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Enabling poor rural people
to overcome poverty

Workplan for IFAD's Office of Audit and Oversight for 2013

Note to Executive Board representatives

Focal points:

Technical questions:

Bambis Constantinides
Director, Office of Audit and Oversight
Tel.: +39 06 5459 2054
e-mail: c.constantinides@ifad.org

Dispatch of documentation:

Deidre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

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Workplan for IFAD's Office of Audit and Oversight for 2013

I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2013 and the relevant background information. The plan is based on a risk assessment exercise and has been approved by the President. 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 2012 session.
2. The workplan is presented to the Audit Committee prior to finalization of the 2013 budget process so that its size and complexity can be adequately considered in the formulation of the AUO budget.

II. AUO strategy for 2013 and the medium term

IFAD risk environment in 2013

3. The year 2013 marks the beginning of the Ninth Replenishment period, and brings a renewed set of commitments for the Fund, accompanied by continuing emphasis on economy and efficiency in business processes and organizational structures. The Change and Reform Agenda, including the implementation of a direct supervision operating model and the establishment of country presence, is now in a phase of consolidation, and operational, human resource and financial processes and structures have to a large extent been adjusted to support the new operational modalities. The pace of approval of new projects will stabilize in the coming years; however the volume of activities under implementation and workload will continue to grow in the short term as a result of the rapid increase in project approvals in recent years. The pressure on cost containment has intensified and the pursuit of economy is a continuing priority, but not at the expense of IFAD's effectiveness, which remains the prime objective of Management and the Member States.
4. The Fund's institutional risk assessment points to potential resource constraints, both human and financial, as the highest risk area with respect to the achievement of IFAD's high-level objectives in the medium term. The ability of the Fund to measure progress towards such objectives as well as potential corruption in IFAD activities were also identified as risk areas. AUO's own risk assessment¹ identified heightened risks in relation to the economical use of financial resources in specific areas such as grants, procurement and IT and in the overall monitoring of resource utilization. Other risk areas confirmed by AUO's risk assessment include processes that claim significant staff time such as institutional performance measurement/reporting; consultancy administration; and processes involving large flows of funds such as loan administration and investment management. The pace of change and growing volume of operations under implementation increase the risk of potential misuse of IFAD funds and of events that may disrupt business continuity. An adequate prevention environment, which also involves a solid

¹ The risk assessment carried out by AUO aims to identify risk exposure/vulnerability by focusing on risk areas/conditions that fall within AUO's functional scope and competency such as:

- Inaccurate, insufficient, late information provided to users, Management, governance and public;
- Non-compliance with rules, policies, procedures and Management decisions;
- Uneconomical, late or inappropriate procurement of goods or services;
- Losses of both physical and virtual assets;
- Inefficient, inappropriate use of resources;
- Business processes/functions not delivering as per expectations.

Information and sources used for the assessment include the IFAD Medium-term Plan; corporate risk registers; feedback from Management and staff; and financial and staffing data. The outcome of this exercise is a prioritized list of potential audit areas.

security framework, and prompt and resolute action in responding to such events, remains critical in addressing this risk.

Strategy and priorities for 2013 and the medium term

5. AUO aims to provide a competent, effective, relevant, efficient and trusted professional service that helps the Fund achieve its medium-term objectives. It will focus on evaluating 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. AUO will operate in synergy with Management in identifying and addressing significant institutional risks, while maintaining an independent approach in selecting, performing and reporting on assignments.
6. AUO will contribute to risk mitigation through its investigative activities and promotion of the anticorruption mandate. 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.
7. 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.
8. In 2013, AUO and its full team of staff will intensify efforts in the area of investigative work and corruption prevention to reduce the average time needed to deal with allegations. Performance at both the individual and the divisional level will be tracked through key performance indicators (KPIs) linked to the workplan objectives, which include strengthened KPIs for timeliness of outputs.

III. Internal audit assurance and advisory activities

9. In accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, AUO's 2013 plan was prepared on the basis of a risk assessment exercise. 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. The selection of areas for audit 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. Some assignments have not been identified at this stage to provide AUO with some flexibility in addressing emerging risks areas. The areas identified by AUO for audit in 2013 are set forth below (and listed in the annex).
10. The scope of some of the identified audit activities will need to be reassessed before they are started in light of the results of the IOE Corporate-level evaluation on IFAD's efficiency, which is in progress, so as to avoid overlap with work recently performed in that context:
 - Budget preparation, monitoring and reporting. Since the introduction of decentralized budget management in 2004 the budget procedures, reporting and system functionalities have been often amended. Continuous pressure on the effective and efficient use of budgetary resources has brought to light some

concerns about the budget commitment reporting system and process. The budget monitoring function is fundamental for facilitating the efficient and economical use of resources. Corporate reporting indicates 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. The budget allocation and monitoring process was already included as a tentative audit for 2013 in last year's workplan. The precise scope of this audit will be more limited and will be based on risks as assessed at the time of the audit.

- Oversight and controls on internal investment management. Robust investment management is key for the Fund to adequately safeguard its financial resources, in both the short and the long term. The gradual increase in the internally managed investment portfolio in recent years and the very volatile and complex financial markets led to this being considered last year as a tentative audit for 2013. IFAD has recently taken steps to reorganize responsibilities and processes in this area and AUO carried out a specific compliance review related to the held-to-maturity portfolio on the request of Management in 2012. However, a comprehensive review of the internal control structure for all elements of the internally managed investment portfolio will provide necessary assurance to Management that controls are properly designed and functioning.
 - Project procurement oversight. Procurement is inherently a high-risk activity, and this is compounded by the fact that IFAD's approach to project procurement relies heavily on national systems. Consequently, IFAD's oversight of project procurement is an essential role to provide donors with the assurance that the fiduciary requirements are being met and that the policy of no-tolerance for fraud and corruption is strictly observed. AUO looked at this area specifically in 2009 and it is also a key focus in the annual AUO country-specific audits, however, indications from audits as well the incidence of allegations related to project procurement, call for a broader review and assessment. This audit will necessitate field travel and significant staff time.
 - Oversight of IFAD web presence. The continually expanding use of the internet for communication and knowledge sharing provides great opportunities for IFAD to reach more people, rapidly and in a more targeted way. However, there are reputational and legal risks associated with such opportunities. AUO proposed to review the extent of IFAD-specific or sponsored websites and portals, with a view to assessing the processes for creating, updating and overseeing these sites, if under the control of or associated with IFAD.
11. The risk assessment highlighted a few other areas that, due to timing or other reasons, should be considered either as tentative audits for late 2013 if the workload allows, or for inclusion in the 2014 workplan. These are listed below.
- Value for money in service procurement. Together with the other Rome-based United Nations agencies, IFAD engages with many different vendors to procure institutional services (e.g. cleaning, gardening, security, catering, shipping and IT hosting). AUO has not assessed the economy of such arrangements in recent years and has identified, through its close coordination with the audit functions of the other Rome-based agencies, opportunities for the joint assessment of such activities. Such a review would serve to identify potential weaknesses at IFAD or in joint procurement functions or processes and also provide Management with assurances regarding the value for money of such arrangements.
 - Institutional performance measurement. IFAD established a Corporate Planning and Performance Management System (CPPMS) in 2006, including key performance indicators, and departmental and divisional management plans. A number of other annual, periodic and ad hoc reports are also produced on

various subjects. The various processes are highly intensive in terms of staff time and IFAD will need to effectively use all planning and monitoring instruments in an integrated fashion. AUO's risk assessment highlighted concerns with regard to the efficiency of the performance reporting processes and tools.

- Management of the grant programme. IFAD provides a range of grant funding (e.g. global, regional, country-specific) to various types of recipients (Member States, intergovernmental organizations, hosted entities, private sector, etc.). The risks, challenges and efficiency considerations associated with many small grants are a concern to IFAD Management. IFAD's work on articulating a strategic approach to grants and other resources for better effectiveness needs to be undertaken in a context and manner that also satisfies basic objectives and fiduciary needs.
 - Efficiency and effectiveness of consultant administration. 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. Consultant contracting and administrative processes are currently under close examination by Management and a new set of rules and guidelines are being developed (the "non-staff handbook"). AUO is providing advisory support on an ad hoc basis during this development phase. An audit of this area would be best scheduled in late 2013 or early 2014, after the changes have taken effect.
 - Mission security. The security of IFAD staff and consultants in the field is of paramount importance to the organization and many resources and procedures are in place to ensure that security is adequate. However, the effectiveness of such processes may be weakened if staff, consultants, team leaders or others involved in travel to the field do not conform fully to the established procedures. AUO proposes a review of compliance with security requirements in order to provide Management with assurances and identify any areas of potential weakness. AUO has never audited this specific aspect of security.
 - Loan administration – risk-based disbursement process. Loan administration is one of IFAD's most critical financial functions and has high materiality relevance. Given the recent adoption by Controller's and Financial Services (CFS) of a risk-based approach to the processing and control of loan disbursements, sufficient experience with the new process will have been gained by 2014 for an audit to review the adequacy of the controls and whether efficiency gains have been realized.
 - Entity-level control environment. This type of review was undertaken in late 2010 by an outsourced firm and the scope was only partially covered. In recognizing the value of such a review, especially in relation to the annual management assertion and external audit attestation of the effectiveness of internal controls over financial reporting, both Management and AUO are of the view that another review of the control environment should be conducted.
12. The AUO risk assessment indicated that duty travel, identified last year as an area for a tentative audit in 2013, was comparatively low-risk due to ongoing or recently initiated actions by Management. As such, this area has not been confirmed for inclusion in the 2013 plan. However, given that it is key for the effectiveness of IFAD's business model, AUO will continue to follow up on outstanding audit recommendations and support improvement measures being implemented by Management.
13. In addition, the following audit activities are included in the AUO workplan every year:
- Two country-specific audits focusing on procurement and in-country supervision with respect to fiduciary requirements as well as IFAD country audit

transactions. The specific countries will be determined in consultation with the divisional directors. The audits will be designed to contribute to the project procurement audit assignment.

- AUO will continue to support Management by independently testing the key internal controls over financial reporting for the purpose of supporting Management's assertion on the effectiveness of such controls. AUO will coordinate with IFAD's external auditors, as in 2012, to ensure a reliable basis for the external auditors' opinion on the Management assertion.
 - AUO will carry out the recurrent assignments of reviewing the certification of expenditures to be reimbursed by the host 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.
14. In addition to some planned advisory activities, AUO is periodically requested by Management to provide ad hoc advisory services. These services may sometimes focus on a topic and objective agreed upon with Management and reporting on the findings; it may also involve providing independent advice in support of efficiency and control improvements or providing a corporate-wide perspective of a specific issue.
 15. A participant in the AUO internal audit capacity development programme is expected to be working with AUO for the first four months of 2013. This will exhaust the supplementary funds provided; however, AUO will continue to seek further sources of financing to allow continuity of this useful activity and maintain contact with and support the previous six participants.
 16. Some of the audit engagements started in the last quarter of 2012 will still be in progress in early 2013. A full report on the status of activities from the 2012 workplan and all audit and investigation work completed in 2012 will be provided to the Audit Committee in April 2013, therefore this document covers only the new audit areas being proposed for 2013. An interim progress report on the 2013 workplan, including any changes made to it will be provided in September 2013.

IV. Investigation and prevention

17. Within AUO, the Investigation Section is mandated to investigate as appropriate all allegations related to irregular practices in IFAD activities and operations. These include external matters of fraud and corruption in relation to entities, contractors and non-staff individuals applying for or participating in IFAD-financed activities or headquarters-related contracts, and internal matters of staff misconduct (including fraud and corruption).
18. In 2012, the Investigation Section's efforts were largely focused on addressing the expanded caseload that resulted from the recent spike in allegations. These included cases of harassment and abuse of authority, which are by nature very time-consuming. The section's efforts were hampered by continual staff turnover. After successfully recruiting an Investigation Officer at the P-3 level to reduce the pressure of work, AUO lost an Investigation Officer (P-4) and Investigation Assistant in 2012. The former was replaced only in the third quarter of the year, while efforts are ongoing to recruit for the latter position. The mitigation strategy used to meet the extra challenges of 2012 included using investigation consultants to meet unforeseen investigation needs. With the objective of consistently ensuring a reasonable response time to allegations, AUO will assess the need to revert to Management with a request for additional resources.

19. In 2013, AUO will increase its efforts to promote prevention and awareness, an area that received less attention in 2012 due to staff turnover. AUO will continue to provide presentations to staff on this subject and seek to develop and provide online resources for programme and technical staff seeking to mitigate more actively the risk of corruption in IFAD projects.
20. In order to ensure that the work of the section is well organized and monitored, and meets the highest possible standards AUO will review its caseload management and database software, to further ensure that cases are investigated as efficiently and effectively as possible.
21. AUO will actively participate in initiatives by United Nations agencies and international financial institutions to harmonize procedures and collaborate together. In addition, AUO will also work closely with colleagues in the Office of the General Counsel, Human Resources Division and Ethics Office in order to revise the IFAD Investigation and Sanction Processes, prepared in 2007, to take into account the changing nature of IFAD's disciplinary cases as well as recent developments and trends in tribunal jurisprudence.

V. AUO budget and resources for 2013

22. AUO was restructured in 2011 and 2012 to support the AUO medium-term strategic directions (table 1).

Table 1

AUO staff (in full-time equivalent [FTE]) and resources in 2013

<i>2012 AUO effective structure*</i>	<i>2013 AUO proposed structure</i>
<ul style="list-style-type: none"> • Director (1 FTE) • Administrative assistant (1) • Audit Section (5.2) • Investigation Section (2.2) 	<ul style="list-style-type: none"> • Director (1 FTE) • Administrative assistant (0.5) • Audit Section (5.5) • Investigation Section (3)
AUO 2012 budget for travel and external expertise – US\$102,000 Additional resources provided through budget reallocation to also cover staff transition – US\$216,000	AUO 2013 budget proposal for travel and external expertise – US\$102,000

* *Actual staff on board.*

23. The main capacity constraint faced by AUO in 2012 was in the area of investigations due to staff turnover. This is expected to be addressed with a full team on board by early 2013. The AUO budget proposal for 2013 amounts to US\$1.736 million, which is at the same level as the approved AUO budget for 2012. 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.

Workplan for 2013 and tentative list of audits for 2014

<i>AUO planned activities for 2013</i>	<i>Staff days (2012 plan in brackets)</i>
Internal Audit activities	1100 (1120)
Assurance engagements	
<ul style="list-style-type: none"> • Budget preparation, monitoring and reporting • Oversight and controls on internal investment management • Project procurement oversight • Oversight of IFAD web-presence • Country specific audit 1 • Country specific audit 2 • 2012 expenses of the Office of the President (recurrent) • Expenditures to be reimbursed by the host government (recurrent) • To be determined • To be determined 	
Advisory work	
<ul style="list-style-type: none"> • Annual testing of internal controls over financial reporting on behalf of Management • To be determined • Input to institutional efforts and observer in management committees 	
<u>Tentative list of audits for 2014</u> <ul style="list-style-type: none"> • Procurement of services - value-for-money • Management of the grant programme • Institutional performance measurement • Mission security • Loan administration – risk-based disbursement process • Efficiency and effectiveness of consultant administration • Entity-level control environment 	
Investigation activities	705 (705)
<ul style="list-style-type: none"> • Investigative work • Promoting and advocating for IFAD's anticorruption policy • Update of investigation and sanctions procedures • Secretariat support to the Sanctions Committee 	
Office management and capacity-building	315 (466)
<ul style="list-style-type: none"> • Office representation and advocacy in internal and external meetings • Maintenance and development of audit and investigation support tools • Staff recruitment, training, evaluation and development • Office management and administration 	