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**Project financial management: Annual progress report, including review of the Conceptual Framework on Financial Reporting and Auditing of IFAD-Financed Projects**

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**Action:** The Executive Board is invited to take note of the report on project financial management.

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# **Project financial management: Annual progress report, including review of the Conceptual Framework on Financial Reporting and Auditing of IFAD-Financed Projects**

## **I. Introduction and summary**

1. IFAD reports annually to the Audit Committee on:
  - (i) The application of project financial management (FM) assurance policies and practices, including developments, trends and the results of the most recent project audit cycle; and
  - (ii) The ongoing applicability of the Conceptual Framework on Financial Reporting and Auditing on IFAD-Financed Projects.

The fifth consecutive annual review confirmed the continuing adequacy and applicability of the principles included in this framework.

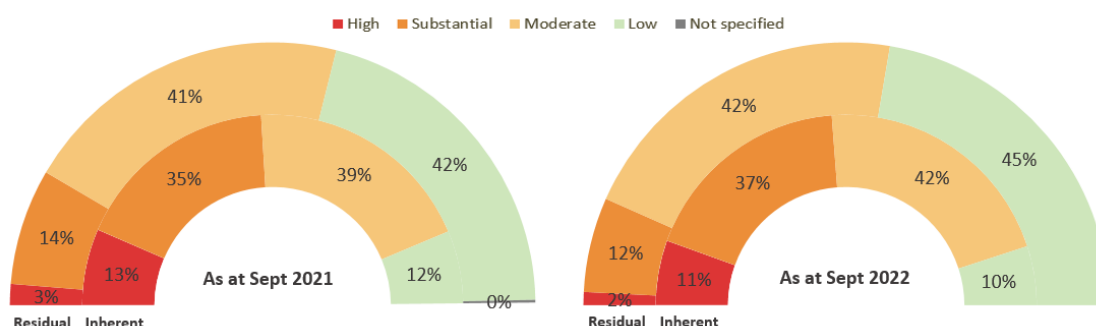
2. In 2021, IFAD began introducing extensive initiatives to reform the project FM function. Through them, the Fund is strengthening its business processes to put it at the forefront of international best practice and support greater impact by providing more assurance and redirecting checks to the riskiest areas. These reforms increase project financial discipline and are based on people, processes and technology; they entail the updating of FM policies and procedures to make them principles-based and the reintegration of disbursement validation functions with project FM, aligning them with documented fiduciary risks, and the upgrading of staff skills. As a result of these reforms, the key assurance pillars have expanded to encompass external audits, mission work and regular financial reporting. The bulk of the reforms have now been completed, although work on IT systems will continue into early 2023 and use of country systems will be ongoing. The reforms are creating a substantial additional workload for finance officers. Management believes that this workload will decrease as the reforms are embedded, leading to a greater focus on core responsibilities.
3. Project audit reports remain a key tool for fiduciary assurance. Further reliance will also be placed on them for capacity-building purposes. The timeliness and quality of audit and accounting standards are generally considered adequate as a result of IFAD's capacity-building efforts. As of this writing, 95 per cent (248) of project audit reports due for financial year (FY) 2021 had been received. Seventy per cent of them were received on time, a modest improvement over last year (63 per cent).
4. The quality of financial reporting rated satisfactory or highly satisfactory exhibited the highest percentage in recent years, standing at 55 per cent in FY 2021 (47 per cent in FY 2020), whereas reports rated either moderately unsatisfactory or unsatisfactory decreased slightly from 15 per cent in FY 2020 to 11 per cent. The percentage of qualified/adverse audit opinions in FY 2021 fell sharply to 8 per cent (11 per cent in 2020). All 13 projects received qualified audit opinions with exceptions, and action plans to address these issues are being pursued.

## **II. Financial management practices and oversight**

5. Effective FM arrangements are vital to the achievement of IFAD's development and strategic objectives. Their purpose is to ensure that sufficient funds are available to projects at the right time and that FM risks are identified and mitigated through appropriate controls, such that the funds provided are used for their intended purpose, with due attention to economy, efficiency and social equity considerations.

6. The project FM risk-based assurance framework, which falls within IFAD's programme delivery risk domain,<sup>1</sup> underpins the activities of the Financial Management Services Division (FMD). With the adoption of a four-point risk scale and the identification of inherent<sup>2</sup> and residual<sup>3</sup> FM risk, comparison with previous years shows a slight improvement: the proportion of projects with a risk rating above IFAD's residual risk appetite (low and moderate) fell from 17 per cent to 14 per cent in 2022.

Figure 1

**FM risk profiles of investment projects (as at 30 September 2021 and 2022)**

7. **Progress in FMD structural reform.** With recommendations from internal and external reviews, FMD has further advanced structural reforms to fundamentally improve the project FM function (see annex I). These reforms are aimed at changing the following aspects of project FM:
- Transform project FM practices, focusing on enhanced project fiduciary discipline, relying more on country systems, when appropriate, and avoiding parallel mechanisms.
  - Enhance project financial discipline and monitoring with regular financial reporting, underpinned by the reintegration of FMD staff into disbursement validation processes.
  - Strengthen mutual reliance in corporate risk assurance frameworks. Foster a mindset towards increased risk tolerance and management, emphasizing implementation support and harmonizing with the practices of other international financial institutions.
8. During 2022, the reform of disbursement processes continues to move forward as planned and includes the following milestones:
- Interim financial reports have been introduced as mandatory for 95 per cent of ongoing projects, which will facilitate regular monitoring of financial progress. These reports also replace voluminous transaction lists / statements of expenditures to validate withdrawal applications for disbursement of funds to projects, thereby introducing administrative efficiencies. These measures will rebalance fiduciary oversight and checks across disbursement, supervision and project auditing.
  - Measures have been adopted to align disbursement validation with IFAD's fiduciary risk framework. Automated straight-through processing

<sup>1</sup> Risks to the ability to achieve the expected results in IFAD-supported projects, programmes or strategies and the risk of unintended consequences.

<sup>2</sup> Inherent risk is the risk before and/or without any mitigation measure or controls applied by IFAD and governments to actively reduce residual risk. The inherent risk rating is what drives IFAD's disbursement controls at the time of withdrawal application processing.

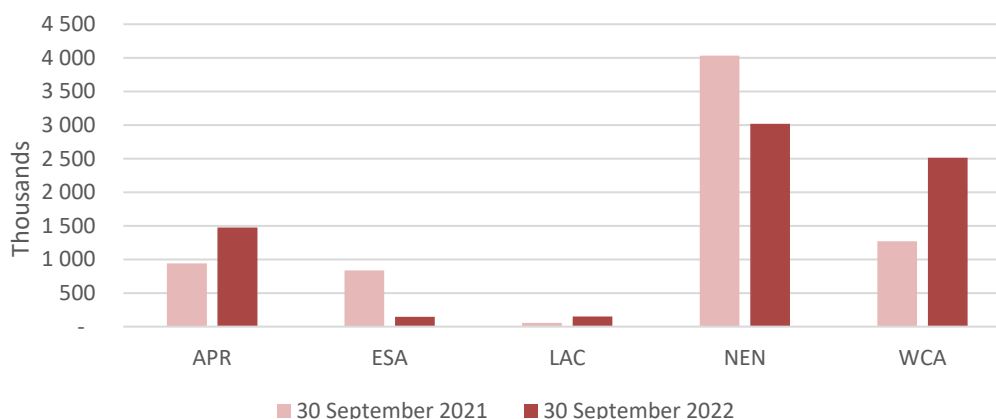
<sup>3</sup> Residual risk is the amount of risk remaining after all efforts have been made to identify and eliminate risk, i.e. through mitigating controls for implementation by governments and IFAD to actively reduce inherent risk.

disbursement in the IFAD Client Portal (ICP) has been introduced where risks have been rated low or moderate.

- (iii) Clarity on FM and disbursement policies and procedures has been enhanced by a sharper focus on principles rather than prescriptive rules. These have been documented in a new handbook (“Project Financial Management and Financial Control Handbook for Borrowers”) that has been issued to all borrowers. Likewise, FM policies and procedures have now been modernized and guidance to IFAD’s workforce integrated into the corporate Operations Manual. Disbursement and financial control instructions to borrowers (“Project Financial Management and Financial Control Arrangements Letter”) have been modernized and are being applied to all projects approved this year, with flexibility to adapt to diverse country and project contexts. Automation of these letters is in progress.
  - (iv) Disbursement validation workflow in the ICP is currently being modified to reintegrate FMD staff into disbursement validation processes. Development and testing of these modifications are in progress.
9. **Update of IT tools and systems.** Since IFAD’s FM control and oversight processes rely on updated IT tools, several initiatives were planned for “smart” tools to mainstream manual processes. As part of the FM reform, the various system developments have been completed. These are summarized in annex II.
10. **Ineligible expenditures.** FMD regularly tracks and monitors potential and/or confirmed ineligible expenditures that arise during project implementation.<sup>4</sup> Such expenditures are often identified through supervision missions and external project audits.
11. The total amount of ineligible expenditures is highly volatile throughout the year, as the amounts recorded are continuously reviewed, adjusted, confirmed and resolved. At the time of reporting, the total amount outstanding was US\$7.3 million, similar to that reported in 2021 (US\$7.1 million). Both the number of projects and countries impacted decreased.<sup>5</sup>

Figure 2

**Unconfirmed and confirmed ineligible expenditures by region\***  
(Thousands of United States dollars)



\* The following abbreviations are used for regions: Asia and the Pacific (APR); East and Southern Africa (ESA); Latin America and the Caribbean (LAC); Near East, North Africa and Europe (NEN); West and Central Africa (WCA).

12. **Remedies.** Ineligible expenditure and late submission of audit reports are common reasons for remedial action by IFAD. When non-compliance is identified, early

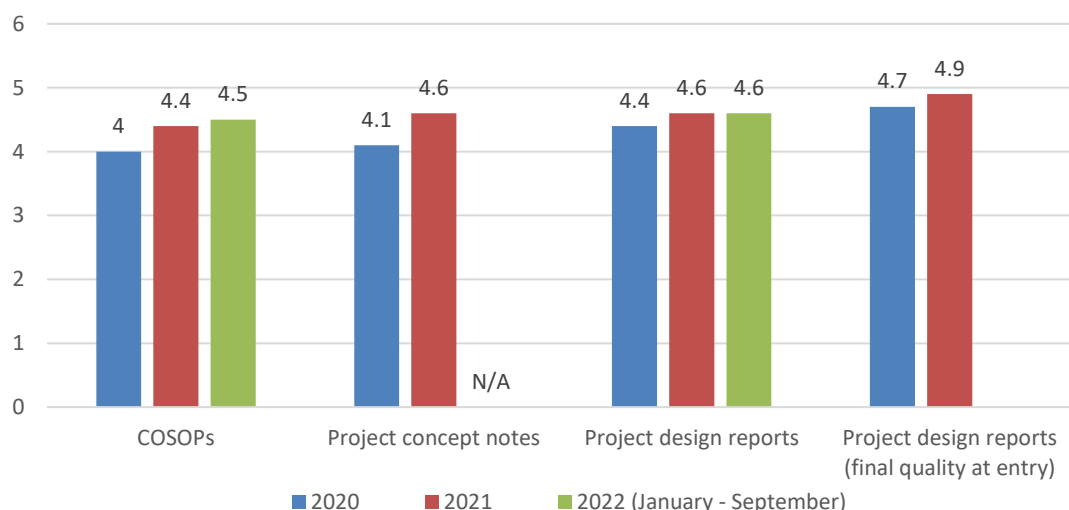
<sup>4</sup> Ineligible expenditures are those that are not in line with IFAD’s eligibility criteria, as defined in the General Conditions for Agricultural Development Financing, Section 4.07.

<sup>5</sup> In 2022, a total of 41 projects have been impacted across 27 countries.

engagement with projects and ministries is sought to understand the context, encourage prompt compliance, and where possible, consider soft remedies that avoid a more detrimental impact on project implementation.<sup>6</sup> In the case of confirmed ineligible expenditures, IFAD seeks appropriate justification, substitution or refunds.

13. When delays arise in the submission of audit reports, warning notices are issued to borrowers for delays beyond 90 days, and if delays continue beyond 180 days of the due date, formal suspension of the right to withdraw funds is imposed. As reported last year, the only country subject to suspension measures stemming from unresolved FM issues was the Bolivarian Republic of Venezuela, due to its failure to submit project audit reports for 2017 and 2018; these measures are still in effect. Further details on compliance with the audit policy across IFAD’s portfolio are presented in section III. An additional two countries have overdue audit reports, but suspension has not been officially imposed, since the governments are de facto; activities are under way to try to finalize these audit reports, using alternative assurance mechanisms as well.
14. Exceptional measures in response to COVID-19, approved by the President of IFAD in April 2020 to allow additional time to submit project audit reports, substantially decreased in 2021-2022. In 2022, only seven exceptional extensions for delayed audit report submission were sought by borrowers and granted.
15. **Design and supervision.** COVID-19-related travel restrictions have gradually been lifted in many countries in 2022. As a result, FMD is gradually resuming in-person participation in project design and supervision missions. A total of 203 missions were fielded from January to September 2022, with 40 per cent participation of finance officers, over half of it in person. The resumption of in-person missions facilitates closer monitoring of FM aspects in the field and strengthens fiduciary assurance.

Figure 3  
**FM enhanced development effectiveness matrix (DEM+) average ratings (all regions) by year**



16. FMD regularly conducts DEM+ reviews on FM aspects in country strategic opportunities programmes (COSOPs), project concept notes, and project design reports as part of the corporate quality assurance process. An in-depth analysis of best practices and areas of further improvement is conducted quarterly as a benchmark and learning tool for future designs and quality reviews. Year-on-year

<sup>6</sup> Soft remedies may include temporarily withdrawing the borrower’s right to use an advance account, requesting substitute expenditure that meets IFAD’s eligibility criteria, and reducing Statement of Expenditure threshold allowances.

comparisons showed a moderate improvement in the quality of FM contributions in the various stages of the review cycle (see figure 3). This is a clear indication that the process is gradually improving learning and contributing to better project designs. Further improvement is expected in 2022. In the past, quality at the concept note stage has been the weak link; however, it improves when the project design team incorporates comments at both the quality review and management approval level, so that quality at entry is much better. Most project designs are rated moderate for FM risk, which is around the corporate risk appetite.

17. The quality assurance review is being further enhanced to perform systematic quality assurance reviews during implementation. This will help to close the loop on the causes of declining ratings in some projects during implementation, as it will provide clear and concise management monitoring during the projects' implementation stage.
18. As part of the divisional knowledge management strategy, these lessons are captured, and clear mechanisms/tools for their dissemination to the front-line teams have been put in place. They include an active community of practice platform, a monthly FMD bulletin and regular technical clinics on specific aspects of FM. These have been vital, given the relatively high proportion of new finance staff.

Table 1

**DEM+ reviews performed by document type**

	<i>DEM+ reviews performed by document type</i>		
	<i>2020</i>	<i>2021</i>	<i>2022 (January - September)</i>
COSOPs	1	7	11
Project concept notes	17	16	18
Project design reports	19	19	19
Project design reports (final quality at entry)	19	24	To be done in Jan 2023

19. **FM capacity-building.** Capacity-building is normally conducted at the project and country levels, but it also is at the subregional and regional levels. In 2022, at this reporting, FMD held over 90 virtual regional workshops for project financial staff and FM consultants, with a focus on FM requirements for IFAD projects – in particular, the development of interim financial reporting. In the Asia and the Pacific region, staff arranged a virtual workshop with representatives of the ministries of finance from 17 countries to update them on IFAD's financial architecture and policy, lending terms, ongoing reforms in interim financial reporting and disbursement processes.
20. The Chartered Institute of Public Finance and Accountancy (CIPFA) has developed a professional certification programme for IFAD entitled Achieving Project Excellence in Financial Management, primarily for project finance staff working with higher-risk projects. The programme supports improvement of the overall FM risk profile of IFAD's project portfolio through capacity-building. Programme implementation began in January 2021 with an overall target of providing training to all active projects by the end of the grant implementation period (2023). FMD monitors the impact of this programme on project FM risks on a quarterly basis. The data as of September 2022 show a slight reduction in the risk profile of the projects whose finance staff participated in the programme.
21. **Lending term operations.** FMD has continued to lead lending term negotiations at the design stage and in analysis for COSOPs, with centralized support by the FMD headquarters anchor unit. In collaboration with CIPFA, FMD developed and delivered a customized practical training course on lending terms to all FMD finance officers in April 2022. Only those who complete the course and pass the subsequent mandatory exam are qualified to lead lending term negotiations for new projects. All finance officers in regional hubs have successfully taken the exam. This strengthens the emerging strategic role of finance officers as "IFAD

finance ambassadors” during their missions to borrower countries and their discussions with relevant country institutions.

22. **Transparency.** In accordance with IFAD’s resources’ commitment to increase transparency and accountability in the use of donor funds, IFAD systematically discloses project audit reports on its website.
23. **Strategic engagement.** Strategic engagement in 2022 continued virtually with multilateral development banks (MDBs) and through international forums to promote dialogue on the harmonization of requirements and emerging practices at the global and country level. A total of four meetings were held with the World Bank, the Inter-American Development Bank and the MDB working group on disbursement planning, including an in-person mission to Washington, D.C.; this mission also followed up on earlier discussions on potential developments in artificial intelligence for the review of project audit reports to reduce the staff burden in terms of time and ensure harmonized review with minimal variations resulting from human judgment. Capital budget requests for 2023 have included a proposal for IFAD to develop its own model.

### III. Project audit reports for financial year 2021<sup>7</sup>

24. **Audit arrangements.** External audit of IFAD-financed projects continues to be a key tool for fiduciary assurance, given its independence from project management and greater geographical coverage than supervision missions, particularly for projects executed at the decentralized level. IFAD’s review of project audit reports provides key management information, including:
  - (i) Reliance on country systems, i.e. use of supreme audit institutions, currently at 41 per cent (see annex III, table 1);
  - (ii) Adherence to international standards (financial reporting and audit); and
  - (iii) Degree of reliability of the audit work, through the assessment of audit quality and the timeliness of audit report submission.
25. The main findings for 262 projects analysed for FY 2021 are summarized below.
26. **Timeliness.** At this writing, 95 per cent (248) of project audit reports due for FY 2021 had been received, leaving 14 overdue. Seventy per cent were received on time (see annex III, table 2), a modest improvement over last year (63 per cent).
27. The timeliness of the internal FMD review and sign-off on audit reports is also closely monitored in accordance with internal procedures that require audit sign-off within 60 days of audit submission. This year, the proportion of audit reports signed off on within the prescribed timeline is 68 per cent, roughly the same level as last year.
28. **Audit report findings.** The percentage of qualified audit opinions in FY 2021 fell to 8 per cent, as reported in annex III, table 3. All 13 projects received qualified audit opinions with exceptions. This compares to 11 per cent in FY 2020.
29. Analysis shows that the main control issues tend to recur from year to year and are often common to all five regions. They include: (i) weak internal controls over project implementation or non-compliance with approved procedures; (ii) inadequate procurement procedures and/or poor contract management; (iii) ineffective use of accounting systems; (iv) failure to provide adequate supporting documentation for project expenditure; (v) limited use of or deviation from international accounting standards; and (vi) ineligible expenditure.
30. **Quality assurance.** As part of FMD’s quality assurance procedures, project audit reports are subject to internal peer review on a sample basis, a practice that is also intended to promote standardization and professional exchange among finance

<sup>7</sup> The term “financial year 2021” covers all financial periods ending between 1 January and 31 December 2021.























officers. The most recent peer review of 34 audit reports indicated that, with few exceptions, the assessments of accounting and auditing standards and audit opinions were deemed reasonable.

31. Further assurance on the quality of project audit reports and the relevance of audit and financial reporting arrangements applied was sought through the fifth annual independent review of project external audit reports, conducted in late 2021. The reviewer focused on three objectives: (i) whether the accounting and auditing standards used are acceptable to IFAD; (ii) the reasonableness and adequacy of audit opinions; and (iii) a quality review of peer reviews. The findings were made available to finance officers as a tool to support better design of new projects and assessment of those being implemented.
32. **Quality of financial reporting.** During 2021, the quality of project financial reporting steadily improved, as did the adoption of relevant accounting standards. Further analysis of these trends is provided in annex IV.



## Financial management structural reforms 2021-2022

Table 1  
Financial management (FM) structural reforms 2021-2022

Goal	How	Task	Progress %	
People	Invest in workforce	Restructure division to create headquarters anchor units	100%	
		Restructure the management of grants to align with portfolio management at hubs	100%	
		Decentralize staff not in headquarters anchor	100%	
		Switch out consultants for staff to increase officer base	100%	
		Review use of national officers to ensure fit for purpose	95%	
		Staff training – risk management course, the International Monetary Fund's public FM course	26%	
		Workforce training – new reforms	90%	
		Create global service centre and roll-out	92%	
		Active participation in development finance institutions community	100%	
		Enhance knowledge management action plan and strategy, including quarterly training, monthly bulletins	100%	
Process	Strengthen corporate dynamics on fiduciary safeguards	Offer guidance to regional teams on FM role and responsibilities; ensure roles of project delivery team are respected	100%	
		Update delegation of authority for new disbursement roles, including letter to borrower (LTB)	100%	
		Financial Management Services Division (FMD) to take on substantive checks; Programme Management Department (PMD) to focus on procurement/operations	100%	
		Introduce mandatory training on FM aspects for operational teams in operations academy	100%	
		Coordinate across divisions to put sustainable solutions in place for annual liquidity ratio targets	75%	
		Reintegrate grant management into regional portfolio allocations	100%	
	Enhance risk-based assurance of use of project funds	Restructure internal actors in disbursement processes to reflect corporate roles and avoid duplication	85%	
		Introduce interim financial reports (IFRs) for all ongoing projects	95%	
		Introduce cashflow forecasting in annual workplan and budget and IFRs, with regular monitoring of disbursement limits	50%	
		Introduce straight-through processing and abolish statement of expenditures for all low- and moderate-risk projects; reduce ex ante documentation	88%	
		Reduce use of direct payments	75%	
		Recalibrate ex ante checks, confining them to high-/some substantial-risk projects	75%	

	Promote greater use of country systems <sup>8</sup>	Desk review analysis shared with officers	5%	<div style="width: 5%;"><div style="width: 5%;"></div></div>	
		Workshop on use of country systems	25%	<div style="width: 25%;"><div style="width: 25%;"></div></div>	
		FMD staff to be enrolled in Public Expenditure and Financial Accountability (PEFA) trainings from PEFA secretariat	0%	<div style="width: 0%;"><div style="width: 0%;"></div></div>	
		Finance officers to consider greater use of country systems in new/ongoing projects, balancing risks and benefits	30%	<div style="width: 30%;"><div style="width: 30%;"></div></div>	
		Targets to be set internally for increased use, and justification required where country systems are not used	67%	<div style="width: 67%;"><div style="width: 67%;"></div></div>	
Tech	Overhaul FM policies and procedures	Reposition Loan Disbursement Handbook as high-level principles for borrowers	100%	<div style="width: 100%;"><div style="width: 100%;"></div></div>	
		Dismantle Financial Management and Administration Manual and embed sections in operational manual	95%	<div style="width: 95%;"><div style="width: 95%;"></div></div>	
		Repackage LTB into FM and procurement pieces and streamline for project guidance	100%	<div style="width: 100%;"><div style="width: 100%;"></div></div>	
		Update delegations of authority	50%	<div style="width: 50%;"><div style="width: 50%;"></div></div>	
		Introduce principles-based approach in the revised documents	75%	<div style="width: 75%;"><div style="width: 75%;"></div></div>	
		Broaden definition of eligible expenditures	100%	<div style="width: 100%;"><div style="width: 100%;"></div></div>	
		Promote increased use of taxation in costings	50%	<div style="width: 50%;"><div style="width: 50%;"></div></div>	
		Strengthen reporting on in-kind contributions	70%	<div style="width: 70%;"><div style="width: 70%;"></div></div>	
		Review use of recurrent costs	90%	<div style="width: 90%;"><div style="width: 90%;"></div></div>	
		Provide updated list of remedies to provide greater options in case of non-compliance	80%	<div style="width: 80%;"><div style="width: 80%;"></div></div>	
		Enhance role of FMD's Financial Management, Policies and Procedures and Quality Assurance unit in arms-length quality assurance, seamlessly providing areas for capacity-building	100%	<div style="width: 100%;"><div style="width: 100%;"></div></div>	
		Facilitate revision of other key documents impacted – General Conditions for Agricultural Financing	100%	<div style="width: 100%;"><div style="width: 100%;"></div></div>	
		Harness technology	Roll out updated disbursement processes in the IFAD Client Portal	80%	<div style="width: 80%;"><div style="width: 80%;"></div></div>
			Introduce web-based approach for operational manual (e.g. Financial Management and Administration Manual)	95%	<div style="width: 95%;"><div style="width: 95%;"></div></div>
Automate LTB and embed in the Operational Results Management System	30%		<div style="width: 30%;"><div style="width: 30%;"></div></div>		
Enhance the Financial Management Database and the Audit Report Tracking System	89%		<div style="width: 89%;"><div style="width: 89%;"></div></div>		
Introduce and maintain FM and lending terms bot	50%		<div style="width: 50%;"><div style="width: 50%;"></div></div>		
Roll out cashflow forecasting for use by PMD, FMD and the Treasury Services Division	N/A				
Upgrade monthly reporting/exceptions reporting on operations and budget with escalation to Senior Management in dashboards	100%		<div style="width: 100%;"><div style="width: 100%;"></div></div>		
Total progress		79%			

<sup>8</sup> To be reprioritized and expanded after additional diagnostics and staff training.

## **Summary of systems development completed**

### **Financial Management Dashboard:**

- (i) Improved monitoring of ineligible expenditures
- (ii) Notification of audit warning notice
- (iii) Financial Management Dashboard updated with:
  - IFAD grant recipients' due diligence tracking history
  - Audit trail of European Commission verification

### **Audit Report Tracking System:**

- (i) Audit Report Tracking System for grants
- (ii) Audit disclosure workflow enhanced

## Project audit reports – financial year 2021

Table 1  
**Audit arrangements for financial years 2020 and 2021**  
 (Audit reports received and signed off)

Region	Financial year 2021			Financial year 2020		
	Undertaken by government auditors <sup>a</sup>	Undertaken by private auditor <sup>b</sup>	Total	Undertaken by government auditors	Undertaken by private auditor	Total
Asia and the Pacific	32	31	63	43	23	66
East and Southern Africa	25	22	47	25	26	51
Latin America and the Caribbean	10	25	35	12	27	39
Near East, North Africa and Europe	14	24	38	14	28	42
West and Central Africa	10	29	39	15	41	56
<b>Total</b>	<b>91</b>	<b>131</b>	<b>222</b>	<b>109</b>	<b>145</b>	<b>254</b>
<b>Percentage</b>	<b>41%</b>	<b>59%</b>	<b>100%</b>	<b>43%</b>	<b>57%</b>	<b>100%</b>

<sup>a</sup> Includes seven audits performed by national entities that are not the supreme audit institutions (previous year: 13 audits).

<sup>b</sup> No audit was outsourced by government auditors to a private firm for financial year 2021 (previous year: five audits).

Table 2  
**Timeliness of project audit report submission for financial years 2020-2021**  
 (Audit reports received)

Audit reports	2021		2020	
	Number	%	Number	%
Received on time	183	70	169	63
Received with delay	65	25	88	33
<b>Subtotal</b>	<b>248</b>	<b>95</b>	<b>257</b>	<b>96</b>
Still due as at 30 September	14	5	10	4
<b>Total reports due for year</b>	<b>262</b>	<b>100</b>	<b>267</b>	<b>100</b>

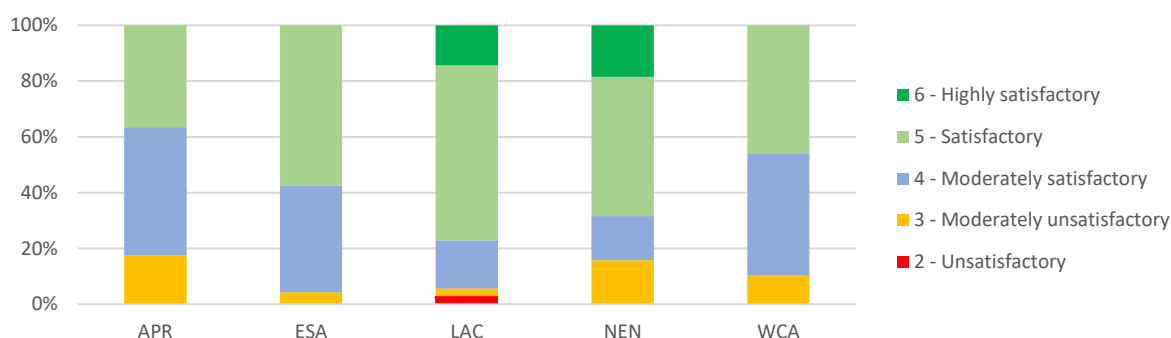
Table 3  
**Audit opinion expressed on project financial statements for financial years 2020 and 2021**  
 (Audit reports received and signed off)

Region	Financial year 2021				Financial year 2020		
	Audit reports received	Unqualified	Qualified	Not applicable	Audit reports received	Unqualified	Qualified
Asia and the Pacific	49	45	4	0	49	47	2
East and Southern Africa	38	33	5	0	36	34	2
Latin America and the Caribbean	10	9	0	1	15	13	2
Near East, North Africa and Europe	32	28	2	2	35	30	5
West and Central Africa	31	29	2	0	40	31	9
<b>Total</b>	<b>160</b>	<b>144</b>	<b>13</b>	<b>3</b>	<b>175</b>	<b>155</b>	<b>20</b>
<b>Percentage</b>	<b>100%</b>	<b>90%</b>	<b>8%</b>	<b>2%</b>	<b>100%</b>	<b>89%</b>	<b>11%</b>

## Quality of financial and audit reports - financial year (FY) 2021

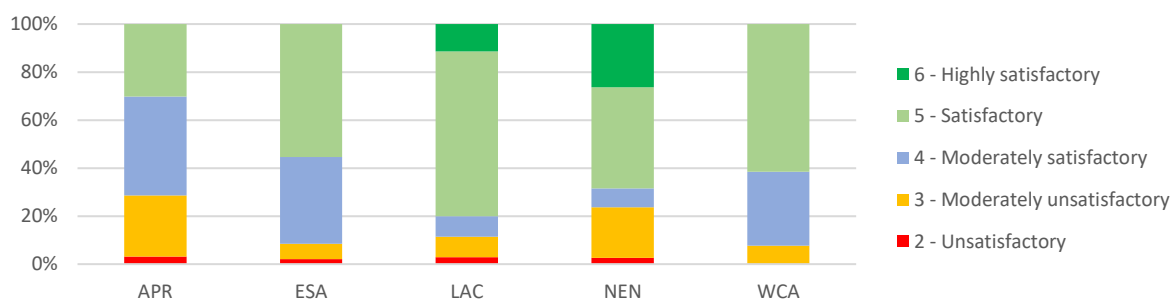
1. In FY 2021, 45 per cent of financial reports were prepared using international standards (FY 2020: 43 per cent) and 33 per cent using national or regional standards (FY 2020: 31 per cent). Other standards or "modifications/deviations from international standards" were used in 22 per cent of projects (FY 2020: 26 per cent).
2. The quality of financial reporting rated satisfactory or highly satisfactory exhibited the highest percentage in recent years, standing at 55 per cent in FY 2021, an improvement from 47 per cent in FY 2020. The proportion of reports rated moderately satisfactory was 34 per cent, compared to 38 per cent in FY 2020, whereas those rated either moderately unsatisfactory or unsatisfactory decreased slightly from 15 per cent in FY 2020 to 11 per cent.<sup>9</sup>

Figure 1  
Quality of financial reporting FY 2021<sup>10</sup>



3. The quality and timeliness of audit reports are measured as part of IFAD's corporate methodology for the assessment of project performance. This indicator consists of two elements: the quality of the audit work; and the timeliness of audit report submission. Even a high-quality audit report is penalized if submitted late.<sup>11</sup>
4. The quality and timeliness of audit reports improved in FY 2021, with 55 per cent of audits rated highly satisfactory or satisfactory (50 per cent in FY 2020), 27 per cent rated moderately satisfactory (31 per cent in FY 2020), and 17 per cent rated moderately unsatisfactory or unsatisfactory (18 per cent in FY 2020).

Figure 2  
Quality and timeliness of audit, FY 2021<sup>12</sup>



<sup>9</sup> See paragraph 6 for a description of IFAD actions in the case of poor performers.

<sup>10</sup> Ratings were based on the -222 audit reports.

<sup>11</sup> Audit reports submitted after the due date cannot be rated higher than 3 (moderately unsatisfactory).

<sup>12</sup> Ratings based on -222 audit reports.

5. In FY 2021, 83 per cent of auditors used international standards (87 per cent in FY 2020), and 17 per cent used national or regional standards (13 per cent in FY 2020).
6. Five out of the 222 projects analysed had been requested to implement a mandatory action plan to address issues identified by the auditors and/or IFAD (7 requests in FY 2020 and 8 in FY 2019).