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## Workplan for IFAD's Office of Audit and Oversight for 2017

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# Workplan for IFAD's Office of Audit and Oversight for 2017

## I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2017 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 2016 session.
2. The workplan is presented to the Audit Committee prior to the finalization of the 2017 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 2017 and the medium term

### IFAD risk environment in 2016/2017

3. The year 2017 will see a change of President in IFAD, and Member States engaging in the Consultation on the Eleventh Replenishment of IFAD's Resources. While these governance milestones may prompt some realignment of medium-term corporate priorities, the overall direction of IFAD's Strategic Framework 2016-2025 will set the course of institutional activities and initiatives in 2017.
4. Central among IFAD's strategic aims is that of mobilizing significantly more funds and resources for investment in rural areas – an objective rendered more challenging by the prevailing environment of low interest rates, and volatile currency and equity markets. Continuing the preparatory and exploratory work in this area and the replenishment consultation process will be key activities for a number of IFAD divisions in 2017 and likely lead to changes in business processes and structures in the medium term.
5. Reforms initiated in recent years in finance, human resources, information technology, programme management and corporate services processes, including expanded geographical and functional decentralization, have now been largely delivered and mainstreamed throughout IFAD business processes. The annual AUO risk assessment and recent audit work on IFAD country offices (ICOs) indicated that IFAD corporate management processes, including corporate support services to ICOs, were becoming more efficient and effective, although fine-tuning continued in some areas. Notwithstanding this progress, delivering development results in a cost-effective way remains a core strategic aim of IFAD, and streamlining efforts will continue towards that goal, including through the implementation of the corporate decentralization plan. The delivery of the IFAD Client Portal (ICP) in 2017 will bring decentralized processing capabilities to IFAD's external clients for the first time, with benefits anticipated in efficiency and service quality, along with some external exposure that will require close monitoring.
6. IFAD's enterprise risk management (ERM) process was enhanced in 2016 with the strengthening of the ERM Committee role as overseer of IFAD's institutional and decentralized risk management practices. Corporate risks are proactively identified and managed through the assignment of risk champions. Areas of risk identified through the corporate ERM process as requiring continuous vigilance include the adequacy of human and financial resources to deliver planned programme outcomes, the safeguarding of human and financial resources from increasing security and cyber security threats, and the compliance of IFAD-financed projects with applicable rules and legal covenants. 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 2017 and the medium term

7. AUO aims to provide efficient and trusted independent professional assurance and advisory services, to contribute significantly to the prevention of irregularities in IFAD activities and operations, and to ensure a prompt and effective response to allegations of irregularities when they arise. AUO's work priorities are determined based on an assessment of risks 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.
8. Taking into consideration the institutional priorities and risks for 2017, AUO will maintain audit emphasis on the efficiency of internal and project-related processes, including decentralized decision-making, and economy in the use of resources. Within this context, AUO will aim to:
  - (i) Audit, at least once every three years, all areas or processes frequently identified by AUO to be of high risk/priority for the Fund;
  - (ii) Provide timely and relevant input to key institutional improvement efforts, drawing from, among other things, comparative internal and external experiences;
  - (iii) Conclude all high-priority investigations into credible allegations within six months from the receipt of the complaint by AUO or less if operational or other demands require; and
  - (iv) Advocate IFAD's integrity and values effectively to internal and external audiences, and contribute significantly to efforts to eliminate corruption from IFAD-financed activities.
9. AUO will continue to reassess and build its capacity to meet its core mandate. To this end, an independent external quality assurance review of the internal audit function will be conducted in 2017 to seek valuable feedback.
10. AUO will continue to cooperate closely with the Rome-based agencies, other United Nations organizations and international financial institutions (IFIs) on system-wide initiatives as well as specific assignments. AUO will aim to establish and develop partnerships (with non-governmental organizations, anticorruption agencies, and United Nations and IFI bodies) where they may provide mutual benefits to IFAD and its development partners.

### III. Internal audit assurance and advisory activities

AUO risk assessment summary

11. AUO's selection of assignments each year is based on an annual risk assessment exercise covering the areas within its functional scope and competency. Among the factors taken into account are: the cost and importance of a process to IFAD's outcomes; feedback from Management; the corporate risk register; investigative experience; 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.
12. Based on the risk assessment conducted by AUO in September 2016, the Office has identified that audit work in the following general areas (risks and opportunities) may add value:
  - Programme management: Oversight of project financial and procurement management, timeliness of project start-up, efficiency of supervision/implementation support activities and the administration of grants;

- Financial management: The administration and challenges of supplementary funds, and the diversification of funding/financing mechanisms and products; and
  - Corporate services: The application of decentralized/delegated authorities, staff performance assessment, records and documents management, and the implementation of the ICP.
13. Each of these areas was identified as either a risk or an opportunity for AUO to add value through timely intervention, even in the absence of a reported concern or allegation. For example, the value of an early assessment of the application of newly delegated authorities can generate valuable feedback to be taken into consideration when expanding the scope of the delegation to additional functions or processes, including through the execution of the forthcoming corporate decentralization plan.
  14. Audit coverage of ICOs will remain high. AUO deems it important that all ICOs receive some objective assessment of their management practices and compliance with established policies and procedures. Procurement oversight will be set as a theme for country programme audits and for a follow-up review to the 2014 audit of project procurement in order to address the potential risks identified in this area.
  15. A number of potential risk areas were not proposed for audit in 2017 where a final product/process may not yet be deployed or in place (for example, the ICP and the diversification of funding/financing mechanisms and products). For such areas, AUO will engage in limited-scope reviews and/or advisory work to address specific emerging risks.
  16. The audits proposed for 2017 include two tentative areas from the 2016 workplan that, after reassessment during this year's planning process, have been confirmed.
  17. The rationale for including specific assignments in the 2017 workplan is further explained under each assignment heading below. As in previous years, and considering that these audits were identified well in advance, AUO will not allocate all available audit time to specific assignments so as to allow for flexibility in managing emerging risks and requests.

#### Assignments selected for 2017

- Country offices and country programmes. Since the introduction of a remote auditing approach in 2015, AUO has audited 12 ICOs,<sup>1</sup> bringing the total number audited since ICO audits began in 2010 to 20. Based on this increase, in 2016 AUO was able to provide Management with a separate audit report focusing on cross-cutting institutional issues related to decentralization, which contributed to the development of the corporate decentralization plan to be presented to the Executive Board in December 2016. AUO will again audit between four and six ICOs and their respective country programmes in 2017, but, based on audit experience and risk considerations, will shift their focus onto the fiduciary controls related to project procurement for the country programmes managed by the ICOs. As necessary, on-site visits will also be arranged, either by AUO staff or local auditors contracted by AUO to supplement the remote audit approach. The selection of ICOs and country programmes to be audited will be determined through a separate risk assessment to be finalized during the first quarter of 2017 based on updated data, and in consultation with the Programme Management Department (PMD) and the Financial Management Division (FMD).
- Insurance and self-insurance arrangements. Insurance coverage is used by IFAD to mitigate risks in relation to health and medical liabilities, fire, civil

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<sup>1</sup> Six of these audits were included in the 2016 audit workplan and were in various stages of completion at the time this document was issued.

liability and damages related to fraud, theft and other malicious acts. Self-insurance is a further mechanism used by IFAD for certain areas related to medical costs. This area was highlighted in AUO's risk assessment last year, in part because it has never been specifically audited. There continue to be notable inherent risks given the high potential financial impact of potential gaps in coverage, contractual limitations or under-estimates of potential costs for self-insured areas. Particular aspects for review under this audit will include the management of income generated by self-insurance and policies handled jointly with the Food and Agriculture Organisation of the United Nations and the United Nations World Food Programme. With respect to this last aspect, AUO will examine opportunities to work jointly with the Rome-based agencies internal audit functions.

- **Supplementary funds.** The financial resources IFAD derives through supplementary funds are critical for meeting its overall needs. In the light of this need to seek out additional and innovative funding sources, IFAD's ability to capture and efficiently manage such additional resources will be key to delivering on commitments under the Tenth Replenishment of IFAD's Resources. This audit will review and identify possible effectiveness and efficiency enhancements to the administrative processes related to supplementary fund contributions with a view to providing Management assurances regarding the adequacy of the monitoring of and the integrity of the reporting on these funds, and related management fees, compliance and coherence with the respective legal frameworks.
- **Low-value procurement.** In the interest of the operational efficiency of a decentralized organization, authority for low-value procurement up to US\$10,000 was delegated to budget holders in 2015. During the first half of 2016, IFAD divisions applied the delegated authority to complete nearly 700 purchases together totaling over US\$1 million. AUO will review trends and the effectiveness of controls related to this area with a view to assessing the level of compliance, and determining lessons learned for further delegation of authority opportunities.
- **SWIFT electronic fund transfer system business continuity.** SWIFT is the main electronic fund transfer system IFAD uses to execute the financial disbursement of loans, grants and other payments made by the organization. The SWIFT system is fundamental to ensuring IFAD's ability to operate, and its security, integrity and reliability must therefore be verified periodically. While various aspects of corporate business continuity have been covered through other audits, the electronic fund transfer systems have not been audited since 2007. Recent incidents of significant losses in major financial institutions due to control lapses in electronic payment systems have further prompted AUO to include a review of this area in its 2017 workplan so as to ensure that best practice business continuity arrangements and controls are in place and that Management performs adequate monitoring and periodic testing.
- **Testing of internal controls over financial reporting.** AUO will independently test the key internal controls over financial reporting in order to support Management's annual assertion regarding their effectiveness in relation to the 2016 financial statements. AUO will work directly with IFAD's external auditors to ensure that they can use the testing work in providing their attestation (opinion) on the Management assertion. AUO will perform final testing of key controls related to the 2016 financial statements in February/March 2017 and undertake the preliminary testing phase with respect to the financial statements in October/November 2017.
- **To be determined.** AUO will reserve some space on its workplan for additional audit assignments and limited-scope reviews to be determined depending on

emerging risks, evolving priorities, and possible opportunities to collaborate with the other Rome-based agencies, as well as on AUO resources. The risks and controls surrounding ICP implementation will be addressed through advisory or targeted reviews aligned with the various deployment stages and risk management actions put in place by Management.

18. AUO will continue to perform the recurrent audit activities of certifying headquarters costs to be reimbursed by the Italian Government and reviewing the expenditures of the Office of the President and Vice-President, including the corporate residence.
19. The AUO risk assessment identified a number of other potential areas for audit that, due to timing, resources or the current status of the area, AUO determined could commence in 2018 or late 2017, should the related risk be confirmed or as time allowed.

#### Tentative assignments for 2018

- Cross-cutting findings from 2017 country programme audits and follow-up on project procurement audit. Given Management's appreciation of the approach taken in 2016, AUO proposes to report on the recurrent and corporate-level issues found in the various ICO and country programme audits conducted in 2016/17 with a focus on project procurement fiduciary aspects. This audit will include an in-depth follow-up on the issues and recommendations raised by AUO in its 2014 audit on project procurement. It will aim to identify good practices for country programme fiduciary controls and cover issues requiring a broader corporate approach. It will also assess the extent to which Management actions are effective in addressing and mitigating the risks raised in the 2014 audit of project procurement, some of which were high priority.
  - Grant recipient selection. In 2016, AUO audited the fiduciary management of grants with a focus on the basic fiduciary controls over grants, especially those controls not significantly changed by the IFAD Policy for Grant Financing (2015) and approval procedure. Once the new policy and procedures have been in place for sufficient time, AUO could audit the adequacy of and compliance with the controls over the quality and integrity of the grant recipient selection process.
  - Records and documents management. The technology surrounding the processing of transactions and the management of institutional records has evolved since records management was last audited by AUO in 2008. AUO proposes reviewing this area to identify opportunities for further streamlining, and to assess whether records management systems adequately reflect current best practices in terms of efficiency and effectiveness.
20. AUO will continue to provide advisory services by serving as an observer at management committees, performing specific, limited-scope assignments at the request of Management and providing feedback on draft policies and procedures. In particular, AUO has a standing role as observer at the Operations Management, Enterprise Risk Management, Investment and Finance Advisory, Contracts Review, and Information Technology Governance Committees, contexts it will use as channels to monitor risks, especially those related to IFAD's evolving financial framework, and to provide advisory input on specific issues as they arise. Independent advice may also be provided in support of efficiency and control improvements or corporate-level issues.
  21. AUO will continue to actively follow up and report on all outstanding audit recommendations. It will also support Management in determining necessary improvement and corrective measures.
  22. During 2017, AUO will undertake an external quality assessment of the internal audit function. AUO's Charter stipulates that its activities "will be carried out consistent with the Definition of Internal Auditing, the Code of Ethics, and the

International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA)". These standards require that the internal audit function undergo an external quality assessment at least once every five years. The last such assessment was completed in 2012. This year's assessment will again be organized in coordination with the Office of the President to ensure impartiality in the selection of the assessor and the results will be communicated to Management and to the Audit Committee.

23. As in prior years, some audits from the 2016 workplan will be carried forward for completion in 2017. A full report on the status of the AUO 2016 workplan, including any activities carried forward to 2017, will be submitted to the Audit Committee in April 2017. An interim progress report on the 2017 workplan will be provided in September 2017.

#### IV. Investigation and anticorruption activities

24. In 2017, AUO will continue its efforts to ensure the timely investigation of allegations. Additionally, AUO will promote activities aimed at preventing and mitigating irregular practices in IFAD-financed activities through awareness-raising activities and capacity-building.
25. AUO will engage in internal and external training and awareness-raising activities on detecting and preventing fraud and corruption by providing appropriate tools to strengthen stakeholders' capacity and confidence in addressing issues pertaining to irregular practices. In this regard, AUO will work closely with the Human Resources Division, PMD and FMD, and aim to reach not only IFAD staff but also the staff of IFAD-financed projects and project implementing partners. Activities will include staff induction training; institutional meetings, training and workshops; regional workshops; and project start-up workshops. Special effort will be made to ensure adequate outreach to ICOs.
26. AUO will coordinate with other divisions to support due diligence activities for possible partnerships, arrangements and emerging risks by sharing risk information and experiences, where helpful. This may involve coordination with the integrity and investigation functions of other IFIs and international organizations and with national anticorruption agencies. In this respect, AUO will seek to develop and maintain external partnerships where they may offer mutual benefits to IFAD and its development partners. The staff exchange initiated with the secondment of a PMD professional officer to AUO in 2016 is already providing significant synergies for both parties, and AUO will aim to expand this practice in 2017.

#### V. AUO budget and resources for 2017

27. AUO's planned staffing structure for 2017 is unchanged from 2016, as set out in table 1, with the possible addition of one temporary or permanent investigation officer.

Table 1  
**AUO staffing structure**

2016	2017
<ul style="list-style-type: none"> <li>• Director</li> <li>• Administrative Assistant (50 per cent full-time equivalent)</li> <li>• Audit Manager</li> <li>• Senior Audit Officer</li> <li>• Audit and Investigation Analyst – Information Technology</li> <li>• Audit Associate</li> <li>• Investigations Manager</li> <li>• Investigation Officer</li> <li>• Investigation Assistant</li> </ul>	<ul style="list-style-type: none"> <li>• Director</li> <li>• Administrative Assistant (50 per cent full-time equivalent)</li> <li>• Audit Manager</li> <li>• Senior Audit Officer</li> <li>• Audit and Investigation Analyst – Information Technology</li> <li>• Audit Associate</li> <li>• Investigations Manager</li> <li>• Investigation Officer</li> <li>• Investigation Officer – requested</li> <li>• Investigation Assistant</li> </ul>



28. AUO capacity was strengthened in 2016 when the new Investigations Manager joined in February. Since permanent staff capacity is more suitable than the extensive use of consultants for certain investigative activities, AUO requested adequate funds for an additional professional investigator position for 2017. While the request remains under consideration, the planned investigative activities factor in an anticipated positive response.
29. The audit coverage proposed in the workplan depends on the anticipated full availability of AUO audit staff resources in 2017. AUO will aim to achieve wider audit coverage through the use of the non-staff budget resources, recognizing however, that the effective management of external resources is contingent on staff capacity and availability.
30. The workload and need for external expertise – especially in the investigation and technical audit areas – are unpredictable, and, as in previous years, additional allocations may be requested if the need arises. It should be noted that Management has always provided AUO with additional resources when requested.
31. The proposed AUO budget for 2017 amounts to US\$1.83 million, compared to approximately US\$1.81 million in 2016, excluding amounts subsequently allocated to meet additional needs. AUO's proposed non-staff budget for 2017 is US\$364,000, compared to US\$315,000 in 2016.

## Workplan for 2017 and tentative audits for 2018

AUO planned activities for 2017	Estimated staff days
<b>Internal audit activities</b>	<b>850</b>
<b>Assurance engagements</b>	
<ul style="list-style-type: none"> <li>• Completion of 2016 assignments (grants fiduciary management, two ICO audits)</li> <li>• Country programme audits (4-6): focus on project procurement fiduciary management</li> <li>• Administration of insurance and self-insurance arrangements</li> <li>• Low-value procurement and delegated authority</li> <li>• SWIFT electronic fund transfer system business continuity</li> <li>• Supplementary funds</li> <li>• Testing of internal controls over financial reporting (final 2016 and preliminary 2017)</li> <li>• 2016 expenses of the Office of the President (recurrent)</li> <li>• Expenditures to be reimbursed by the host Government (recurrent)</li> <li>• Assignments to be determined (including limited scope options)</li> </ul>	
<b>Advisory work</b>	
<ul style="list-style-type: none"> <li>• Input to institutional efforts and observer in management committees</li> <li>• External quality assurance review</li> <li>• Assignment to be determined</li> </ul>	
<b>Tentative list of audits for 2017/2018</b>	
<ul style="list-style-type: none"> <li>• Cross-cutting findings on project fiduciary management and follow-up on 2014 project procurement audit</li> <li>• Grant recipient selection process: adequacy of and compliance with quality and fiduciary controls</li> <li>• Records and documents management: efficiency and effectiveness</li> </ul>	
<b>Investigation activities</b>	<b>882</b>
<ul style="list-style-type: none"> <li>• Investigative work</li> <li>• Anticorruption awareness-raising and capacity-building activities</li> </ul>	
<b>Office management and capacity-building</b>	<b>282</b>
<ul style="list-style-type: none"> <li>• Office representation and advocacy in internal and external meetings</li> <li>• Maintenance and development of audit and investigation support tools</li> <li>• Staff recruitment, training, evaluation and development</li> <li>• Office management and administration</li> </ul>	