
Minutes of the 172nd meeting of the Audit Committee

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Investing in rural people

Audit Committee

172nd Meeting
Rome, 3 April 2024

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Minutes of the 172nd meeting of the Audit Committee

1. The 172nd meeting of the Audit Committee was held on 3 April 2024 in hybrid modality.
2. The meeting was attended by Committee members representing Argentina, China, Germany, Italy, United Kingdom, United States, and the Bolivarian Republic of Venezuela. The meeting was also attended by the Associate Vice-President and General Counsel, Office of the General Counsel; 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, Programme Management Department; the Director and Controller, Financial Controller's Division; the Director, Office of Audit and Oversight; the Director, Operational Policy and Results Division; the Secretary of IFAD, Office of the Secretary; the Chief of Ethics, Ethics Office and a number of other IFAD staff members.

Agenda item 2 – Adoption of the agenda (AC 2024/172/R.1/Rev.1) – for approval

3. The revised agenda was adopted, with the inclusion of some items under "other business" as follows:
 - Update on the assessment of IFAD's financial strategy to 2030 and beyond;
 - Update on 2024 commitments, programme of loans and grants, and related resources.
4. It was noted that, as per standard practice, two internal audit reports would be considered in a closed session as below:
 - Internal audit report of the supervision of the country programme in Ghana – document IAR/23/19.
 - Internal audit report of cross-cutting findings from audits of the supervision of seven country programmes in Cuba, Democratic Republic of the Congo, India, Madagascar, Malawi, Niger and Sudan – document IAR/23/20.
5. Furthermore, it was highlighted that agenda item 4(c) – Update on the appointment of the Director of the IFAD Office of Audit and Oversight – would be considered in a closed session.

Agenda item 3 – IFAD's financial statements – for review

- (a) **Review of the consolidated financial statements of IFAD as at 31 December 2023, including the Management assertion report and an independent external attestation on the effectiveness of internal controls over financial reporting (including a closed session with the external auditor, if required) (AC 2024/172/R.2 + Add.1 + Add.2 + Add.3)**
- (b) **High-level review of the IFAD-only financial statements for 2023 (AC 2024/172/R.3)**
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 2023. For fiscal year 2023, 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 of IFAD's financial position and reported results, and noted that despite volatility the overall financial situation was sound, with IFAD's consolidated assets standing at US\$11.7 billion, and that long-term viability was being monitored closely. It was noted that at the end of December

2023, all financial ratios were within IFAD's policy thresholds and that IFAD's liquidity was sufficient to fund disbursement needs. It was also noted that in order to improve disclosure the cashflow statement was restated.

8. The external auditor provided details about audit work performed as part of the audit of the financial statements.
9. Committee members requested some additional details about trends and exposures in non-performing loans; the After-Service Medical Coverage Scheme funding ratio; and trends in loan repayments. They also asked for some clarifications on debt-related ratios and about the level of liquidity and loan investment income.
10. Management provided responses to all questions raised, including further details on debt servicing and current experience on arrears. Management added that the institution was maintaining a sufficient buffer to address negative situations in credit quality. Management noted that the After-Service Medical Coverage Scheme was fully funded in actuarial terms and that, in 2023, coverage was also extended to staff under national contracts. It was noted that some ratios were impacted by increasing borrowing liabilities. Management clarified that during the last quarter in 2023 additional contributions and loan repayments were encashed, generating higher liquidity balances as reported at the end of December 2023. Management also noted that in 2023 market conditions generated a higher volume of loan interest income.
11. Members noted that this was the first time the financial statements would be submitted to the Board for approval, which meant that IFAD was now aligned with best practices.
12. **Outcome and follow-up:** The document AC 2024/172/R.2 and its addenda were considered reviewed and would be submitted to the forthcoming Executive Board session for approval. Document AC 2024/172/R.3 was noted and would be submitted to the Board for information.

Agenda item 4 – Office of Audit and Oversight – for review

(a) Annual report on the activities of the Office of Audit and Oversight (AUO) during 2023 and review of the adequacy of the internal oversight mechanisms (AC 2024/172/R.4 + Add.1 + Add.2)

13. AUO presented the report on internal audit and investigation activities in 2023. AUO's audit work still highlighted challenges faced by IFAD in supervising country programmes in fragile and conflict-affected situations, while improvements were noted in underlying capacities and controls, especially regarding project procurement. Similarly, controls continued to be enhanced to accommodate the increase in the size and number of country offices. Positive results on corporate business process audits were noted as being indicative of a sound general control environment.
14. AUO provided details on the intake rate of allegations, noting the higher number of cases reported in 2023. This was indicative of the alertness and strengthened detection capacity of the operational divisions, the strengthened anticorruption awareness efforts, the improved visibility of IFAD's reporting channels, and staff's closer proximity to beneficiaries and local whistle-blowers as a result of decentralization. As in previous years, most of the allegations were external in nature, and related to project procurement and contract management activities. In 2023, AUO completed the highest number of cases and the IFAD Sanctions Committee issued 14 sanctions. AUO noted that the slightly slower intake trend in 2024 could be an early indication that the benefits of IFAD's stronger preventative capacity and controls were starting to step in. It was noted that during 2023 the external independent reviews of both the oversight functions of AUO and its

investigation and internal audit work had been concluded. Both reviews highlighted that AUO conducts its work in line with best professional practices.

15. Committee members welcomed the report, noting the successful conclusion of both external reviews. Members requested some clarifications about the risk rating of audit results, noting the absence of any recent “unsatisfactory” assessments and the lower number of internal cases. Committee members also requested details related to how recommendations arising from the External Quality Assessment (EQA) of internal audit would be addressed. Clarifications were also requested on the effect of the mobility policy on AUO, about issues concerning supervision and IFAD’s Social, Environmental and Climate Assessment Procedures (SECAP) clauses and on the number of allegations of sexual harassment and sexual exploitation and abuse (SH/SEA).
16. AUO clarified that a rating of unsatisfactory pertains to situations where the underlying controls are failing significantly. It was clarified that recent audits had not highlighted such findings and that Management is putting in place significant measures to rectify and mitigate all issues identified. It was noted that procurement risks remain but are improving and that the audit focus is moving down through the flow of funds to implementing partners. AUO adopts a risk-based approach, and compliance is a key objective for audits of IFAD country offices to provide assurance that corporate rules and procedures are being followed in the evolving decentralization and delegation of authority. AUO also noted that the strategic planning of AUO’s workplan would embed actions to address related EQA recommendations. In relation to investigation activities and follow-up on SH/SEA cases, it was noted that AUO had maintained close and efficient collaboration with the Ethics Office to address these cases. Furthermore, IFAD’s business framework as an international financial institution meant that IFAD staff were less exposed to SH/SEA than in other United Nations agencies where staff interact with beneficiaries. AUO clarified that the mobility policy was currently under reassessment. It was also clarified that SECAP clauses and key performance indicators are required to be defined in project documents.
17. **Outcome and follow-up:** The document was considered reviewed and would be posted on the Member States Interactive Platform with restricted access to Executive Board representatives.

(b) Amendment to the Charter of the IFAD Office of Audit and Oversight (AC 2024/172/R.5)

18. AUO introduced the document highlighting that the main change to the AUO Charter related to the introduction of a term limit on the appointment of the Director of AUO. This change represents best practice, and it was also suggested by the EQA. It was noted that other changes pertained to alignment with the new terminology as per the International Professional Practices Framework for internal auditing promulgated by the Institute of Internal Auditors.
19. **Outcome and follow-up:** The document was considered reviewed with no questions and would be submitted to the forthcoming Executive Board session in April for confirmation.

Agenda item 5 – IFAD Ethics Office – for review

(a) Annual report on the activities of the IFAD Ethics Office for 2023 (AC 2024/172/R.6)

20. The Ethics Office (ETH) presented its first annual report as agreed in the Charter of the Ethics Office. The report provided details of main activities, achievements and trends. It was also noted that a new position at the P-3 level had been created to strengthen the team. Statistics for 2023 showed an acceleration in consultations by

staff and consultants with ETH. It was also noted that ETH was exploring new ways to fulfil its mission using innovative platforms.

21. Committee members welcomed the report and requested details on new innovative communication channels; on the underlying reasons for increases in the matters handled by ETH; and about trends on sexual harassment.
22. ETH explained that its open-door policy and the enhanced anonymous reporting were facilitating communication. It was noted that, at the country level, ETH is working closely with United Nations country teams and country directors.

Outcome and follow-up: The document was considered reviewed and would be posted for the attention of Executive Board representatives with restricted access rights.

(b) Update on IFAD's approach to address the United Nations Strategy to Prevent and Respond to Sexual Harassment, Sexual Exploitation and Abuse (AC 2024/172/R.7)

23. ETH introduced the agenda item noting that the 2022-2023 action plan had been completed. It was also noted that ETH's focus in 2023 pertained to the review of the SH/SEA policy and to reinforcing IFAD's zero-tolerance policy. Furthermore, thanks to collaboration with the Innovation Unit, a "Top Secret Helpline" had been set up. In addition, ETH had conducted a behavioural science investigation into the barriers faced in reporting on such cases. ETH also referred to the Multilateral Organisation Performance Assessment Network (MOPAN) report issued in March 2024, which recommended that IFAD should further strengthen the approach to sexual misconduct. In this context, the ethics team would be reinforced by the additional P-3 position, whose focus would be on SH/SEA prevention and response.
24. Committee members welcomed the update and requested details on training programmes; strengthening measures to improve the SH/SEA prevention approach; and the Management compact.
25. ETH clarified that trainings are mandatory and included in the performance evaluation cycle. It was noted that the pilot projects had been conducted in Latin America and included a behavioural assessment to understand the limitations and reasons for staff reporting cases of SH/SEA. ETH found that in many cases personnel were not aware of reporting mechanisms or did not feel confident in using them. ETH clarified that it is supporting Management on the development of the compact.
26. **Outcome and follow-up:** The document was considered reviewed and would be shared with the Executive Board for online review.

Agenda item 6 – Draft provisional agenda for the 173rd meeting of the Audit Committee (AC 2024/172/R.8) – for review

Outcome and follow-up: The document was considered reviewed, with no changes.

Agenda item 7 – Other business

(a) Update on the assessment of IFAD's financial strategy to 2030 and beyond

27. Management provided an update on the ongoing evaluation of IFAD's financial strategy. It was noted that in 2018 IFAD had embarked on a transformation of its financial architecture, which culminated in obtaining two AA+ ratings, and the execution of capital market issuances. It was noted that the external assessment will support IFAD in ensuring that its funds, balance sheet and resources are efficiently and effectively utilized to meet its strategic, operational and financial objectives up to 2030 and beyond, with a view to optimizing capacity in a

financially sound manner. It was also noted that the assessment will identify areas for improvement in IFAD's financial framework, including asset and liability management risk, capital adequacy and liquidity policy. The assessment will be complemented by an analysis of the funding strategy with a view to proposing alternative financial instruments to raise capital. The external assessment will provide financial strategy options and recommendations for the consideration of IFAD and the Executive Board, while Management will hold strategic conversations with Member States at forthcoming Audit Committee meetings and Executive Board sessions.

28. **Outcome and follow-up:** Committee members welcomed the update and the engagement with Member States.

(b) Update on 2024 commitments, programme of loans and grants, and related resources

29. Management provided an update on programme delivery for 2024. It was noted that, in 2024, a total of US\$1.998 billion remained for approval in order to achieve the IFAD12 programme of loans and grants (PoLG) commitment, which included US\$31 million in regular grants and US\$1.97 billion in project financing from IFAD12 resources. Management noted that the 2023 delivery had been lower than expected mainly because of last-minute delays in government approval processes, often associated with the downturn in the global economy, and elections and political instability. By the end of September 2024, IFAD plans to have approved project financing of US\$1.98 billion from all replenishment cycles, consisting of 34 new projects/programmes and 19 additional financings. Management has also put contingency measures in place to reduce risks to the 2024 delivery.
30. Committee members requested some details concerning the volume of 2023 slippages.
31. Management noted that this involved 13 projects for approximately US\$383 million and that the slippages were due to the global economic downturn, which made countries more reluctant to borrow, and also to great political instability in terms of elections and changes in governments.
32. **Outcome and follow-up:** The update was noted.