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Workplan for IFAD's Office of Audit and Oversight in 2019

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Workplan for IFAD's Office of Audit and Oversight in 2019

I. Introduction

1. This paper presents the internal oversight strategy for the medium term of the Office of Audit and Oversight (AUO) along with the AUO workplan for 2019 and relevant background information.
2. The AUO workplan for 2019 has been approved by the President. The Audit Committee may, in accordance with its terms of reference, make proposals for the President's consideration. Once finalized, the workplan will be submitted for confirmation to the Executive Board at its December 2018 session.
3. The workplan is being presented to the Audit Committee prior to the finalization of the 2019 budget process so that its size and complexity can be adequately taken into account in the formulation of the AUO budget.

II. Internal oversight strategy for the medium term (2019-2021)

4. AUO is mandated to provide independent assurance and advisory services to IFAD's Management and governing bodies on: the effectiveness of the Fund's risk and control mechanisms; the efficiency and effectiveness of its business processes; and its compliance with applicable rules and regulations. AUO is also mandated to investigate independently all alleged misconduct, fraud and corruption in IFAD-financed activities and operations. In addition, AUO contributes to the achievement of IFAD's objectives by mitigating the risks to achieving these goals. The internal oversight strategic plan for the medium term (2019-2021) presents the actions, initiatives and tools that AUO will pursue within its mandate to contribute to IFAD's objectives, including those linked to the Eleventh Replenishment of IFAD's Resources (IFAD11).

A. IFAD's risk environment

5. In February 2018, IFAD's Member States agreed that the Fund should embark on a period of ambitious acceleration to maximize its contribution to the Sustainable Development Goals. To this end, they endorsed business model enhancements aimed at ensuring excellence in operations and agreed to expand the Fund's resource base and outreach. These objectives are reflected in the IFAD11 Results Management Framework, which includes metrics for measuring: (i) the impact, effectiveness and efficiency of IFAD's activities; (ii) the Fund's ability to mobilize and appropriately allocate resources; and (iii) the efficient management of staff and financial resources. Over the IFAD11 period, IFAD will increase its programme delivery in terms of both volume and quality while introducing (or preparing to introduce) new funding and financing modalities, and reforming many of its business processes and functions. These reform efforts will improve the focus, effectiveness and efficiency of IFAD's operations. However the scope and scale of the changes along with external factors – such as the challenges inherent in mobilizing more resources – are shaping a complex risk environment for IFAD in the medium term.
6. Through the work of the Enterprise Risk Management Committee, Management has identified the main risks that can impact the achievement of IFAD's objectives. These are reflected in IFAD's corporate risk register and in the IFAD Risk Dashboard, which was presented to the governing bodies in September 2018. AUO considered this list in the context of IFAD's strategic planning framework and

IFAD11 deliverables, and expanded it through its own risk assessment exercise¹ to ensure that all major risks to the achievement of IFAD's immediate and medium-term strategic objectives were considered. The key risks identified by AUO are set out in annex I. In identifying these risk areas, AUO has prioritized conditions that, if they materialize, will have significant negative impacts on the achievement of IFAD's medium-term objectives. This does not mean that such conditions are likely to materialize or that Management is not taking appropriate risk-mitigation actions.

7. The identified key risks were grouped into three main categories (see annex II) and are briefly summarized below:
 - Risks to the achievement of medium-term programmatic objectives. Such risks include: delays or disruptions to programme delivery caused by the ineffective or incomplete implementation of the hub model (with appropriate delegations of authority); change activities not being properly scoped and coordinated, or IT tools and staff capacity constraints; programme targets compromised by the diversion or misuse of IFAD financing; targets for the programme of loans and grants (PoLG) not met due to lower-than-expected demand for ordinary-term loans (including with new financing terms); and the general risk of disruptions to programme delivery.
 - Risks to the Fund's ability to support its strategic objectives financially now and in the future. Risks in this category include: the inability to raise adequate funding in the future to support an increased and diversified range of financial products due to inadequate preparedness and mobilization of additional funding sources, including through borrowing; a loss in purchasing value of financial resources entrusted to the Fund due to ineffective management; potential negative impacts on IFAD's long term financial sustainability caused by inappropriate changes to IFAD's financial architecture (e.g. in relation to the Debt Sustainability Framework); the waste of IFAD funds through fraud and corruption; the reputational risk of IFAD's financing being associated with illicit or criminal activities (such as money laundering); IFAD's inability to manage a more complex financial architecture due to a lack of the required IT tools, structures and staff skills; and the undermining of IFAD's financial credibility due to inadequate financial and risk reporting to stakeholders.
 - Risks to the effectiveness of IFAD's operations during the transition. The change process and planned increase in the volume and quality of programmatic outputs within a static administrative budget envelope is likely to stretch the capacity of all IFAD's business processes and place its control mechanisms under pressure. Risks in this category include a drop in performance of core business processes or staff well-being caused by: inadequate coordination of workloads and staff input into change activities; a higher incidence of irregular or unethical practices caused by weakened safeguards and controls; business disruptions caused by insufficient or untested business continuity planning; and a lack of prompt identification and management of emerging operational risks.
8. Management's capacity to identify and manage evolving risks will be a critical factor in achieving IFAD11 objectives.

B. AUO strategic objectives for IFAD11

9. Internal oversight is effective and adds value only when it contributes to the achievement of institutional objectives. AUO aims to deliver on its oversight mandate and contribute to IFAD's goals by pursuing the following overarching strategic objectives for the IFAD11 period:

¹ The 2018 AUO risk assessment exercise was based on the outcomes of corporate risk exercises, individual feedback from managers and an analysis of potential obstacles to the achievement of key corporate results.

- Provide timely, quality and objective assurance and advisory services to support Management and the governing bodies in addressing all high risks pertinent to the achievement of IFAD's institutional objectives. These include the achievement of IFAD11 results and the successful implementation of IFAD11 commitments.
 - Contribute to the prevention and detection of wrongdoing in IFAD's activities and operations, and ensure that all alleged wrongdoing is investigated promptly and comprehensively.
10. AOU considers that these objectives will be met if the following results are achieved.
- AOU will provide timely risk mitigation and improvement suggestions to Management for business processes and functions for which underperformance or failure could significantly impact the achievement of IFAD's objectives.² Output: At least once during the period from 2019 to 2021, AOU will audit all business processes and functions considered instrumental to the achievement of this result.
 - Drawing on its experience, expertise, methodological tools and professional networks, AOU will provide timely and objective advisory feedback at the request of (or in agreement with) Management for ongoing and planned reforms or initiatives, with the aim of mitigating risks. Output: Subject to the availability of oversight resources, AOU will promptly respond to all requests falling within its advisory mandate in which it is best placed to provide such services and in which the output is clearly relevant to the achievement of IFAD11 results.
 - AOU will ensure that all allegations of wrongdoing in IFAD activities and operations are investigated thoroughly and expeditiously, with due consideration to the rights of all parties involved and operational exigencies. Output: AOU will ensure that all "high priority" allegations involving IFAD activities and operations are investigated within six months of the receipt of these allegations by IFAD, or faster if operational exigencies require. AOU will ensure that all other allegations of wrongdoing within IFAD activities and operations are addressed satisfactorily by AOU or by other entities within a reasonable time frame.
 - AOU will organize and participate in events, produce awareness materials, coordinate with internal and external partners, and use all opportunities available to prevent wrongdoing in IFAD's activities and operations. Output: Subject to the availability of oversight resources, AOU will deliver outreach to staff, counterparts and other stakeholders at all planned events with a suitable audience and agenda, and maintain effective online communications, awareness and reporting channels. AOU will partner with departments within IFAD and external organizations to pursue this objective.

C. AOU risk-based assurance plan for 2019-2021

11. Annex II outlines the manner in which AOU proposes to contribute to the achievement of IFAD's objectives in the 2019-2021 period. These activities aim to assist Management in addressing identified risks at an appropriate stage of the ongoing reform process. The assurance provided by other independent providers (such as the Independent Office of Evaluation of IFAD, the External Auditor and the External Risk Assessment reviews sanctioned by the Executive Board) has also been taken into consideration. Recognizing the significant changes affecting almost all the Fund's business processes, AOU will contribute to internal oversight through

² AOU will reduce its involvement in areas in which other internal or external bodies (such as the Independent Office of Evaluation of IFAD and the External Auditor) are mandated to provide objective assurance to Senior Management and IFAD's governing bodies.

a diverse and flexible range of products designed to respond promptly to oversight needs within a changing organizational context. These will include:

- Audits of business processes or functions that are critical to the achievement of IFAD11 objectives;
 - Audits of the implementation of key elements of reform such as decentralization and financial architecture improvements;
 - Tracking, assessing and reporting key risks and mitigation actions through data analytics;
 - Feedback on the risk and control aspects of new policies and products;
 - Attendance (as an observer) and feedback at critical “second line of defence” committees including the Investment and Finance Advisory Committee, Enterprise Risk Management Committee and IT Governance Committee, enabling AUO to provide inputs and gain insights into Management’s risk mitigation activities;
 - Timely and effective investigation of all allegations of wrongdoing; and
 - Proactive awareness and advocacy on anticorruption and good governance.
12. Considering the fast pace of change, including in IFAD’s risk environment, the selection of assignments in annex II is indicative: amendments may be necessary at any stage to address changing circumstances, risks and priorities. Furthermore, the proposed assurance coverage depends on the availability of adequate staff and financial resources for AUO.

D. AUO capacity and resource requirements for 2019-2021

13. Annex II sets out an assurance plan for 2019-2021, which is intended to provide an adequate level of assurance that the key risks identified by AUO are being managed effectively. The plan is based on the following assumptions:
- AUO staff and financial resources will be sufficient to allow for the performance of 12 audits or limited scope assignments each year.
 - AUO will be able to devote 7 per cent and 3 per cent of staff time respectively to advisory work and outreach (based on experience from 2017).
 - The AUO workforce will be balanced to ensure adequate flexibility and the right mix of skills (including staff, consultants and external providers), proper quality control, supervision and knowledge retention.
 - AUO staff will have – or will develop – an adequate level of competency in priority technical areas to perform or supervise assurance assignments in these such areas.
 - The increasing trend in allegations of wrongdoing to AUO is expected to continue as a result of: IFAD’s decentralization and the increased proximity of IFAD staff to projects; strengthened whistle-blower reporting channels; and intensified ethics and anticorruption awareness activities. It has been projected that 70 allegations will be received in 2019 (57 were received during the first nine months of 2018).
14. Taking into consideration the assumptions above, AUO’s proposed staffing structure for 2019-2021 is set out in table 1 below.

Table 1
Proposed AUO staffing for 2019-2021

2018	2019	2020 /2021
Director	Director	<i>Director</i>
Administrative Assistant (0.5 full-time equivalent)	Administrative /Audit Assistant	<i>Administrative /Audit Assistant</i>
<u>Internal audit</u>	<u>Internal audit</u>	<u>Internal audit</u>
Audit Manager	Audit Manager	<i>Audit Manager</i>
Senior Audit Officer	Senior Audit Officer	<i>Senior Audit Officer</i>
Audit Officer	Audit Officer	<i>Audit Officer</i>
Audit Associate	<i>Audit Officer (proposed)</i>	<i>Audit Officer (proposed)</i>
<u>Investigations</u>	<u>Investigations</u>	<u>Investigations</u>
Investigations Manager	Investigations Manager	<i>Investigations Manager</i>
Investigation Officers (2)	<i>Senior Investigation Officer (proposed)</i>	<i>Senior Investigation Officer (proposed)</i>
Investigation Assistant	Investigation Officers (2)	<i>Investigation Officers (2)</i>
	Investigation Assistant	<i>Investigation Assistant</i>

15. AUO will aim to address IFAD's increasing assurance needs through a combination of staff input, the use of external experts and partnerships in areas such as advocacy and outreach. It is estimated that AUO will need approximately US\$350,000 annually in non-staff resources to cover the costs of required external expertise, travel and specialist training.
16. AUO will continue to cooperate with the Rome-based agencies (RBAs), other United Nations organizations and international financial institutions (IFIs) on system-wide coordination opportunities and specific assignments. AUO will also aim to establish and develop partnerships with NGOs, anticorruption agencies and United Nations and IFI bodies in which its involvement will be of mutual benefit to IFAD and its development partners.
17. The proposed AUO budget for 2019 amounts to US\$2.38 million, compared to approximately US\$2.11 million in 2018 (not including amounts subsequently allocated to meet additional needs). If the proposed additional staff resources are not made available to AUO in 2019, additional non-staff resources will need to be made available to enable the delivery of the assurance plan for 2019. The projected staffing and resource requirements for 2020-2021 are only tentative at this stage.
18. The standards applicable to the work of the AUO internal audit function specify that in providing internal audit services, it is necessary for the internal auditors to collectively possess the knowledge, skills and other competencies needed to perform their roles effectively. AUO will continue to monitor and build its capacity to meet its core mandate through self-assessment and training in technical areas related to IFAD's work. In line with the 2018 External Quality Assessment suggestions, AUO will maintain a quality improvement programme involving: peer quality control reviews of all AUO reports before finalization; client survey questionnaires after each audit; and a structured annual self-assessment exercise, which incorporates feedback from Management and the Audit Committee on the efficiency and relevance of AUO's audit services. The results of the quality improvement activities will be reported on a yearly basis in the AUO annual report.

III. AUO proposed workplan for 2019

A. Overview

19. The AUO workplan for 2019 is derived from the internal oversight strategy for the medium term and the assurance plan for 2019-2021 as set out in annex II.

Table 2
AUO risk-based workplan for 2019

AUO planned activities for 2019

Internal audit

Risks to the achievement of medium-term programmatic objectives

- Audit of the effectiveness of the risk-based assurance framework for programme financial management
- Audit of the deployment of critical IT improvements in relation to decentralization and financial architecture changes
- Three audits of country programmes focusing on the consistency and quality of supervision
- Review of the implementation of IFAD's transparency action plan
- Data analytics: Trends and exceptions in application of key corporate rules and norms by headquarters, IFAD Country Offices (ICOs) and regional hubs
- Advisory: Incorporate risk feedback into key proposed IT projects, products and financing terms

Risks to the Fund's ability to financially support its strategic objectives now and in the future

- Audit of the management of fraud risks relevant to IFAD cash flows and assets (fraud risk assessment)
- Audit of high risk areas highlighted by the external financial risk assessment
- Audit of internal controls related to financial reporting
- Audit of expenditure on the President's residence (April to March) as required by the Governing Council resolution
- Certification of headquarters expenditures submitted to the Government of Italy for reimbursement
- Advisory: Participation and feedback through the IT Governance Committee and the Investment and Finance Advisory Committee

Risks to the effectiveness of IFAD's operations during the transition

- Data analytics: Exceptions and trend analysis on potential workforce risk indicators
- Advisory: Observer participation and feedback through the Enterprise Risk Management Committee and the IT Governance Committee

Other risks

- To be determined

Advisory on request

- Only tasks contributing to organizational risk mitigation
-

Investigations and anti-corruption

- Effective and timely investigations
 - Promotion of new anticorruption policy (training, awareness, advocacy)
 - Country programme fraud profiling tool pilot
 - Coordinated advocacy and awareness work on misconduct risks
 - To be determined
-

Capacity-building and coordination

- Representation and advocacy in internal and external meetings
 - Development and maintenance of audit and investigation support tools
 - Staff recruitment, training, evaluation and development
 - United Nations and IFI audit and investigation network coordination
-

B. Internal audit activities

20. More information is provided below on the internal audit activities included in the proposed plan:

- Audit of the effectiveness of the Risk Based Assurance Framework for programme financial management. IFAD has adopted a risk-based approach to processing disbursements, which includes straight-through processing of withdrawal applications for projects with the lowest risk ratings. This approach improves the efficiency and effectiveness of IFAD's fiduciary oversight by focusing control efforts on higher-risk transactions. However, if not applied properly, errors or misuse of funds associated with loan and grant disbursements could go undetected. The growing volume of disbursed funds increases the potential risks. AUO will audit the application of this framework for the first time since its introduction in order to provide assurances regarding its effectiveness.

- Country programme audits (focused on the consistency and quality of supervision during IFAD's transition). Supervision is a core operational activity and the main tool through which IFAD ensures that its funding is used to support successful project implementation. In a time of major change – and with a projected increase in programme-related approval volume and activities – the quality (volume, quality, type and consistency) of project and programme supervision may be negatively impacted. For this reason, providing assurances of the adequate supervision of IFAD country programmes will continue to be an important element of AUO's workplan, which will include two or three (depending on AUO's resources) audits of country programmes in 2019. AUO will continue to refine its risk assessment model for country programmes in order to enhance identification of the country programmes to be audited. On-site audit missions with local and international consultants will be used to review project procurement and financial management practices, and tools for validating the adequacy of project supervision and auditing.
- Audit of critical IT improvements related to decentralization and changes in IFAD's financial architecture. Several IT improvements were initiated or are planned in order to allow IFAD to diversify its funding and financing modalities, support decentralized controls and expand programme delivery. These include the roll-out of new and improved IT tools such as the IFAD Client Portal, Notus, the Operational Results Management System (ORMS) and new finance applications, along with corresponding capacity-development activities. The risks associated with an inability to deliver these improvements on time are linked to the Fund's ability to achieve its objectives. AUO will audit the status of: key improvement initiatives, including modifications in scope or timing; transition arrangements; and risk management measures, and report on any remaining risk areas identified.
- Review of the status of implementation of the IFAD transparency action plan. In 2017, AUO coordinated a cross-departmental task force in order to develop and present this action plan. AUO will follow up by providing an update to the Executive Board on the status of implementation in the first year of the action plan.
- Data analytics. This includes trends and exceptions in the application of corporate rules and norms by headquarters, ICOs and regional hubs, and workload risk. With the increasing automation of IFAD business processes, AUO will use data analytics to develop a series of data analysis tools that can assess an entire population rather than being limited to a representative sample. Such tools will be used to identify trends, exceptions and overall volumes, providing insights into data integrity and whether key risks are being managed adequately. Results will be shared with Management in the form of short, focused reports as each analysis is completed. An audit report will also be issued covering the main findings of the analyses and agreed actions. The major areas of data analytics will include the following:
 - The application of rules and norms by Programme Management Department staff and the use of delegated authorities can provide assurances that the decision authorities delegated through decentralization are exercised properly and effectively.
 - With the many changes IFAD is currently undergoing, there is an inherent increase in risk associated with managing staff inputs and workload effectively. Data analytics will be used to assess potential indicators of workload pressure.
- Audit of management of fraud risks relevant to IFAD's cash flows and assets (fraud risk assessment). Fraud is an inherent risk in any financing

institution, which is heightened by IFAD's work in challenging contexts. Fraud in IFAD would not only cause financial damage, but would damage its reputation, causing a loss of trust by providers of financing. While IFAD revisits its corporate risk management process and undergoes several business process changes, AUO will undertake a fraud risk assessment to provide assurance that these risks are managed effectively. This may involve the joint development with Management of data analysis tools to identify early indicators of irregularities.

- Audit of high-risk areas highlighted by the external financial risk assessment. The 2018 external financial risk assessment identified several risk exposures related to IFAD's financial architecture. Addressing these risks is critical for IFAD's long-term success, and especially for achieving a good credit rating. The final report of the external financial risk assessment will include a series of recommendations and Management will launch actions to follow up on them. AUO proposes to audit one or more areas revealed as high risk by the External Financial Risk Assessment in order to clearly identify the needed mitigation actions. The focus of this audit will be determined by the content of the final report and planned Management actions. In addition, AUO aims to mitigate the risk that Management's improvement plans are not adequate. If deemed useful, AUO will assess the status of Management actions in subsequent years and provide independent opinions regarding the key actions taken and whether risks to their timely achievement are being managed adequately.
 - Testing of internal controls over financial reporting. AUO will support Management in instituting proper internal controls over financial reporting by testing them. This testing in 2019 will cover the introduction of new controls related to International Financial Reporting Standard 9.
 - Audit of expenditure on the President's residence (April to March). Given that no significant issues have arisen over the past 10 years, and that most expense processes have been standardized through IT systems, the reputational risks driving the annual compliance audit on the expenditures by the Office of the President have been reduced. Accordingly, AUO will limit the scope of this annual audit to expenditures on the President's residence (April to March) in order to fulfil the Governing Council Resolution requiring its audit with respect to the established ceiling.
 - Certification of headquarters expenditures submitted to the Government of Italy for reimbursement. Although it is not an area of high risk, AUO will continue to certify the accuracy of the annual statement of expenditure and request for reimbursement from the Government of Italy in relation to hosting IFAD's headquarters since it is a specific request of a Member State.
 - 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, opportunities for collaboration with other RBAs and available resources.
21. In addition to its role as an observer in Management committees, AUO will continue to perform advisory reviews at the request of Management and provide high-level feedback on draft policies and procedures. AUO will also continue to follow up and report on outstanding audit recommendations, and will support Management in determining necessary improvements and corrective measures. Finally, AUO will develop and maintain its close interactions with oversight functions at other United Nations agencies including the RBAs and IFIs.

C. Investigation and anticorruption activities

22. The IFAD Anticorruption Policy has been revised to incorporate best practices applied by other IFIs and strengthen the legal framework for IFAD and its Member States to prevent and address corruption more effectively. In collaboration with other offices within IFAD, AUO will support the implementation and mainstreaming of the new elements of this policy along with other legal instruments through regular communication to IFAD stakeholders (especially project staff and vendors). Through awareness-raising and capacity-building activities aimed at preventing, identifying and mitigating prohibited practices in IFAD-financed activities, AUO will contribute to risk mitigation, especially in project procurement. Activities will include: an anticorruption e-learning course; training on techniques and tools to strengthen stakeholders' capacity for addressing issues pertaining to prohibited practices – especially through IFAD's Operations Academy, workshops hosted by the Financial Management Services Division and regional workshops; and staff induction training. Every effort will be made to ensure adequate outreach to ICOs and regional hubs in the context of IFAD's ongoing decentralization.
23. The main priority of the AUO Investigation Section in 2019 will be the timely and effective investigation of allegations. The intensified anticorruption-awareness activities of recent years and the close geographical proximity of a large proportion of IFAD's workforce to programme activities are expected to contribute to an increase in allegations of wrongdoing reported to AUO; this trend is expected to continue.
24. AUO will intensify its focus on combating fraud and corruption by taking a more proactive approach. These efforts will include a pilot country programme fraud profiling tool that can be utilized at the project design stage to identify the weakest links in project fraud risk management and equip the project with fraud prevention and detection tools. For this activity, AUO will utilize available data from IFAD and other IFIs including corruption case data, anticorruption awareness survey data and project audit reports.
25. In terms of staff misconduct, AUO will liaise with the Ethics Office to increase awareness of IFAD's code of conduct, especially with regard to sexual harassment and sexual exploitation and abuse.
26. Considering the many types of fraud and corruption, AUO will establish strategic alliances with non-governmental anticorruption organizations such as Transparency International to exchange knowledge and experiences in order to optimize IFAD's responses to fraud and corruption.

Key risks for the IFAD11 period

The content of this annex may be viewed by Board representatives on the Audit Committee area on the Member States Interactive Platform.

AUO Risk Assurance Plan for 2019-2021

The content of this annex may be viewed by Board representatives on the Audit Committee area on the Member States Interactive Platform.