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Workplan for IFAD's Office of Audit and Oversight for 2018

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Workplan for IFAD's Office of Audit and Oversight for 2018

I. Introduction

1. This report presents the workplan of the Office of Audit and Oversight (AUO) for 2018 and relevant background information. The workplan, 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 2017 session.
2. The workplan is presented to the Audit Committee prior to the finalization of the 2018 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 2018 and the medium term

A. IFAD risk environment in 2017/2018

3. 2017 saw changes in the IFAD Presidency and Management teams, and the launch of a reform of the IFAD business and financial model that will bring decision-making closer to IFAD programme activities and introduce of a more complex financing model. The ongoing United Nations reform and the Consultation on the Eleventh Replenishment of IFAD's Resources add to the reform impetus, and their outcomes may lead to further adjustments to business processes and structures in the medium term. These developments and initiatives have prompted a fresh look at how and where IFAD operates and delivers its mandate. Processes, systems, and functional and staff responsibilities are being reassessed and adjusted to accommodate the new business model. The reform efforts will improve the focus, effectiveness and efficiency of IFAD's operations; however, the scope and scale of the change place greater stress on the control environment. External factors – such as the challenges inherent in mobilizing significantly more funds and resources for investment in rural areas, the prevailing low-interest rate environment affecting both investment and loan income, and escalating threats to cybersecurity – are shaping a complex risk environment for IFAD in 2018 and the medium term.
4. Areas of potential risk identified and closely monitored through IFAD's enterprise risk management (ERM) process include the adequacy of human and financial resources to deliver planned programme outcomes, the ability of IFAD's business model to respond to changes in the development landscape, the alignment of IFAD's management policies, procedures and practices to effectively support the planned shift towards a more decentralized and country-oriented organizational model and the safeguarding of human and financial resources and business continuity from intensifying security and cybersecurity threats. The risks of non-compliance with loan covenants, fraud and corruption remain on the corporate risk register.
5. Within this general context, the AUO annual risk assessment exercise¹ has identified the following main areas as posing potential risks to the achievement of IFAD's immediate and medium-term strategic objectives.
 - Adjustment of management capacity and process controls to meet the expanding scope and nature of business processes and delegated authority. The increased risk exposures identified by AUO are linked to

¹ The AUO risk assessment process takes into consideration the overall risk environment as assessed by AUO and reflected in the IFAD corporate risk register, the cost and impact of business processes, functions or activities on IFAD's resources and on key corporate results, and interview feedback from Management. AUO's audit and investigative experience is tapped to gain an understanding of where weak internal controls or management practices may have played a part in investigation cases.

further decentralization of decisions on the management of country programmes and IFAD Country Offices (ICOs), expanded internal handling of investment and currency transactions and the planned move to a more complex financial and financing framework. The capacity of current IFAD structures to handle these changes, and of Management to identify and make the necessary adjustments, will be a critical factor in successful preparedness for organizational reform.

- Efficient use of administrative budget resources. It is crucial that resources made available to the Fund are used in the most efficient way possible in order to deliver on both an expanding programme of work and ambitious organizational changes. The AUO risk feedback pointed specifically to the cost and use of consultancy services and to costs related to duty travel, areas that absorb a significant portion of the administrative budget.
 - Efficient use of programme financing. Project procurement of goods and services, a process impacting more than half of IFAD project financing, has received significant attention by AUO in recent years. However, it remains a high risk area in terms of IFAD's oversight capacity, the environment in which IFAD-financed activities take place and the reliance on national procurement systems. Slow or delayed disbursement of approved financing was noted as another area that has an adverse impact on the efficient use of IFAD financing.
 - Financial and reputational risks linked to partnerships. This applies to recipients of IFAD financing, cofinanciers and other types of partners, and specifically the due diligence process that precedes grant and partnership arrangements with private-sector entities and nonprofit organizations.
 - Adequacy of asset safeguards. The security of IT network, data and electronic transaction controls are increasingly under threat from external fraudulent activity. Growing usage of IFAD systems from locations outside headquarters and by non-staff users, and further delegation of authority, contribute to a high level of risk exposure in this area.
6. The AUO risk assessment also found significant actual or perceived risk in the following areas, due in some cases to the nature or importance of the process, making them inherently higher risk regardless of current circumstances or events:
- Implementation of the IFAD Client Portal (ICP), which brings decentralized loan and grant withdrawal application and processing capabilities to IFAD external clients for the first time, but also potentially increases exposure of IFAD's financial system to external parties.
 - Selection processes for both staff and consultants, including staff redeployment.
 - The project design process, in terms of efficiency and timeliness, including pipeline management and the use of technical advisory support.
 - Corporate planning and budgeting processes, in terms of coordination, potential overlaps and irregular workload peaks that could potentially have an impact on the quality of outputs.

B. AUO priorities for 2018 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 aims to add value through its contributions and accordingly its work priorities are determined based on an annual 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 2018, AUO will maintain audit emphasis on the efficiency of internal and project-related processes, in the context of increased decentralization and delegation of decision-making, and on economy in the use of resources. Within this context, AUO will aim to:
 - Address high risk areas through audits, advisory input, proactive awareness activities and investigative work;
 - Provide timely and relevant input to key institutional improvement efforts, drawing from comparative internal and external experiences and other sources;
 - Conclude all high-priority investigations in six months from receipt of the complaint by AUO or less, operational and other demands permitting; and
 - 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, through both self-assessment and external independent review. To this end, an independent external quality assessment review of the internal audit function will be conducted in late 2017 or early 2018.
10. AUO will continue to cooperate closely with the Rome-based agencies (RBAs), other United Nations organizations and international financial institutions (IFIs) on system-wide initiatives and specific assignments. AUO will aim to establish and develop partnerships with NGOs, anticorruption agencies, and United Nations and IFI bodies where they may be of mutual benefit to IFAD and its development partners.

III. Internal audit assurance and advisory activities

11. The selection of audit assignments is determined by AUO by linking risk assessment results to IFAD's audit universe, defined as the exhaustive list of all IFAD business processes, functions or units subject to AUO audit. In addition to risk factors, AUO takes into consideration the existence of ongoing or planned corporate reviews and assessments that are likely to introduce changes in an area, time elapsed since the area was last audited, the potential concentration of audits in a single area, corporate events, deadlines or other priorities, and opportunities to work with the other RBA internal audit functions.
12. The audits proposed for 2018 are further described below, indicating the areas of risk they are intended to address. Where audits are not proposed in relation to the risks identified through the AUO risk assessment, AUO has noted other ways in which the key risks are being dealt with or will be monitored.
 - IFAD is working to make the necessary adjustments to management capacity and process controls to meet the expanding scope and nature of business processes and delegated authority and reform preparedness through the Operational Excellence for Results (OpEx) exercise. OpEx seeks ways to improve IFAD's disbursement ratio; work more effectively and efficiently on project design, borrower project ownership and time to approval; enhance policy dialogue with stakeholders; and speed up the pace of decentralization and interact with stakeholders more strategically. In addition, working groups related to the Global Staff Survey outcomes are reviewing key areas for revision and improvement including strategic workforce planning, performance enhancement, recruitment, and work-life balance. The project design working group has examined the project design process, including

facilitation of early project start-up and internal quality review processes, and the corporate decentralization working group is looking at budget decentralization. By their nature, these efforts will also address the need for efficient processes and better value for money of the administrative budget resources.

- Work to ensure the efficient use of IFAD investment financing is being undertaken in part by the project working group whose outputs have fed into the identification of actions to improve disbursement rates and proposals for new financing instruments.
 - Safeguarding of information assets and IFAD's IT structure was addressed through an internal audit on IT security in 2016 and AUO will continue to follow up by monitoring the implementation of relevant recommendations. In addition, IFAD is undergoing an external certification of its electronic transfer system (the SWIFT network) to ensure that the highest applicable industry standards are met.
13. In addition to these actions, AUO retains observer status on key managerial oversight committees in the areas of operations (Operations Management Committee), finance (Investment and Finance Advisory Committee), risk management (Enterprise Risk Management Committee), corporate procurement (Contracts Review Committee) and ICT development initiatives (IT Governance Committee). This enables AUO to provide input the relevant risk considerations and gain insight into the decision-making.
 14. The rationale for including specific assignments in the 2018 workplan is explained under each assignment heading below. Two tentative areas from the 2017 workplan – cross-cutting issues from ICOs and country programme audits, and selection of grant recipients – have been confirmed after reassessment during this year's planning process. An audit of business continuity arrangements for SWIFT was initially postponed to 2018 due to the decision by SWIFT to undertake a certification process for all its users. Given that external certification of SWIFT is taking place in late 2017, AUO has reconsidered the need for such an audit in 2018 as it no longer considers the risk to be as high. AUO will, however, monitor SWIFT-related risk and follow up on the outcome of certification.
 15. Each audit will be initiated with a detailed risk assessment to identify the audit scope and objectives. Occasionally this phase may lead to the postponement or cancellation of an audit due to institutional developments, changing priorities or other factors arising subsequent to definition of the audit work plan. The Audit Committee will be informed of any such changes through periodic reporting on the AUO workplan. As in previous years, AUO will not allocate all available audit time to specific assignments so as to allow for flexibility in managing emerging risks and requests or to accommodate unexpected complexities or the need to expand the scope of an ongoing audit.

A. Assignments selected for 2018

- IFAD Country offices and country programmes. With the completion of the 2017 audit work plan AUO will have audited 18 ICOs in the past three years. Audit coverage will remain high in 2018 and AUO will again audit six ICOs and their respective country programmes. The audits will place emphasis on project procurement and financial management fiduciary controls for country programmes, in addition to aspects of human resource management such as the use of consultants and temporary staff, staff recruitment and training, and oversight mechanisms. The ICOs and country programmes to be audited will be determined through a separate selection process to be finalized in early 2018 based on updated data and in consultation with the Programme Management Department and the Financial

Management Division. These audits will contribute to addressing risks inherent in the expanding scope and nature of business processes and delegated authority, and the efficient use of administrative resources and programme financing.

- Cross-cutting findings from 2017 country programme audits and follow-up on project procurement audit. AUO will begin 2018 with an audit focusing on cross-cutting institutional issues related to decentralization and project procurement and financial management supervision, as identified in ICO and country programme audits issued since the last cross-cutting report. In addition, AUO will use its findings in these audits to follow up on recommendations raised in AUO's 2014 audit on project procurement. Good practices observed in the handling of country programme fiduciary controls will be highlighted and issues requiring a broader corporate approach will be included. This audit will provide Management with insight and recommendations on risks related to the efficient use of administrative resources and programme financing.
- Grant recipient selection. In 2017 AUO finalized an audit of the fiduciary management of IFAD-financed grants with a focus on basic fiduciary controls over grants under the 2015 IFAD Policy for Grant Financing. AUO will now assess more specifically the adequacy of and compliance with controls relevant to the grant recipient selection process. Although the grant policy and implementation procedures call for competitive selection, the AUO risk assessment notes concerns about the quality and rigour of the competitive process and due diligence conducted with regard to selected recipients, given the need to avoid real or perceived conflicts of interest and to ensure proper and effective usage of the grant funds and successful grant implementation. A robust grant recipient selection process is key to mitigating the risk of ineffective grant funding use, safeguarding IFAD's reputation and partnerships, and lowering the cost of addressing situations of poor quality or conflicts of interest after disbursement. The scope of this audit may be expanded to include the due diligence process applied to other institutional partnerships.
- Control and oversight over investment and currency transactions. Since this area was last audited in 2014, the proportion of the investment portfolio that is internally managed has increased to over half of the total. In addition, the execution of currency conversion transactions has been insourced, which adds to the Treasury Services Division workload. Robust organizational, process and IT controls are crucial for IFAD to adequately safeguard its financial resources. While some of the key controls in this area are tested annually in connection with the Management assertion on internal controls over financial reporting, AUO will assess more broadly the adequacy of internal controls over the processing of investment and currency transactions. This audit will contribute to addressing risk areas related to the expanding scope and nature of financial processes and responsibilities and the adequacy of financial asset safeguards.
- Analysis of consultant usage and administration. Consultant services and costs constitute a key part of IFAD's business model and the second largest administrative expenditure after staff costs. A revised and consolidated set of rules and procedures concerning non-staff and consultants was issued by the Human Resources Division in July 2015. Concerns have been noted by Management in many parts of the organization regarding consultant fee levels, conflicts of interest, accountability and quality. This audit will focus on using data analytics to identify trends and anomalies in consultant use to help identify and mitigate risks related to the efficient use of administrative budget resources.

- Testing of internal controls over financial reporting. AUO will independently test key internal controls over financial reporting in order to support Management's annual assertion regarding their effectiveness in relation to the 2017 financial statements. AUO will work directly with IFAD's external auditors to ensure that they can use the testing work in providing their opinion on the Management assertion. AUO will perform final testing of key controls related to the 2017 financial statements in February/March 2018 and undertake the preliminary testing phase with respect to the 2018 financial statements in October/November 2018.
 - To be determined. AUO will reserve some space in 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 RBAs, 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.
16. AUO will continue to perform recurrent audit activities to certify headquarters costs to be reimbursed by the Italian Government and review the expenditures of the Office of the President and Vice-President, including the IFAD residence.
 17. 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 2019 or late 2018. These may be brought forward to 2018 should the related risk increase or time permitting. A list of tentative audits for 2018/19 is provided in the table in the annex to this report.
 18. In addition to its role as an observer at Management committees, AUO will continue to perform specific advisory reviews at the request of Management and to provide high-level feedback on draft policies and procedures. AUO will continue to actively follow up and report on outstanding audit recommendations and will support Management in determining necessary improvement and corrective measures. In addition, AUO may need to dedicate some time to implementing possible recommendations from its external quality assessment, which is expected to take place in December 2017 or January 2018. Such activities will be done in conjunction with regular quality improvement activities that are a standard part of the audit function. Finally, AUO will continue to develop and maintain its close interactions with oversight functions at the other RBAs and other United Nations agencies and IFIs.

IV. Investigation and anticorruption activities

19. In 2018, the main priority of the AUO investigation section will continue to be the timely investigation of allegations.
20. In contributing to the mitigation of exposure to irregular practices noted in the areas of project procurement, AUO will undertake awareness-raising and capacity-building activities aimed at preventing, identifying and mitigating irregular practices in IFAD-financed activities. These include an anticorruption e-learning course developed by AUO that will be rolled out to all IFAD staff in 2018. Moreover, AUO will provide techniques and tools to strengthen stakeholders' capacity and confidence in addressing issues pertaining to irregular practices through the new IFAD Operations Academy; staff induction training; institutional meetings, trainings and workshops; regional workshops; and project start-up workshops. AUO will increase its focus on combating fraud and corruption by taking a more proactive approach by, inter alia, sharing lessons learned from investigations with applicable IFAD divisions and providing necessary advice. Every effort will be made to ensure adequate outreach to ICO and regional hubs considering the ongoing decentralization efforts.

21. AUO will continue to develop and maintain external partnerships with other IFIs and international organizations and with national anticorruption agencies where they are of mutual benefit to IFAD and its development partners.
22. In 2018, AUO plans to initiate a review of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations to enhance the policy in line with the changing environment and to incorporate best practices from other United Nations agencies and IFIs.

V. AUO budget and resources for 2018

23. AUO's planned staffing structure for 2018 is set out in table 1 below.

Table 1
AUO staffing

<i>2017</i>	<i>2018</i>
• Director	• Director
• Administrative Assistant (0.5 full-time equivalent)	• Administrative Assistant (0.5 full-time equivalent)
• Audit Manager	• Audit Manager
• Senior Audit Officer	• Senior Audit Officer
• Audit and Investigation Analyst	• Audit Officer
• Audit Associate	• Audit Associate
• Investigation Manager	• Investigation Manager
• Investigation Officer	• Investigation Officer
• Investigation Assistant	• Investigation Officer
	• Investigation Assistant

24. AUO staff capacity in 2018 will be strengthened with the addition of a new Investigation Officer position. AUO will continue to use external experts to address subject-matter specific or local/regional expertise with specific local language requirements both for investigations and for the project-level audits of procurement and financial supervision. The workload and need for external expertise – especially in the investigation area – 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.
25. The audit coverage proposed in the workplan depends on the anticipated full availability of AUO audit staff resources in 2018. The recruitment of an Audit Officer and of an Investigation Officer will be undertaken as early and quickly as possible so as to have a full staffing contingent on board early in 2018. AUO will aim to achieve wide audit coverage through the use of the non-staff budget resources, while recognizing that the effective management of external resources is contingent on staff capacity and availability.
26. The proposed AUO budget for 2018 amounts to US\$2.12 million, compared to approximately US\$1.84 million in 2017, not including amounts subsequently allocated to meet additional needs. AUO's proposed non-staff budget for 2018 is approximately US\$450,000, compared to US\$364,000 in 2017.

Workplan for 2018 and tentative audits for 2019

<i>AUO planned activities for 2018</i>	<i>Estimated staff days</i>
Internal audit activities	867
1. Assurance engagements	
<ul style="list-style-type: none"> • Completion of 2017 assignments • IFAD Country Office and country programme audits (6): focus on fiduciary aspects and human resources management and oversight • Cross-cutting findings on project fiduciary management and follow-up on 2014 project procurement audit • Grant recipient selection process: adequacy of and compliance with due diligence controls • Control and oversight over investment and currency transactions • Consultant usage and administration • Testing of internal controls over financial reporting (final testing of 2017 statements and preliminary testing of 2018 statements) • 2017 expenses of the Office of the President and Vice-President (recurrent) • Expenditures to be reimbursed by the Italian Government (recurrent) • Assignments to be determined (including limited scope options) 	
2. Advisory work	
<ul style="list-style-type: none"> • Input to institutional efforts and observer on management committees • Assignments to be determined (including limited scope options) 	
3. Tentative list of audits for 2018/2019	
<ul style="list-style-type: none"> • Implementation of the IFAD Client Portal • Control and oversight over travel costs • Cross-cutting findings from IFAD Country Office audits on human resources management and oversight 	
Investigation activities	867
<ul style="list-style-type: none"> • Investigative work • Anticorruption awareness-raising and capacity-building activities 	
Office management and capacity-building	280
<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 	