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Audit Committee
178th Meeting
Rome, 2 September 2025

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Minutes of the 178th meeting of the Audit Committee

1. The deliberations of the 178th meeting of the Audit Committee, held on 2 September 2025 in hybrid modality, are reflected in the present minutes. The minutes have been approved by the Committee and shared with the Executive Board for information.

2. The meeting was attended by Committee members representing Algeria, Angola, Brazil, China, France, Italy, United Kingdom, United States and the Bolivarian Republic of Venezuela, and observers representing Canada, Germany and Sweden. The meeting was also attended by the Vice-President; the Chief Legal and Governance Officer, Office of Legal and Governance; the Associate Vice-President and Chief Financial Officer, Financial Operations Department; the Director and Chief Risk Officer, Office of Enterprise Risk Management; the Director and Controller, Financial Controller's Division; the Director, Office of Audit and Oversight (AUO); the Deputy Director, Independent Office of Evaluation of IFAD (IOE); the Secretary of IFAD, Office of the Secretary; and a number of other IFAD staff members.

Agenda item 2 – Adoption of the agenda (AC 2025/178/R.1/Rev.1) – for approval

3. The revised agenda was adopted with the inclusion, under other business, of the following items: (a) an update on the 2026 Audit Committee meeting dates; and (b) an update on the risk assurance mapping exercise.

Agenda item 3 – High-level preview of IFAD's 2026 results-based programme of work, regular and capital budgets, and budget outlook for 2027–2028, and the preview of the Independent Office of Evaluation of IFAD's results-based work programme and budget for 2026 and indicative plan for 2027–2028 (AC 2025/178/R.2) – for review

4. Management introduced the preview of IFAD's 2026 results-based programme of work and budget, confirming its alignment with the priorities for the Thirteenth Replenishment of IFAD's Resources (IFAD13), such as strengthening engagement in fragile contexts, increasing investment in climate and biodiversity resilience for small-scale producers, and enhancing private sector engagement.

5. Initially projected to grow by 0.85 per cent, the budget now reflected zero real growth, in response to global fiscal constraints. This was achieved through targeted trade-offs, repurposing and efficiency gains. The 2026 nominal budget stood at US$194.51 million, inclusive of a 2.1 per cent price adjustment, while the capital budget was capped at US$5.5 million, primarily to support digital transformation and cyclical investments.

6. The Deputy Director, IOE, outlined the IOE work programme and budget submission for 2026, noting that it had been shaped through internal consultations and aligned with the IOE multi-year strategy as approved by the Executive Board in 2021.

7. IOE planned to deliver 24 evaluations, including two corporate-level evaluations, one subregional evaluation, two project cluster evaluations, 14 country strategy and programme evaluations (a 333 per cent increase over 2021), and 5 project performance evaluations, covering more than 30 countries. To sustain this growth, IOE proposed adding one Evaluation Officer and a budget of US$7.805 million (0.69 per cent of the programme of loans and grants), which still maintained the budget well below the 0.9 per cent ceiling.

8. Members welcomed the linking of budget allocations to outputs and indicators, the enhancement of transparency and accountability, and the focus on the core business of operations at country level, and thanked Management for the constructive bilateral engagements ahead of the present meeting. The Committee commended IFAD for anticipating and implementing a zero real growth budget, welcoming IFAD's fiscal discipline and responsiveness to previous requests from

Member States, and appreciated the identification of key cost drivers, particularly increased investments in programme delivery and the expansion of private sector operations.

9. The Committee noted the ambitious delivery goals under a constrained envelope. Management clarified that most IFAD13 project concept notes were already in the pipeline and under active discussion with governments. By mid-2026, firm commitments would be secured. On fragile contexts, Management reiterated that IFAD would uphold its IFAD13 commitments and leverage Board-approved tools such as the multiphase adaptive programme approach to ensure long-term, sustainable engagement.

10. Management also took note of issues raised by members regarding exchange rate volatility and committed to ensuring close monitoring and reporting should projections change significantly. With regard to the staffing challenges and the need for specific expertise and capacity-building, Management clarified that a review had been commissioned to assess the needs and requirements of the private sector function within IFAD.

11. Several members requested further clarifications on the implications of trade-offs for programme delivery, digital transformation costs and risk management. Management acknowledged the limited flexibility due to reduced budget carry-forwards and confirmed that efficiency gains from decentralization and recalibration were being repurposed to preserve delivery capacity. More detailed information – including updated price adjustments and output-linked budget allocations – would be shared in the final budget submission in December.

12. On broader reform, Management highlighted IFAD's proactive role in the UN80 initiative, underscoring the institution's comparative advantage as both a United Nations specialized agency and an international financial institution. Given past reforms, including decentralization and recalibration, IFAD was well aligned with many of the initiative's goals. IFAD's operational agility agenda remained central to optimizing staffing, streamlining procedures and embedding institutional efficiencies. On South–South and Triangular Cooperation (SSTC), Management outlined ongoing steps to mainstream SSTC across operations, strengthen staffing and improve training.

13. Regarding the preview of IOE's work programme and budget, Committee members expressed support for the expanded evaluation coverage and strategic alignment, while requesting further clarification on staffing adequacy, sustainability and absorptive capacity for the implementation of recommendations. While welcoming IOE's responsiveness to calls for increased coverage, particularly with respect to country strategy and programme evaluations, which informed the development of country strategic opportunities programmes, some members urged IOE to explore efficiency gains and trade-offs to offset the need for future budget increases and achieve a steady-state trajectory in terms of its administrative costs. IOE explained that evaluation demand, particularly at the country level, remained manageable and that trends in agreement and uptake of recommendations would be monitored through the annual President's Report on the Implementation Status of Evaluation Recommendations and Management Actions.

14. IOE highlighted ongoing efforts to increase efficiency using AI, natural language processing and geospatial tools while maintaining fieldwork as a core modality. IOE also clarified that the inclusion of two project cluster evaluations accounted for the increase in project-level evaluation costs and acknowledged members' feedback on reaching a sustainable steady state. In light of this, IOE noted that the upcoming external peer review would assess IOE's ability to balance demand with quality and timeliness. The comment by one member regarding the use of plain language in reporting was also noted.

15. **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 2025 (AC 2025/178/R.3) – for review

16. The Director, AUO, provided an update on activities as of June 2025, as well as additional information on developments since the submission of the published report. AUO continued to align its work with its updated vision and mission, focusing on more strategic, succinct and visual reporting grounded in deeper root cause analysis. Stakeholder feedback on the new report format had been positive. Engagement with clients had become more regular and focused, and a client satisfaction survey would be launched at the end of the year to inform the 2025 Annual Report.

17. The Committee noted that the internal audit assignments for 2025 were progressing well, with all carry-over reports from 2024 completed and discussed at the Audit Committee meeting in June. AUO had issued four audit reports, and 12 audit assignments were scheduled. AUO confirmed that the fieldwork would be delivered for all 12 of these within 2025, although some of the reports might spill over to 2026.

18. On investigations, AUO had achieved a 22 per cent increase in the case completion rate, a notable improvement over previous years, despite a slight decline in new cases received. Common root causes of misconduct, particularly in project procurement, were traced to control weaknesses and lapses in due diligence. A new case management system for investigations had been implemented, improving efficiency and enabling better root cause analysis.

19. Members broadly welcomed AUO's update and expressed appreciation for the good progress made in delivering the 2025 workplan. Several members acknowledged improvements in audit reporting, investigation case completion, and the more strategic communication of findings. The initiative to strengthen preventive anticorruption work was seen as a positive step, especially through collaboration with the World Bank on joint programmes – activities that would be extended to other multilateral development banks (MDBs) such as the Asian and African Development Banks – and with Ghana's Economic and Organized Crime Office to improve oversight at the national level. Members expressed interest in future updates on similar outreach efforts with other MDBs.

20. AUO acknowledged the request for updates on the response to the Enterprise Risk Management Framework review and encouraged members to engage with the Office of Enterprise Risk Management, which was instrumental in supporting IFAD in implementing relevant recommendations. A major ongoing initiative was the review of IFAD's supervision framework, which aimed to assess how effectively this supported operational efficiency. Updates would also be shared on any changes in methodology related to supervision activities.

21. Regarding implementation of internal audit recommendations, AUO noted that while most were being addressed in a timely manner, a few delays persisted due to structural adjustments from decentralization and the recalibration process. On the delayed risk assurance mapping exercise, AUO confirmed that although the initial recruitment round had failed, new consultants from EY UK had now begun the assignment. The work was expected to be completed by the end of 2025, with the final report potentially finalized in early 2026. AUO reassured members that this delay would not affect the delivery of the overall 2025 workplan, as the bulk of the exercise was consultant-led.

22. On staffing transitions, the Committee acknowledged and thanked the AUO departing staff for their service. AUO confirmed that recruitment for the new Head of Internal Audit was under way, with a planned start in January 2026 and that one new staff member, an Investigation Officer, would take up service in October. In

response to budgetary concerns raised by members, AUO indicated that budget discussions would be integrated into the review of the 2026 workplan and discussed at the Audit Committee meeting in November. Finally, AUO reiterated its commitment to stakeholder engagement without compromising its independence, emphasizing the value of focused, professional dialogue to align with shifting organizational priorities such as digital transformation, an area that would be reflected in AUO's upcoming 2026 workplan.

23. On recommendation follow-up, AUO was satisfied with the overall implementation rate, noting that only 17 recommendations were overdue as of June, most of which were due at the end of the month, with just one being high priority. Continuous dialogue with audit clients was ongoing, though responsibility for implementation lay with Management. Notably, the single high-priority recommendation on dynamic workforce planning was now considered closed, as ongoing initiatives under the operational agility framework – such as a new strategic workforce planning concept note and a drop in the vacancy rate – had effectively mitigated the risk.

24. In response to members' concerns, AUO clarified that progress had also been made on one of the long-overdue recommendations concerning timely submission of audit reports by private sector partners. However, one recommendation (related to multi-divisional coordination) remained outstanding and required further attention. AUO would continue to monitor and engage with relevant divisions to close pending items.

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

Agenda item 5 – Revision of the Capital Adequacy Policy (AC 2025/178/R.4) – for review

26. Management presented the rationale for revising the Capital Adequacy Policy. It was explained that IFAD must make the most efficient use of its existing equity in order to deliver stronger development outcomes, drawing on recommendations from the G20 panel on multilateral development bank capital optimization. Reference was also made to the experience gained since the adoption of the 2019 policy and to useful observations received from the internal auditor. Furthermore, Management emphasized the importance of taking into account the methodologies applied by credit rating agencies when assessing IFAD's creditworthiness.

27. Management noted that the revision implied some changes in computation modalities and in the management of capital. On the computational side, it was noted that receivables and promissory notes from Member States would be included as part of initial capital available, while undisbursed Debt Sustainability Framework grants would be excluded as they did not generate income. Non-sovereign loans, equity investments and guarantees would be recognized as exposure. At the same time, credit risk within the liquid investment portfolio would be excluded from the capital consumption calculation, and it was noted that, as such, risks were mitigated through diversification and already captured under market risk.

28. The Committee welcomed the presentation. It was underlined that IFAD's capital position was currently very prudent and that the new framework would allow for greater flexibility, facilitating a more efficient use of resources within the institution's risk appetite. Committee members requested clarifications about governance; about the managerial zones and possibility of setting ratios and related limits; and about replenishments as preservation mechanisms. The Committee discussed the treatment of climate risk and stress testing by also including shocks such as food price fluctuations and debt sustainability risks. Clarification was requested on the purpose and practical value of reverse stress testing. Furthermore, Committee members requested details about the treatment of ordinary term lending and related capital charge calculations. Details were sought

on the link between capital adequacy outcomes and operational implications, and related impacts on lending capacity, grant envelopes or crisis response flexibility.

29. Management welcomed the enriching comments and guidance and committed to ensuring that these would be reflected in the document to be submitted to the December Board session. Management also reiterated its availability to provide additional bilateral feedback. In response to observations by members, it was explained that the managerial zones would serve for both planning and recovery purposes, which were interlinked. Rather than being expressed as rigid numbers, thresholds would be presented as ranges, which allowed some flexibility. Governance arrangements would ensure that Management monitored relevant metrics, including those used by credit rating agencies, and informed the Audit Committee and the Board when thresholds were being approached. In such cases, Management would be responsible for preparing recovery plans, which would then be consulted on and approved by the governing bodies.

30. Management acknowledged that replenishment was distinct from preservation but argued that it could nevertheless be one potential response option to a capital shortfall and should not be excluded from the menu of measures. Management also confirmed that prioritization of preservation actions would be determined in consultation with Committee members and not by Management alone. In response to the technical questions, Management clarified that ordinary loans attracted capital charges based solely on credit risk, while concessional loans were first discounted for concessionality before credit risk charges were applied. Preferred creditor treatment was already embedded in the calculation, as IFAD's observed probability of default was about half of that implied by sovereign benchmarks. On reverse stress testing, Management explained that this tool was used to identify the extreme scenarios that would call IFAD's solvency into question, and that such scenarios were typically so unlikely that they served to reassure stakeholders of the institution's resilience.

31. The Committee concluded that the revision was moving in the right direction and acknowledged the quality of the work undertaken so far. Committee members nevertheless stressed the importance of clarifying the operationalization of the managerial zones and the respective roles of Management and governing bodies in capital management decisions. It was agreed that the revised policy should remain technically rigorous while also being communicated in terms accessible to all stakeholders.

32. **Outcome and follow-up:** The document was considered reviewed and feedback provided by the Committee would be incorporated into the final version. The revised Capital Adequacy Policy would be submitted to the Audit Committee for final review in November and to the Executive Board for approval in December.

Agenda item 6 – Oral update on the capital optimization process: Timeline and other documents – for information

33. Prior to introducing the agenda item, Management provided an oral update on the status of IFAD13, noting an increase in payments since the last report shared back in June. The current amount of payments was US$497 million, equivalent to 34 per cent of total pledges.

34. Subsequently Management provided an oral update on capital optimization and highlighted how the update on the Capital Adequacy Policy was strictly linked the Integrated Borrowing Framework (IBF). Management highlighted the overarching strategy to safeguard the capital, which reduced counterparty risk on IFAD's derivative market operations introducing collateralization. Management highlighted that the aim was to ensure cost-effective funding for operations and efficient liquidity management, with the objective of refinancing short-term liquidity induced by the collateralization of IFAD's derivatives.

35. Management clarified that derivatives were already in use to hedge foreign exchange rates and interest rate risks. Derivative swaps were executed with banking counterparts, trading off market risks with counterparty risk in the financial sector. This risk could be neutralized through collateralization. In practice this would mean that when the swaps were in counterparts' favour, IFAD would be required to post cash or security as collateral to protect against default and, vice versa, when conditions were favourable to IFAD, counterparts would be required to post cash or securities as collateral to reduce risk for IFAD. This would lower both the risk and the price of the swaps but would require IFAD to mobilize cash to be used as collateral and the amount needed would fluctuate with market movements. This cash requirement could be achieved either with repurchase agreements or with commercial papers, or short-term debt instruments with maturities of less than one year.

36. Management clarified that this would imply a revision of the IBF and a clarification on the Governing Council resolution on market borrowing to ensure the possibility of using commercial paper. Management reminded the Committee that IFAD12 had already introduced the option of using public issuance in the capital market, and the use of commercial paper could be considered as a form of public issuance.

37. Management proposed to align the timing of the revision of the IBF with the timing of the revision of the Capital Adequacy Policy to be presented at the Audit Committee meeting in November, followed by its presentation to the Executive Board for approval in December, and finally to the Governing Council in February to amend resolution 223/XLIV on market borrowing authority.

38. Committee members appreciated the update from Management and requested additional engagement for the revision of the IBF. Moreover, in the search for better insights on the cost-benefit profile of the initiative, some additional information was requested on the size and tenure of the programme and the costs associated with posting collaterals. Committee members also enquired about the administrative costs of this project, and if they were already factored in during budget planning.

39. On the implementation side, the Committee asked whether the plan was to implement full collateralization or to opt for a mixed approach, whereby the collateralization was applied only to selected derivatives. Committee members also enquired as to whether it would make sense for IFAD to trade and clear derivatives through clearing houses instead of the over-the-counter market.

40. Management welcomed the Committee's comments and suggested continuing with bilateral meeting modalities. Management explained that derivatives were closely linked to the portfolio and that the current economic capital allocation for swap exposure was roughly US$2 million.

41. On the implementation of collateralization, it was explained that the plan was to take a gradual approach towards the final goal of full collateralization. The collateral arrangement would require IFAD to raise short-term liquidity through issuance of commercial papers. The volume would depend not only on the size of the portfolio but also on the market conditions.

42. Management informed members that IFAD's current exposure was around US$25 million. This figure was volatile as it could increase when other financial factors changed. It was also clarified that the commercial paper programme foresaw an umbrella programme that would give IFAD the ability to use commercial paper.

43. On the costing side, Management explained that the update of the framework was at too premature a stage to define legal, operational and management liquidity costs.

44. Management also noted that trading derivatives through centralized exchanges would require IFAD to become a member of such exchange and could imply some

impacts on IFAD's privileges and immunities. At this point in time, Management did not see this as a feasible solution.

45. **Outcome and follow-up.** The update was noted by the Committee. A consultation process would follow, after which an updated document would be submitted to the meeting in November.

Agenda item 7 – Revision of the Risk Appetite Statement (AC 2025/178/R.5) – for review

46. Management introduced the agenda item noting that in line with IFAD13 priorities, the institution was expanding engagement in non-sovereign operations, financed by both core resources and borrowed funds. Management underlined that such operations entailed risks that differed from those associated with sovereign activities and therefore needed to be measured and integrated into capital planning. It was noted that the current Risk Appetite Statement, dated 2021, aimed to ensure that these activities were explicitly covered.

47. Management clarified that the revised Risk Appetite Statement would remain limited to the level of risk domains and subdomains. The monitoring and reporting of more granular risk drivers would continue to be managed through existing mechanisms, notably the Corporate Risk Dashboard. This dashboard already tracked key risk indicators, such as the share of non-performing loans, and would be expanded to reflect non-sovereign exposures.

48. Management also highlighted that that IFAD's moderate appetite for financial and delivery risk remained central to its business model. Maintaining this approach had been a determining factor in securing IFAD's AA+ credit rating, which underpinned its ability to borrow on favourable terms. Management confirmed that non-sovereign exposure would be grown gradually, with size determined in the context of each replenishment, based on portfolio credit quality and the availability of capital and funding.

49. The Committee welcomed the proposal and confirmed support for updating the Risk Appetite Statement to reflect the introduction of non-sovereign operations. Members acknowledged that these activities presented a different risk profile and therefore required explicit treatment within the risk framework.

50. Members noted that the terminology used throughout the documentation alternated between "non-sovereign operations" and "private sector operations," and requested a clearer distinction between the two concepts. The Committee also asked what lessons had been drawn from IFAD's existing non-sovereign portfolio and how these experiences had informed the proposed approach.

51. It was underscored that non-sovereign operations could carry higher cross-cutting risks, including legal and reputational risks, which needed to be addressed both proactively and reactively. Members asked how Management intended to identify, mitigate and report on such risks going forward.

52. In addition, some Committee members raised concerns that metrics for non-sovereign operations had not yet been defined, in particular indicators for credit quality.

53. Additional details were requested about delivery and implementation risks for non-sovereign operations, considering the different responsibilities for monitoring in respect to sovereign loans and grants.

54. The Committee also requested further information on how the updated risk appetite would be communicated across the organization to ensure that staff and decision makers clearly understood and applied the revised framework.

55. IFAD Management first clarified the terminology. It was explained that "private sector operations" was a broader concept, since IFAD may use sovereign operations to support private sector actors. By contrast, "non-sovereign operations" were

defined by the nature of the counterparty: when the contracting party was a private entity rather than a government.

56. Regarding lessons learned, experience had been gained during IFAD12, when some non-sovereign transactions were undertaken through the Private Sector Trust Fund. The associated operations reflected donor mandates that allowed for greater risk-taking. By contrast, when deploying IFAD's own resources or borrowed funds, Management noted that the risk appetite had to remain moderate in order to preserve the institution's financial strength. This experience had guided the current amendment to the Risk Appetite Statement, which was designed to ensure clarity in distinguishing between risk capital deployed through trust funds and that deployed through IFAD's core or borrowed resources.

57. Management clarified that the revised text would be provided in an annex to the existing Risk Appetite Statement. This practice would remain in place until a full review of the entire framework was conducted. The annex would maintain the current focus on domains and subdomains while ensuring that non-sovereign exposures were captured within existing reporting tools.

58. In relation to monitoring, Management clarified that the Risk Appetite Statement operates at a high-level and does not define metrics in detail. Instead, operational monitoring will continue through the Corporate Risk Dashboard. The dashboard will include disaggregation, allowing users to see how non-sovereign operations affect the institution's overall risk profile. This approach avoids duplication while providing sufficient transparency.

59. With regard to internal communication, Management confirmed that the proposal had already been subject to intensive consultation within the institution. Once formally adopted, the amendment would be widely disseminated across IFAD to ensure that all staff and decision makers understood the revised framework and applied it consistently.

60. Finally, Management acknowledged the concerns expressed on non-financial risks, such as legal and reputational risks, and noted that these would be closely monitored and integrated into existing reporting and escalation channels.

61. **Outcome and follow-up:** The Committee reviewed and discussed the proposed amendment to the Risk Appetite Statement. It was agreed that the amendment, provided as an annex to the current statement, would be submitted to the forthcoming Executive Board session for approval.

Agenda item 8 – Draft provisional agenda for the 179th meeting of the Audit Committee (AC 2025/178/R.6) – for review

62. **Outcome and follow-up:** The Committee reviewed and approved the draft provisional agenda for the 179th meeting of the Audit Committee to be held in November, as contained in document AC 2025/178/R.6.

Agenda item 9 – Other business

(a) Update on the 2026 Audit Committee meeting dates – for approval

63. To facilitate the timely audit and issuance of financial statements as at 31 December 2025, Management proposed a new date – Monday, 30 March – for the first meeting of the Audit Committee in 2026.

64. **Outcome and follow-up:** The Audit Committee approved 30 March as the date of its first meeting in 2026.

(b) Update on a risk assurance mapping exercise – for information

65. AUO briefed the Committee on the progress of the risk assurance mapping exercise, for which the consultancy firm EY UK had been engaged. The scope of the exercise included identifying five key risks and mapping all related assurance activities, with

the aim of optimizing these activities by identifying gaps and overlaps and proposing improvements.

66. The selection of five risks was a practical decision based on current budget constraints and was considered a useful pilot. The consultants had completed an initial document review and, in consultation with the Office of Enterprise Risk Management, developed a long list of 27 risks with detailed drivers. The next phase involved stakeholder consultations to prioritize and narrow down this list to five key risks. In this context, the Audit Committee was invited to participate in an informal technical meeting with AUO and EY UK to provide input into the prioritization process. It was proposed that the technical meeting be scheduled in October, following the Executive Board and internal meetings, subject to members' availability and feedback.

67. **Outcome and follow-up:** The update was noted and members looked forward to engaging in this exercise.