

---

## **Minutes of the 168<sup>th</sup> meeting of the Audit Committee**

---

Document: EB 2023/138/R.19

Agenda: 14(b)

Date: 5 May 2023

Distribution: Public

Original: English

**FOR: INFORMATION**

---

---

**Technical questions:**

**Advit Nath**

Director and Controller  
Financial Controller's Division  
e-mail: a.nath@ifad.org

**Deirdre Mc Grenra**

Secretary of IFAD, a.i.  
Office of the Secretary  
e-mail: d.mcgrenra@ifad.org

---

---

## **Minutes of the 168<sup>th</sup> meeting of the Audit Committee**

---

Document: AC/168

Date: 5 May 2023

Distribution: Restricted

Original: English

---

---

**Technical questions:**

**Advit Nath**  
Director and Controller  
Financial Controller's Division  
e-mail: a.nath@ifad.org

**Deirdre Mc Grenra**  
Secretary of IFAD, a.i.  
Office of the Secretary  
e-mail: d.mcgrenra@ifad.org

---

## Minutes of the 168<sup>th</sup> meeting of the Audit Committee

1. The 168<sup>th</sup> meeting of the Audit Committee was held on 6 April 2023 in hybrid modality.
2. The meeting was attended by Committee members representing Algeria, Argentina, China, Germany, Italy, United Kingdom, United States and the Bolivarian Republic of Venezuela. The representatives for the Dominican Republic participated as observers. The meeting was also attended by: the Associate Vice-President and General Counsel, Office of the General Counsel and Associate Vice-President, Chief Financial Officer and Chief Controller, ad interim, Financial Operations Department; Associate Vice-President and Chief Risk Officer, Office of Enterprise Risk Management; Associate Vice-President, Programme Management Department; the Director and Controller, Financial Controller's Division; Director and Treasurer, Treasury Services Division; Director, Office of Audit and Oversight; the Secretary of IFAD, ad interim; Director of Ethics, Ethics Office; Director, Operational Policy and Results Division; and a number of other IFAD staff members.

### **Agenda item 2 – Adoption of the agenda (AC 2023/168/R.1) – for approval**

3. The agenda was adopted with the inclusion of the following items:
  - Item 11 – IFAD's investment portfolio for 2022 and an oral update/overview of investment management strategy during first quarter 2023 in light of recent events in the banking sector.
  - Item 12 – Any other business:
    - (a) Review of the internal audit report of the cross-cutting and corporate findings from audits of seven offices in 2021/2022 (Indonesia, Zambia, Sierra Leone, Sudan, Peru, Bangladesh and South Africa) (considered in closed session);
    - (b) Review of the internal audit report of the supervision of the country programme in Niger (considered in closed session); and
    - (c) Request from the external auditor for additional fees.

### **Agenda item 3 – Minutes of the 167<sup>th</sup> meeting of the Audit Committee (AC 2023/168/R.2) and its closed session (AC 2023/168/R.2/Add.1) – for approval**

4. The minutes were approved with no amendments.

### **Agenda item 10 – Draft provisional agenda for the 169<sup>th</sup> meeting of the Audit Committee (AC 2023/168/R.10) - for review**

5. Document AC 2023/168/R.10 containing the draft agenda for the 169<sup>th</sup> meeting was reviewed with no amendments.

### **Agenda item 4 – IFAD financial statements**

- (a) **Review of the consolidated financial statements of IFAD as at 31 December 2022, including the Management assertion report and an independent external attestation on the effectiveness of internal controls over financial reporting (AC 2023/168/R.3 + Add.1) – for review**
- (b) **High-level review of the IFAD-only financial statements for 2022 (AC 2023/168/R.4) – for review**
6. Management introduced this agenda item, noting the external auditor's unqualified audit opinion on the consolidated financial statements of IFAD as at 31 December 2022. For fiscal year 2022, Management confirmed the operational effectiveness of

all key internal controls over financial reporting in the Management assertion report, with an independent attestation by the external auditor.

7. Management identified the key factors in IFAD's financial position and reported results, emphasizing two main accounting changes that occurred during fiscal year 2022: (i) the application for the first time of hedge accounting associated with the issuance of private placements complemented by interest rate swaps; and (ii) the voluntary revision of accounting policy for measurement of financial instruments to disclose such balances at their transactional value or nominal value. It was noted that this change involved a restatement of IFAD's assets by approximately US\$1.2 billion and was aligned to industry best practice by reflecting more precisely the specificity of the IFAD business model. This improved the understandability of IFAD's financial statements by better reflecting the economic substance of the underlying transactions.
8. Management noted that despite the pandemic and the effects of the war in Ukraine the overall financial situation was sound, with IFAD's consolidated assets surpassing the US\$11 billion mark, and that long-term viability was being monitored closely. It was noted that at the end of December 2022, all financial ratios were within IFAD's policy thresholds.
9. The external auditor provided details about audit work performed as part of the audit of the financial statements.
10. Committee members requested details about: how the calculation of financial ratios could be affected by accounting policy changes; the accounting treatment of Heavily Indebted Poor Countries (HIPC) debt relief entitlements and compensation for Somalia and Sudan; the increased provision in stage 2 expected credit loss; details on private placement accounting treatment; changes in fair value accounting; and trends in undisbursed balances.
11. Management provided the necessary clarifications noting that financial ratios and thresholds, as stated in the Integrated Borrowing Framework (IBF), are not based on IFAD's fair value figures but rather on its nominal figures. It was noted that, although the ratio of non-performing loans decreased due to the clearance of Somalia arrears, macroeconomic scenarios generally impacted the overall level of loan provisioning allowance, and that in particular some countries such as Pakistan and Sri Lanka had transitioned to stage 2. It was noted that Somalia and Sudan would be covered by the HIPC allowance and that debt relief compensation would be accounted for as receivable after completion point, upon signature of the contribution agreement with the World Bank Trust Fund. Management provided the requested details about private placement and hedge accounting and noted that undisbursed balances presented a downward trend. Management also provided details about the fair value accounting change in relation to the reference market for loan measurement criteria, highlighting the uniqueness of the IFAD business model in comparison with the private sector and its similarity with other multilateral institutions. The external auditor clarified that suggestions and procedural observations for the next audit cycle in 2023 would be shared at the June meeting. Committee members were comfortable with Management's proposal not to transfer any amount to the General Reserve.
12. **Outcome and follow-up.** The documents were considered reviewed and would be submitted to the forthcoming Executive Board session for approval for subsequent submission to the Governing Council.

**Agenda item 5 – Annual report on the activities of the Office of Audit and Oversight (AUO) during 2022 and review of the adequacy of the internal oversight mechanisms (AC 2023/168/R.5) – for review**

13. AUO presented the report on internal audit and investigation activities in 2022. AUO highlighted that the implementation of IFAD’s organizational, financial, workforce and business reforms had continued in 2022. AUO’s continued focus on auditing country programmes had brought to light some challenges in supervising programme implementation, especially project procurement; however, significant strengthening of IFAD project procurement oversight capacity was reported.
14. It was noted that compliance with rules and procedures remained good throughout the organization; the revised delegation of authority framework was gradually being deployed, and the financial aspects of IFAD processes had been positively assessed.
15. Audits of the People, Process and Technology Plan (PPTP), liquidity management and IFAD Country Offices (ICOs) assessed ongoing reforms and identified some areas for improvement.
16. It was reported that the number of allegations of misconduct and prohibited practices had increased in 2022, as a consequence of the full resumption of in-person project and supervision activities. AUO stepped up its anticorruption response by completing the highest number of cases in 2022, which in turn led to the highest number of sanctions applied by IFAD.
17. To facilitate early risk mitigation in light of the high investigation caseload, AUO fielded joint audit/investigation missions for high risk portfolios and actively contributed to the internal integrity due diligence list.
18. The Committee was also informed that the external review of the IFAD investigation function had been completed in February 2023. The full report, together with Management’s and AUO’s comments and action plan, would be presented to the Audit Committee for discussion at the forthcoming 169<sup>th</sup> meeting. It was noted that the terms of reference for the forthcoming external quality assessment of the internal audit function would soon be circulated and would be based on very specific technical guidance from the Institute of Internal Auditors.
19. In response to members’ comments about the challenges in terms of staffing and resources, AUO noted that it had adequate staffing and resources to deliver on its workplan with adequate quality and independence.
20. Committee members welcomed the report and expressed appreciation for the work done by AUO, the progress made, and the professionalism demonstrated. Some Committee members requested a thorough audit coverage of both corporate functions and ICOs/country programmes; others requested clarifications about possible improvements in communications and about the optimal size of an audit team. Several references were made to the high vacancy rate and staff turnover in IFAD, with calls for careful coverage in the audit function, including in relation to the use of consultants.
21. AUO provided the necessary clarifications and highlighted that country programmes had emerged as the area most affected by reforms (e.g. decentralization, delegation of authority), and therefore required adequate audit emphasis. The AUO three-year plan foresees an increase in audits of corporate functions and this will be evident in AUO’s proposed workplan for 2024. AUO also clarified that during the last fiscal year the audit team was fully staffed, which had allowed substantial progress to be made on the 2022 audit activities.
22. **Outcome and follow-up.** The document was considered reviewed and would be posted with restricted access rights for Executive Board representatives. The full report of the external review of the IFAD investigation function, together with

Management's and AUO's comments and action plan, would be presented to the Audit Committee for discussion at forthcoming 169<sup>th</sup> meeting. The terms of reference of the external quality assessment of the internal audit functions will be circulated to Committee members for review.

**Agenda item 6 – Update to the Integrated Borrowing Framework (AC 2023/168/R.6) – for review**

23. Management introduced the agenda item, noting that the revision of the IBF was the result of lessons learned after the IBF's approval and after the issuance of private placements. It was noted that the goal of the revision was to increase efficiency and allow for a more agile interaction with investors, and to strengthen IFAD's capacity to enter into derivatives transactions for hedging purposes.
24. Committee members expressed appreciation for the quality of the document. Some members requested clarifications about the appropriate level of debt-to-equity ratio and liquidity ratio, and about the approach to investors' due diligence in terms of the weapon-related exclusion policy in view of the possible reputational implications.
25. Management provided the necessary details and clarified that IFAD has a very conservative leverage approach in comparison with peer institutions. With regard to investors' due diligence, Management explained that IFAD's approach was similar to that of other organizations.
26. **Outcome and follow-up.** The document was considered reviewed and will be submitted to the forthcoming Executive Board for approval.

**Agenda item 7 – Update to IFAD's ordinary loans pricing (AC 2023/168/R.7) – for review**

27. Management introduced the proposed revision of ordinary loans pricing noting that the goal was to correct the historical distortion by considering IFAD's cost of funding as the basis of the new methodology and no longer that of the International Bank for Reconstruction and Development (IBRD).
28. Committee members welcomed the proposal and reiterated the importance of adopting a cost pass through mechanism to maintain consistency with other international financial institutions and to maintain IFAD's financial sustainability.
29. **Outcome and follow-up.** The update was considered reviewed and will be submitted to the forthcoming Executive Board for approval.

**Agenda item 8 - Oversight role regarding the ethics function at IFAD (AC 2023/168/R.8) - for review**

30. Management provided an overview of the best practices in international organizations concerning the oversight role of governing bodies over the ethics function. It was noted that an independent ethic function is essential to an institution's credibility and reputation, and that an oversight role by a governing body can help strengthen this independence. Committee members welcomed the document and agreed to an oversight role by a governing body over the IFAD ethics function, and supported that in principle the reporting to the Board would take place through the Audit Committee.
31. **Outcome and follow-up.** The Committee, in consultation with the Director of Ethics, will prepare and submit a proposal on the oversight of the IFAD ethics function for the Executive Board's attention.

**Agenda item 9 – Revised Terms of Reference and Rules of Procedures of the Audit Committee**

32. **Outcome and follow-up.** The revised terms of reference inclusive of adjustments to operationalize the enhanced complaints process for alleged non-compliance with Social, Environmental and Climate Assessment Procedures (SECAP) was considered

as reviewed with no additional changes. It will be submitted to the Executive Board for final approval.

**Agenda item 11- IFAD's investment portfolio for 2022 and an oral update/overview of investment management strategy during first quarter 2023 in light of recent events in the banking sector.**

33. Management provided an overview of events that occurred during the first quarter of 2023 which created high turbulence and tension in financial markets. There was no immediate impact on IFAD's liquidity portfolio as this was largely invested in high credit quality instruments and the portfolio remained resilient to market turmoil due to its large share in high-quality liquid assets, low interest rate sensitivity, and limited exposure to the banking sector. Management noted that there was no banking exposure in the United States dollar portfolio and that the euro portfolio had only one position in a United States bank, in the amount of EUR 12.5 million equivalent. Furthermore, all positions were either hedged against interest rate risk or linked to a floating rate, resulting in very limited exposure to interest rate changes. Overall the portfolio maintained very low sensitivity to interest rate risk, with a duration at 0.2 years for the United States dollar portfolio and 0.6 years for the euro portfolio, and it was highly diversified and well positioned to withstand market turmoil.
34. Committee members appreciated the update and requested clarifications about the duration measures. In response, Management explained that duration is an indication of portfolio sensitivity expressed in years.
35. **Outcome and follow-up.** The document, together with the oral update, were considered as noted.

**Agenda item 12 – Other business**

**(a) Cross-cutting and corporate findings from audits of seven offices in 2021/2022 (Indonesia, Zambia, Sierra Leone, Sudan, Peru, Bangladesh and South Africa) (IAR/22/17) – for review**

**(b) Audit of the supervision of the country programme in Niger (IAR/23/01) – for review**

36. At the request of members, the Committee met in closed session to review the internal audit reports of: (i) the cross-cutting and corporate findings from audits of seven offices in 2021/2022 (Indonesia, Zambia, Sierra Leone, Sudan, Peru, Bangladesh and South Africa), as contained in document IAR/22/17; and (ii) the audit of the supervision of the country programme in Niger, as contained in document IAR/23/01. Further details will be contained in the minutes of the closed session.
37. **Outcome and follow-up.** The documents were considered as reviewed. With regard to the audit of the supervision of the country programme in Niger, Management will provide additional updates at future sessions of the Audit Committee.

**(c) Request from the external auditor for additional fees**

38. The Chairperson noted the document, tabled with short notice, contained a request from the external auditor for additional fees in the amount of EUR 15,000, pertaining to extraordinary work performed on the 2022 accounts.
39. Management confirmed that in 2022 significant one-time additional work was performed in relation to a voluntary change in accounting policy pertaining to financial instrument measurement criteria (i.e. fair value accounting). Management also confirmed that the request appeared reasonable for the work performed, which had been carried out at a high standard for IFAD.

40. Management recalled that the Audit Committee reviews any significant changes in the scope or financial terms of the appointment of the external auditor and reports to the Executive Board on any related issues that require the Board's attention. It was noted that a similar precedent occurred in 2018, when Deloitte & Touche requested a 12 per cent increase in audit fees for additional work performed for the one-time event of the adoption of the IFRS9 accounting standard. It was also noted that the fee increase currently being requested was at a lower percentage (i.e. less than 10 per cent) than that of 2018.
41. Members were informed that the Audit Committee had reviewed that change in financial terms in 2018 and reported on it to the Executive Board for the sake of transparency.
42. **Outcome and follow-up.** Committee members noted the information provided. It was decided that, given the short notice, members would have until 14 April to review the external auditor's request, and that the final decision will be conveyed to the Board for information thereafter, without need for discussion at the Board, consistent with past practice.
43. It was confirmed that no further comments were received by 14 April from members and thus the request from the external auditors was considered approved in accordance with the Committee's Terms of Reference. The Executive Board will be informed at the next session.