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IFAD
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Audit Committee
173rd Meeting
Rome, 18 June 2024

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Minutes of the 173rd meeting of the Audit Committee

1. The 173rd meeting of the Audit Committee was held on 18 June 2024 in hybrid modality.

2. The meeting was attended by Committee members representing Algeria, Angola, Brazil, China, Germany, Italy, United Kingdom, United States and the Bolivarian Republic of Venezuela, and observers representing Canada and France. The meeting was also attended by the Associate Vice-President and General Counsel, and Associate Vice-President, External Relations and Governance Department, a.i.; 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 Director and Treasurer, and a number of other IFAD staff members.

Agenda item 2 – Election of the Chairperson of the Audit Committee (AC 2024/173/R.2) – for approval

3. Subsequent to the appointment of the Audit Committee members in April 2021, and in accordance with rule 11.1 of the Rules of Procedure of the Executive Board, Audit Committee members were called upon to elect the Chairperson for the period ending with the first session of the Executive Board in 2027. Mr Gian Paolo Ruggiero (Italy) was unanimously elected as Chair of the Audit Committee.

Agenda item 3 – Adoption of the agenda (AC 2024/173/R.1) – for approval

4. The revised agenda was adopted, with the inclusion of some items as follows:
   - Under item 9, update on the operation of the Social, Environmental and Climate Assessment Procedures (SECAP) Impartial Review Process.
   - Under item 12 "other business" the following items were included:
     - Update on IFAD's commitments, programme of loans and grants, and related resources for 2024
     - Update on the Borrowed Resource Access Mechanism (BRAM)
     - Update on the appointment of the Director of the IFAD Office of Audit and Oversight (in a closed session)

Agenda item 4 – External auditor's report on internal control and accounting procedures (AC 2024/173/R.3) – for review

5. The external auditor provided an overview of the report on internal control and accounting procedures. Notably, out of the five observations raised from the previous year, three had been successfully resolved. The external auditor clarified that the two remaining observations did not indicate deficiencies in internal controls over financial reporting; on the contrary, one observation pertained to enhancing operational efficiencies.

6. The specific recommendations from the external auditor are as follows:
   - Automation in accounting and financial reporting to further improve technological solutions and eliminate manual intervention and controls to the greatest extent possible.
   - Internal controls over environmental, social and governance (ESG) principles would become an important requirement under the International Financial Reporting Standards (IFRS); it was recommended that controls be developed

also to cover key performance indicators (KPIs) related to ESG with the ultimate aim of producing a financial reporting disclosure framework or tracking such KPIs in the IFAD Annual Report.

7. Committee members welcomed the report and requested clarifications about challenges related to the implementation of ESG reporting requirements and the relevance of automation.

8. The external auditor provided relevant details and noted that the automations were important to avoid manual controls and enhance efficiencies. Regarding ESG reporting, the auditor noted that the identification of relevant key performance indicators and the accuracy of their measurement represented major challenges.

9. Management expressed its commitment to the implementation of sustainability standards and informed the Committee about the establishment of an interdivisional working group dedicated to this topic and about the close collaboration with the International Sustainability Standards Board (ISSB). Management also expressed its commitment to enhancing IT solutions and core systems.

Outcome and follow-up. The report was noted.

Agenda item 5 – External auditor's audit strategy memorandum for the year ending 31 December 2024 (AC 2024/173/R.4) – for review

10. The external auditor provided an overview of the audit strategy for the year ending 31 December 2024, the audit opinion on the consolidated financial statements of IFAD, as well as the IFAD-only financial statements, and the attestation report over Management's report on the effectiveness of internal controls. It was highlighted that the audit strategy followed a top-down methodology, based on the auditor's understanding of the entity environment, the risks and the controls. The audit work on controls entailed substantive testing. The external auditor explained audit materiality and the reasons for its value. The only significant presumptive risk pertained to Management override of controls, which was aligned to industry requirements. The risk of fraud and revenue recognition was noted as rebutted. The reporting timetable would be aligned to that adopted for the 2023 audit. The external auditor would rely on the support of IT technical specialists and actuarial specialists.

11. Committee members welcomed the overview of the audit strategy. They requested information on the communications between the investigation team and the external auditor concerning ongoing fraud cases, about materiality in relation to ESG reporting, and about time reference.

12. The external auditor clarified that they collaborated closely with the IFAD Office of Audit and Oversight (AUO). Furthermore, they explained that the methodology used to determine materiality for ESG reporting was different from that followed in determining materiality for financial statements. ESG materiality should be determined considering the impact on IFAD as well as on external parties; it would be given due consideration once a set of KPIs had been developed. The external auditor also clarified that a different control was not foreseen for the increased volume of IFAD operations as this would not necessarily imply an increase in the financial statement risks.

13. Management informed the Committee that the external auditor's fees for fiscal year 2024 had been adjusted to EUR 171,150 to reflect increased cost of living and that these fees did not cover any additional work that might be required for auditing ESG reporting.

Outcome and follow-up. The agenda item was noted.

Agenda item 6 – Update on the implementation of the International Financial Reporting Standards (IFRS) – Sustainability Disclosure Standards (AC 2024/173/R.5) – for review

14. Management provided an update on the implementation of the sustainability disclosure standards. It was noted that the implementation of these standards would enable IFAD to enhance transparency and accountability in managing sustainability-related risks and opportunities. To actively support global sustainability efforts, IFAD had forged a robust partnership with the ISSB with the signature of a letter of intent and by maintaining ongoing dialogue with the ISSB technical team and board. In addition, the relationship with the ISSB would be further solidified with the signature of a memorandum of understanding. In addition, as part of its efforts to ensure adherence to best practices, IFAD was actively participating in forums with other international financial institutions (IFIs) and multilateral development banks.

15. Committee members welcomed the update and requested additional details about the project, including information about the timeline for reporting and the lessons learned by other IFIs.

16. Management clarified that the project would follow a two-phase approach with the objective of disclosing a substantial amount of information in the 2024 financial statements and capturing further information by June 2025. It was also noted that IFAD was being supported by an advisory firm during the first phase of the project and that collaboration with other IFIs was key for knowledge-sharing on complicated topics such as the measurement of greenhouse gas emissions.

Agenda item 7 – Proposed dates for meetings of the Audit Committee in 2025 (AC 2024/173/R.6) – for approval

Outcome and follow-up. The dates as indicated in the document were approved, with no changes.

Agenda item 8 – Enterprise Risk Management

(a) Capital Adequacy Report – December 2023 (AC 2024/173/R.7) – for review

17. Management introduced the agenda item, noting that the document provided a synopsis of IFAD’s capital consumption and trends in its deployable capital (DC) ratio. It was noted that the DC ratio had decreased slightly, from 39.5 per cent in December 2022 to 38.8 per cent in December 2023. Capital utilization was mainly concentrated in IFAD’s core business because of an increased loan exposure coupled with a deterioration in the quality of the loan portfolio. It was noted that other capital requirements for non-core risk had remained stable. Management explained that stress testing had indicated that the capital buffers were sufficient to cover adverse events. Additional changes to stress testing had been introduced to embed internal audit suggestions to incorporate combined scenarios. Management also advised that a comprehensive stress test framework, inclusive of reverse stress test scenarios – namely scenarios beyond the normal forecast to test IFAD’s strength under such circumstances – was under development.

18. Committee members welcomed the document and requested information on historical trends, the positive contribution of Heavily Indebted Poor Countries (HIPC) debt relief, projected trends in capital utilization and trends in undisbursed loans.

19. Management clarified that no changes in capital adequacy drivers were foreseen. Deployable capital’s gradual decline was expected to continue due to increasing deployment of resources and factors related to IFAD’s business model (such as concessionality and working in a challenging economic environment), which affect the quality of the portfolio. It was clarified that the balance of undisbursed loans

presented a modest decrease in 2023 compared to 2022 due to the lower level of approvals during the year, while HIPC generated a yearly income due to compensation received for debt relief.

20. **Outcome and follow-up.** The document was reviewed and would be submitted to the Executive Board for review.

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

21. Management presented the progress made on the operationalization of the Enterprise Risk Management Framework in 2024 since the 2023 report. A review of the Capital Adequacy Policy and leverage was being undertaken during 2024, and would consider the impact of the recalibration on financial management across the organization, including the roles of the risk committees after three years of implementation. Management expressed satisfaction with the progress made by the risk committees and the establishment of a risk culture within the organization. Management also noted the continuing efforts to ensure adequate implementation of oversight processes with the launch of the self-control assessment and the establishment of the risk register. It was noted that the recalibration process would not alter the functions of the Office of Enterprise Risk Management (RMO), but it would impact reporting lines as RMO would report to the President rather than to the Vice-President. Management also highlighted that the forthcoming rating assessment would continue focusing on the relevance of the preferred creditor status and the support from Member States. It would therefore be important to share information on how IFAD manages its recipient countries' difficulties and share the positive outcome of the recent replenishment consultation.

22. Committee members requested clarifications about risk appetite among regional teams; the risk self-assessment process; and the definition of supranational institutions.

23. Management clarified that rating agencies referred to international organizations whose shareholders are sovereign states as supranational entities. Management provided details on the risk self-assessment noting that it had been launched during last quarter of 2023 and would provide an indication of the likelihood of relevant risks and their associated impact. It was noted that the risk self-assessment was an ongoing process that would be updated based on emerging risks.

(c) Corporate Risk Dashboard - for information

24. Management presented the main outputs of the Corporate Risk Dashboard. It was noted that for the first quarter of 2024, the majority of the risk indicators were within thresholds and that Management had adopted corrective measures to bring other indicators within tolerance levels. It was also noted that the adequacy of indicators was being reviewed by Management.

25. The Committee requested feedback on the financial management and procurement indicators.

26. Management noted that the Corporate Risk Dashboard was updated on a quarterly basis in order to monitor and take corrective measures when necessary. The slight increase reported in the financial management indicator for the quarter was the result of an arithmetic calculation because the number of projects with a rating of "moderately unsatisfactory and below" had decreased compared to the previous period and the total number of projects in the scope had also fallen, affecting the percentage. It was noted that the alignment to the updated guidelines on the integrated project risk matrix provided an unbiased picture of financial management residual risk, which was now determined by considering the effectiveness and efficacy of the already implemented action plans. It was further

noted that the new standard introduced for procurement was more rigorous than the previous one and provided a more realistic representation of procurement risk.

Outcome and follow-up. The documents were reviewed.

Agenda item 9 – Office of Audit and Oversight

(a) Update on investigations undertaken by the Office of Audit and Oversight

27. Before providing updates on the investigation activities and in accordance with the Committee's request to be kept abreast of developments, AUO informed the Committee that the reassignment exercise of 2024 would involve two of AUO's four audit Professional staff positions and that this could impact the capacity and the independence of AUO. The AUO Director noted that other IFIs and United Nations agencies did not have a mandatory rotational policy for auditors.

28. AUO provided an update on the trends and salient issues arising from recent investigations and sanctions cases. As of May 2024, AUO had received 51 cases, a similar trend to that registered in the same period in 2023. It was noted that 68 per cent of subjects were project-related and that the geographical distribution reflected IFAD's portfolio, with the exception of the East and Southern Africa (ESA) region, which had a lower number of cases. AUO was therefore planning additional outreach efforts for the ESA region. It was also highlighted that IFAD had stepped up responses to fraud and corruption cases and that in 2024 more entities would be debarred than in previous years.

29. Committee members requested more details about significant cases and the nature of the fraudulent practices. AUO clarified that most of the fraud cases were related to project procurement processes and, as per standard practice, additional details would be provided at future meetings.

30. On the reassignment policy and its potential impact on AUO capacity and independence, some members expressed concern. Clarifications were requested about the practices adopted by other IFIs and United Nations agencies and the selection and appointment process for AUO staff. Members requested an update on this issue at forthcoming Committee meetings.

31. Management, through the Associate Vice-President and General Counsel and the Associate Vice-President and Chief Risk Officer, clarified that AUO was an independent service, as opposed to an independent office such as the Independent Office of Evaluation of IFAD (IOE) which had been created as such by the Executive Board. The AUO Charter included a special rule and exception for the appointment, renewal, extension and termination of appointment of the Director of AUO only, according to which the President consults on these actions with the Audit Committee. The appointment of all other AUO personnel was carried out by the relevant authorities in IFAD, in line with the applicable procedures. AUO staff were IFAD staff subject to the authority of the President and, as such, subject to all human resources rules and procedures, including mobility and reassignment. Management clarified, however, that the President decided on the list of non-rotational positions on a yearly basis. AUO highlighted the particular nature of its functions, which required independence from Management to ensure that its findings and assessments were credible and to provide objective and independent advice to Management and the governing bodies. AUO also noted that the recent external review of the internal audit function had assessed the impact of the reassignment exercise on AUO and concluded that it could affect AUO's ability to provide effective and independent services.

32. The Chair took note of AUO's comments and the clarifications provided by Management and stated that some mitigant measures would need to be applied;

for example, potential vacancies resulting from the reassignment exercise should be filled quickly to avoid an impact on AUO capacity.

Outcome and follow-up. The overall update was noted. With reference to the potential impact of the reassignment exercise on AUO capacity, the Committee requested Management to deliver an update, supported by a document, on the implications of the reassignment policy at either the September or the November meeting.

(b) Update on the operation of the Social, Environmental and Climate Assessment Procedures (SECAP) Impartial Review Process (AC 2024/173/R.8) – for information

33. AUO provided an update on the agenda item and noted that since the approval of the new procedure, no complaints had been escalated to the impartial review process. Consequently, no steps had yet been taken by IFAD to appoint the SECAP complaints officer (SCO). AUO highlighted the importance of ensuring the timely appointment of the SCO when the need arose. In accordance with the SECAP complaints procedure, the SCO should be appointed by the President in consultation with the Audit Committee.

34. Committee members requested clarifications about the recruitment process for the SCO to make sure that IFAD was ready to act when appropriate.

35. AUO explained that there were several options to proceed with such appointment – one possibility was through an expression of interest, requesting curricula vitae and engaging with potential candidates when an eventual complaint was received and escalated. It was noted that the time required to appoint an SCO in such a case would be two or three weeks. In addition, Management was in contact with the United Nations Accountability Mechanisms Network – a group of United Nations agencies – with a view to creating a pool of complaints officers.

Outcome and follow-up. The document was noted, and the Committee suggested that some options be determined for the timely recruitment of the SCO. In the meantime, the request for expressions of interest would proceed.

Agenda item 10 – Asset and Liability Management Report as at December 2023 (AC 2024/173/R.9) – for review

36. Management introduced the Asset and Liability Management Report for the second half of fiscal year 2023. Management noted the challenging financial environment and the importance of ensuring the stability of long-term financial positions through a robust liquidity position and proper management of related financial risks. Management noted that all liquidity and capital ratios were compliant with policy limits. It was highlighted that the debt-funded part of the balance sheet was relatively matched in terms of interest and currency risks and that Management would monitor closely the alignment of income generation from ordinary loans and the cost of funding. The concessional long-term fixed rate of loans denominated in special drawing rights (SDR) continued to be primarily funded by equity, while being the main driver of interest rate and currency risks.

37. Committee members requested clarification about possible mitigation measures for risks associated with SDR-denominated loans, and details about sovereign borrowing loans and the debt servicing ratio.

38. Management explained that hedging risks associated with SDR-denominated loans was difficult as such loans had a very long exposure and, to minimize the risk, Management was looking at a 24-month horizon. Management clarified that sovereign borrowings were financial liabilities very similar to concessional partner loans. It was also noted that the debt servicing ratio was closely monitored to avoid stress on liquidity levels.

Outcome and follow-up. The document was reviewed and will be submitted to the Executive Board for information.

Agenda item 11 – Draft provisional agenda for the 174th meeting of the Audit Committee (AC 2024/173/R.10/Rev.1) – for review

Outcome and follow-up. The document was considered reviewed, with the inclusion of an update on the status of the Twelfth Replenishment of IFAD's Resources (IFAD12) and an update on IFAD's commitments, programme of loans and grants, and related resources for 2024.

Agenda item 12 – Other business

(a) Update on IFAD's commitments, programme of loans and grants, and related resources for 2024

39. Management provided an update on programme delivery for 2024. It was noted that since the last update at the 172nd meeting, IFAD had approved a further US$327 million of IFAD12 financing, thereby reaching the key milestone of over 50 per cent of the IFAD12 programme of loans and grants approved. Total approvals at the time of the 173rd meeting stood at US$1.69 billion, with the remaining planned IFAD12 project financing delivery of US$1.66 billion to be approved by the end of 2024. It was noted that nine projects in the pipeline, valued at US$313 million, were considered at risk. To mitigate these risks to the 2024 delivery, Management was closely monitoring the pipeline and had put in place several contingency measures including the formulation of plan B projects to replace any projects that slipped. Should no slippages occur, these plan B projects would be submitted for approval in April 2025 using IFAD13 resources.

40. Committee members requested details about delayed projects and requested that a document on this topic be submitted to the Committee meeting in September.

41. Management clarified that delays were linked to situations of debt distress, recent elections and instability.

Outcome and follow-up. The update was noted, and it was agreed that a written report would be submitted to the 174th Audit Committee meeting.

(b) Update on the Borrowed Resource Access Mechanism (BRAM)

42. Management delivered an oral update on the status of BRAM resources, while noting that a complete overview of the BRAM during IFAD12 would be presented at the December session of the Executive Board. Initially, at the start of the IFAD12 cycle, 52 countries were assessed as eligible for BRAM resources, with confirmed interest in accessing them. These countries included 11 low-income countries (LICs), 29 lower-middle-income countries (LMICs) and 12 upper-middle-income countries (UMICs). However, subsequent changes in the international economic context, fiscal landscapes and specific country situations had led to a reduction in the number of countries accessing the BRAM. Currently, 33 countries were accessing BRAM resources, comprising 6 LICs, 20 LMICs and 7 UMICs. Notably, BRAM resources operated on a demand-driven basis; consequently, Management redistributed funds, making BRAM resources available to other eligible countries that expressed interest in additional resources. To date, BRAM resources totalling US$288 million had been approved, with an additional US$731 million planned for approval by December 2024, resulting in a total of US$1.02 billion.

43. Management also shared some lessons learned. They emphasized the importance of a conservative approach when identifying eligible countries to mitigate the risk of countries becoming ineligible during the cycle. Additionally, the importance of maintaining close and effective relationships between country teams and borrowers was highlighted. BRAM redistribution was expected to remain a key feature during IFAD13.

44. Committee members requested clarifications about the funding of BRAM projects and the possibility of rolling forward funds.

45. Management clarified that the resources available were expected to be deployed in full during the IFAD12 cycle and that the possibility of creating some flexibility for resource allocations among replenishment cycles was being explored.

Outcome and follow-up. The update was noted.

46. At the conclusion of the meeting, the Chairperson of the Audit Committee conveyed, on behalf of the Committee, sincere appreciation and gratitude for the dedicated work carried out by the Director of the Office of Audit and Oversight, Bambis Constantinides, throughout the years. Mr Constantinides would retire in July 2024.