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Enabling poor rural people
to overcome poverty

Workplan for IFAD's Office of Audit and Oversight for 2012

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Workplan for IFAD's Office of Audit and Oversight for 2012

I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2012 and the relevant background information. The plan is based on a risk assessment exercise conducted by AUO during which input was sought from Management. The plan has been approved by the President and the Audit Committee may, in accordance with its terms of reference, make proposals for the consideration of the President. Once finalized, the workplan will be submitted for confirmation to the Executive Board at its December 2011 session.
2. The workplan is presented to the Audit Committee prior to finalization of the 2012 budget process so that its size and complexity can be adequately considered in the formulation of the AUO budget.

II. AUO strategy for 2012 and the medium term

IFAD risk environment in 2011

3. The Fund is undergoing a period of profound change, which began to a large extent with the implementation of a direct supervision operating model and the establishment of its country presence. The nature of the institution is changing rapidly and organizational structures and operational and administrative processes need continual updating to support the evolving model. To meet this challenge, Management has launched a wide-ranging change and reform agenda covering, inter alia, operational, human resource and financial processes and structures, as well as the main elements of the IT infrastructure. This exercise is being undertaken within the context of a rapidly growing volume of activity, increasing expectations and measures for ensuring quality, a protracted global financial crisis and an environment of budgetary restraint. The combination of these factors places the Fund in a heightened risk environment.
4. Cognizant of the increased need for proactive risk management, Management put in place strategic planning and risk management processes, overseen by the Enterprise Risk Management Committee, to identify and help mitigate the main risks to the achievement of institutional objectives. IFAD's Medium-term Plan (MTP) also maps the associated assumptions and risks potentially impacting the delivery of institutional outcomes and divisional and departmental outputs. The MTP is monitored annually and forms the basis for departmental and divisional annual planning.
5. Both the Fund's institutional risk assessment and AUO's own risk assessment point to several risk areas that could compromise the achievement of IFAD's medium-term (2011-2013) objectives. These include: the adequacy of the support structure for "new" areas of operation such as country presence and direct supervision, the economical allocation and use of resources, the safeguarding and prudent management of the Fund's liquid assets, the efficient use of staff time through effective use of IT tools and maintenance of positive staff morale and commitment in a period of increased workload and substantial change. The effectiveness of the risk management process is, in itself, a critical area for attention during a period of major change.
6. The rapid pace of change and the steadily increasing volume of operations place IFAD's control environment under significant stress, and raise the risk of events that would undermine the Fund's ability to conduct business. Closer contact by IFAD staff with operational activities and the establishment of multiple and effective channels for identifying and communicating potential misuse of IFAD funds have been factors in the progressive growth in reports of potential misuse.

An adequate prevention environment, which demonstrates prompt and resolute action in responding to such reports, is critical in addressing this risk.

The role and contribution of AUO

7. AUO provides independent and objective assurance and advisory services designed to add value and improve the operations of IFAD. It helps IFAD accomplish its objectives by using a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In a heightened risk environment Management needs more than ever the assurance provided by AUO of the effectiveness of risk and control systems to move forward confidently with reform initiatives and daily operational decisions. The governing bodies also use independent feedback from AUO to discharge their oversight role more effectively. AUO adds value if it bases its work on a vision of risks that are shared as much as possible with Management and IFAD's governing bodies.
8. AUO's audit work is based on an assessment of significant risks, drawing both on Management's risk assessment processes and on its own risk assessment. AUO evaluates risks and controls relating to: efficiency in the use of financial and staff resources; compliance with the applicable regulatory framework; integrity of reported information and effectiveness of business processes (but not impact and sustainability of programmatic outputs or adherence to thematic policies; these fall within the mandate of the Independent Office of Evaluation of IFAD [IOE]).
9. AUO also contributes to risk mitigation through its investigative activities and promotion of the anticorruption mandate. It reviews and investigates possible or alleged irregular practices, including staff misconduct, fraud and corruption in IFAD activities and promotes the implementation of the Fund's policy for the prevention of corruption and other irregular activities.

Strategy and priorities for 2012 and the medium term

10. AUO aims to provide a competent, effective, relevant, efficient and trusted professional service that helps the Fund achieve its medium-term objectives. As such, AUO will operate in synergy with Management in identifying and addressing institutional risks, while maintaining an independent approach in selecting, performing and reporting on assignments. It will aim to ensure a prompt and effective response to allegations of irregularities. It will intensify efforts to prevent irregularities in IFAD activities and operations and will collaborate with internal and external partners to this end. Given its functional area of expertise, AUO will play a proactive role in supporting client capacity development in internal audit, an activity that directly benefits IFAD and its development partners. AUO plans to boost its contribution to this activity by seeking extra-budgetary funding from supportive donor Member States for this purpose.
11. Further to these strategic directions, AUO will be guided by the following principles in planning, prioritizing and performing its work in the next two years:
 - Clear work focus on institutional priorities;
 - Focus on areas for which AUO has appropriate methodological tools;
 - Prompt delivery of output to ensure relevance and impact;
 - Constructive, targeted feedback and recommendations, aligned to the greatest extent possible with Management's improvement plans;
 - Proactive role in supporting institutional risk management.
12. In 2012, AUO will strengthen its capacity and intensify its efforts in the investigative/corruption prevention area, to reduce significantly the average time it takes to deal with allegations. Significantly less time will be devoted to non-audit and non-investigative tasks in 2012 with a view to increasing the emphasis on activities that respond directly to institutional priority risk areas. Assignments will

be specifically designed to deliver more prompt and relevant output. The overall planned allocation of AUO's work in 2012 is set out in table 1, with comparative data for 2011.

Table 1
AUO staff time allocation 2011 - 2012

<i>FTE Days</i>	2011			2012				
	<i>Dir.</i>	<i>Prof. staff</i>	<i>GS staff</i>	<i>Dir.</i>	<i>Prof. staff</i>	<i>GS staff</i>		
Audit and advisory work	99	592	205	51%	87	826	207	49%
Investigations and prevention	35	175	153	21%	35	550	120	31%
Capacity-building and administration	85	113	302	28%	90	164	212	20%
Full-time equivalent (FTE) years	1.0	4.0	3.0		1.0	7.0	2.5	

Note: Dir=Director; Prof=Professional; GS=General Service.

13. With a substantially new AUO team in 2012, training and orientation activities will be organized to build up and maintain professional competencies. Other than specialist training, activities will include weekly divisional meetings, more field-level work and increased participation in operational workshops and events to ensure full awareness of operational practices and challenges. Performance at both the individual and the divisional level will be tracked through key performance indicators (KPIs) linked to the workplan objectives with strengthened KPIs for timeliness of outputs and more intensive use of client surveys.
14. To ensure its continuing awareness and understanding of the organization's key activities and emerging risks and challenges, AUO will maintain its observer role in various committees and attend meetings of the IFAD Management Team and Operations Management Committee. The Director AUO will continue to have periodic one-to-one meetings with the President.
15. In 2012, AUO will undergo a second external quality assessment of the internal audit function. The first such assessment, in 2007, confirmed AUO's adherence to best practices and led to the revision of the AUO Charter and the Terms of Reference of the Audit Committee.

AUO budget and resources for 2012

16. The AUO structure was revamped in 2011 to support the AUO medium-term strategic directions (table 2).

Table 2
AUO projected 2012 structure

<i>2011 AUO structure</i>	<i>2012 AUO structure</i>
<ul style="list-style-type: none"> • Director • Administrative Assistant Audit • Senior Internal Auditors (2) • Internal Auditors (1) • Audit Assistant Investigation • Investigators (1) • Investigation Assistant 	<ul style="list-style-type: none"> • Director • Administrative and IT Assistant (0.5 FTE) Audit • Senior Internal Auditor (1) • Internal Auditors (2) • Associate Internal Auditors (2) • Audit Assistant Investigation • Investigators (2) • Investigation Assistant
Budget available to AUO for travel and external expertise – US\$102,000	AUO 2012 budget proposal for travel and external expertise – US\$102,000

17. The main capacity constraint faced by AUO in 2011 is in the area of investigations, with only one investigation officer in place, down from two in recent years. The capacity of both audit and investigation functions is being strengthened and a more graduated structure introduced for the audit function. This was achieved with

minimal budget impact by recruiting two new internal auditors under the Associate Professional Officer programme, transferring a senior Audit Officer to the Programme Management Department and planning a significant reduction in the time spent on non-audit and non-investigation activities in 2012 (the new AUO structure is set out in section VI). The large proportion of new AUO staff in 2012 will mean a learning curve for the office in the early part of the year.

18. The AUO budget proposal for 2012 amounts to US\$1.778 million (US\$1.705 million in 2011) representing a 4 per cent nominal increase in its budget. Staff costs account for 94 per cent. Notwithstanding the planned increase in AUO capacity, the workload and need for external expertise – especially in the investigation and technical audit areas – are unpredictable and may necessitate a request for additional financial resources during the year.

III. Internal audit assurance and advisory activities

19. In accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, AUO's 2012 plan was prepared on the basis of a risk assessment exercise. As noted above, the emphasis is on identifying significant risk exposures to the achievement of immediate and medium-term institutional objectives, focusing on areas within the scope of the AUO mandate and competency toolset. In response to the Audit Committee's request for more details on the AUO risk assessment, the assessment methodology is described in annex I. The purpose of the risk assessment, which was carried out by AUO in September 2011, was to gauge the exposure of IFAD's MTP 2011–2013 outputs. The selection of areas for audit in 2012 was also informed by practical considerations such as the need to avoid a high concentration of audits in a single division and to limit the scope of audits so as to enable timely output and the size and experience of the internal audit team. The audit areas identified by AUO as high priority in 2012 are set forth below (and listed in annex II):
 - An adequate support structure for IFAD country offices (in terms of policies, procedures, training and skills, tools and IT support) is a major determinant in the achievement of MTP outcomes and has been mentioned in the corporate risk register and in ongoing feedback from across the organization. As expenditures related to country presence administration are increasing (by 80 per cent from 2009 to 2010) and the number of country offices has reached a critical mass, the continued ability of the organization to effectively and efficiently support these offices is frequently cited as a concern. Country offices are a major element of IFAD's new operating model, therefore provision of adequate support must form part of IFAD's drive to improve institutional efficiency. While a number of initiatives are under way, AUO believes that Management would benefit from a review of the actions taken and under way to provide this support.
 - Project design constitutes a core IFAD activity, to which 16 per cent of administrative budget resources are dedicated. High quality of design is a corporate management result, the achievement of which is heavily dependent on many of IFAD's support and monitoring processes. AUO will coordinate with IOE in planning this audit so as to optimize oversight coverage in this area. IOE reviews design from a qualitative point of view in its work, while AUO proposes to audit the use of resources for project design.
 - Good governance and best practice in management require an institutional system for managing risk. IFAD has been developing enterprise risk management (ERM) over the past few years, issuing an ERM policy in 2009. AUO proposes an audit of the ERM process to provide Management with the assurance that ERM is fully mainstreamed into IFAD's operations, and that the process is efficient and adequately serves Management's needs.

- IFAD's human resources change and reform process has been under way for a couple of years and is being carefully monitored by the Executive Board. Periods of major transition in policies and processes can increase the risk of non-conformity and reduce effectiveness, sometimes due to lack of clarity around the changes being introduced. IFAD has established a rigorous recruitment process (investing in an e-recruitment platform, extensive candidate screening, testing and other good practices); however, AUO's risk assessment indicates that some concerns regarding efficiency and compliance of the recruitment process remain. Staff costs continue to be by far IFAD's main administrative expenditure. For a knowledge institution such as IFAD, staff are a crucial asset; a good recruitment process is therefore fundamental to achieving successful outcomes.
 - Legal clearance and opinions are required for IFAD's governance, administrative and operational matters; loan and grant agreements, hosting agreements, financing arrangements and contracts of various types. They are also necessary for critical governance and risk management matters linked to policy decisions, human resource matters and to IFAD's reputation both with its Member States and beyond. As a result of the high volume of documents and matters dealt with by the Office of the General Counsel (LEG), the risk of a bottleneck effect exists. AUO proposes an audit of the timeliness of the delivery of legal services to help identify potential improvements.
 - AUO has been working on an approach for auditing country-specific activities in a meaningful and value-adding manner. A pilot review was carried out on the Haiti programme in 2010 and another country programme review was completed in 2011. In order to avoid overlap with the work of IOE, AUO has found it more feasible and useful to focus on a country-specific audit of procurement and in-country supervision. One such audit will be started in late 2011 and another two will be part of the 2012 workplan, although the specific countries are yet to be determined.
 - In 2011, AUO is carrying out, for the first time, testing of internal controls over financial reporting on behalf of Management for the purpose of supporting a Management assertion on the effectiveness on such controls. AUO will perform this activity again in 2012. This assignment will be critical in view of the planned external audit of the Management assertion in 2012.
 - The initiative to develop internal audit capacity, which began in 2009, will continue through to June 2012, with supplementary funds provided by Sweden. AUO will seek further sources of financing to allow this useful activity to be continued. With this expectation, in 2012 at least two internal audit capacity assessment missions will be fielded and two participants brought on board during the second part of 2012. To date, four participants from three countries have come to work with AUO for a six-month period each. These participants supplement AUO's Professional staff resources and are a source of reciprocal knowledge sharing for AUO staff.
 - As in previous years, AUO will perform the recurrent audit activities of reviewing the certification of expenditures to be reimbursed by the Italian Government and the audit of the expenditures of the Office of the President. Quarterly follow up with divisions on action taken to close outstanding internal audit recommendations will continue to be a key activity to aid both AUO and the division concerned in understanding the related risks and in finding appropriate solutions.
20. International internal auditing standards, to which AUO generally conforms, call for an external quality assessment of the internal audit function at least once every five years. The first such assessment was conducted in 2007 and all the relevant recommendations have been implemented. The assessment exercise demands AUO

staff time both to assist in the assessment's preparation and to support the external assessment team. The second such assessment will be undertaken in 2012.

21. During the course of the year, AUO is periodically requested by Management to provide ad hoc advisory services. The nature and scope of these are agreed with Management and may involve providing advice or analyses in support of improvements or providing an independent and corporate-wide perspective of a specific issue. Such advisory work may result in a report. This would not include an overall opinion, but may make recommendations to be followed up by AUO.
22. As is generally the case, some audit engagements from the 2011 workplan will still be in progress in early 2012. As per standard practice, a full report on the status of those activities and all audit and investigation work completed in 2011 will be provided to the Audit Committee in April 2012. From 2012, AUO will also provide the Committee, at its September meeting, with an interim report on progress and on any changes to the workplan. The audit work described in this report covers only the new audit areas being proposed for 2012.
23. The AUO risk assessment revealed several other priority areas for audit in 2012 - 2013. Such audits will be tentatively scheduled in 2013, subject to assessment of their ongoing relevance to IFAD corporate priorities.
 - The use of consultant services constitutes a key part of IFAD's business model and is also among the largest administrative expenditures after staff costs. Although consultant contracting and management processes have received recurring scrutiny by AUO, this area continues to be of concern to Management in terms of the efficiency of the process and the appropriate and proportionate level of controls and transparency. AUO proposes an audit of this area to provide Management with assurances as to efficiency and effectiveness of the process and to ascertain if further administrative efficiencies are possible.
 - In response to commitments made under the Eight Replenishment of IFAD's Resources, by 2009 IFAD had implemented results-based budgeting to ensure that its programme of work and budget was aligned with corporate management results. AUO's risk assessment suggests that efficiency gains could be made in the budget allocation and monitoring process. This is a corporate-wide process for which the total cost in terms of staff time is not readily evident, yet it is a key management tool, critical for ensuring the effective use of the limited funds available. AUO last audited this process in 2007, and there have been significant developments since that time. Corporate reporting at the end of 2010 indicated possible limitations in the capacity of the process to identify and release available funding in a timely manner, increasing the risk of inefficient use of approved budget.
 - Robust financial management is a key operational output for IFAD, in both the short and the long term. There has been a gradual increase in the internally managed investment portfolio in recent years. In light of the very volatile and complex financial markets, and the fact that IFAD has recently taken steps to reorganize responsibilities and processes in this area, it is important for AUO to review the internal control structure for the internally managed investment portfolio to ensure that controls are properly designed and functioning.
 - AUO's risk assessment noted that the institutional processes related to duty travel continue to be flagged as needing greater streamlining and as falling short of expectations in facilitating staff in their travel needs. AUO recently reviewed the travel expense report process for conformity. However given that IFAD spent over US\$14 million on travel (duty, consultants, training, home leave, recruitment) in 2010, a broader review of the overall process could contribute to identifying additional efficiencies.

IV. Investigation and prevention

24. Within AUO, the Investigation Section is mandated to investigate as appropriate all matters related to irregular practices in IFAD activities and operations. Irregular practices include staff misconduct, and fraud and corruption in relation to entities, contractors and non-staff individuals applying for or participating in IFAD-financed activities or headquarters-related contracts.
25. In 2011, the Investigation Section's efforts were largely focused on addressing the expanded caseload that resulted from the spike in allegations seen in 2010/2011. Additionally, with the revision of IFAD's harassment policy, the section assumed the additional responsibility of investigating allegations of harassment, abuse of authority and retaliation, which had previously been assigned to the Harassment Panel. These efforts in sustaining its investigative capacity in the face of expanded responsibilities will likewise be the focus of 2012. Part of the mitigation strategy utilized to meet the extra challenges in 2011 was the use of investigation consultants to meet unforeseen investigation needs, the recruitment of a P-3 Investigation Officer, and collaboration with partner international financial institutions through staff secondments to IFAD. With the objective of always ensuring a reasonable response time to allegations, AUO will assess the impact of the additional capacity and if necessary revert to Management with a request for additional resources.
26. In addition to maintaining an adequate reactive investigation capability, in 2012 AUO will adopt a more proactive approach to promoting the anticorruption agenda. Specifically, it will collaborate with PMD, LEG, and the Controller's and Financial Services Division to develop and provide guidance to programme and technical staff seeking to mitigate more actively the risk of corruption in IFAD projects. AUO will use external expertise in strategic preventive intervention – from the technical and governance perspectives – at the design stage of a project. By addressing specific areas of potential risk, either at the level of the country strategic opportunities programme or at the design, quality enhancement and quality assurance, or implementation stages, AUO hopes to prevent avoidable practices that eventually lead to irregular practices and full-blown cases of corruption.

AUO Risk assessment methodology summary

1. The risk assessment carried out by AUO attempts to identify risk exposure/vulnerability in the context of the achievement of IFAD strategic outcomes, by focusing on risk areas/conditions that fall within AUO's functional scope and competency as defined in the AUO Charter. These are:
 - Inaccurate, insufficient, late information provided to users, Management, governance and public;
 - Non-compliance with rules, policies, procedures, Management decisions;
 - Uneconomical, late or inappropriate procurement of goods or services;
 - Losses of both physical and virtual assets;
 - Inefficient, inappropriate use of staff time;
 - Inefficient, inappropriate use of financial and physical resources;
 - Business processes/functions not delivering as per expectations.
2. Information and sources used for the assessment include:
 - The institutional outcomes and departmental outputs as set out in the IFAD Medium-term Plan 2011-2013;
 - Corporate risk registers;
 - Feedback from Management, staff with cross-departmental roles and the IFAD Staff Association;
 - Financial and staffing data;
 - Distribution of open and overdue audit recommendations;
 - Management actions planned and in progress;
 - Indications from internal audit, advisory and investigation activities.
3. The feedback received through the above sources is documented and used in rating the risk level of each element of the AUO "audit universe" i.e. the list of all potential audit areas within AUO's mandate. The "audit universe" comprises business processes, organizational functions or units and one-off undertakings (such as large internal projects) and is updated as necessary to reflect the evolving structure and activity map of the Fund.
4. The outcome of this exercise is a prioritized list of potential audits in order to assess and address the most relevant risks to the delivery of planned outputs. Practical considerations informed the selection of areas to audit, such as the need to avoid a high concentration of audits in a single division and to limit the scope of the audits so as to enable the output to be delivered in a timely manner, and the size and experience of the internal audit team. As the assessment is based on information available to AUO three months prior to the start of the relevant calendar year, and recognizing that risks evolve continually in a dynamic changing organization, some assignments are added to the plan during the year. Any changes to the approved plan are agreed with the President and communicated to the Audit Committee.

Workplan for 2012 and tentative list of audits for 2013

AUO planned activities for 2012	Staff days
Internal audit activities	1120
<i>Assurance engagements</i>	
<ul style="list-style-type: none"> • The support structure for IFAD Country Offices • Effectiveness of ERM process • Efficiency of the project design process • Timeliness and compliance of the recruitment process • Efficiency of legal services • 2011 expenses of the Office of the President (recurrent) • Country specific audit 1 • Country specific audit 2 • <i>Subject to be determined</i> 	
<p><u>Tentative list of audits for 2013</u></p> <ul style="list-style-type: none"> • Internal investment management – controls • Effectiveness of the IFAD budget allocation and monitoring process • Efficiency, effectiveness and control over consultants processes • Efficiency of travel services 	
Advisory engagements	
<ul style="list-style-type: none"> • Annual testing of internal controls over financial reporting on behalf of Management • Capacity development assessment 1 • Capacity development assessment 2 • To be determined 	
Investigation and prevention activities	705
<ul style="list-style-type: none"> • Promoting and advocating for IFAD's anticorruption policy • Investigative work • Secretariat support to the Sanctions Committee 	
Office management and capacity-building	466
<ul style="list-style-type: none"> • Engagement and support for external quality assessment • Maintenance and development of audit support tools • Staff recruitment, training, evaluation and development • Representation in internal and external meetings • Office management and administration 	