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Investing in rural people

Workplan for IFAD's Office of Audit and Oversight in 2020

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I. Introduction

1. This paper presents the internal oversight strategy for the medium term of the Office of Audit and Oversight (AUO), the AUO workplan for 2020 and relevant background information.
2. The AUO workplan for 2020 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 2019 session.
3. The workplan is presented to the Audit Committee prior to the finalization of the 2020 budget process so that its size and complexity can be adequately taken into account in the formulation of the AUO budget.

II. IFAD's risk environment

4. The success of IFAD's ongoing organizational and business reform and ability to deliver on the ambitious Eleventh Replenishment of IFAD's Resources (IFAD11) programme objectives remain critical to the achievement of short and long term institutional goals. The external non-financial risk review by Marsh Risk Consulting (MRC), released in early 2019, provided insight into the key operational and strategic risks currently faced by the organization. The MRC review complemented the Alvarez and Marsal (A&M) report on the financial risk framework and assessment of financial risks released in late 2018, and the IFAD risk dashboard was updated accordingly and shared with the Executive Board. In updating its assessment of the risk environment for the remainder of the IFAD11 period, AUO supplemented the above information with indications of risk drawn from audit, investigation and advisory work, interviews with staff, feedback from the Audit Committee and information on trends drawn from data analysis. Overall, the additional information confirms that the main risks identified by AUO in 2018 remain valid.

A. Risks to the achievement of medium-term programme objectives

5. The risk of disruption to programme delivery due to the ongoing reforms was the main area of exposure identified by AUO in 2018 under this heading. Although lower, this risk persists in 2019.
6. The implementation of the regional hub structure is largely complete in terms of set-up and staff transfers, and several important improvements have been made in the supporting information technology (IT) infrastructure. However, some aspects of capacity-building at the hubs and IFAD country offices (ICOs) are still in progress, including the filling of vacant posts, the definition of hub plans and the impact of United Nations reform on activities. Although the number of both new project approvals and ongoing projects declined slightly in 2018, they are expected to be much higher in 2019 and 2020. Disbursement volumes increased and significant efforts are being made to further improve disbursement ratios. Lessons learned from the Operational Excellence for Results missions to hubs that took place in early 2019 revealed ongoing concerns around the availability of support staff, the subregional role of hubs and the clarity of reporting arrangements. The 2019 Report on IFAD's Development Effectiveness did not indicate any significant impact of the ongoing decentralization on the quality of project supervision, although it pointed to a slight decline in project design quality-at-entry. The implementation of the Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations adopted in December 2018 is progressing, and the number of project-related corruption allegations referred to AUO increased significantly in 2018/2019. While this increase may be the result of increased

awareness of reporting channels, it also highlights the high risk of corruption inherent in IFAD-financed projects. The Programme Management Department (PMD) risk management capacity was strengthened with the recruitment of a Lead Procurement Advisor and the appointment of a Risk Coordinator in the Operational Policy and Results Division and the active tracking of programme performance indicators and deliverables through a comprehensive dashboard.

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

7. The risks related to the availability of adequate funding to support an increased and diversified volume of financial products persist. The potential availability of core replenishment funding remains stable while other funding sources, such as concessional partner loans, experienced an upward trend. An upward trend in domestic and international cofinancing is also apparent. Progress was made towards a solution of the Debt Sustainability Framework (DSF) challenge, but the amount of loan arrears has increased slightly since 2017.
8. Several elements of the new financial architecture were developed and presented to the governing bodies, including a solid capital adequacy framework and enhanced risk management capacity in the Financial Operations Department through a strengthened risk management unit and a newly created controllership function. These respond to several of the A&M recommendations. Most recommended improvements, however, are still in progress. Currency fluctuations continue to be a source of significant volatility for the balance sheet, a financial crime policy is being presented to the Executive Board and improvements to IT treasury systems are still at the planning phase. Overall, many improvements are in progress in relation to IFAD's financial architecture, and until they are substantially complete significant risks will persist.

C. Risks to the effective operation of IFAD's business during the transition

9. Operational risks identified by AUO in 2018 are still in effect given the continuing state of fluidity of many business processes and ongoing redefinition of "second line of defence"¹ roles, combined with the high volume of programme and institutional outputs and initiatives to be delivered with substantially unchanged staff and financial resources. The ongoing business process re-engineering exercise covering the areas of consultant management, procurement, travel, recruitment and disbursement, the transition to and preparations for IFAD 2.0 fit-for-purpose structures and the IFAD12 consultation process will all have an impact on strategic, financial and programmatic directions, and will continue to claim staff time and inputs over and above the delivery of programme outputs. These elements, coupled with the increasing volume and complexity of IFAD activities, continue to put pressure on the control environment.
10. Following the establishment of the regional hub structure, capacity-building and clarification of roles in a decentralized environment are still taking place. Staff reassignments and changing delegations of authority may be the cause of the slowdown in the implementation of audit recommendations associated with actions assigned to ICOs and hubs, as per AUO's mid-year assessment. Some of the concerns raised in the 2018 Global Staff Survey are work-life balance, performance management, mobility, career advancement and recruitment processes. A number of major efforts are being undertaken to address these, including the development of policies on mobility and promotion and a review of the performance management process, but risks associated with workload and morale remain

¹ The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organization (Chartered Institute of Internal Auditors website).

pertinent. The security of IT systems and data is kept under close control by the Information and Communications Technology Division but remains a high risk area considering that cyber risks are evolving, business processes are largely automated and IT applications and data are increasingly accessed by external parties or on a variety of devices from outside the premises. IFAD's internal control framework was approved by the Executive Board but the proposed mitigation actions by the MRC report on non-financial risks, including setting up an appropriate enterprise risk management policy and organizational structure, are still in progress.

III. Internal oversight strategy for the medium term (2019-21)

11. AUO is mandated to provide independent assurance and advisory services to Management and the governing bodies on the effectiveness of IFAD's risk and control mechanisms, the efficiency and effectiveness of business processes and compliance with applicable rules and regulations. AUO is also mandated to carry out independent investigations of all alleged misconduct, fraud and corruption in IFAD-financed activities and operations. Accordingly, AUO can best contribute to the achievement of IFAD's objectives by contributing to mitigating risks that could jeopardize the achievement of such goals.
12. The strategic objectives for the IFAD11 period were set forth in the AUO workplan for 2019 and remain unchanged. In summary, AUO will deliver on its oversight mandate by providing 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 the institutional objectives. AUO will contribute to the prevention and detection of wrongdoing in IFAD's activities and operations and will ensure that all alleged wrongdoing is investigated promptly and comprehensively.
13. These objectives will be achieved by:
 - providing timely suggestions to Management on risk mitigation and for improvements in business processes or functions, the underperformance/failure of which could have a significant impact on the achievement of IFAD's institutional objectives;²
 - providing timely and objective advisory feedback at the request of or in agreement with Management for ongoing or planned reforms or initiatives, with the aim of mitigating risks;
 - ensuring 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 needs. Specifically, all high priority allegations are to be investigated within six months from receipt, or sooner if so required by operational needs, and all other allegations of wrongdoing are addressed within a reasonable timeframe; and
 - organizing and participating in events, producing awareness materials, coordinating with internal and external partners and using all opportunities available to help prevent wrongdoing in IFAD activities and operations.

IV. AUO workplan for 2020-2021

14. For the purposes of this paper, AUO revisited its assessment of key risks for the period 2020-2021, taking into account the experience thus far in 2019. The timeframe of the plan continues to be aligned with the IFAD11 replenishment period, considering the clarity of the institutional objectives, deliverables and

² AUO 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 the governing bodies.

actions associated with the IFAD11 resolution. The AUO workplan presents the actions, initiatives and tools that AUO will pursue or deploy within its oversight mandate to contribute to the success of IFAD's objectives, including those linked to IFAD11. AUO will provide its internal oversight contribution through a diverse and flexible range of assurance and advisory products designed to respond promptly to oversight needs in the context of a changing organization. These will include audits of business processes or functions, audits of the implementation of key reform initiatives, assessing and reporting on key risks and mitigation actions through data analytics, advisory feedback on key new policies and products, timely investigation of all allegations of wrongdoing, and awareness raising and advocacy on anticorruption and good governance.

15. The choice of activities proposed for the IFAD11 period is intended to provide assurances to Management and the governing bodies that the key risks, as identified by AUO, are properly managed. The specific assignments selected for 2020 and tentatively planned for 2021 are set out in table 1.

Table 1
Planned activities for 2020 and 2021

<i>Planned activities for 2020</i>	<i>Tentative plan for 2021</i>
Internal audit	Internal audit
Audit	Audit
<ul style="list-style-type: none"> ▪ Six audits of the hubs with the highest budget, to include efficiency, budgeting, business continuity and communications (tentatively Côte d'Ivoire, India, Kenya, Panama, Turkey and Viet Nam) ▪ Three country programme audits focusing on efficiency and quality of fiduciary supervision (tentatively India, Turkey and Viet Nam) ▪ Recovery of ineligible expenditures in loan/grant financing ▪ Management of financial fraud risks ▪ Workforce management ▪ Risk management ▪ IFAD Client Portal – IT security ▪ Internal controls related to financial reporting ▪ Status of implementation of the IFAD Transparency Action Plan ▪ Expenditure of the President's residence and compliance review of the expenditures of the Office of the President and Vice-President ▪ Certification of headquarters expenditures submitted to the Government of Italy for reimbursement ▪ Data analytics: Trends, exceptions and workforce risk indicators 	<ul style="list-style-type: none"> ▪ ICO/hub audits: Six or seven audits of the hubs not audited in 2020, plus ICOs selected on the basis of a risk assessment ▪ Four or five country programme audits focusing on efficiency and quality of fiduciary supervision ▪ Reliance on national procurement systems and application of IFAD procurement guidelines ▪ ICO/hub public communications with Member States and external partners ▪ Management of interest rate risks and controls over the use of derivatives ▪ IT security and IT continuity planning ▪ Management of loan arrears ▪ Internal controls related to financial reporting ▪ Status of implementation of the IFAD Transparency Action Plan ▪ Expenditure of the President's residence ▪ Certification of headquarters expenditures submitted to the Government of Italy for reimbursement ▪ Data analytics: Trends, exceptions and workforce risk indicators
Advisory	Advisory
<ul style="list-style-type: none"> ▪ Observer participation in important second line of defence Management committees ▪ Provision of comments and input into key proposed projects, products and institutional initiatives 	<ul style="list-style-type: none"> ▪ Observer participation in important second line of defence Management committees ▪ Provision of comments and input into key proposed projects, products and institutional initiatives

<ul style="list-style-type: none"> ▪ Only tasks contributing to institutional risk mitigation 	<ul style="list-style-type: none"> ▪ Only tasks contributing to institutional risk mitigation
<p>Investigations and anticorruption</p> <ul style="list-style-type: none"> ▪ Effective and timely investigations ▪ Promotion of new anticorruption policy (training, awareness, advocacy) ▪ Coordinated advocacy and awareness work on misconduct risks 	<p>Investigations and anticorruption</p> <ul style="list-style-type: none"> ▪ Effective and timely investigations ▪ Promotion of new anticorruption policy (training, awareness, advocacy) ▪ Coordinated advocacy and awareness work on misconduct risks
<p>Capacity-building and coordination</p> <ul style="list-style-type: none"> ▪ Representation and advocacy at internal and external meetings ▪ Maintenance and development of audit and investigation support tools ▪ Staff recruitment, training, evaluation and development ▪ United Nations and international financial institution (IFI) audit and investigation network coordination 	<p>Capacity-building and coordination</p> <ul style="list-style-type: none"> ▪ Representation and advocacy at internal and external meetings ▪ Maintenance and development of audit and investigation support tools ▪ Staff recruitment, training, evaluation and development ▪ United Nations and IFI audit and investigation network coordination

A. Internal audit activities

16. The main focus of audit work in 2020 will be on the newly established subregional hub structures. As highlighted in AUO's assessment of IFAD's risk environment of 2020, several critical operational and programmatic institutional risks relate to the effective and efficient operation of hubs in 2020. The pressure placed on controls by the ongoing changes, high volume of activities and deliverables, and workforce challenges entail an increased risk of output shortcomings, quality decline, fraud and other integrity incidents, and lower staff engagement. These are the main drivers of the choice of audit areas in 2020. AUO will seek to identify areas of increased exposure and provide lessons learned to help Management mitigate such risks. Further information is provided below on the activities included in the proposed plan:

- **Audit of hubs (6):** Once the decentralized office structure as defined in late 2018 is complete, AUO will review key aspects of the hubs, including the budgeting and use of resources, communications, monitoring mechanisms and business continuity arrangements. The audit work will involve on-site visits for at least six hubs and data-driven analysis of the budget and expenditures. A review of hub functioning and security is key to ensure effective implementation of the new business model such that the hubs are able to deliver on their respective part of the IFAD11 objectives. The hubs tentatively scheduled for audit are Côte d'Ivoire, India, Kenya, Panama, Turkey and Viet Nam. The final selection may be adjusted to reflect the actual budget allocations for the hubs in 2020 as an indication of the financial authority delegated to them.
- **Country programme audits (3):** The supervision of fiduciary aspects of the respective country programme will be audited for three of the countries being covered by the hub audits. Project supervision remains a critical operational activity, the quality and regularity of which may be under pressure due to increased demands on PMD and Financial Management Services Division staff time. These audits will assess supervision quality and assess and monitor progress on the implementation of the key project procurement improvements introduced during the last year. In addition to the procurement and financial management aspects, the country programme audits will cover aspects of project efficiency such as project overhead and management costs, highlighted by the Independent Office of Evaluation of IFAD as an area

needing closer monitoring. The country programmes to be audited are, tentatively, expected to be those of India, Turkey and Viet Nam.

- **Audit of management of financial fraud risks.** An audit of fraud risk management was postponed from the 2019 audit plan. Fraud is an inherent risk in any financial institution, and can cause not only financial but also reputational damage and loss of trust by financiers. As a number of business process changes are being introduced or considered, and as corporate risk management evolves, AUO will undertake an audit to assess the adequacy of fraud risk management, specifically in the area of financial management, to provide assurances that fraud risks are being managed effectively.
- **Process for recovery of ineligible expenditures in IFAD loan/grant financing:** In view of the inherent risk of diversion and misuse of IFAD financing, both through fraud and corruption and through the improper use of loan and grant funding with respect to their intended purpose, AUO will assess the effectiveness of the processes whereby ineligible expenditures are recovered. While the value of ineligible expenditures is not necessarily increasing, the means and process for recovery of such expenditures is important to ensure IFAD's ability to mitigate the negative impact of funds not reaching the intended destination, whether directly handled by projects or by downstream partners.
- **IFAD Client Portal – IT security:** Over the past three years IFAD has gradually rolled out the IFAD Client Portal (ICP) to borrower/recipient countries, and it is now being accessed by officials of 48 Member States. In addition to being a tool for submission of withdrawal applications and reports on loan and grants, ICP is used for no objections, and new contract management modules are now under development – all of which make the ICP a key tool to improve client service and efficiency and strengthen monitoring. Cyber or IT security is a major risk area for all modern organizations, and tools and systems that are external-facing can be particularly vulnerable. For the first time since the ICP was introduced, AUO will undertake an audit of the structures and procedures in place for managing vulnerability to cyber-attacks and risks related to unauthorized access, and IT security in general.
- **Risk management.** IFAD is in the process of significantly revising its approach to risk management, with the objective of introducing robust and best practice processes. AUO will review the effective status of the roll-out of this revised approach, with a particular focus on the areas of programme delivery risk and operational risks, and will assess the maturing of IFAD's risk management function. The audits on the hubs planned for 2020 will be one means through which insight and evidence will be collected regarding how these areas of risk are being managed, as will audit work related to the assessment of financial fraud risk. AUO will start the audit towards the end of 2020 so as to benefit from these findings and to allow for the risk management structures to be finalized. Recognizing that this is an ongoing process, the audit will seek to identify areas where the roll-out (training, communications and effective application) may be lagging or where the process and structures are not adequately meeting organizational needs.
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- **Workforce management.** A continued area of risk for IFAD relates to its workforce, in particular the ability to identify and react in an agile manner to the changing needs in the skills and volume of human resources (HR). The results of the Global Staff Survey, issued in early 2019, pointed to staff concerns regarding inter alia work-life balance, mobility, career advancement and recruitment processes, all of which are impacted by the ability of the

organization to address its workforce needs. An in-depth HR study has been undertaken and a number of other initiatives are under way related to workforce management, including introduction of mobility and promotion policies, revision of the performance assessment system, and development of talent management structures. AUO will conduct an audit towards the end of 2020 to assess the effectiveness of workforce management. Relevant input will be gathered through, inter alia, the audits of the hubs and will include consideration of how managers identify workforce needs, how these are communicated and consolidated, and the different means with which these needs are addressed (i.e. staff mobility or recruitment, vacancy planning and management, use of consultants or short-term staff).

- **Review of the status of implementation of the IFAD Transparency Action Plan.** In 2017, AUO coordinated a cross-departmental task force 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 second year of the action plan.
 - The following audits will contribute to managing the risk of inadequate or inaccurate financial reporting to internal and external parties:
 - **Testing of internal controls over financial reporting.** AUO will support Management in instituting proper internal controls over financial reporting by testing them on behalf of Management in support of the annual assertion over these controls, on which the external auditors provide an opinion.
 - **Audit of expenditure on the Office of the President including on the President's residence.** AUO will audit the compliance of the expenditures of the Office of the President and Vice-President to mitigate any potential reputational risks, and expenditures related to the President's residence in accordance with the relevant Governing Council resolution.
 - **Certification of headquarters expenditures submitted to the Government of Italy for reimbursement.** AUO will 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.
 - **Data analytics:** In 2019 AUO began developing a more robust structure and capacity for performing data analytics. These activities focused on using data analysis to assess the adequacy of the application of corporate rules and norms and delegated authority related to implementation of IFAD's new business model, and as a source of indicators of potential workload pressures affecting staff (e.g. turnover, vacancies, overtime, leave, flexible working hours and duty travel days). The analysis was calibrated to identify areas where better managerial information or monitoring might be needed. In 2020 AUO will develop this type of analysis further, both in relation to trends and for further depth of analysis in all areas, and as a key resource for all the audits planned for the year. AUO finds this type of work useful not only for the data and information it can provide but also, with the increasing automation of IFAD business processes, as a means of assessing data integrity.
17. **Advisory:** 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 key 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.

18. AUO will continue to work closely with the audit functions of other United Nations agencies and IFIs.

B. Investigation and anticorruption activities

19. The main priority of the AUO Investigation Section in 2020 will continue to be the timely and effective investigation of allegations. The intensified anticorruption awareness activities of recent years and the close geographical proximity to programme activities of a large proportion of IFAD's workforce are factors contributing to an increased number of allegations of wrongdoing reported to AUO, and this trend is expected to continue.
20. In collaboration with the responsible offices, AUO will support the continued implementation of the anticorruption policy and will ensure adequate outreach to ICOs and regional hubs. The policy requires government recipients to make arrangements for receiving and taking action in response to allegations of fraud and corruption relating to IFAD-financed activities and to designate an independent and competent local authority to be responsible for receiving, reviewing and investigating such allegations. AUO will seek to establish closer coordination with such local authorities in order to optimize IFAD's responses to fraud and corruption.
21. AUO will continue to liaise closely with the Ethics Office in handling sexual harassment and sexual exploitation and abuse allegations, including allegations pertaining to IFAD-financed projects, and will continue to work closely on such matters with the investigation functions of other United Nations agencies and IFIs.

V. AUO capacity and resource requirements for 2020

22. The AUO capacity requirements were estimated on the basis of planned oversight coverage for 2020. AUO will address increasing assurance requirements through a combination of staff input, full time consultants, secondments from other United Nations agencies or IFIs and IFAD divisions, external experts and by tapping internal and external partnerships in areas such as advocacy and outreach. The proposed staffing of AUO for 2020 is set out in table 2:

Table 2

Proposed AUO staffing for 2020

<i>2019 (current)</i>	<i>2020</i>
Director	Director
Administrative assistant (0.5 full-time equivalent (FTE))	Administrative assistant (0.5 FTE)
<u>Internal Audit</u>	<u>Internal Audit</u>
Audit Manager	Audit Manager
Senior Audit Officer	Senior Audit Officer
Audit Officers (2 – vacant)	Audit Officers (2)
Audit Associate	Audit Associate
<u>Investigations</u>	<u>Investigations</u>
Investigations Manager	Investigations Manager
Senior Investigation Officer (vacant)	Senior Investigation Officer
Investigation Officers (2)	Investigation Officers (2)
Investigation Assistant	Investigation Assistant

23. AUO will need an estimated USD\$450,000 in non-staff resources to cover the cost of three full time consultants, other expertise including local experts and specialist audit and investigation services from firms, travel, audit and investigation tool licences and specialist training.
24. The proposed AUO budget for 2020, including staff costs, amounts to US\$2.45 million, compared to approximately US\$2.38 million in 2019 (not including amounts subsequently allocated). AUO will continue to reassess and build its capacity to meet its core mandate, through training in technical areas in which IFAD will increasingly be involved and enhanced audit and investigation tools. As in past years, AUO will seek additional resources if the non-staff resources allocated in the 2020 budget are not adequate to perform the required audit and investigation activities.