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Workplan for IFAD's Office of Audit and Oversight for 2015

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For: **Confirmation**

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I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2015 and relevant background information. The plan, which is based on a risk assessment exercise, 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 2014 session.

2. The workplan is presented to the Audit Committee prior to finalization of the 2015 budget process so that its size and complexity can be adequately taken into account in the formulation of the AUO budget.

II. AUO strategy for 2015 and the medium term

IFAD risk environment in 2014/15

3. 2015 is the last year of the IFAD Medium-term Plan 2013-2015. The outcome of the Tenth Replenishment Consultation process, currently under way, will set new expectations and priorities for the Fund in 2015 and over the medium term. These will very likely include diversification of the Fund's funding mechanisms and financing products, which will be instrumental in the effective delivery of its mandate in the future. Necessary changes to operational and financial processes will be introduced in addition to ongoing institutional reforms, many of which were launched under the corporate-level evaluation of IFAD's institutional efficiency and the efficiency of IFAD-funded operations (CLEE) conducted by the Independent Office of Evaluation of IFAD (IOE). The ongoing upgrading of the enterprise resource Planning platform (Oracle) will help support such changes but will also add to the challenges faced by the Fund. These efforts will claim significant staff time and financial resources in 2015 and will call for increased attention to risks and effective risk management. The Fund's corporate risk assessment to some extent reflects this in identifying potential financial resource constraints and the ability to adequately adapt the business model as current high risk areas. The risk of fraud and corruption remains on the corporate risk register as it is inherent to the environment in which IFAD operates.

Strategy and priorities for 2015 and the medium term

4. AUO, by virtue of its mandate, focuses 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 devotes less audit effort to risks pertaining to programme impact and sustainability, an area that falls within the scope of IOE.

5. In accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, AUO's audit plan is prepared on the basis of a risk assessment exercise.[1] The emphasis is on identifying significant risk exposure in connection with achieving immediate and medium-term institutional objectives, focusing on areas within the scope of the AUO mandate and

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

competency toolset. The assessment takes into consideration the overall risk environment, and the audit selection also considers practical matters such as avoiding a concentration of audits in a single area, appropriate timing of audits, opportunities to work with the other Rome-based agencies' internal audit functions and the size and experience of the internal audit team.

6. AUO will continue to contribute to the prevention of irregular activities in IFAD activities and operations through its investigative mandate and promotion of the anticorruption agenda. 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. In 2015, AUO will invest staff time in enhancing its capacity by upgrading its procedures (primarily relative to investigation and sanctions) and developing IT tools to support the audit and investigation tasks within a decentralized organizational structure. The staffing structure will remain the same as in 2014 and AUO will continue to rely extensively on external expertise to maintain adequate coverage of key institutional risks.

III. Internal audit assurance and advisory activities

AUO risk assessment summary

8. The AUO risk assessment conducted in September 2014 revealed heightened risks in relation to the management of the grant programme, the administration of consultants, the oversight of projects relating to IT, the efficiency of payment and expenses processing and the overall monitoring of resource utilization. Most of these issues were identified as high-risk by AUO in 2013 as well, and some planned 2014 audits will help propose mitigation actions (e.g. the consultants audit), while specific institutional initiatives already in place are addressing some of the other areas (e.g. revision of the IFAD grants policy and procedures, revision of the procedures on consultants). The evolving decentralized operational model was identified as an area warranting continuous AUO attention by virtue of its cost and operational impact, and consequently the management and support structure for IFAD country offices (ICOs) will continue to be a priority area. To cover this area more effectively, a new remote audit modality will be piloted in 2015 for country office audits, in parallel to field visits.

9. Those audits proposed in the 2014 workplan as tentative for 2015 were reassessed in this year's planning process. While an audit related to IT and travel has been retained and included in the selected assignments for 2015 as set forth below (and listed in the annex), an audit in the area of grant management was not retained. Although the area of grants continues to present significant risk, Management is currently undertaking the process of redefining the IFAD grant policy and related procedures. A draft is expected to be ready for review by Management in December before being presented for approval to the April 2015 Executive Board; therefore, AUO has determined, in consultation with Management, that it would be more beneficial for AUO to provide proactive advisory input starting in 2014.

Assignments selected for 2015

- **Country offices:** Setting up and running ICOs is a key and growing aspect of IFAD's institutional structure and business, and IFAD's potential failure to adapt its business model to meet impact targets is one of its top corporate risks. AUO has audited several aspects of IFAD's country offices in recent years, including the budget and financial control structure and support services, as well as one to two individual offices per year. One of the key benefits of these audits is to assess how corporate systems and structures are being adapted to IFAD's transition to a decentralized business model. Six ICOs have been reviewed so far by AUO; however, given the expected

increase in their number to 50, AUO has decided to include remote audits (with no on-site visit) of three to six smaller ICOs in its annual workplan. The remote audits will cover the administrative and organizational aspects of the ICO and the compliance aspect of programme management fiduciary responsibilities. In addition, one audit of a larger ICO will be conducted including an on-site assessment. The institutional role and support challenges of outposted country programme managers who are heading ICOs are intended to be included as an element of such assignments. If scheduling and AUO resources allow, a second on-site audit will be performed. The remote audit modality will necessitate upgrading and expanding the AUO set of templates and tools in order to take advantage of increased connectivity and access to ICO transactions. Should difficulties be encountered with performing audits remotely, on-site visits by AUO or local auditors contracted by AUO may be organized. AUO has developed a standard audit workplan so as to perform such audits efficiently and consistently, and to facilitate, when required, the use of local auditors to perform specific activities on-site in the ICOs. The selection of the ICOs to be audited will continue to be done based on risk, in consultation with the Programme Management Department (PMD) and other divisions, as well as on practical considerations - including the possibility of including ICOs in countries selected by IOE for country programme evaluation in 2015/2016 so as to achieve synergies in oversight coverage. A rotational plan will ensure complete coverage of the ICOs over the course of the next few years.

- **Travel process efficiency:** The AUO workplan for 2014 included a tentative audit on travel lodging arrangements and costs in connection with the introduction of the Preferred Hotels Programme; however, the mandatory nature of the programme was repealed in 2014 due to concerns with its effectiveness. Despite this and other positive changes in recent years, the travel process still takes up significant staff time and financial resources and continues to be a source of concern, in particular as regards the efficiency of travel arrangements and settlements. The potential for decentralizing aspects of the travel function is also under examination in relation to ICOs.

- **Governance of IT projects:** Already identified in last year's audit plan as a tentative audit for 2015, this area has been confirmed by the revised risk assessment as an area meriting increased audit coverage. The rationale includes the significant resources allocated to IT projects under capital budgets and, most importantly, the critical potential impact of such projects. The need for expanded and improved usage of IT-based tools continues to emerge as a critical factor for improving the efficiency of business processes and moving forward with organizational decentralization. The precise audit focus and scope within this broad heading will be determined by a specific risk assessment in the context of assignment planning, after taking into consideration the reforms currently being introduced by the Information and Communications Technology Division.

- **Testing of internal controls over financial reporting:** AUO will continue to support Management by independently testing the key internal controls over financial reporting for a Management assertion on the effectiveness on such controls. AUO will work with IFAD's external auditors, as it did with respect to the 2012 and 2013 financial statements, so that they may use this work as a basis for providing their attestation (opinion) on the Management assertion. In 2015, this will include final testing of controls for the 2014 financial statements (February/March) and preliminary testing for the transactions related to the 2015 financial statements (October/November).

10. As in previous years, AUO will perform recurrent audit activities to certify headquarters costs to be reimbursed by the Italian Government and the review of the expenditures of the Office of the President.

11. During the period from late 2014 to early 2015, the Consultation on the Tenth Replenishment of IFAD's Resources will be concluded and the corporate risk registers and medium-term plan will be updated. Accordingly, and in order to ensure the continued relevance of AUO's audit choices, it is proposed that the subjects of two audit and advisory assignments be identified in early 2015 and communicated to the Audit Committee through the AUO 2015 midyear progress report in September 2015. The subjects may be drawn from the tentative choices listed below or from other emerging risk areas.

Tentative assignments for 2015/2016

- **Grant recipients – selection and performance.** The AUO risk assessment revealed concerns in this area, which has not been subject to audit in recent years. In view of the major reform in the grant policy and procedures currently under way, AUO will time and scope such an audit so as to complement Management efforts in this area.

- **Performance-based allocation system – controls over data accuracy.** This process is critical for the allocation of IFAD resources and this limited-scope audit will be designed to provide Management with assurances that the control structure in place concerning the integrity of reporting remains robust. If pursued, this audit will be coordinated with the planned IOE evaluation on the same subject.

- **Budget management of extrabudgetary funds.** An audit in this subject area is included in the audit plan for 2014, but is being postponed since recent reforms have mitigated significantly the risks that had led to its inclusion. The 2014 AUO risk assessment has brought out some remaining concerns in the area of budgetary management of extrabudgetary funds and this is proposed as a tentative audit, after an assessment of the effectiveness of ongoing management improvement actions in this area.

- **Insurance and self-insurance arrangements.** Insurance coverage is in use by IFAD in several areas including, inter alia, staff and consultant medical coverage, fire, civil liability, theft and malicious acts. The diverse arrangements in place for ICOs have increased the importance of a coherent insurance coverage framework. Although no specific concerns were raised in this area, it is key to risk mitigation and has not been audited by AUO in recent years. AUO proposes to focus such an audit on assessing the economy, efficiency and effectiveness of the arrangements in place.

12. As has happened in previous years, some of the audit engagements started during the current year will be carried forward into the subsequent year. A full report on the status of all activities from the 2014 workplan, and audit and investigation work completed in 2014, will be provided to the Audit Committee in April 2015, and an interim progress report on the 2015 workplan will be provided in September 2015. This document covers only the new audit areas being proposed for 2015.

Advisory work

13. AUO will continue to provide advisory services either as an observer on management committees, through specific limited-scope assignments requested by Management, or in the form of feedback on draft policies and procedures. These services may at times involve a scope and objective agreed upon with Management and a report on the findings. Alternatively, they may involve independent advice in support of efficiency and control improvements or a corporate-wide perspective on a specific issue.

14. AUO will continue to actively follow up and report on all outstanding audit recommendations and support improvement measures being implemented by Management.

IV. Investigation and anticorruption activities

15. In 2015, the main priority of the Investigation Section will continue to be to ensure prompt investigation of allegations received in line with the zero-tolerance policy on irregular practices in IFAD activities and operations. In recent years AUO has sought and obtained additional resources from Management to meet this objective and will do so again in 2015 should it become necessary.

16. IFAD investigation and sanctions processes will be subject to an external review in October and November 2014, and the findings will be used to support IFAD and AUO in strengthening these processes where required. A review of the relevant procedures and manuals is planned for early 2015.

17. In 2014 AUO was able to increase its efforts towards awareness and prevention of irregular practices by upgrading its dedicated public website and participating in regional and institutional meetings and workshops. This area will continue to require increased attention in 2015 and, to this end, AUO will step up its collaboration with the Controller's Office, PMD and the Ethics Office.

V. AUO budget and resources for 2015

18. AUO's staffing structure for 2015 is unchanged from 2014, as set out in the following table, except for the non-availability in 2015 of a temporary P-5 professional resource assigned to AUO in 2013 and available to AUO for the first two months of 2014.

Table
AUO staff and resources

2014/2015 AUO structure
Director
Administrative Assistant (0.5 full-time equivalent)
Audit Manager
Senior Audit Officer
Audit and Investigation Analyst - IT
Audit Assistant
Senior Investigation Officer
Investigation Officer
Investigation Assistant

19. In the context of the institution-wide 2014 Strategic Workforce Planning exercise AUO requested an additional professional resource at the P-2/P-3 level; however, this was not granted. Instead, AUO has requested an increased non-staff budget allocation in order to engage specialized resources as required by either the investigation or the audit sections. The AUO budget proposal for 2015 amounts to US$1.89 million (US$2.00 million in 2014 including amounts subsequently allocated to AUO for additional needs). AUO's total non-staff budget allocation for 2014 was US$275,000 and the current AUO non-staff funds request for 2015 amounts to US$300,000. The workload and need for external expertise – especially in the investigation and technical audit areas – are unpredictable and, as in previous years, AUO will rely on additional financial resources being made available by Management to ensure appropriate coverage of such emerging needs.

Workplan for 2015 and tentative audits for 2016

AUO planned activities for 2015	Staff days (2014 plan in brackets)
Internal audit activities	**882 (900)**

Assurance engagements

- Remote audits of country offices (3-6)
- Country office audits (1-2)
- Governance of IT projects
- Travel processing and process efficiency
- Annual testing of internal controls over financial reporting on behalf of Management
- 2014 expenses of the Office of the President (recurrent)
- Expenditures to be reimbursed by the host government (recurrent – limited scope)
- *To be determined*

Advisory work

- Input to institutional efforts and observer in management committees
- *To be determined*

Tentative list of audits for 2015 / 2016

- Grant recipients – selection and performance
- Performance-based allocation system – reporting
- Budget management of extrabudgetary funds
- Insurance and self-insurance arrangements

Investigation activities	**670 (750)**

- Investigative work
- Promoting and advocating for IFAD's anticorruption policy
- Update of investigation and sanctions procedures

Office management and capacity-building	**250 (256)**

- 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