IFAD’s Internal Oversight: Modified Approach in Response to the Global Pandemic Emergency

March 2020

Note to Executive Board representatives

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Executive Board — 129th Session
Rome, 20-22 April 2020

For: Information
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I. Introduction
1. The Executive Board confirmed the Workplan for IFAD’s Office of Audit and Oversight (AUO) for 2020 in December 2019. The workplan was based on AUO’s assessment of institutional risks at the time. The primary objective of AUO is to provide quality timely and objective assurance, advisory and investigation services to support Management and the governing bodies in addressing all risks pertinent to the achievement of institutional objectives. The coronavirus disease (COVID-19) situation has brought about changes in such risks, as well as to divisional priorities and AUO working arrangements. Accordingly, AUO has reassessed the risks at the high level and proposes modifications to the 2020 audit and investigation plan, taking into consideration IFAD’s current priorities and restrictions.
2. IFAD’s President has endorsed the modified workplan, which will be submitted to the Audit Committee at its June meeting for review.

II. Modified internal oversight approach
3. The main modifications to the AUO’s audit and investigation 2020 plan are summarized below:
   - **Reprioritization of audit work to focus on assurance of effective management of current risks.** This will lead to the delay or deferral of some assignments and changes in the scope of others.
   - **Adoption of digital and remote working arrangements for audits, to the extent possible.** The advanced digitalization of IFAD processes allows for significant audit coverage using digital and remote working arrangements. This will facilitate audit work while minimizing the need for significant staff involvement. External and local providers will be used where feasible.
   - **Increased use of data analytics.** The additional capacity introduced by AUO in this area in 2019 will enable it to contribute to identifying and mitigating some of the increased operational risks due to the pandemic emergency.
   - **Increase in advisory work.** AUO will increase its contribution to institutional risk management during and after the crisis and to temporarily strengthening any other second line of defence function at the request of Management.
   - **Prioritization of investigative work to focus on cases representing an ongoing significant reputational, integrity, financial or operational risk to IFAD.** AUO will turn to external and local resources where feasible and will modify the investigative process to reflect restrictions in place. Alternative operational solutions for cases with lower priority and materiality will be pursued under the anticorruption policy.
   - **Advocacy and networking.** Advocacy and awareness work will be limited to activities intended to mitigate any increased risks due to the impact of the global pandemic. Coordination and professional networking activities with the United Nations system and other international financial institutions will continue on a digital basis.
4. The AUO 2020 plan may be modified further during the year to address evolving risks and priorities, and the Audit Committee will be informed of any such updates at each meeting. Management has confirmed that additional financial resources will be provided to AUO if necessary to implement the modified plan.
III. Changes in the risk environment due to the COVID-19 emergency

5. The changes to AUO’s audit and investigation approach are based on the following assumptions and considerations in relation to its capacity to operate and the underlying enterprise risk considerations and priorities.

6. Assumptions and considerations:
   - International and domestic travel will be severely restricted for most countries where IFAD operates for the immediate future, and access to records, tools and individuals may be limited. External service providers and partners will be facing similar restrictions.
   - The implementation of IFAD-financed programmes may experience delays in a number of countries, as will the associated programme support and supervision activities.
   - IFAD staff will be facing work restrictions and will be focusing their time and efforts on managing and reprioritizing their activities to meet the challenges of the COVID-19 emergency – thus spending less time on regular AUO audit work, which focuses on longer-term mitigation of risks.
   - The emergency and consequent changes entail increased risks, and Management and the Audit Committee will need assurance from AUO that such risks are being properly managed during the crisis period.
   - Risks will be higher if the crisis is prolonged and IFAD’s major donor and beneficiary countries are affected to a significant extent.

7. Changes in risks for 2020 and beyond due to the COVID-19 emergency:
   - Risks to the achievement of medium-term programme objectives. The main increased risks identified by AUO relate to the reduced capacity of loan and grant recipients to design and implement projects; the reduced capacity of IFAD to design, support and supervise projects; and the impact on national cofinancing and programme support if recipient Member State resources are redirected to other national priority activities.
   - Risks to IFAD’s ability to financially support its strategic objectives now and in the future. The main increased risks identified by AUO relate to the impact on IFAD of the worldwide financial and economic downturn and national budget reprioritizations. This includes the impact on the Twelfth Replenishment of IFAD’s Resources (IFAD12), current resource mobilization, loan reflows and arrears and the investment portfolio. Excessive volatility in currency markets could also affect IFAD’s liquidity and balance sheet, and the predictability of IFAD12 pledges. The combination of such factors could affect liquidity and hence IFAD’s credit standing and ability to borrow.
   - Risks to the effective operation of IFAD’s business and the achievement of corporate objectives during and after the crisis. Under this heading, AUO identified potential increased risks with respect to, inter alia, business continuity; impact on staff of prolonged remote working and home confinement; reduced ability to perform certain tasks; reduced ability to apply or supervise certain controls; increased vulnerability to cybercrime; delays in needed corporate reforms; and disruptions to corporate events and other programme and financial milestones caused by prolonged uncertainty around restrictions.

8. As the pandemic-related risks to IFAD’s work evolve over the next few months, AUO will continue to reassess and modify its oversight approach, drawing also on feedback from the enterprise risk management processes.