audit Committee and the Executive Board with a synopsis of IFAD capital consumption and trends. Management informed the Committee that the deployable capital ratio at the end of December 2021 had increased slightly – to 39.8 – and that the ratio was in compliance with all target limits. The improvement was mainly due to the enhanced credit risk parameters. It was also noted that the sensitivity analysis confirmed that any deterioration in IFAD’s preferred creditor status could be the most critical factor affecting the ratio.
13. Committee members acknowledged the relevance of the document. Some members requested clarification about the impacts of disbursement caps, the possible implications of debt relief under the Heavily Indebted Poor Countries Initiative for Sudan, and the effects of transfers of IFAD resources for non-core initiatives. Members also asked for details on how the trends in downgrading in the loan portfolio would be addressed.
14. Management provided the requested clarifications, highlighting that the preferred creditor status was linked to the quality of the loan portfolio in terms of repayment capacity of IFAD’s borrowing countries. It was noted that Management was closely monitoring debt servicing; the diversification of the portfolio was highlighted as a risk mitigation factor. Furthermore, the downgrade of some countries with large exposure could have an impact on the portfolio’s average rating and a significant increase in non-performing loans could have a potentially negative impact on IFAD’s credit ratings. Management provided details about procedures and measures taken by IFAD in the case of delays or arrears for debt servicing. Management also noted that transfer to other initiatives and grant disbursements have an immediate impact on the capital consumption.
15. The document was considered as reviewed and would be submitted to the forthcoming Executive Board for review.

**Agenda item 9 – Enterprise Risk Management – for review**

**(a) Update on Enterprise Risk Management Framework operationalization**

16. Management informed the Committee on the progress made in the operationalization of the Enterprise Risk Management Framework.
17. Management noted that one of the main achievements had been the establishment and launch of the risk committees and the activities to support the confirmation of the rating. It was highlighted that, in 2021, the methodological infrastructure of the Borrowed Resource Access Mechanism (BRAM) had been finalized. During 2022, Management would continue fine-tuning some processes, establish the strategic risk and data integration unit and continue work on closing any remaining gaps.
18. Committee members welcomed the update and requested clarification about challenges pertaining to BRAM implementation and about the diffusion of a risk culture as a mitigation factor for several operational risks customarily highlighted in audit reports.
19. In response, Management explained that the main challenges in implementing the BRAM derived from the need to carefully and constantly assess the creditworthiness trajectories of the countries seeking borrowed resources. Management also noted that IFAD’s risk culture was improving constantly, and growing in line with the strategic direction of the organization.
20. The update was deemed reviewed.

**(b) Corporate Risk Dashboard**

21. Management provided an update on the risk dashboard indicators for the first quarter of 2022. It was noted that the Corporate Risk Dashboard provided an overview of the status of the main risks and trends.
22. Committee members welcomed the update and requested clarification about prohibited practices and financial integrity, and on key risk indicators (KRIs) associated with misconduct.
23. In providing the requested clarification, Management noted that KRIs had been defined collegially with the main stakeholders and risk owners involved. Management highlighted that the dashboard should always be perceived as an instrument for high-level risk monitoring and that risks exceeding thresholds were individually assessed in detail with the risk-owning department.
24. The update was considered as reviewed.

**Agenda item 10 – Update on investigations undertaken by the Office of Audit and Oversight – for review**

25. AUO provided an update on investigations and sanctions activities. AUO reported that the number of new cases remained high and that the majority related to fraud and corruption in project procurement. AUO informed the Committee about the complexity of some cases and the imposition of sanctions on external entities/individuals.
26. Members expressed their appreciation for the update and enquired about the low number of sexual abuse and harassment cases. AUO noted that the Ethics Office had been leading an intensive awareness campaign about sexual abuse and harassment and that strengthened training, communications and support mechanisms were in place. Details and progress in this regard were shared with the Executive Board at each session.
27. AUO also provided an update on the organization of the 2022 external review of IFAD investigative practices. The process of identifying suitable candidates was ongoing and it was expected that the appointment of the external reviewers by the President would soon be finalized. The Committee took note of the final terms of reference of the review, which foresaw that the review's conclusions and recommendations would be shared with the Committee. Members requested that a redacted version of the final report be shared with the Committee. AUO confirmed that this request would be conveyed to the President.
28. The AUO update was considered reviewed.

**Agenda item 11 – Business continuity and effectiveness of working methods – Impact of COVID-19**

29. Management provided an update on the business continuity and adaptation activities in response to the COVID-19 pandemic, highlighting progress made since the last update. It was noted that four offices remained in teleworking mode; while based on a recent communication, the Peru office was in the process of reopening, and that staff assigned to the Haiti office could work in presence depending on the security situation.
30. Management informed the Committee on progress made on the teleworking pilot programme. It was noted that tailored guidelines would be issued for the forthcoming Governing Council scheduled on 7 July.
31. Management also informed the Committee of operational repercussions, highlighting the 54 project extensions that needed to be approved as a result of the pandemic.

32. Committee members commented positively on the update and requested further details about operational impacts.
33. Management clarified that supervision missions were gradually being resumed.
34. The update was considered noted.

**Agenda item 12 – Draft provisional agenda for the 166<sup>th</sup> meeting of the Audit Committee (AC 2022/165/R.7) – for review**

35. The draft provisional agenda for the 166<sup>th</sup> meeting was reviewed. It was agreed that Management should provide information on the status of disbursements and related risks. A proposal was made to consider providing the President-elect with a brief on issues the Committee considered to be of importance/concern for the future of IFAD. The Chair welcomed the proposal and would consult with Management on how best to proceed.

**Agenda item 13 – Standard financial reports presented to the Executive Board – for review**

**(a) Report on IFAD's Investment Portfolio for the first quarter of 2022 (AC 2022/165/R.8)**

36. Management briefed the Committee on the investment portfolio report, which contained information as at end of March 2022. It was noted that the historical tension on the market and the historical negative performance of the Global Aggregate Bond Index had led to a negative return on the IFAD portfolio of approximately 0.31 per cent. Management informed members that risk parameters continued to remain within prudent thresholds.
37. Committee members requested clarification about liquidity levels and the possible impacts of the increasing interest rate trends.
38. Management clarified that liquidity was closely monitored and planned through careful programming of the resources available for commitment. It was also noted that the portfolio might benefit from increasing interest rate trends.
39. The document was considered reviewed and will be submitted to the forthcoming Executive Board for information.