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Minutes of the 181st meeting of the Audit Committee

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Audit Committee
181st Meeting
Rome, 17 June 2026

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Minutes of the 181st meeting of the Audit Committee

1. The 181st meeting of the Audit Committee was held on 17 June 2026 in hybrid modality. The minutes have been approved by the Committee and are 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 Bolivarian Republic of Venezuela. The meeting was also attended by the General Counsel; 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; the Secretary of IFAD; and a number of other IFAD staff members.

Agenda item 2 – Adoption of the agenda (AC 2026/181/R.1) – for approval

3. The agenda was adopted with no changes.

Agenda item 3 – External auditor's report on internal control and accounting procedures (AC 2026/181/R.2) – for review

4. The external auditor provided an overview of the report on internal control and accounting procedures. They noted the progress made during fiscal year 2025 in addressing recommendations from previous years. However, some areas for improvement were identified, as outlined below:

   (i) Process optimization, to ensure that service organizations fully understand the expected contents of the reports that they must provide to IFAD. In some instances, IFAD makes use of services provided by other organizations as part of its information systems. These services are therefore part of the information and communications component of IFAD's internal control over financial reporting (ICFR).

   (ii) Finalize processes within the internal controls over financial reporting in preparation for the implementation of International Financial Reporting Standard (IFRS) 18 – "Presentation and Disclosure in Financial Statements". The standard will become mandatory from 1 January 2027. Timely action is essential to understand the requirements and implications of IFRS 18, including the impact on financial statements, reporting systems and disclosures. Such assessment should be undertaken with the assistance of the Information and Communications Technology Division.

5. Management expressed its support to both recommendations and informed the Committee of the proactive approach being adopted to ensure that service organizations had a full understanding of IFAD's requirements. Management also informed the Committee of the steps already taken towards the adoption of IFRS 18, noting that an information paper would be presented at the Committee meeting in September 2026.

6. Committee members welcomed the report and the forthcoming document on IFRS 18.

7. **Outcome and follow-up**. The report was noted.

Agenda item 4 – External auditor's audit strategy memorandum for the year ending 31 December 2026 (AC 2026/181/R.3) – for review

8. The external auditor provided an overview of the audit strategy for the year ending 31 December 2026, 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 noted that

the strategy did not cover assurance regarding sustainability reporting. The audit strategy followed a top-down methodology, based on the auditor's understanding of the entity's environment, risks and controls. The audit work on controls integrated substantive testing. The external auditor explained audit materiality and the reasons for its value. The only significant presumptive risk pertained to Management's override of controls, which was aligned to industry requirements. The reporting timetable would be aligned to that adopted for the 2025 audit. The external auditor would rely on the support of IT technical specialists and actuarial specialists.

9. Committee members welcomed the overview of the audit strategy and sought clarification on engagement with the Office of Audit and Oversight (AUO), the assessment of cybersecurity risks, and the transition arrangements within the audit team.

10. The external auditor clarified that the engagement partner would rotate but continuity would be maintained in the overall composition of the audit team. The external auditor further clarified that dialogue with AUO would continue and that IT specialists would be engaged in the assessment of cybersecurity risks.

11. Management informed the Committee that the external auditor's fees for the IFAD consolidated financial statements and attestation on financial reporting controls for fiscal year 2026 had been adjusted to EUR 177,855 to reflect the rise in cost of living.

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

Agenda item 5 – Proposed dates for meetings of the Audit Committee in 2027 (AC 2026/181/R.4) – for approval

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

Agenda item 6 – Enterprise risk management

(a) Capital Adequacy Report – December 2025 (AC 2026/181/R.5) – for review

14. The Committee welcomed the Capital Adequacy Report and noted that IFAD remained fully compliant with the revised Capital Adequacy Policy.

15. Members highlighted factors that could affect the capital outlook, including exchange rate volatility, weaker endogenous capital growth, increased capital consumption from concessional lending and operations in higher-risk contexts, and differences across rating methodologies.

16. Management confirmed that it continued to monitor the main drivers of capital adequacy, including portfolio risk, foreign exchange movements and operations in higher-risk countries. IFAD's financing approach remained guided by the principle that finance should be guided by strategy, while preserving long-term financial sustainability.

17. The Committee discussed the projected performance of the Fitch usable capital to risk-weighted assets ratio, including the possibility that, over time, it could enter the preservation zone in an adverse scenario while IFAD's own capital measures remained above policy limits. Members sought clarification on the implications for decision-making, the relative weight of the metrics, possible remedial measures and the status of discussions with Fitch.

18. Management explained that the Fitch ratio was more stringent than IFAD's deployable capital ratio and S&P's risk-adjusted capital ratio, mainly because of its treatment of IFAD's concessional portfolio. IFAD monitored all three metrics together, as each provided different information. Dialogue with Fitch on possible

methodological adjustments was ongoing. Should the preservation zone be approached, possible measures could include additional member contributions, adjustments to lending terms and further capital optimization, while noting that each option had limitations.

19. Members asked about the impact of foreign exchange movements on initial capital available and capital requirements, noting that recent improvements had been partly driven by unrealized gains. Management acknowledged that such gains might not recur and indicated that capital optimization measures under the Fourteenth Replenishment of IFAD's Resources were closely linked to the Capital Adequacy Report and were intended to support a larger programme within sustainable risk limits.

20. The Committee discussed the implications of expanding non-sovereign operations, noting that they did not benefit from preferred creditor status in the same way as sovereign lending and were therefore more capital-intensive. Management confirmed that these operations carried higher credit risk and that any growth would remain gradual and cautious, and be guided by IFAD's ongoing institutional learning.

21. Members sought clarification on the projected dip in deployable capital in 2026 and on the calibration of the managerial zones. Management explained that deployable capital normally fluctuated across replenishment cycles and that the apparent decline reflected comparison with the stronger-than-expected 2025 actual figure. The managerial zones had been calibrated to capture emerging risks and, together with the prudential buffer, reflected a cautious approach to capital management.

22. Members requested Management to provide a short note at a future meeting explaining – in quantitative terms where possible – the main determinants of the different projected trends in IFAD's deployable capital ratio and the Fitch ratio. They also requested regular updates on Management's dialogue with Fitch and the possible implications of any methodological changes.

23. **Outcome and follow-up.** The document was considered reviewed and would be submitted to the Executive Board for online review. An update on Fitch's methodology and the related discussions would be included in the agenda of the September meeting.

(b) Corporate Risk Dashboard – for information

24. Management provided an update on the Corporate Risk Dashboard. Committee members welcomed the clear presentation and the consolidated overview of key risk indicators, noting that the format was informative and useful for the Committee's oversight role.

25. Members sought clarification on the number of substantiated unsatisfactory conduct allegations and their seriousness. They asked whether these pointed to systemic control weaknesses or reflected individual conduct involving abuse of position or override of controls. One member questioned whether a zero-tolerance target was realistic, while acknowledging its value in keeping the issue visible.

26. Members also commented on the increasing percentage of projects rated moderately unsatisfactory for financial management. Clarification was requested on whether the trend reflected IFAD's deliberate engagement in higher-risk contexts and, if so, whether the related threshold remained appropriate. Members asked how IFAD would determine when risks outweighed expected development benefits and whether more decisive action, including project closure, would be considered where warranted.

27. The Committee noted that the indicator on pledges against the replenishment target had remained below target for several years. One member observed that while the target may be understood internally as an ambitious benchmark, the

indicator could convey a different message to external observers and asked Management to consider its usefulness.

28. Management welcomed the Committee's positive feedback on the Corporate Risk Dashboard and noted that the current format struck an appropriate balance between comprehensiveness and usability. Management clarified that the indicator on substantiated allegations did not measure the seriousness of each case but rather counted allegations considered serious enough to be referred to the People and Culture Division. Management emphasized that given the importance of the Code of Conduct, maintaining a zero-tolerance target remained appropriate.

29. On project financial management, Management explained that the upward movement reflected both IFAD's operating environment, including greater engagement in higher-risk contexts, and more rigorous supervision practices that were surfacing and reporting issues more consistently. Management noted that strong project financial management was essential to achieving development outcomes, and that raising the threshold could make important risks less visible. Management therefore supported maintaining the existing threshold, while continuing to monitor the appropriateness and usefulness of the metric.

30. Management explained that the replenishment target should continue to be monitored against actual pledges, as doing otherwise could undermine the credibility of the target. Furthermore, it was noted that the trend in financial management ratings was also affected by seasonality, as supervision missions were concentrated mainly in the third quarter, and by the reduction in the total number of projects, which increased the ratio. It was confirmed that, although a technical denominator effect was present, the number of projects not performing sufficiently well had increased.

31. Management further explained that root cause analysis had identified several contributing factors. These included capacity constraints in project management units (PMUs), high turnover in PMUs and a higher concentration of projects in countries with substantial or high inherent risk. Management confirmed that the Office of Enterprise Risk Management and the Financial Operations Department were working jointly to remedy these issues.

32. AUO clarified that the four substantiated cases referred to the People and Culture Division had already been reported in the 2025 annual investigations report. The cases concerned harassment, sexual harassment, non-disclosure of outside activity, and disclosure of confidential information. Further information could be provided if required.

33. **Outcome and follow-up.** The Committee noted the update on the Corporate Risk Dashboard.

Agenda item 7 – Update on the implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy (AC 2026/181/R.6) – for information

34. Management provided an update on the activities performed and progress made with respect to the policy. It was noted that activities had evolved into a broader preventive integrity control function covering three pillars: anti-financial crime, personal data protection, and vendor and third-party risk controls. Advisory support was provided across both operations and corporate activities, as well as full lifecycle oversight, from onboarding to ongoing monitoring and ex post checks. It was noted that Management had adopted a risk-driven approach and played a significant advisory and policy awareness role in all areas. Management underscored that effective collaboration with the Office of the General Counsel, AUO, the Ethics Office and the Information and Communications Technology Division had been key in ensuring smooth implementation of controls and

mitigation measures, and in adopting best industry standards. Knowledge-sharing with other multilateral development banks had also played an important role.

35. Committee members welcomed the update and requested details on the increased engagement with the private sector and on training and screening of counterparts.

36. Management provided feedback, noting how anti-financial crime due diligence was a qualitative element required by Board members. Management further explained that engagement with the private sector was a very detailed process based on a risk assessment and supported by fully integrated systems.

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

Agenda item 8 – Selection of the external auditor for the period 2027-2031 – for information

38. Management provided an oral update on the tendering process for the selection of the external auditor. It was noted that the tender closed on 9 June and that the procurement process was expected to close in July, with a recommendation submitted for the attention of the Audit Committee at its 182nd meeting.

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

Agenda item 9 – Office of Audit and Oversight

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

40. AUO presented the update on investigations undertaken. Reported allegations had increased to 112 as at 1 June 2026, compared with 47 in the same period in 2025, representing a 138 per cent rise. The increase was attributed mainly to operational decentralization, greater stakeholder awareness of relevant policies, increased escalation of issues and greater reliance on AUO services. Moreover, it was noted that most reports came from external complainants (68 per cent), followed by IFAD staff (21 per cent) and anonymous sources (11 per cent). The anti-corruption mailbox was used for 72 per cent of reports.

41. Members welcomed the clear and informative update, and voiced appreciation for the inclusion of case studies demonstrating how lessons learned had been fed into other business areas, including the integrity due diligence process.

42. Members noted the number of cases involving contractors and programme staff,and observed that this was relevant to the Committee’s subsequent discussion on sharing information outside IFAD. AUO was commended for maintaining a strong case completion rate despite the growth in the overall caseload.

43. A question was raised regarding the increase in cases, which members considered a potentially positive indication that prohibited practices were being identified and reported. Clarification was requested on the capacity implications for AUO, including whether changes were being made to triage criteria and whether some cases might be delegated back to Management.

44. Members asked for further detail on the drivers behind the increase in cases, including the extent to which decentralization, increased reliance on AUO, and other institutional developments had contributed to the trend.

45. AUO explained that the increase in cases was significant and that the office was assessing the impact on existing resources. AUO was reviewing and strengthening its intake process by assigning more senior personnel to ensure that only material and sufficiently strong cases proceeded to investigation. This approach was aligned with international good practice among comparable United Nations organizations and international financial institutions.

46. Once the revised approach had been tested, AUO would assess its impact on investigative activities and resource pressure. Depending on the outcome, AUO

might need either to request additional resources or to accept that some cases would take longer to address.

47. Regarding the drivers of the increase, AUO identified a rise in scam cases, including cases linked to scam operations in Asia, as a key factor. It also noted that the strengthening and expansion of due diligence processes had generated additional referrals to AUO. More broadly, recent organizational changes such as decentralization and the influx of new staff may have contributed to increased allegations, as some colleagues were still becoming familiar with IFAD policies and procedures.

48. AUO also outlined measures being taken to manage the increased caseload. These included full implementation of the case management system, simplification of reporting forms, use of large language model tools on a separate server to support evidence summarization, and revision of the intake procedure to include a materiality assessment at an early stage. AUO noted that these measures were intended to support prioritization and improve efficiency.

49. AUO further noted that its continued outreach and awareness-raising activities, reaching between 1,000 and 2,000 project personnel and IFAD staff annually, were contributing to increased reporting. The growing reliance on AUO by operations divisions was encouraging and reflected confidence in the office's work, even if it contributed to a higher volume of complaints.

50. **Outcome and follow-up.** The overall update was noted.

(b) Assessment of disclosure procedures for internal audit reports – for review

51. The Committee considered the issue of the disclosure of internal audit reports (IARs), noting that IFAD's current disclosure policy was relatively restrictive. There was growing demand from external parties such as supplementary fund donors to access IARs for accreditation purposes. Members noted that IARs could provide valuable lessons for relevant external stakeholders, such as national governments.

52. Members acknowledged the importance of preserving the confidentiality and internal nature of audit reports, which supported frank exchanges between AUO and Management. At the same time, the Committee supported exploring carefully calibrated options to enhance the value added of audit reports through limited sharing in exceptional circumstances, subject to appropriate controls and safeguards, including consultation with the General Counsel.

53. In response to a question about past experiences with IARs, AUO noted that audit report summaries had been shared with country directors in two cases and, on one of these occasions, the government concerned had subsequently launched its own investigation, leading to improvements.

54. Members expressed support for exploring greater transparency while avoiding full or unrestricted disclosure of IARs. It was suggested that, where appropriate, AUO could prepare extracts, briefing notes or abridged summaries for sharing through country directors with project teams and national counterparts, particularly where the findings could strengthen project governance and management.

55. AUO recommended updating the AUO Charter to clarify the parameters for sharing audit reports with external donors in light of IFAD's increasing use of supplementary funds and the likelihood of growing requests for access to audit information. AUO also proposed developing clear criteria for sharing summaries or abridged reports with national counterparts, including consideration of whether the audit findings would be useful in improving project governance and management.

56. AUO suggested that the audit opinion could be one criterion for determining whether summaries may be shared, for example limiting such sharing to reports

rated "unsatisfactory/major improvement needed". The Chair emphasized that in developing the proposed approach, AUO should err on the side of caution rather than adopt a more permissive approach.

57. AUO was requested to present a proposed course of action for the disclosure of IARs at the 182nd meeting of the Committee, including an assessment of any required changes to disclosure policies and the AUO Charter. The proposal should reflect the Committee's interest in broadening the audience for IARs through appropriately abridged products where necessary, while preserving the confidentiality and internal nature of the reports.

58. **Outcome and follow-up.** The item was considered reviewed and the Committee looked forward to discussing the proposal on the disclosure of IARs at its 182nd meeting.

Agenda item 10 – Asset and Liability Management Report – December 2025 (AC 2026/181/R.7) – for review

59. Management presented the Asset and Liability Management (ALM) Report for the second half of fiscal year 2025. The Committee was informed that IFAD's exposure to ALM-related risks remained low and aligned with the Fund's financial sustainability objectives. Management noted that the composition of the balance sheet remained broadly stable, with loans accounting for 75 per cent of total assets and liquidity representing 17 per cent. Management confirmed that all liquidity and capital ratios were within policy limits. It was noted that the debt-funded portion exhibited the modest negative duration gap of 0.5 years, while the equity-funded portion showed a larger positive gap of approximately 7.5 years, reflecting the long-term nature of concessional lending. Regarding interest rate risk, IFAD's debt-funded balance sheet showed a slightly higher sensitivity of liabilities to rising interest rates, which was offset by the long duration of the equity-funded portion. On currency risk, Management noted that IFAD maintained a forward-looking currency alignment policy. Information on the net interest income (NII)[1] was introduced to strengthen transparency and better assess long-term financial sustainability in a context of increasing leverage.

60. Committee members welcomed the document and requested details about concessional partner loans and interest rate risk. Some members requested details about the dynamic of outstanding non-concessional borrowing and possible implications for funding costs.

61. Management clarified that NII took into account absolute performance. It was noted that all loans contributed to the NII through the spread. Ordinary loans amounted to less than outstanding debt. Management explained that the residual debt was managed as part of the liquidity portfolio and was eventually moved into disbursements. It was also clarified that concessional partner loans were characterized by very concessional lending terms and allowed for onlending on a concessional basis.

62. **Outcome and follow-up.** The document was reviewed. It would be submitted to the Executive Board for information.

[1] The difference between the income generated by IFAD assets, namely loans and the liquidity portfolio, and the cost of funding those assets.

Agenda item 11 – Draft provisional agenda for the 182nd meeting of the Audit Committee (AC 2026/181/R.8) – for review

63. **Outcome and follow-up.** The document was deemed reviewed, subject to the inclusion of two additional agenda items: a proposal for the disclosure of the internal audit reports and a Management note on key drivers of projected trends in IFAD's capital ratios.

Agenda item 12 – Other business

(a) Internal audit reports

64. No internal audit reports were considered.

(b) Oral update on the 2027 Investment Policy Statement (IPS) – for information

65. Management provided an overview of the proposed IPS, which adopted a principles-based approach to modernize investment governance while staying focused on capital preservation, liquidity and return. Under the proposed IPS, the Executive Board would play a strategic oversight role, allowing Management more flexibility to respond to market changes and create a more durable, future-ready framework aligned with peer international financial institutions and multilateral development banks.

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