
Report of the Chairperson on the 170th meeting of the Audit Committee

Document: EB 2023/139/R.24

Agenda: 11(e)

Date: 12 September 2023

Distribution: Public

Original: English

FOR: INFORMATION

Action: The Executive Board is invited to take note of the information provided herein.

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Executive summary

1. The Audit Committee reviewed the preview of IFAD's 2024 results-based programme of work, regular and capital budgets, and medium-term strategic budget outlook for 2025–2026, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2024 and indicative plan for 2025–2026, which will be presented to the 139th session of the Executive Board, for review.
2. The Committee also reviewed the Progress report on the workplan for IFAD's Office of Audit and Oversight for 2023.

Report of the Chairperson on the 170th meeting of the Audit Committee

1. The 170th meeting of the Audit Committee was held on 6 September 2023 in hybrid modality.

Agenda item 2 – Adoption of the agenda (AC 2023/170/R.1) – for approval

2. The agenda was adopted with the inclusion of the following items:

Under agenda item 6 - Standard financial reports presented to the Executive Board

- An oral update on the IFAD13 and IFAD12 replenishments

Under agenda item 7 - Other business

- An internal audit report was considered in closed session.

The Audit Committee also noted that the presentation on the oversight of the IFAD ethics function was postponed to the meeting in November.

Agenda item 3 – High-level preview of IFAD's 2024 results-based programme of work, regular and capital budgets, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2024 and indicative plan for 2025-2026 (AC 2023/170/R.2)

3. Management introduced the agenda item, noting that the valuable guidance received from Audit Committee members during bilateral meetings and the continued inclusive and consultative process would help in preparing and fine-tuning the final budget document.
4. Management referred to IFAD's transformation over recent years, which had allowed for the delivery of a growing and more complex portfolio within a zero real growth budget and emphasized how, during the first two years of the Twelfth Replenishment of IFAD's Resources (IFAD12) period, the increased administrative resources had enabled IFAD to invest in core priorities such as decentralization and institutional reforms, in line with IFAD's long-term strategic trajectory to deepen its impact.
5. Management confirmed that the focus of the 2024 budget proposal remained on programme delivery and decentralization, noting that the 2024 programme of loans and grants (PoLG) was projected at US\$1.5 billion and that the planned decentralization operations would further strengthen the presence in country offices, while ensuring optimization of resource utilization.
6. Depending on the timing of the establishment of regional offices in the Asia and the Pacific region and the Latin America and the Caribbean region, the budget proposal for 2024 would envisage an increase in real terms of up to 1.9 per cent and, in nominal terms, the total budget was projected at US\$183.5 million, including a net price increase of approximately 2.53 per cent. It was also noted that the capital budget for 2024 would be in the range of US\$5.4 million to US\$6.2 million.
7. The Independent Office of Evaluation of IFAD (IOE) introduced its work programme and budget for 2024. The work programme included: the start of a corporate-level evaluation on IFAD11 and IFAD12 to be completed in 2025; a new thematic evaluation on IFAD's support to nutrition; preparation of the Annual Report on the Independent Evaluation of IFAD (ARIE); and carrying out of country strategy and programme evaluations, and performance evaluations. For the purpose of this preview, the IOE budget for 2024 was estimated at US\$5.952 million, compared to the 2023 budget of US\$5.971 million. This corresponded to 0.51 per cent of IFAD's expected PoLG for next year, a figure below the IOE budget cap of 0.9 per cent adopted by the Executive Board. It was also noted that IOE, in consultation with the Office of Strategic Budgeting of IFAD, needed to assess the budget required for its staff in Professional and above positions. Moreover, Audit Committee members noted that the Evaluation Committee had provided feedback on the budget size, which IOE

would take into account. IOE would present a revised budget formulation at the Evaluation Committee session in October and the Audit Committee meeting in November.

8. While appreciating the proposed increase presented in the preview being moderate and lower than the recent ones experienced in previous years, Committee members requested clarifications about the decentralization process and related one-time and recurrent costs, and how the proposed budget increase would contribute to this process and to IFAD's capacity to fully deliver the IFAD12 programme in 2024.
9. In this vein, the Committee also encouraged Management to pursue a strong prioritization approach, especially with 2024 planned activities, related costs and potential trade-offs, so as to contain budget increases. Committee members also appreciated the higher utilization of the carry-forward budget.
10. In view of delivering a well-justified budget proposal, more transparency on both real and nominal costs was sought by some members, in particular regarding the various assumptions concerning inflation, trends and details of the vacancy rate, travel and consultancy expenditures and smart budgeting.
11. The IOE budget proposal was considered adequate and well substantiated.
12. Management welcomed the members' feedback and, in providing the required clarifications, noted that the document was a preview of the budget envelope for 2024, and that consolidation and prioritization would be undertaken prior to the document's finalization for the November 2023 meeting.
13. Management clarified that the proposed budget increase would be entirely channelled to resourcing the incremental decentralization costs, which in part would be offset by savings and trade-offs on the 2023 baseline. Regarding price adjustment applied to the staff costs budget component, Management clarified that this is projected to be lower than the inflation rate applicable to other expenditure categories. It was also noted that the final version of the budget document would contain additional information with adequate granularity, including details of smart budgeting (e.g. direct and indirect costs).
14. Management also noted that delivery during 2023 had been very difficult due to geopolitical instability and the global economic context, growing interest rates and inflation, which in some cases had negatively impacted and/or postponed the design phase of IFAD projects. On the positive side, Management predicted high demand for IFAD resources, both under the performance-based allocation system and the Borrowed Resource Access Mechanism for the 2024 PoLG. Management advised that the proactive approach to reallocating resources would continue in order to ensure efficient portfolio management and reprogramming. Management informed the Committee about a forthcoming informal seminar on staffing trends and the vacancy ratio.
15. **Outcome and follow-up:** The document was considered reviewed; in drafting the final budget document, Management would incorporate the views provided during the 170th Committee meeting. The document would be submitted to the upcoming Executive Board for review.

Agenda item 4 – Progress report on the workplan for IFAD's Office of Audit and Oversight for 2023 (AC 2023/170/R.3)

16. The Office of Audit and Oversight (AUO) provided an update on trends and salient issues arising from recent audit and investigations activities. AUO noted that activities carried forward from 2022 had been completed and most of 2023 assignments would be finished by year-end. AUO had audited most of the high-risk country programmes in the last three years. The expectation is that the results of ongoing and future country programme audits will start reflecting the significant improvements in supervision of project fiduciary and procurement activities made over the recent years. The audit work on financial and transactional aspects of

IFAD's business processes and functions continued to confirm strong compliance and adherence to the controls in these areas. The pace of intake of misconduct and corruption complaints increased during 2023. The Committee was informed that AUO was now fully staffed and received full budget allocations. AUO noted that the application of the mandatory rotation policy to AUO audit staff – a practice not observed by any other United Nations organization or international financial institution (IFI) – could have a significant negative effect on AUO's audit capacity and on its ability to operate with the required independence, also considering the small and fairly new IFAD audit team. Finally, it was noted that first draft report of the external review of the internal audit function was expected to be issued by the end of September.

17. Committee members welcomed the progress report and requested clarifications about the fulfilment of audit tasks for 2023, AUO resources and the increasing number of misconduct and corruption complaints. The Committee concurred with the position that AUO staff should not be subject to mandatory rotation as this negatively impacts the office's objectivity and independence as a third-line function, and noted that this was aligned with the practices of other United Nations organizations or IFIs.
18. AUO confirmed that the majority of the 2023 internal audit reports would be finalized by the end of 2023 and that all the reports for 2022 had already been issued. AUO noted the challenges faced in managing parallel assignments in order to accommodate the timing changes and priorities of the auditees. AUO was provided with the requested remaining budget for 2023. Many of the misconduct and corruption complaints were linked to country programmes being implemented in fragile situations. A factor that contributed to the rise in allegations during this period was the high number of red flag matters identified and reported by the audit teams through the several audits of high-risk country programmes, as well as external complaints prompted by the presence of audit teams in the field. AUO coordinates with other United Nations audit offices where the audit activities potentially overlap and will continue to do so in relation to the upcoming Ethiopia country programme audit. Some overdue high-priority recommendations had been adjusted to normal priority when AUO assessed that actions already taken by the responsible divisions had partially mitigated the associated risk.
19. **Outcome and follow-up:** The document was considered reviewed and a revised version would be posted after the meeting.

Agenda item 5 – Draft provisional agenda for the 171st meeting of the Audit Committee (AC 2023/170/R.4)

20. The Committee reviewed the draft provisional agenda for the 171st meeting to be held in November 2023 noting the inclusion of the following items:

- Progress update on IFAD's decentralization;
- Update of the Anti-Money Laundering and Countering the Financing of Terrorism Policy, and controllership;
- Review of the implementation of Management's response to the 2018 corporate-level evaluation of IFAD's financial architecture
- Asset and liability management report as at June 2023;
- Oversight of the IFAD ethics function.

21. **Outcome and follow-up:** The draft provisional agenda was considered reviewed.

Agenda item 6 – Standard financial reports presented to the Executive Board

Oral update on the status of the IFAD13 and IFAD12 replenishments

22. Management provided an oral update on the status of IFAD12 contributions and the level of pledges already received for IFAD13.

Agenda item 7 – Other business

23. The following internal audit report was discussed in closed session:
 - (a) IAR/23/06 - Audit of the supervision of the country programme in the Democratic Republic of the Congo