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Enabling poor rural people
to overcome poverty

Workplan for IFAD's Office of Audit and Oversight for 2014

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Workplan for IFAD's Office of Audit and Oversight for 2014

I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2014 and 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 session in December 2013.
2. The workplan is being presented to the Audit Committee prior to finalization of the 2014 budget process to allow for adequate consideration of the size and complexity of the workplan in the formulation of the AUO budget.

II. AUO strategy for 2014 and the medium term

IFAD risk environment in 2013/2014

3. The IFAD Medium-term Plan 2013-2015, which brings together the institution's plans, expected outputs and results, foresees a stable volume of programme activities for the three-year period. However, this will be accompanied by an extraordinary pace of organizational change involving numerous quality and efficiency improvements, many prompted by the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9). The corporate-level evaluation of IFAD's institutional efficiency and the efficiency of IFAD-funded operations (CLEE) carried out by the Independent Office of Evaluation of IFAD (IOE) also led to a series of agreed actions, the implementation of which is about to be launched. Many of the changes reflect the ongoing transformation of the Fund into a decentralized organization, both geographically and functionally, with the necessary adjustments being made to operational, human resource and financial processes and structures. These actions will help address efficiency and programme effectiveness risks in the medium term, but will put pressure on staff and financial resources in 2014 and on the internal control framework of the Fund.
4. The Fund's institutional risk assessment indicates that potential financial resource constraints are the highest risk area that could compromise the achievement of IFAD's high-level objectives in the medium term. The ability of the Fund to measure its performance in striving to meet those objectives and to adequately adapt its business model was also identified as an area of risk. The risks of negative investment returns and of fraud and corruption remain on the corporate risk register as they are inherent to the environment in which IFAD operates, but especially so during a period of major change.
5. AUO's own risk assessment¹ also found heightened risks in relation to the clarity and extent of the delegation of authority, including in relation to country offices, achievement of value for money through procurement of services, the oversight of IT-related projects and the overall monitoring of resource utilization. The area of loan disbursements, identified as high risk in 2012 was not confirmed as such in 2013 due to improvements put in place in the meantime.

¹ The risk assessment carried out by AUO focuses 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, 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.

Strategy and priorities for 2014 and the medium term

6. AUO aims to provide a competent, effective, relevant, efficient and trusted professional service that helps the Fund achieve its medium-term objectives. Its focus will remain 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.
7. AUO will contribute to risk mitigation also 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.
8. In 2014, AUO will have reduced staffing due to the departure of two associate professional officers. Consequently it will rely extensively on external expertise in both the audit and the investigation area to maintain adequate coverage of key institutional risks. AUO will intensify its efforts in the investigative/corruption prevention area, an objective not fully met in 2013 due to the high investigative caseload.

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 2014 plan was prepared on the basis of a risk assessment exercise. The emphasis is on identifying significant risk exposure in the achievement of immediate and medium-term institutional objectives, focusing on areas within the scope of the AUO mandate and competency toolset.
10. The risk assessment was carried out by AUO in September 2013 and the selection of audits also took into consideration practical matters such as: the need to avoid a high concentration of audits in a single area and to harness opportunities for working with the internal audit functions of the other Rome-based agencies, and also the size and experience of the internal audit team.

Assignments selected for 2014

- **Entity-level control environment – Delegation of authority (emphasis on IFAD country offices).** This type of review was undertaken in late 2010 and, recognizing the potential value of such a review, Management indicated that another review of the internal control environment would be of benefit. AUO's risk assessment indicated that the aspect of delegation of authority, and its impact on the accountability framework of the Fund and on the effectiveness and efficiency of staff is of concern. Given the gradual decentralization of the organization, this is a key matter that needs to be properly assessed in order to allow the organization to achieve further efficiencies. This review may be considered as advisory given the evolving status of the organization.
- **Procurement of services.** Together with the other Rome-based United Nations agencies, IFAD engages many different contractors for institutional services (e.g. cleaning, security guards, catering, shipping, IT hosting, etc.) at a considerable annual cost. AUO's risk assessment noted some concerns in relation to the price competitiveness, approval process and management of these contracts. Opportunities for coordinating with the internal audit functions of the other Rome-based agencies for such assessments have been identified and are being jointly pursued to achieve broader coverage of service types and obtain value and assurance for all three agencies.

- **Monitoring and reporting on budget utilization.** This audit was approved as part of the 2013 workplan, but as it was not undertaken during the year, it has been rescheduled for 2014. Some improvement in this area was noted in 2013, however concerns remain about the reliability and effectiveness of the budget commitment reporting system. The 2013 risk assessment pointed to some specific areas of the budget monitoring process, in particular the management of supplementary funds, travel expenses and staff costs. The area of budget monitoring continues to be high-risk given its fundamental role in enabling the organization to allocate and use effectively its limited financial resources.
- **Administration of consultants.** 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. Concerns have been noted about recurrent usage of consultants and the potential for conflict of interest. Consultant contracting and administrative processes have recently been partly decentralized to divisions and this audit will seek to provide assurance on the efficient and effective operation of decentralized activities so as to contribute to the ongoing revision of the process.
- **Testing of internal controls over financial reporting.** AUO will continue to support Management by independently testing the key internal controls over financial reporting for the purpose of supporting a Management assertion on the effectiveness on such controls. AUO will work with IFAD's external auditors, as in 2012, to ensure a reliable basis for the external auditors' opinion on the Management assertion. During 2014, this will include the final testing of the controls for 2013 (February/March) and the preliminary testing for the transactions related to 2014 (October/November).
- **Field security.** The security of IFAD staff and consultants in the field, both in IFAD country offices (ICOs) and on mission, is an area of paramount importance to IFAD, particularly considering its expanding field presence. The effectiveness of security processes may be weakened if staff, consultants or others associated with IFAD's presence in the field are not conforming fully with those processes. In addition, IFAD's relationship with the United Nations Department of Safety and Security and adequate training of staff responsible for the security of others are fundamental to ensuring the safety of IFAD staff and contractors. AUO proposes a review of compliance with security requirements in order to provide Management assurance and identify any areas of potential weakness.
- **Country-specific audits (2).** AUO will continue to conduct at least two country-specific audits to review the oversight of IFAD's programme portfolio with respect to fiduciary requirements and general compliance of ICO management. The specific countries will be determined in consultation with the divisional directors. There has generally been very positive feedback on the utility of these reviews and AUO has used its experience with these audits over the past couple of years to develop some standardization in the workplan, thus permitting increased efficiency and building a broader comparison basis. To the extent that resources allow, such audits may be added during the year.
- As in previous years, AUO will perform the recurrent audit activity of **certification of headquarters costs to be reimbursed by the Italian Government and the review of the expenditures of the Office of the President.** This will include the annual expenditures of the corporate residence.
- **Final report on the special expenditure for reform actualization.** Further to the request of the Audit Committee, AUO will coordinate with the

external auditor to review the reporting provided to the Executive Board on this subject so as to provide assurance that the report accurately and completely reflects the use of this special allocation.

Tentative assignments for 2014/2015

- **Governance and oversight of IT projects.** The need for better and wider usage of IT-based tools has repeatedly emerged as a critical factor for improving the performance of the organization and moving forward with organizational decentralization. Significant resources are allocated to IT through the capital budget. The CLEE, completed in 2013, noted the need for IT improvements, particularly in relation to adequate integration and governance. Accountability for the delivery and monitoring of these IT improvements and investments is important to allow for the expected efficiencies to be achieved. AUO's risk assessment brought out some concerns on the ineffective use of IT and proposes reviewing how these projects (capital or non-capital) are being overseen with respect to overall deliverables and budget utilization.
 - **Travel (hotel use).** The newly introduced Preferred Hotel Programme was intended to produce both cost savings and efficiencies. AUO has received feedback from many areas of the organization on some negative consequences of this programme. A short review of this programme would reveal the extent of these issues and whether cost savings are being realized on a holistic basis. However, as the programme was launched only in early 2013, such a review would not be undertaken until the end of 2014 or 2015 to allow initial problems to be resolved and to ensure the accumulation of adequate experience against which to assess the programme.
 - **Fiduciary oversight for grants.** IFAD provides funding (global, regional, country-specific) to various types of recipients (Member States, intergovernmental organizations, hosted entities, private sector, etc.). IOE's corporate-level evaluation on grants management, to be finalized in early 2014, covers many of the aspects of the IFAD grant programme, however it does not include an in-depth assessment of IFAD's ability to ensure adequate fiduciary oversight of the use of grant funds. AUO proposes a focused review of these issues in order to complement the work of IOE.
11. Some audit engagements that started in 2013 will be finalized in the early months of 2014. A report on the status of activities of the 2013 workplan will be provided to the Audit Committee in April 2014. An interim progress report on the 2014 workplan will be provided in September 2014.
 12. AUO will continue to provide advisory services either through an observer role in management committees or through specific assignments of limited scope requested by Management. These services may entail providing independent advice in support of efficiency and control improvements or a corporate-wide perspective of a specific issue. AUO will also continue to follow-up on and support Management with the implementation of audit recommendations.
 13. AUO will continue to actively pursue cooperation with the internal audit functions of the Food and Agriculture Organization of the United Nations (FAO) and World Food Programme (WFP) through frequent meetings, staff exchanges and conducting a coordinated audit (procurement of services) as indicated above.

IV. Investigation and prevention

14. 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.

15. In 2014, the main priority of the Investigation Section will be to ensure prompt investigation of allegations received in line with the zero-tolerance policy of the Fund on fraud and corruption. In recent years, AUO sought and obtained additional resources from Management to meet this objective and will do so again in 2014 should it become necessary.
16. AUO will also increase its prevention and awareness efforts, an area that received less attention in recent years due to limited staff capacity.

V. AUO budget and resources for 2014

17. The AUO structure was revised in 2011 and 2012 to support the AUO medium-term strategic directions. Both the current structure and the proposed structure for 2014 are set out in the table.

Table
AUO staff and resources in 2013 and 2014

<i>2013 AUO structure</i>	<i>2014 AUO structure</i>
Director	Director
Administrative Assistant (0.5 full-time equivalent [FTE])	Administrative Assistant (0.5 FTE)
Senior Internal Auditor (1)	Senior Internal Auditor (1)
Internal Audit Officer (1)	Internal Audit Officer (1)
Internal Auditor, IT (1)	Internal Auditor, IT (1)
Associate Internal Auditors (2 until August)	Audit Assistant (1)
Audit Assistant (1)	Investigators (2)
Investigators (2)	Investigation Assistant (1)
Investigation Assistant (0.2)	
AUO 2013 budget for travel and external expertise – US\$102,000 Additional resources provided through budget reallocation – US\$146,000	The proposed AUO 2014 budget for travel and external expertise is US\$200,000. In addition AUO will be provided with one Professional staff member for a six-month period

18. The main capacity constraint faced by AUO in 2012 and 2013 was in the area of investigations due to the heavy caseload. Additional funds were provided to AUO to ensure adequate capacity in this respect. For 2014, the staff capacity of the audit section will be reduced with the departure of the two associate professional officers (APOs) in August 2013. AUO is actively seeking to recruit new APOs in both the audit and the investigation area.
19. AUO presented a budget proposal for additional resources in 2014 aimed at maintaining its internal audit capacity and meeting the high investigation caseload. The workload and need for external expertise – especially in the investigation area – are unpredictable and may necessitate a request for additional financial resources during the year.

<i>AUO planned activities for 2014</i>	<i>Staff days (2013 plan in brackets)</i>
Internal Audit activities	900 (1100)
<i>Assurance engagements</i>	
<ul style="list-style-type: none"> • Entity-level control environment – Delegation of authority • Procurement of services • Monitoring and reporting on budget utilization • Administration of consultants • Testing of internal controls over financial reporting • Field security • 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) • Final report on the special expenditure for reform actualization 	
<i>Advisory work</i>	
<ul style="list-style-type: none"> • <i>To be determined</i> • Input to institutional efforts and observer in management committees 	
<u>Tentative list of audits for 2015</u> <ul style="list-style-type: none"> • Governance and oversight of IT projects • Travel: Use of hotels • Fiduciary oversight for grants 	
Investigation activities	750 (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	256 (315)
<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 	