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Minutes of the 171st meeting of the Audit Committee

1. The 171st meeting of the Audit Committee was held on 20 November 2023 in hybrid modality.

2. The meeting was attended by Committee members representing Algeria, Angola, Argentina, China, Germany, Italy, United Kingdom, United States and Bolivarian Republic of Venezuela. Representatives for Canada, Dominican Republic, France and Mexico participated as observers. The meeting was also attended by: the Vice-President; the Associate Vice-President and General Counsel, Office of the General Counsel (LEG); the Associate Vice-President, Chief Financial Officer and Chief Controller, Financial Operations Department; the Associate Vice-President and Chief Risk Officer, Office of Enterprise Risk Management; the Associate Vice-President, Strategy and Knowledge Department; the Associate Vice-President, Corporate Services Department; the Director and Controller, Financial Controller's Division (FCD); the Director and Treasurer, Treasury Services Division; the Director, Office of Audit and Oversight (AUO); the Director, Financial Management Services Division; the Director, Quality Assurance Group and Lead Officer, Change Delivery and Innovation Unit; the Director, Human Resources Division; the Secretary of IFAD, Office of the Secretary; the Director, Office of Strategic Budgeting (OSB), the Director, Independent Office of Evaluation of IFAD (IOE); the Deputy Director, IOE; the Lead Evaluation Officer, IOE; the Lead Adviser, Results and Resources, Operational Policy and Results Division; and a number of other IFAD staff members.

Agenda item 2 – Adoption of the agenda (AC 2023/171/R.1) – for approval

3. The agenda was adopted, the Committee having noted the following:

   (a) Documents AC 2023/171/R.7 and AC 2023/171/R.8 contained revisions to both IFAD's Internal Control Framework and the Anti-Money Laundering and Countering the Financing of Terrorism Policy, rather than merely updates; and

   (b) A proposal to revise the Terms of Reference and Rules of Procedure of the Audit Committee was included in document AC 2023/171/R.15 entitled IFAD Ethics Charter.

Agenda item 3 – IFAD's 2024 results-based programme of work, regular and capital budgets, and the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2024 and indicative plan for 2025-2026 (AC 2023/171/R.2) – for review

4. Please refer to the Audit Committee's separate report on this item (EB 2023/140/R.16).

Agenda item 4 – Progress update on IFAD's decentralization (AC 2023/171/R.3) – for review

5. Management provided an update of the decentralization reform process, noting that the current Decentralization 2.0 recalibration plan retains the timeline and target to decentralize 45 per cent of staff positions by the end of 2024. It was noted that achievements in the people workstream included reaching the 40 per cent staff decentralization goal in June 2023, reducing the field office vacancy rate by 9 percentage points between January and September from 22 to 13 per cent, providing upskilling and reskilling to a total of 555 staff, and enhancing staff well-being through the workplace culture and diversity, equity and inclusion initiatives.

6. The reassignment exercise in 2023 prioritized business continuity and internal staff promotion and is set to conclude as planned. Progress involved in the infrastructure workstream included plans to open 47 IFAD Country Offices (ICOs) by the end of 2024, with 43 offices already operational. The decision to establish the regional office for the Asia and the Pacific region (APR) in Bangkok, Thailand, by the third quarter of 2024 had been taken in consideration of cost-effectiveness, visa and

travel accessibility, staff well-being and the presence of other United Nations agencies and international financial institutions (IFIs), among other factors. A decision on the location of the regional office for the Latin America and the Caribbean region (LAC) is expected by December 2023 or early 2024. A comprehensive assessment of IFAD's headquarters is under way to align it with the decentralized structure. The 2024 budget prioritizes decentralization with 1.7 per cent real growth to cover mainly staffing costs. This budget will also cover adjustments to the APR and LAC regional offices and essential office upgrades, introduce three new ICOs (in Benin, Cambodia and United Republic of Tanzania), and ensure that there will be no job losses for General Service (GS) staff at headquarters. Some Committee members requested clarifications about operational trends, including the deterioration in quality of financial project reports vis-à-vis the scale of decentralization and related capacity-building, the trend to replace GS positions at headquarters with national positions in the field, the opening of the regional office in APR and the distinction between country director-led country offices and multi-country offices. Other members requested details on the cost implications of the recalibration plan and the size of regional and multi-country offices.

7. Management clarified that IFAD is going through a transition and highlighted the need to fully integrate systems, processes and evolving capacities. It was noted that the presence of country directors in the field will improve the quality of operations and relationships with counterparts. It was also noted that many technical experts will be located in the regional offices. Management provided details about the ongoing headquarters review. Management also noted that the current software in use meets the needs of the decentralization and is being configured to better address all requirements. The Committee was informed that with the support of local hosting authorities, Management was looking for both a temporary location and a permanent office space for the regional office in APR. Management also confirmed that since the implementation of the plan in 2012, the commitment of no job loss had been respected, with some GS vacancies being filled by impacted staff. Management also clarified the difference between a multi-country office and a country director-led office, highlighting that the former involves housing multiple country directors in the same office rather than having a single country director managing multiple countries. It was also noted that the opening of some country offices had been deferred due to local instabilities.

8. **Outcome and follow-up:** The document was considered reviewed.

Agenda item 5 – Resources available for commitment (AC 2023/171/R.4) – for review

9. The Committee was informed that, as of September 2023, donor pledges amounted to US$1.28 billion and the funding plan for 2023 was being implemented as scheduled, and that US$1,050 million in borrowing for the Twelfth Replenishment of IFAD's Resources (IFAD12) had been secured with US$190 million planned for 2024. Loan reflows had been received as planned. Investment income on Treasury assets was higher than projected, mainly because of the interest rate hikes in 2022 and the first half of 2023. Based on these results, the stock of resources projected at the beginning of 2024 will cover projected outflows in the following 12 months, including a US$980 million disbursement envelope, while preserving compliance with financial ratios. The updated sustainable replenishment baseline calculation for IFAD12 ensured coverage of the revised grant and Debt Sustainability Framework (DSF) envelope of US$475 million. It was confirmed that the IFAD12 sustainable programme of loans and grants (PoLG) had been updated to a level of up to US$3.354 billion.

10. Committee members supported the prudent adjustment of the IFAD12 PoLG to US$3.354 billion and the level for 2024. Members requested clarifications about the level of PoLG for 2023 as the previous year's projection had been US$1.555 billion,

falling in this year's resources available for commitment (RAC) to US$907 million, and about the reason for excluding US$20 million in contributions not yet pledged.

11. Management provided the necessary clarifications, noting that the RAC assessment took into consideration the level of pledges received while conservatively excluding pledges that could not reasonably be expected next year. It was noted that part of the PoLG for 2023 continues into 2024. The PoLG for 2024 would be US$1.626 billion with disbursements at US$980 million and a target for capital market borrowing of US$190 million.

12. **Outcome and follow-up:** The document was considered reviewed and the Committee endorsed its submission to the Executive Board at its forthcoming session for approval through the batch procedure.

Agenda item 6 – Office of Audit and Oversight

(a) Update on investigation and anticorruption activities

13. AUO provided an update on the investigation and anticorruption activities already undertaken during fiscal year 2023. AUO highlighted details of recent trends, noting an increase of 28 per cent in external cases. This increase is mainly due to prohibited practices associated with projects, many of which had been reported by staff in decentralized country offices. The anticorruption mailbox continues to be the most favoured channel for reporting, and fraud and corruption were the prevailing type of allegations.

14. Project procurement cases were most frequent in 2023, as in prior years. It was noted that AUO had stepped up its efforts to address fraud and corruption risks. The target timeline to address high-priority cases was within six months, with normal priority cases to be settled within 12 months. AUO expressed appreciation for the standard operating procedures shared by the United Kingdom representative and indicated that such procedures are being used to streamline AUO processes. The Committee was informed that during 2023 IFAD had imposed sanctions on 11 entities and that the integrity due diligence (IDD) list, set up in collaboration with FCD, had been fully institutionalized, registering 103 entities in 27 countries. The purpose of the IDD list is to mitigate integrity risks in the case of entities for which there is sufficient evidence of involvement in prohibited practices but that cannot be sanctioned by IFAD, such as government officials seconded to IFAD-funded projects.

15. Committee members requested clarifications about the upward trend in allegations and requested some case studies inclusive of a summary of actions taken.

16. AUO clarified that the increased number of reported cases mainly related to allegations involving project staff, attributable to an increased awareness of reporting channels. AUO confirmed their availability in future meetings to provide information on sample cases.

17. **Outcome and follow-up:** The document was considered reviewed and it was decided that, at a forthcoming meeting, AUO would provide a presentation on examples of cases, possibly in closed session.

(b) Workplan for IFAD's Office of Audit and Oversight for 2024 (AC 2023/171/R.5) – for review

18. AUO introduced the agenda item, noting that the 2024 selection of audits had been based on risk considerations and resource availability. In particular, it was highlighted that the audit emphasis will remain on decentralized and country programme activities but that other high-priority areas would also be covered, such as information technology security and the Enterprise Risk Management (ERM) Framework.

19. In terms of capacity-building, AUO will engage actively in completing the implementation of the recommendations of the external review of the IFAD

investigation functions and the recommendations of the External Quality Assessment (EQA) of the internal audit function.

20. It was noted that the AUO investigation section is now fully staffed, but is still facing continued workload increase due to the high incidence of external allegations, therefore some additional external support could still be needed during 2024. It was noted that although the staffing levels of the AUO audit section were stable in 2023, there could be an impact in 2024 from the possible inclusion of two P-3 auditors in the IFAD reassignment exercise and the conclusion of the contracts of two junior audit associates. The AUO non-staff budget of US$403,000 for 2024 was slightly lower than in previous years but AUO will make economies to ensure the timely delivery of the approved plan.

21. Some Committee members noted that there had been a change in focus in the audit selection from procurement and financial management audits to country programme audits, and requested clarifications on the methodology followed for reviewing cross-cutting issues in country programmes. Other Committee members requested clarifications about the scoping exercise for the audit on cybersecurity and details about the possible use of artificial intelligence, as well as details on the rotation policy.

22. AUO noted that the staff rotation policy had been identified as a risk factor to the independence of the audit office by the EQA review of the audit function, and that Management had indicated that they would revisit the non-rotation policy in early 2024, including its application to AUO. The Committee requested that it be kept informed on progress on this issue and AUO agreed to do so. At the meeting to be held in April 2024, AUO will share the final quality assurance report inclusive of an action plan and observations from the Office of the President and Vice-President.

23. AUO clarified that country audit selection was partly based on the volume of money disbursed during the last three years and the volume of committed funds to be disbursed in the future. The selection also took into account the incidence of allegations and the time elapsed since the previous audit. The Committee was reassured that AUO will continue to focus on project procurement-related issues. AUO clarified that its approach to "follow the funds" will still allow for a solid focus on high-value procurement and other contracts, with less emphasis on compliance in relation to small transactions. It was clarified that the scope of the cybersecurity audit had not yet been fully determined, but that governance aspects will be included. AUO is exploring the possibility of using artificial intelligence properly and safely, including in extracting common themes from multiple documents or in transcribing and translating interventions.

24. AUO informed the Committee that, unlike in the past, the AUO non-staff budget for 2024 will be fully allocated from the outset of the year, and that this would bring some efficiencies to the process. AUO also clarified that the ERM audit will have a holistic approach focusing on the maturity of the ERM functions while benchmarking against the systems of other IFIs and United Nations agencies.

25. **Outcome and follow-up:** The document was considered reviewed and the Committee endorsed its submission to the Executive Board at its forthcoming session for confirmation through the batch procedure. It was suggested that Management could provide a stocktake on the usage of artificial intelligence at a future meeting.

Agenda item 7 - Anti-Financial Crime and Controllership – for review

(a) Update on the implementation of IFAD's anti-financial crime and controllership functions (AC 2023/171/R.6)

(b) Revisions to the Internal Control Framework (AC 2023/171/R.7)

(c) Revisions to the Anti-Money Laundering and Countering the Financing of Terrorism Policy (AC 2023/171/R.8)

26. Management introduced the agenda items, noting that the anti-financial crime and controllership functions are important to protect IFAD's business model and strong reputation, considering the increased risk at country level with increased decentralization. Management informed the Committee about the comprehensive actions taken to implement both functions and the related policies. In particular, the enhancement of the LexisNexis anti-financial crime software for daily screening, including integration with procurement systems, has successfully prevented IFAD from engaging with 38 high-risk parties since inception, with heighted monitoring and other mitigating controls on 134 substantial and moderate risk parties.

27. It was also noted that the FCD controllership function had rolled out delegation of authority training and certification – which had been completed by about 350 personnel within the Programme Management Department, OSB and the Information and Communications Technology Division (ICT) – and budget delegation to country directors in two regional divisions with the remaining three regional divisions planned for 2024. In addition, eight digital tools had been developed and launched to automate and standardize controls across country offices, to increase controls and reduce the risks of error and fraud. The function has completed controllership review and support assessments of 15 offices to date and issued 39 recommendations which have all been implemented. In addition, the following digital tools in countries have been assessed:

- Electronic signatures, with more than 5,000 pages digitally signed and 200 personnel trained;
- Some 150 e-forms utilized for delegation of authority interpretation and sub-delegation requests, and nine business intelligence reports available to managers, to see how delegation of authority is being used including monitoring;
- A suite of other tools and reports such as an e-access rights report, an e-petty cash reconciliation tool to help country offices maintain control over cash, and an e-inventory tool to help record and reconcile inventory assets.

28. Management also presented the first updates to the Internal Control Framework (ICF) and the Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) Policy, and highlighted the three main changes to the ICF as follows:

- Alignment to the ERM Framework to avoid duplication;
- Refocus of the ICF on practical implementation of the framework (e.g. improving the transaction authority model to two levels rather than three, given IFAD's small size); and
- Streamlined documentation by removing outdated annexes on benchmarking.

29. Management also highlighted the three main changes pertaining to the AML-CFT Policy as follows:

- A strengthened and more comprehensive policy better aligned to IFAD practice;
- Clarification of IFAD's privileges and immunities; and
- Streamlined documentation in areas already implemented.

30. Management proposed slightly restructured language to enhance readability in paragraph 14, as follows: "The objective of the proposed policy is to affirm the Fund's continued commitment to combating ML [money laundering] and TF [terrorism financing] and related ML and TF risk areas as well as strengthening the safeguards and measures in place to ensure the Fund's continued achievement of its objectives, including the inherent sanctions applicable to IFAD on ML and TF." Similar and related references in the rest of the document will be updated and included in a

corrigendum to be published after the 24 November deadline for Committee member comments.

31. Lastly, as part of the effort to streamline governing body documents and noting that IFAD's risk committees are becoming more active and embedded in IFAD business culture, Management proposed that this update no longer be presented to the Audit Committee and Executive Board but rather to the Operational Risk and Compliance Committee at regular intervals. Any key risks will be reported to the Audit Committee and Executive Board via the Corporate Risk Dashboard. In addition, any changes to policy concerning the ICF and AML-CFT will continue to be reviewed and approved by the Audit Committee and Executive Board.

32. Committee members welcomed the update and commended the progress made. Some members requested clarifications on the use of the software and the scope of controllership missions; other members requested details about anti-money laundering findings and remedies taken. Committee members requested additional time to provide feedback on the proposed policy revision.

33. Management clarified that the software solution screens daily IFAD master files connecting to IFAD core systems, as well as downstream data entered through the IFAD Client Portal, against more than two billion entries in subscribed databases, media alerts and various other financial crime information sources. Management provided details about the controllership function, clarifying that it is not an auditing function and that the focus is threefold: the support and empowerment of country offices through delegation of authority and related accountabilities; standardization; and validation of optimal controls. It also clarified that the sampling of the controllership function is risk based and focuses on countries that can benefit most from the standardization approach.

34. **Outcome and follow-up:** The documents were considered reviewed. Comments on the revisions to the AML-CFT Policy would be received by Friday, 24 November, and the document would subsequently be finalized. The Committee endorsed submission of both revisions to the ICF and to the AML-CFT Policy to the Executive Board at its forthcoming session for approval through the batch procedure.

Agenda item 8 – Review of the implementation of Management's response to the 2018 corporate-level evaluation of IFAD's financial architecture (AC 2023/171/R.9 + Add.1) – for review

35. IOE introduced the item, providing feedback on the implementation of Management's response to the 2018 corporate-level evaluation (CLE) of IFAD's financial architecture; which had as its objective to facilitate IFAD's fulfilment of its mandate. IOE found that of the seven recommendations, four had been implemented and three partially implemented. One of the recommendations of the 2018 CLE that remains partially implemented pertains to increasing revenues to contribute to increasing the coverage of operational losses and, thereby, increasing the share of replenishment resources going to benefit smallholder farmers. The review recognized the important strides made by IFAD as well as the challenges it faces in addressing this issue. It was highlighted that IFAD had updated key financial policies such as the DSF reform, introduced the Borrowed Resource Access Mechanism (BRAM) to expand the offer of ordinary loans, established the Office of Enterprise Risk Management (RMO), obtained two AA+ credit ratings and executed the first capital market borrowings. The review calls for IFAD to explore options to further expand resources and leveraging while maintaining AA+ rating and avoiding mission drift. These include exploring the means to: increase the debt-equity ratio; revisit the upper-middle-income countries' borrowing cap of 20 per cent of the PoLG, and the BRAM portfolio's target average credit rating of BB to increase BRAM loans; and price BRAM loans to cover risks and increase the contribution to IFAD's operating costs.

36. The review suggests six other steps for Management and Member States to consider: align practices to access international capital markets with those of other

IFIs, provide borrowers with wider choices of loan options such as sovereign loans in local currency and expand the corporate finance dashboard to ensure comprehensive reporting to the Audit Committee.

37. Management appreciated the opportunity for further dialogue offered by this review, which has helped IFAD assess where it stands in terms of the implementation of the CLE recommendations on IFAD's financial architecture of 2018. It was noted that prudence is needed in assessing IFAD's business model. The concept of financial sustainability should be based on stability and growth in IFAD's capital base, rather than on levels of operating results. Market participants, including rating agencies and private investors, recognized IFAD's financial sustainability for the successful placement of private capital market operations. Management also noted that the challenge for IFAD has a forward-looking perspective, to identify mechanisms to maximize its capital base, starting with the successful execution of the replenishment process, coupled with the design and implementation of new instruments, promoting and catalysing new resources. The Committee was informed that IFAD is currently in the process of assessing its financial strategy to 2030 and beyond. The scope of this review will also include some of the insights provided by IOE in the next steps. IFAD has already planned a holistic review of its lending terms for 2024 and will consider all possible trade-offs between sustainability and concessionality, while maintaining a competitive advantage over other development finance institutions. Management confirmed the commitment to incorporate specific and plausible recommendations from the recent G20 report on multilateral development banks' capital adequacy frameworks. In line with the IFAD13 business model and financing framework, Management is already starting to assess potential strategies to revamp its private sector strategy, which can address some of the findings raised in the report.

38. The Chair of the Evaluation Committee, Miguel Jorge Garcia Winder, highlighted that, over time, IOE and Management have been able to develop a system to act in favour of IFAD. The efforts of Management to incorporate IOE suggestions were recognized. It was also noted that recommendation 6, marked as partially implemented, is in fact 100 per cent implemented. The Chair also highlighted that sustainability has to be assessed considering trade-offs and key questions such as how IFAD would address operational losses, how to make BRAM more efficient and more effective, how to secure more financial resources for smallholder farmers while strengthening IFAD's core mission and the nature of the role of private sector mechanisms.

39. Committee members welcomed the comprehensive and insightful review and recognized the need for IFAD to leverage the balance sheet and to mobilize more resources to fulfil its mandate. Members noted that the IFAD business model is a hybrid one, with mixed elements of the International Development Association and International Bank for Reconstruction and Development. Other members highlighted the importance of optimizing the leverage ratio, the need to offer loan options to recipients and investigating practices related to accessing international markets. Committee members also confirmed that replenishment resources should continue to be key to ensure funding to smallholders as this is IFAD's comparative advantage, while private sector resources should be gradually ramped up while avoiding competition with existing market participants.

40. Management noted that some items were already included in IFAD13 conversations, in particular access to capital markets and the efficient use of BRAM resources tied to ordinary resources. It was noted that these topics will be part of the study to maximize lending capacity while maintaining long-term financial sustainability.

41. **Outcome and follow-up**: The document was considered reviewed.

Agenda item 9 – Enterprise risk management

(a) Capital Adequacy Report – June 2023 (AC 2023/171/R.10) – for review

42. Management introduced the agenda item, confirming compliance with all requirements and noting that as of June 2023 the deployable capital ratio had increased slightly, from 39.4 per cent in December 2022 to 39.8 per cent in June 2023. This indicated that IFAD's current capital position could absorb potential losses arising from its development operations, including those that could potentially arise from unlikely stress events. It was highlighted that as part of the capital adequacy assessment, the RMO performs several stress tests to identify vulnerabilities that could affect IFAD's capital position. These scenarios included the potential impact of credit deterioration on IFAD's loan portfolio, as well as the impact of increasing grants activity on IFAD's equity, and the assessment of adverse interest movements on IFAD's concessional loan portfolio valuation. In all cases, the capital buffers were considered sufficient to cover these adverse events. Stress test capacity will be strengthened in 2024 with the secondment of a stress test expert. It was noted that the preliminary outcome of the audit of IFAD's capital adequacy policy was positive.

43. Committee members requested clarification about expectations around rising leveraging and the computation of deployable capital. Management clarified that the increase in borrowing levels will be gradual and that a key variable in the computation is attributable to Member State contributions.

44. **Outcome and follow-up:** The document was considered reviewed.

(b) Asset and Liability Management Risk Report (AC 2023/171/R.11) – for review

45. Management provided an update on the asset and liability management operationalization. The update highlighted the progress made since the approval of the Asset and Liability Management Framework in 2019. It was noted that the Treasury had begun implementing the framework and had submitted its first asset and liability management report to the Audit Committee and Executive Board in 2023. Management clarified that the RMO report and the Treasury asset and liability management report are different in nature. The Treasury report provides a view of the first line of defence function, which is responsible for the operational management of assets and liabilities. The RMO report represents an independent second line of defence view, which expresses assessments of the adequacy of the Asset and Liability Management Framework vis-à-vis the evolving needs of the institution.

46. RMO noted that IFAD asset and liability management practices have evolved positively, contributing to strengthen the financial profile of the Fund, and that this had been appreciated by external stakeholders, including rating agencies.

47. Some Committee members requested clarifications about possible different views between the first and second line of defence. Management clarified the collaborative approach between the Treasury and RMO and indicated that the divisions have a common understanding of key topics such as liquidity levels and interest rate risk.

48. **Outcome and follow-up:** The document was considered reviewed.

(c) Update on Enterprise Risk Management Framework operationalization – for information

49. Management introduced the second 2023 semi-annual update on the operationalization of the ERM Framework, highlighting the progress made and the initiatives finalized during 2023, which have been discussed with rating agencies as well assessed during the recent external reviews by the Multilateral Organization Performance Assessment Network and IOE. It was also noted that the institution is implementing the risk control self-assessment process and that an e-learning

mandatory training for all IFAD staff had been launched to enhance risk culture within the organization. Management informed the Committee about the review of all key risk indicators contained in the Corporate Risk Dashboard.

50. Committee members welcomed the update and asked for details about the e-learning tools and risk self-assessment. Management clarified that the e-learning tool had been operational and mandatory for all IFAD staff since the third quarter of 2023 and that so far more than 350 staff had taken the course, which had received good reviews. Management noted that the risk self-assessment had been launched recently and is a complex procedure intended to identify inherent and residual corporate risks and to define and assess the quality of controls.

51. **Outcome and follow-up:** The presentation was noted.

(d) Corporate Risk Dashboard – for information

52. Management provided an update on the Corporate Risk Dashboard, which contains 32 key risk indicators divided into four risk domains. In the third quarter of 2023, 87.5 per cent of IFAD's key risk indicators were within the tolerance threshold, the same level as in the second quarter in 2023. In this period, four key risk indicators have been recorded as outside the tolerance threshold. It was noted that the worsening of the indicator pertaining to programme delivery risk category was related to project procurement. It was noted that this trend was expected as it is the result of new standards in supervision that have been introduced with the new IFAD Project Procurement Manual. These new standards are more rigorous, result in a more accurate assessment of project performance and improve the quality and calibration of IFAD procedures to better grasp risk profiles. Management also highlighted that one strategic key risk indicator related to sustainability at design was above the threshold, and that this will be reassessed in the fourth quarter of 2023. RMO noted that there is an ongoing comprehensive review of the current key risk indicators, to enable an analysis of trends and to assess the need to revisit certain indicators. This analysis will also allow for a review of the quality and completeness of the information.

53. Some Committee members provided feedback to be considered during the forthcoming assessment of the dashboard; in particular it was noted that the indicator comparing disbursements to PoLG approvals could be better explained. Some members requested a review to simplify the presentation of some indicators; others requested clarification of the ambition to minimize up to zero the critical number of incidents that may involve IFAD staff.

54. **Outcome and follow-up**: The presentation was noted. Management agreed to review such items during the forthcoming review of the Corporate Risk Dashboard.

Agenda item 10 – Project financial management: Annual progress report including review of the conceptual framework on financial reporting and auditing of IFAD-financed projects (AC 2023/171/R.12) – for review

55. Management provided the yearly update on project financial management and the related trends and results. The Committee was informed about the completion of the extensive two-year reforms of the project financial management function, which supports achieving greater impact on IFAD's projects by strengthening assurance, redirecting checks to the riskiest areas and positioning decentralized finance officers as finance ambassadors on the front line of operations. The reforms entailed changes to people, processes and technology, including updating financial management policies and procedures to be principles-based, upgrading staff skills and introducing fiduciary discipline with regular interim financial reporting from projects including cash flow forecasts, which have become the basis of disbursement requests rather than previous practices based on transactions. During 2023, several noteworthy milestones had been achieved, including the introduction of a modified disbursement validation workflow, the automation of online borrower submission of financial

documents and a recalibration of risk ratings across the global portfolio. This has transformed the way of doing business on project financial management and positioned IFAD at the forefront of IFI practices. It was noted that the report included an annual analysis of the project audit report processes. Furthermore, it confirmed the ongoing applicability of the conceptual framework for financial reporting and auditing of IFAD-financed projects.

56. Committee members welcomed the document and requested some clarifications about the disbursement validation process, issues pertaining to timely submission of project audit reports and the ratio of qualified audit opinions, and the decrease in the quality of financial management ratings reflecting a more consistent view of IFAD's operating realities.

57. Management provided details about a wide array of remedies, which are assessed on a case-by-case basis and could lead to the temporary suspension of disbursements. Management also noted the need for capacity-building to improve the quality of fiduciary aspects and the renewed emphasis on use of country systems, including collaboration with supreme audit institutions.

58. **Outcome and follow-up:** The document was considered reviewed.

Agenda item 11 – Annual review of IFAD's Investment Policy Statement (AC 2023/171/R.13 + Corr.1 + Add.1 + Add.2) – for review

59. Management introduced the item, noting that the document had already been reviewed and endorsed internally by the Financial Risk Management Committee and the Executive Management Committee. Management noted that one of the key changes was the reference to IFAD's Delegation of Authority Framework as part of the responsibilities assigned to the President for the implementation and monitoring of all aspects of the Investment Policy Statement (IPS). Another important amendment was assigning to the President the technical implementation of the credit rating requirements approved by the Executive Board. Other changes in the IPS included the amendment of the minimum credit rating requirements for money market funds from A- to AAA with a view to ensure the high credit quality of instruments for investment in the portfolio; the amendment towards making it a more stringent requirement for external investment managers to comply with the Global Investment Performance Standards; and the specification of a target level for the investment of IFAD's liquidity portfolio in green bonds and other thematic environmental and social governance investments, all with a view to strengthening IFAD's commitment to responsible investment.

60. **Outcome and follow-up:** The Investment Policy Statement and the Control Framework for IFAD Investments were considered reviewed and would be submitted to the Executive Board at its forthcoming session for approval.

Agenda item 12 – Asset and liability management report as at 30 June 2023 (AC 2023/171/R.14) – for review

61. Management introduced the item, noting that this document was the second semi-annual report produced by the Treasury. The main highlights in the report as at 30 June 2023 were the following:

- All liquidity and capital ratios were in compliance with their policy limits;
- Borrowing had increased by 18 per cent, mainly due to issuance of new private placements in the first half of the year, with debt now funding 20 per cent of total assets;
- The ratio of outstanding balances of ordinary term loans over outstanding borrowing had decreased to 47 per cent from 54 per cent. This key ratio makes it possible to monitor the alignment of income generation from ordinary loans with the cost of funding from borrowing;

- Interest and currency risks are mainly driven by concessional long-term fixed rate SDR-denominated loans, which are primarily funded by equity. The debt-funded portion of the balance sheet is relatively well matched in terms of interest and currency risks; and
- As of 30 June, overall exposure of IFAD's balance sheet to asset and liability management risks was still relatively low and manageable.

62. Members requested clarifications about the decrease in the ratio of outstanding balances of ordinary term loans over outstanding borrowing. Management clarified that IFAD holds enough liquidity to fully cover future disbursements of the undisbursed stock of ordinary loans.

63. **Outcome and follow-up:** The document was considered reviewed.

Agenda item 13 – Oversight of the IFAD ethics function (AC 2023/171/R.15) – for review

64. As a follow-up to the conversations held during the 168th Committee meeting held on 6 April 2023, the Ethics Office (ETH) presented a proposal concerning the oversight role of governing bodies relative to the ethics function.

65. The document outlined the ETH mission, detailed the range of responsibilities assigned to the Office and emphasized the critical need for independence of the ethics function to protect it from undue influence and pressure. The proposed amendments to the Terms of Reference of the Audit Committee reflected the new responsibility for oversight of the ethics function. These changes align with international best practices and further strengthen IFAD's commitment to ethics. The proposed changes in the Audit Committee's responsibilities included, among others: examining amendments to the Ethics Charter, reviewing the adequacy of ETH's resources, assessing the overall performance of the ethics function, contributing to the selection of the Chief of ETH, and issuing recommendations to the President on the ethics function. It was also highlighted that the proposed charter incorporated the recommendations issued by the Joint Inspection Unit of the United Nations on the review of the ethics function.

66. Committee members expressed appreciation for the document and requested clarifications about the terms of reference of the Audit Committee in comparison to the text used for the AUO Charter.

67. Management provided clarifications and the AUO Director informed the Committee about the need to revisit the AUO Charter to align it to recommendations from the Joint Inspection Unit.

68. **Outcome and follow-up**: The document was considered reviewed. Further to comments from some members, a corrigendum would be issued and submitted to the Executive Board's attention at its upcoming session.

Agenda item 14 – Audit Committee work programme for 2024 (AC 2023/171/R.16) – for approval

69. **Outcome and follow-up**: The document was reviewed and approved with no additional considerations.