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Investing in rural people

Workplan for IFAD's Office of Audit and Oversight for 2016

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:

Alessandra Zusi Bergés
Officer-in-Charge
Governing Bodies Office
Tel.: +39 06 5459 2092
e-mail: gb_office@ifad.org

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Workplan for IFAD's Office of Audit and Oversight for 2016

I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2016 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 2015 session.
2. The workplan is presented to the Audit Committee prior to the finalization of the 2016 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 2016 and the medium term

IFAD risk environment in 2015/2016

3. The year 2015 saw the completion of the Consultation on the Tenth Replenishment of IFAD's Resources (IFAD10) process in an environment of financial and currency market instability with traditional official development assistance remaining under pressure. In line with goals set through the replenishment process, IFAD is redefining its strategic priorities and seeking better ways of leveraging its results for impact, including the expansion of its funding base through sovereign borrowing. At the same time, IFAD is emerging from a period of institutional reform transformed into a geographically and functionally decentralized organization. Operational and financial processes have been adjusted, and the organizational profile and culture of the Fund continue to evolve. While the institutional reform effort continues, changes and external challenges are exerting pressure on the risk environment of the Fund since sub-optimal implementation of critical institutional improvements (such as decentralization, new financing and resourcing modalities, and the development of business-critical systems) could limit the achievement of potential benefits, at a disproportionately high cost. The emphasis in 2016 will be on consolidating reform to ensure appropriate, well-structured and solid institutional foundations for delivering IFAD10 results. This overall risk picture is reflected in the Fund's corporate risk assessment, which identifies funding challenges and the Fund's ability to adequately adapt its business model as areas of high risk. The risk of fraud and corruption remains on the corporate risk register as it is inherent to the environment in which IFAD operates.

AUO strategy and priorities for 2016 and the medium term

4. The core internal oversight mandate of AUO is to provide competent, effective, relevant, efficient, trusted and independent professional assurance and advisory services that help the Fund achieve its objectives. This core mandate will remain unchanged. Also unchanged will be AUO's role in contributing significantly to the prevention of irregularities in IFAD activities and operations, and ensuring a prompt and effective response to allegations of irregularities when they arise.
5. Throughout the IFAD10 period, AUO's work priorities will continue to be determined based on an assessment of significant risks to the achievement of IFAD institutional objectives that are also reflected in the IFAD10 commitments and Results Management Framework targets. AUO, working with Management, will continue to identify risks and evaluate controls in relation to: efficiency in the use of financial and staff resources; compliance with the applicable regulatory framework; the integrity of reported information; and the effectiveness of business processes (with less emphasis on programme-related objectives that are covered by the work of the Independent Office of Evaluation of IFAD [IOE]).

6. The expected results for the IFAD10 period in relation to the operational effectiveness of IFAD programmes, and IFAD's institutional effectiveness and efficiency are directly related to the AUO oversight mandate. The emphasis is on efficient internal and project-related processes, greater economy in the use of resources, and an engaged and motivated workforce. Within this context, and taking into consideration the current institutional priorities and risks, AUO in the medium term will:
- Provide assurance and advisory support to the further development of the field presence and decentralization efforts;
 - Provide assurance and advisory support to the expanded financing and resourcing modalities, including more flexible financial products and borrowing;
 - Provide assurance and advisory support to institutional improvement efforts, including the development and enhancement of business-critical systems;
 - Provide a prompt and effective investigative response to allegations of irregularities; and
 - Intensify efforts to prevent irregularities in IFAD activities and operations, in collaboration with internal and external partners.
7. To meet its core mandate and address emerging institutional priorities effectively, AUO will aim to:
- Audit at least once every three years all areas or processes frequently identified by AUO to be of high risk/priority for the Fund;
 - Provide timely and relevant input to key institutional improvement efforts, drawing, inter alia, from comparative internal and external experiences;
 - Conclude all investigations into credible allegations within six months from the receipt of the complaint by AUO, or less if operational or other exigencies require; and
 - Advocate IFAD integrity values effectively to internal and external audiences, and contribute significantly to the efforts to eliminate corruption from IFAD-financed activities.
8. AUO will continue to reassess and build its capacity to meet its core mandate and effectively address emerging institutional priorities. This may require strengthening the AUO staffing structure and toolset in the medium term, especially in the investigations area. To improve its effectiveness, AUO will aim to cooperate closely with the Rome-based agencies (RBAs), other United Nations organizations and international financial institutions (IFIs) on system-wide initiatives as well as specific assignments; to establish and develop local partnerships (with NGOs, anticorruption agencies, United Nations agencies and IFIs); and to outsource capabilities (maintaining consultant rosters with other United Nations agencies and IFIs). AUO will enhance its information and communication technology applications that support the investigative process and build up its tools for carrying out audit work in a geographically decentralized context. The implementation, with the support of Management, of the recommendations of the external review of the investigation and sanctions processes issued in January 2015 is contributing directly to these capacity enhancement efforts.

III. Internal audit assurance and advisory activities

AUO risk assessment summary

9. AUO's selection of specific assignments for each year is based on an annual risk assessment exercise focused on areas falling within AUO's functional scope and competency. Among the factors taken into account are: value and importance of a process, previous risk indications, feedback from Management and key functions, the corporate risk register and investigative experience, concentration of audits in a single area, appropriate timing of audits, opportunities to work with the other RBA internal audit functions, and the size and experience of the internal audit team.
10. Reflecting the risk considerations and priorities as outlined above, as well as the results of the AUO risk assessment conducted in September 2015, the decentralized operational model was confirmed as an area warranting continuous AUO attention, and consequently the management and support structure for IFAD country offices (ICOs) will continue to be a priority area. Those audits proposed in the 2015 workplan as tentative for 2016 were reassessed in this year's planning process. The tentative audit of the performance-based allocation system (PBAS) has been removed given that IOE is in the process of completing an evaluation in this area, while the subjects of insurance/self-insurance, grants and budget management of supplementary funds have been reconfirmed as risk areas. The rationale for including specific assignments in the 2016 plan is further explained under each assignment heading below.

Assignments selected for 2016

- Country offices. AUO's introduction of a remote auditing approach proved effective in 2015, and AUO will continue to pursue broad coverage of ICOs in 2016. Following the Year of IFAD Country Offices in 2015, IFAD will continue to revise and refine its approach to decentralization and expand its field presence. This ongoing expansion is among the mitigating steps for one of the higher-ranked corporate risks: that of failure to adapt IFAD's business model adequately to changes in the development landscape. AUO has achieved efficiency gains in the standardization of the audit approach. In 2016, AUO plans to cover the administrative and organizational aspects of four to six ICOs, of which one or two will include on-site visits and the compliance aspect of programme management fiduciary responsibilities. Should the need arise, on-site visits by AUO or local auditors contracted by AUO may be organized to supplement the remote audit. The selection of the ICOs to be audited will be based on a separate risk assessment conducted at the beginning of 2016 based on updated ICO data, in consultation with the Programme Management Department and other divisions.
- Cross-cutting issues from 2015 ICO audits. In the course of 2015 ICO audits, a number of common issues regarding corporate services and processes were noted that AUO deemed would be better addressed by completing all the planned audits in order to provide better informed and more comprehensive input to Management. This would not be a consolidation of the previous year's audits, but a report highlighting the differences or similarities between ICOs and how similar or overlapping issues might require Management action. This assignment may be timed to contribute to the IOE evaluation of the decentralization process.
- Grant fiduciary management. AUO risk assessment identified some potential for audit of this area, which has not been subject to audit in recent years, including recipient selection, supervision, closure procedures, usage of sub-recipients and misalignment of requirements in donor funding agreements with that of the respective grant agreements. Management has issued a new IFAD Policy for Grant Financing and related procedures, during the development of which AUO provided some advisory input; the audit will

therefore not cover the newly-introduced procedures. The precise audit focus and scope will be determined by a specific risk assessment in the context of assignment planning, after taking into consideration the recent changes and those currently being implemented.

- Information security. This subject comprises the identification of important data, information-asset classification to help protect critical digital assets and the information governance arrangements in place. The identification and safeguarding of business-critical data/information, the existence of necessary information security roles and functions, and the adequacy of the information security policy are very important elements in the light of IFAD's strategic direction towards the decentralization of key corporate business applications and initiatives. This audit may also include a follow-up on the IT network security audit of 2011, which had an unsatisfactory opinion regarding governance, risk management and internal controls. Remedial measures and changes were introduced as a result, but cyber security risks have become more prominent in recent years and this area requires continuous vigilance. The precise scope of the audit will be defined based on a scan of recent measures put in place in this area.
 - 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 of such controls. AUO will work with IFAD's external auditors, as it has since the 2012 financial statements, so that they may use this work as a basis for providing their attestation (opinion) on the Management assertion. As in previous years, final testing of controls for the 2014 financial statements will be done in early 2016 (February/March) and preliminary testing with respect to the 2016 financial statements in late 2016 (October/November).
 - To be determined. This assignment will be selected to address risks and priorities that emerge during the year. Subject to identifying a suitable subject, this assignment could be an audit conducted jointly with the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP). The three oversight offices already work together in many ways and are actively engaged in strengthening audit coordination. The scope for joint auditing is significant given the co-location of headquarters services of the three organizations and the significant programmatic collaboration in the field.
11. AUO will continue to perform the recurrent audit activities of certification of the headquarters costs to be reimbursed by the Italian Government and the review of the expenditures of the Office of the President, including the corporate residence.
12. Should time allow, or if priorities or the risk situation change during the year, other areas identified for potential audit in 2016 are:

Tentative assignments for 2016/2017

- Insurance and self-insurance arrangements. Insurance coverage is a fundamental risk response (transfer) used by IFAD in several areas including, inter alia, staff and consultant medical coverage, fire, civil liability, theft and malicious acts. While the process for handling medical claims for work-related compensation was audited in 2014, the overall coverage and self-insurance schemes have not been audited for quite some time. While Management is currently seeking to ensure the alignment of procedures and relevant insurance coverage, some particular aspects of this area for potential audit include the management of income generated by self-insurance and the profit-sharing account jointly shared by FAO and WFP. With respect to this last aspect, AUO will examine opportunities for working jointly with the RBA internal audit functions.

- Administration of extrabudgetary funds. While the overall budgeting process has been strengthened in recent years, the administration of non-replenishment funding sources continues to present some challenges. The implementation of the borrowing framework will further raise the importance of this subject, and an audit on this would help Management address any remaining procedural and control issue.
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 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.
 15. As has occurred in the past, some 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 2015 workplan completed in 2016 will be provided to the Audit Committee in April 2016, and an interim progress report on the 2016 workplan will be provided in September 2016. This document covers only the new audit areas being proposed for 2016.

IV. Investigation and anti-corruption activities

16. IFAD investigation and sanctions processes were subject to an external review in 2014, which led to recommendations for their strengthening. AUO is collaborating with the Offices of the Vice-President and the General Counsel in implementing the recommended improvements, continuing into early 2016 if necessary.
17. 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 2016, AUO plans to further increase its efforts to enhance awareness and prevention of irregular practices by upgrading its dedicated public website and participating actively in regional and institutional meetings and workshops.

V. AUO budget and resources for 2016

18. AUO's planned staffing structure for 2016 is unchanged from 2015, as set out in the table below, except for possible upgrading of the Senior Investigation Officer position (P-4 grade) to that of Investigations Manager (P-5 grade).

Table
AUO staffing

2015	2016
<ul style="list-style-type: none"> • Director • Administrative Assistant (0.5 FTE) • Audit Manager • Senior Audit Officer • Audit and Investigation Analyst - IT • Audit Assistant • Senior Investigations Officer • Investigation Officer • Investigation Assistant 	<ul style="list-style-type: none"> • Director • Administrative Assistant (0.5 FTE) • Audit Manager • Senior Audit Officer • Audit and Investigation Analyst - IT • Audit Assistant • Investigations Manager (<i>proposed</i>) • Investigation Officer • Investigation Assistant

19. In the context of the institution-wide 2015 strategic workforce planning exercise, AUO requested the upgrade of the Senior Investigation Officer position (P-4 grade) to that of Investigations Manager (P-5 grade). This upgrade would facilitate the recruitment of appropriate managerial experience in this area to manage a team of staff and consultants handling an increasingly complex case portfolio. The request is still under consideration.
20. The AUO budget proposal for 2016 amounts to US\$1.94 million (approximately US\$2 million in 2015, including amounts subsequently allocated to AUO for additional needs). AUO's non-staff budget allocation for 2015 was US\$400,000 of which US\$65,000 was allocated to AUO and the Offices of the Vice-President and the General Counsel for a special improvement initiative. The current AUO non-staff funds request for 2016 amounts to US\$315,000. The workload and need for external expertise – especially in the investigation and technical audit areas – are unpredictable, and, as in previous years, AUO will seek additional financial resources from Management if the need arises.

Workplan for 2016 and tentative audits for 2017

AUO planned activities for 2016	Estimated staff days
Internal audit activities	860
Assurance engagements	
<ul style="list-style-type: none"> • Completion of 2015 assignments • Remote audits of country offices (3-6) • Country office audits (1-2) • Cross-cutting institutional issues from 2015 remote country office audits • Grant fiduciary management • Information security • Testing of internal controls over financial reporting • 2015 expenses of the Office of the President (recurrent) • Expenditures to be reimbursed by the host government (recurrent – limited scope) • Assignment to be determined 	
Advisory work	
<ul style="list-style-type: none"> • Input to institutional efforts and observer in management committees • Assignment to be determined 	
<u>Tentative list of audits for 2016/2017</u>	
<ul style="list-style-type: none"> • Insurance and self-insurance arrangements • Administration of extrabudgetary funds 	
Investigation activities	662
<ul style="list-style-type: none"> • Investigative work • Promoting and advocating for IFAD's anticorruption policy • Update of investigation and sanctions procedures 	
Office management and capacity-building	260
<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 	