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## **Minutes of the 174<sup>th</sup> meeting of the Audit Committee**

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## Minutes of the 174<sup>th</sup> meeting of the Audit Committee

1. The 174<sup>th</sup> meeting of the Audit Committee was held on 3 September 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, Office of the General Counsel; the Associate Vice-President, Chief Financial Officer, 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, a.i., Office of Audit and Oversight; Director, Independent Office of Evaluation of IFAD (IOE); the Secretary of IFAD, Office of the Secretary; the Chief of Ethics, Ethics Office (ETH) and a number of other IFAD staff members.

### **Agenda item 2 – Adoption of the agenda (AC 2024/174/R.1) – for approval**

3. The agenda was adopted, with no changes.

### **Agenda item 3 – High-level preview of IFAD's 2025 results-based programme of work, regular and capital budgets, and budget outlook for 2026–2027, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2025 and indicative plan for 2026–2027 (AC 2024/174/R.2) – for review**

4. Management introduced the preview of IFAD's 2025 results-based programme of work and budget and informed the Committee that it was aligned with the shared ambition of delivering a US\$10 billion programme of work, addressing the priority areas of the Thirteenth Replenishment of IFAD's Resources (IFAD13) to sharpen IFAD's focus on fragile contexts, increase investments in biodiversity and climate resilience for small-scale producers, and enhance private sector engagement.
5. IFAD's total administrative budget for 2025 was projected at US\$189.83 million, a 1.2 per cent real increase from 2024, reflecting the need to maintain operational capacity while addressing new priorities. As requested, Management proposed new efficiency ratios and also presented an initial attempt to link budget allocations to specific outputs for greater transparency and accountability. Management also provided a budget outlook for 2026 and 2027 aimed at ensuring flat real growth by 2027, with continued alignment to IFAD13 goals. The 2025 capital budget, primarily for cyclical and ICT investments, was capped at US\$5.5 million.
6. The Director, IOE, outlined the work programme and budget submission for 2025, indicating that it was aligned with IOE's multi-year evaluation strategy approved in December 2021, and would be finalized after receiving feedback from the Audit Committee, Evaluation Committee and Executive Board in September 2024.
7. The 2025 IOE budget was projected at US\$6.173 million, slightly up from US\$6.144 million in 2024 due to an upgraded staff position; however it remained at 0.55 per cent of the programme of loans and grants (PoLG), well below the 0.9 per cent ceiling.
8. Members expressed appreciation for the preview document and IFAD's proposal, in particular the alignment with IFAD's core business and with IFAD13 priorities. Management efforts towards an "output-oriented" budget as well as the high budget usage projected for 2024 were welcomed by the Committee. Committee members recognized the moderation over the three-year cycle of budget increases; however, they underscored the need for more detailed and granular information relating to the various cost drivers, cost-savings, the price factor and trade-offs having implications for the real and nominal increase of the budget. One member also pointed out that inflation adjustment should not be considered automatic.

9. Noting the need for strong justification for any increases in the budget, Management was asked to provide the rationale for reaching the zero real growth scenario only in 2027.
10. Management appreciated the comments provided. These would be taken on board in the final budget proposal, which would include more detailed explanations of cost drivers, trade-offs and savings. The phased approach to budget increases (1.2 per cent in 2025, 0.85 per cent in 2026, and zero growth in 2027) reflected the high demand for resources, especially for new initiatives such as the new private sector division, offset by savings from decentralization that would materialize in the period 2026–2027. Management clarified that pillar 4 (institutional functions, services and systems) was fundamental for delivery of the other pillars and entailed many fixed contractual costs. Cutting allocations to pillar 4 risked compromising delivery in other areas. As a result, the goal was to find efficiencies across all pillars.
11. Based on recent experience, Committee members questioned the ambitious programme delivery projections for 2025. They also highlighted the importance of starting IFAD13 on a solid footing, ensuring no further budgetary implications from decentralization. In response, Management highlighted the importance of early programming for IFAD13 to avoid shortfalls and ensure smoother execution of the programme of work. That said, should there be any changes in the projected pipeline, these would be reflected in a revised budget. While no additional costs from decentralization were expected in 2025, the deferred establishment of some country offices might be reassessed at a later stage, at which point related budgetary implications would need to be reviewed and discussed with the Board.
12. A number of queries were addressed to IOE, including on staffing levels, IOE's consideration of the ongoing recalibration process and the level of budget usage in 2024. IOE clarified that it used a conduct rather than a contract model. This team-based approach had strengths such as deep engagement and a focus on quality, but also posed challenges, including limited capacity for rapid scaling up. With current resources, IOE could cover around 50 per cent of eligible countries, which was deemed sufficient for carrying out thematic and corporate-level evaluations.
13. IOE acknowledged the staffing challenges resulting from vacancies and retirements. While commitments as of 30 June were higher than the expected utilization by the end of 2024, these had been based on the underlying assumption that all staff would have remained for the full year. Despite these challenges, IOE was leveraging resources efficiently and believed it was adequately resourced, using artificial intelligence when possible, and recruiting more interns and appropriate external experts to maintain high-quality outputs.
14. With regard to recalibration, IOE clarified that it did not comment on ongoing Management processes and that its focus was on ex post evaluations rather than on monitoring. IOE would present its evaluation approach paper for IFAD11 and IFAD12 at the upcoming Evaluation Committee session; the aim of this evaluation was to assess, in a holistic way, the outputs and outcomes of replenishment efforts.

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

**Agenda item 4 – Progress report on the workplan for IFAD's Office of Audit and Oversight for 2024 (AC 2024/174/R.3) – for review**

15. The Office of Audit and Oversight (AUO) introduced the report, confirming that the workload for 2024 was on track. Members were advised that AUO was working with the Operational Policy and Results Division (OPR) to recruit a Social, Environmental and Climate Assessment Procedures (SECAP) complaints officer. A call for expressions of interest had been issued and interviews with consultants were under way. On 19 and 20 November, OPR would be co-hosting a meeting of the United Nations Accountability Mechanisms Network and it was proposed that an oral

update on the topic be provided at the 175<sup>th</sup> Audit Committee meeting under any other business.

16. In responding to members' request for clarification on audit processes, challenges and innovations – including remote auditing and the use of technology also based on the experience gained in the COVID-19 era – AUO expressed confidence in delivering the 2024 workplan despite the lengthy audit processes and the vacant AUO Director position, citing recent successful audit reports and the minimal activities that had been carried forward from 2023. AUO clarified that the audit report clearance process prior to issuance could be lengthy if audit clients were not available. The Chad supervision field visit would take place towards the end of the year and every effort would be made to minimize carry forward.
17. On remote auditing, AUO explained that this was more feasible for audits of country offices, with four audits being conducted remotely this year. It was less suitable for audits of the supervision of country programmes, which entailed outreach to non-IFAD staff and access to documentation held remotely by implementing partners. Challenges included uneven internet connectivity and interviewee availability. While data analysis for processes such as travel and security clearances could be undertaken remotely, for procurement processes, greater maturity in the use of project procurement systems would enable more assurance to be gained remotely. In addition, when documents were correctly filed in corporate repositories, auditors were able to work without burdening operational staff, which provided a significant advantage in terms of timeliness, audit coverage and efficiency. While remote work was more economical, in-person missions offered more assurance due to the ability to gather physical evidence and observe interactions.
18. AUO noted that IFAD was exploring innovative approaches such as the use of artificial intelligence and geographic information systems to enhance remote auditing capabilities, particularly in fragile and conflict-affected settings.
19. Pending recommendations had increased slightly due to complex system processes and interdependencies, but most were expected to be implemented in a timely manner by Management. Ten of the 19 pending recommendations fell due on the last day of the semester.
20. Regarding investigations, the intake of misconduct and corruption complaints remained high. AUO had revised its procedures to enable quicker responses and had enhanced information sharing with IFAD's operations and finance divisions. Due to the high caseload, AUO would continue to use external experts.
21. AUO provided clarifications on the figures and tables in the report, including on cases received and closed in 2024 and the nature of allegations that did not fall within IFAD's anticorruption policy.
22. The increase in allegations could indicate improved detection rather than systemic failure. AUO was streamlining processes to handle these more efficiently while maintaining quality.
23. Regarding the staffing, although two out of four audit positions were undergoing mandatory reassignment, which might impact AUO's capacity and independence, Management had provided the requested budgetary resources to ensure that AUO was fully staffed, apart from the vacant director position.
24. On the reassignment policy and rotational positions, Management explained that these were being reviewed by the Office of the President and Vice-President with support from an external human resources consultancy firm with the aim of developing a mobility framework that balanced staff movement and career progression within IFAD. The findings were expected within the next three months.
25. Members looked forward to hearing more about the review at the next meeting of the Audit Committee in order to assuage their concerns as to the impact on AUO capacity and independence.

26. Finally, Management announced that Ms Madina Bazarova had been appointed as Director, AUO. The Committee welcomed Ms Bazarova and took the opportunity to once again express its sincere gratitude to the outgoing Director, Mr Bambis Constantinides, for his commitment to IFAD over the years.

**Outcome and follow-up:** The progress report on the AUO workplan was considered reviewed.

**Agenda item 5 – Progress report on the activities of the IFAD Ethics Office for 2024 (AC 2024/174/R.4) – for review**

27. The Audit Committee reviewed and welcomed the first midyear progress report on the activities of ETH, and noted the significant advancements in ethics training and in misconduct prevention.
28. The Chief, ETH, shared the highlights of the office’s work over the first six months of the year, including extensive training and awareness-raising, and strengthened misconduct prevention and response. ETH was collaborating with international financial institutions (IFIs), United Nations agencies and other multilateral organizations to ensure alignment with best practices, which would inform the revision of IFAD’s Policy to Prevent and Respond to Sexual Harassment, Sexual Exploitation and Abuse. IFAD’s whistle-blower protection procedures were being reviewed to ensure robust safeguards against retaliation. In addition, the annual financial disclosure programme, which was key to assessing and mitigating the risk of conflicts of interest, was under way.
29. The Committee recommended that future progress reports provide a clear picture of current priorities, future plans and challenges as well as an analysis of the types of concerns raised to the ETH and the outcomes. The Chief, ETH, welcomed the suggestions noting that, since the Ethics charter had come into effect in late 2023, the current progress report was not based on a workplan that had been shared with the Committee. Future progress reports would be based on a workplan submitted to the Audit Committee, and the first such workplan would be considered by the Committee at its next meeting in November. A more detailed analysis of concerns raised would be included in the annual report, which would be submitted to the April meeting of the Audit Committee. The Chief, ETH, elaborated on the office’s advisory and monitoring role related to harassment, abuse of power, conflict of interest and human resources processes, noting that responses ranged from the simple provision of advice to escalation of matters for investigation.
30. One Committee member recalled the findings of the assessment by the Multilateral Organisation Performance Assessment Network (MOPAN), which required follow-up with respect to sexual harassment issues, and sought information on next steps. The Chief, ETH, advised that work was ongoing to finalize the IFAD Policy to Prevent and Respond to Sexual Harassment, Sexual Exploitation and Abuse. Given that IFIs work through governments, it was often a struggle to reach victims directly. ETH’s aim was to develop a victim-centred policy, which would be submitted to the Board for approval. A new officer had been recruited and would be mainly concerned with managing IFAD’s sexual harassment, sexual exploitation and abuse prevention framework. The framework, in addition to the policy, foresaw focal points – either IFAD personnel and/or protection from sexual exploitation and abuse coordinators within the United Nations country teams – in every country in which IFAD operated. Diverse and user-friendly communication channels were being explored, along the lines of the anonymous reporting system launched the previous year, which allowed for unnamed complaints to be lodged easily on mobile devices.
31. Noting IFAD13’s focus on engaging in fragile situations, members asked the Chief, ETH, to elaborate on any specific challenges she foresaw for the work of the office in this regard. Operating in cultures that were not cognizant of the detrimental effect of sexual misconduct could pose challenges. Work was ongoing with SECAP

colleagues to address the risk of sexual harassment and exploitation in fragile situations by having a risk assessment framework in place. This would enable the office to determine the higher risk countries and allocate resources accordingly.

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

**Agenda item 6 – Option of fixing a variable market reference rate for variable rate loans (AC 2024/174/R.5) – for review**

32. Management introduced this agenda item, noting that document AC 2024/174/R.5 contained a proposal to offer IFAD borrowers the option to fix interest rates for variable rate loans, thereby aligning IFAD’s offerings with those of other IFIs. It was emphasized that this service would be demand-driven and would not introduce any additional significant financial risks to IFAD’s financial statements.
33. Committee members welcomed the proposal noting that this would better support client countries’ debt management strategies and would better align IFAD’s offer to that of other institutions. Some members requested details regarding potential demand for this service and the costs associated with the fixing of the interest rate.
34. Management provided the necessary details, explaining that it had reached out to several borrowers who had expressed interest in this option. Management also clarified that the costs associated with this service primarily related to the expenses incurred in entering into the necessary hedging instruments to mitigate potential interest rate risk. In the event that there was no significant demand for the service, the cost would be minimal as IFAD would not enter in any derivative hedging instrument.

**Outcome and follow-up:** The document was considered reviewed and would be submitted at the forthcoming Executive Board session for approval.

**Agenda item 7 – Update on the implementation of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards – for information**

35. Management provided an update on the implementation of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards. The update included an overview of the standards, highlighting the steps already taken and the future roadmap. In particular, it was noted that IFRS S1 and IFRS S2, issued in June 2023, aimed to address the need for comparable and reliable information on sustainability risks and opportunities. The ultimate goal was to integrate financial reporting with sustainability reporting. The timeline for adoption was by end-2024, with some areas extended to 2025. The implementation of these disclosure requirements was complex and necessitated the collective effort of the entire institution to leverage existing data produced by IFAD. To this end, an interdivisional working group had been established, and with the support of an external advisory firm, a preliminary stocktaking exercise and gap analysis had been conducted.
36. The gap analysis revealed that while IFAD was strong in several areas, there were still challenges to be addressed in defining a framework based on material risks and opportunities, and integrating these topics with financial metrics and targets.
37. Management also emphasized the importance of networking with other multilateral development banks and the partnership with the International Sustainability Standards Board (ISSB), which would be formalized with the signing of a memorandum of understanding. Management clarified that the aim was to ensure full sustainability disclosure and assurance by June 2025.
38. Committee members welcomed the update and requested clarifications on the timing of implementation, and on potential organizational, staffing and training needs.

39. Management provided the necessary details, noting that financial and sustainability disclosures would be integrated into a single report. Management also mentioned that a sustainability officer was currently being recruited and that training sessions had been conducted by a knowledgeable accounting firm and ISSB members.

**Outcome and follow-up:** The update was noted.

**Agenda item 8 – Report on the status of contributions to the Thirteenth Replenishment of IFAD’s Resources (IFAD13) (AC 2024/174/R.6) – for review**

40. Management introduced the agenda item noting that as at 14 August 2024 the level of IFAD13 pledges had reached US\$1.4 billion, which equated to 75 per cent of the target of US\$1.875 billion set by Member States. Management also noted that, as at 14 August 2024, IFAD had secured IFAD13 effectiveness, with instruments of contribution and payments received totalling US\$713.7 million, equivalent to 51 per cent of total pledges. This confirmed the continued strong support from IFAD Member States.

**Outcome and follow-up:** The document was reviewed and would be presented at the forthcoming Executive Board session for review.

**Agenda item 9 – Update on 2024 commitments, programme of loans and grants and related resources (AC 2024/174/R.7) – for information**

41. As requested by the Committee, Management provided an update on the delivery of the IFAD12 PoLG. As at 13 August 2024, US\$1.73 billion in IFAD12 resources had been approved. By the end of September 2024, it was expected that a further US\$1.09 billion would be approved, bringing the total to US\$2.82 billion or 84 per cent of the IFAD12 target.
42. Members were informed by Management that there were seven high-risk projects, with an overall value of US\$369 million. Exogenous risks related to the global economy and changes in government priorities, policies and administrations were being managed by actively engaging with governments to mitigate these risks and track project progress on a weekly basis. Furthermore, to address the risk of slippage, several investment projects had been expedited or allocated additional resources in order for them to be ready for approval in the fourth quarter of 2024 in case of need. These projects represented additional demand of US\$103 million, which would partly cover the projects at highest risk of slipping.
43. Time constraints and mismatches in lending terms between released resources and project financing demand were being addressed internally (the high-risk projects were on ordinary terms, while additional identified demand was for blend terms). Options were being explored in consultation with the President, the Office of Enterprise Risk Management, and the Chief Financial Officer to support full IFAD12 delivery while also safeguarding IFAD’s credit rating and financial integrity. Management expressed its commitment to meeting the IFAD12 target and would continue to keep members informed about the status of the PoLG.

**Outcome and follow-up:** The update was noted.

**Agenda item 10 – Draft provisional agenda for the 175<sup>th</sup> meeting of the Audit Committee (AC 2024/174/R.8) – for review**

44. The Committee reviewed and approved the draft provisional agenda for the 175<sup>th</sup> meeting of the Audit Committee to be held in November, as contained in document AC 2024/174/R.8. Following consideration of the progress report on the 2024 AUO workplan, the Committee also agreed to the inclusion of an update on the recruitment of a SECAP complaints officer under other business.
45. **Outcome and follow-up:** The draft provisional agenda was considered reviewed.