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Investing in rural people

Workplan for IFAD's Office of Audit and Oversight in 2021

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Workplan for IFAD's Office of Audit and Oversight in 2021

I. Introduction

1. This paper presents the workplan for 2021 of the Office of Audit and Oversight (AUO) and relevant background information.
2. The AUO workplan for 2021 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 2020 session.
3. The workplan is presented to the Audit Committee prior to the finalization of the 2021 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)

AUO strategy for 2019-2021

4. 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 their achievement.
5. The strategic objectives for the Eleventh Replenishment of IFAD's Resources (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.
6. 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;¹
 - 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 time frame; and

¹ 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.

- 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.

Strategy update for 2021

7. AUO aligned the time frame of its internal oversight strategy for the medium term with the IFAD11 period, and will revisit its medium-term oversight strategy at the conclusion of the IFAD12 Consultation. Based on the evolution of risks in 2020, it is clear that IFAD's risk environment will remain complex in the medium term. The role of the third line of defence will remain important and the assurance expectations of Management, the Audit Committee and external interested parties (such as bilateral partners, sovereign creditors and credit rating agencies) will increase given the more complex financial architecture in place. The incidence of allegations of misconduct or prohibited practices is not decreasing, notwithstanding the slow-down in operations due to the COVID-19 crisis. The expanding decentralization and increased emphasis on combatting sexual exploitation and abuse and sexual harassment will probably lead to further growth in such allegations.
8. The underlying principles of the AUO internal oversight strategy for the medium term remain at the core of AUO's mandate and are expected to continue to guide AUO activities in the medium term. However, given the current context, AUO will need to be more flexible and agile in adjusting its services and products to support Management in promptly responding to the evolving risks, including through coordination with the newly established Office of Enterprise Risk Management. AUO will need to build up adequate staff capacity, tools and skills to fulfil its evolving role.

III. AUO workplan for 2021

Selection of audits for 2021

9. Next year is the last year of the IFAD11 period and also the last year in AUO's medium-term planning period. As noted in the previous section, AUO based its audit planning for 2021 on its internal oversight strategy for the medium term and updated the previously shared tentative AUO workplan for 2021 to reflect the changing risk environment. The choice of specific assignments took into consideration the emerging risk areas for 2020/2021, as assessed by AUO; the high pace of change and reform; and the potential impact of uncertainties and changes as a result of the COVID-19 pandemic affecting the organization in 2020/2021. The main priority risk factors considered by AUO in selecting audits areas are:
 - The key risks in relation to programme delivery and decentralization are directly linked to the operation of hubs and IFAD Country Offices (ICOs). Accordingly, AUO will need to maintain the audits of ICO/hubs and country programmes as high priority.
 - The recently approved authority and involvement of IFAD in supporting non-sovereign private sector operations is an important operational area for IFAD and early audit assurance on the relevant structures and controls would contribute to addressing associated risks.
 - The fast changing financial architecture entails inherent risks due to the complexity of assumptions and models in place, cross-dependencies between the various elements and financial uncertainties in 2020/2021.
 - The staff reassignment process, put in place in the context of IFAD's mobility framework, necessarily claims significant staff time, entails changes in responsibilities and potentially disruptions in the performance of associated tasks.

10. The selection of audits also took into consideration the expected AUO capacity and resources in 2021 as well as the uncertainties in relation of ongoing process changes and the evolution of COVID-19 related risks. Accordingly, AUO may make changes during the year to meet emerging risks and priorities and inform the Audit Committee accordingly.
11. The proposed AUO workplan is set out below:

Table 1

AUO workplan for 2021

Proposed plan for 2021

Internal audit

Audit

- ICO/hub audits: Six audits of the hubs not audited in 2020 or of ICOs selected on the basis of a risk assessment
- Five country programme audits focusing on efficiency and quality of fiduciary supervision
- Liquidity management
- Security and continuity planning for core ICT partners and outsourced services
- The reassignment process

Business process to be selected from list of tentative audits

- Internal controls related to financial reporting
- Status of implementation of the IFAD Transparency Action Plan
- Expenditures of the President's residence (April to March)
- Certification of headquarters expenditures submitted to the Government of Italy for reimbursement
- Data analytics: Trends, exceptions and risk indicators

Tentative audits

- Enterprise risk management – scope to be defined as process still evolving (late 2021)
- Adequacy of national procurement systems assessments and risk mitigation measures
- Management and processing of investment in non-sovereign private sector operations
- Management of interest rate risks and controls over the use of derivatives
- Management of loan arrears

Advisory

- Observer participation in important second-line of defence Management committees
 - Provision of comments and input on key proposed projects, products and institutional initiatives
 - Tasks contributing to institutional risk mitigation
-

Investigations and anticorruption

- Effective and timely investigations
 - Promotion of new anticorruption policy (training, awareness, advocacy)
 - Coordinated advocacy and awareness work on misconduct risks
-

Capacity-building and coordination

- Representation and advocacy at internal and external meetings
 - Maintenance and development of audit and investigation support tools
 - Staff recruitment, training, evaluation and development
 - Coordination with United Nations and international financial institution audit and investigation networks
-

A. Internal audit activities

12. The main focus of audit work in 2021 will remain the subregional hub structures and use of the authorities delegated through the decentralization, which are central to IFAD's business model, and the effective management of the associated risks and processes.
 - **Audit of hubs (6).** The key risks in relation to programme delivery and decentralization are directly linked to the operation of hubs and ICOs. Continuing the audit coverage started in 2020, the remaining six hubs will be

audited in order to provide assurance that these key elements of the decentralized business model have been effectively established and are functioning in compliance with IFAD rules and procedures. Depending on the adjustments decided in relation to the decentralization model in 2020, AUO may replace some of the hubs with stand-alone ICO audits. The audits will review key aspects, including budgeting, communications, monitoring mechanisms, security and business continuity arrangements. To the extent that travel is feasible, the audit work will involve on-site visits.

- **Country programme audits (5).** Audits of the IFAD supervision/implementation support activities of country programmes provide assurance that the significant fiduciary risks pertaining to programme delivery – which may have been exacerbated by the COVID-19 pandemic situation – continue to be effectively managed. Accordingly, AUO will increase its coverage of country programme audits in 2021. As new or revised project procurement supervision mechanisms are rolled out and project risk management is being reinforced, audits will serve to assess their adequacy and compliance. These audits will assess the adequacy of fiduciary supervision and progress on the implementation of recent key project procurement improvements and consider aspects of project efficiency such as project overheads and management costs. In addition, these audits will integrate some additional consideration of the adequacy of controls and supervision of any funding that was re-purposed in relation to the COVID-19 emergency.
- **Liquidity management.** The fast changing financial architecture entails inherent risks due to the complexity of assumptions and models in place and cross-dependencies between the multitude of factors, parameters and financial uncertainties in 2020/2021. There are some indications that early audit attention to liquidity management would provide assurance that risks during the transition to improved practices are effectively managed.
- **Security and continuity planning for core ICT partners and outsourced services.** Given the current intense investment in technology to improve processes and increase efficiency, AUO will assess the exposure to and the risk management measures in place for key third-party/external partners and service providers, particularly risks of sustainability and dependency. This audit will consider aspects of the contractual arrangements, training and knowledge-sharing, management of service levels, and competitiveness.
- **Reassignment process.** The staff reassignment process necessarily claims significant staff time, entails changes in responsibilities and potentially disruption in the performance of associated tasks. Any lessons learned from the experiences of the last two iterations will help mitigate the relevant risks in future iterations.
- **Testing of internal controls over financial reporting.** The annual assessment by AUO of all the key controls over financial reporting provides an important insight into the continuing robustness of key financial reporting controls; this assumes increasing importance in the context of ongoing changes and the need to maintain a sound financial standing. This audit will also serve to support the annual Management assertion over the effectiveness of these controls, on which the external auditors provide an opinion.
- **[tentative] Enterprise risk management (ERM) – scope to be defined as process still evolving (late 2021).** IFAD is in the process of significantly revising its approach to risk management, with the objective of introducing robust and leading practice processes. Rescheduled from 2020

because of some delay in its finalization, the effective status of roll-out of this revamped approach will be assessed, along with the maturity level of IFAD's risk management overall. Recognizing the very recent appointment of the Chief Risk Officer and that the ongoing nature of the ERM process, the audit will seek mainly to identify areas where the roll-out and implementation may be lagging or not adequately meeting the organizational needs. The actual timing and scope will depend on progress achieved in this area.

- **[tentative] Adequacy of national procurement systems assessments and risk mitigation measures.** AUO continues to focus on the adequacy of project procurement oversight as a key risk area impacting the achievement of IFAD financing objectives, preventing and detecting potential fraud and corruption and ensuring that IFAD funding is used for its intended purpose. Project procurement remains the area where IFAD receives the majority of allegations of prohibited practices. This audit will examine the consistency and adequacy of review of national/implementing partner procurement systems and the effective application of risk mitigating measures where found necessary.
- **[tentative] Management and processing of investment in non-sovereign private sector operations.** The recently approved authority and involvement of IFAD in supporting non-sovereign private sector operations is a new important operational area for IFAD. Early audit assurance on the relevant structures and controls will help mitigate the associated risks. AUO will assess the adequacy of the internal controls, oversight and monitoring mechanisms that have been established to safeguard or manage the risks. The actual timing and scope of this assignment will depend on progress achieved in this area.
- **[tentative] Management of interest rate risks and controls over the use of derivatives.** As IFAD's financial architecture is being revised to ensure that IFAD is better positioned to manage different forms of borrowing and financing and maintain a positive credit rating, the effective management of interest rate risk becomes more important. Audit attention in this area would provide assurance that risks are effectively managed.
- **[tentative] Management of loan arrears.** Significant improvements have been made in managing loan portfolio credit risk in recent years; however, the effective management of loan arrears remains critical to maintaining a healthy financial standing. This is an area that has not been audited in the past, therefore an audit in 2021/22 may be timely.
- **Data analytics.** AUO has been developing its capability in and approaches to performing data analytics to assess compliance with corporate rules and norms; assess trends, data integrity and consistency; and identify outliers, anomalies or areas where managerial information or monitoring might be needed. Continuing the work in 2020, AUO will use these analyses in the context of the planned audits, sharing any ad hoc findings with Management. AUO will use its experience in data analytics to provide advisory support in other parts of the organization where capacity is being developed for management monitoring or second-line of defence reviews.
- The following audits will contribute to managing the risk of inadequate or inaccurate reporting to internal and external parties:
 - **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. The Executive Board requested annual updates on its implementation status

- (which is an IFAD11 commitment). AUO will follow up by providing an update for the third year of the action plan.
- **Audit of expenditures of the President's residence.** AUO will audit the 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.
- The following audits originally proposed for the 2021 tentative audit workplan have been replaced or integrated into other audit work as follows:
 - **ICO/hub public communications with Member States and external partners.** Some key basic elements of ICO communications with the public and Member States are being covered in the audits of hubs. These were already included in the hub audits in 2020 and did not indicate major concerns. AUO will therefore continue to cover this in the remaining hub audits and will use these findings to determine if there are indications of sufficient risk to require more in-depth audit. However, for 2021, it will be removed from the workplan.
 - **Workforce management.** In response to concerns from the 2019 Global Staff Survey, a substantial human resources review and restructuring of talent management was launched, including the mobility and promotion policies and the performance assessment system. Given the ongoing nature of several of these elements, AUO will perform a specific audit of the reassignment process (as noted above) to assess extent to which the exercise meets the need for agile workforce management and to which the risks related to business continuity, efficiency and work-life balance are being mitigated.
13. **Advisory.** In addition to its role as an observer on Management committees, AUO will continue to perform specific advisory reviews at the request of Management and provide high-level feedback on key draft policies and procedures. It will continue to actively follow up and report on outstanding audit recommendations and will support Management in determining necessary improvement and corrective measures. AUO will continue to work closely with the audit functions of other United Nations agencies and international financial institutions (IFIs) to ensure coordinated audit approaches and effective sharing of information.

Investigation and anticorruption activities

14. The main priority of the AUO Investigation Section in 2021 will continue to be the timely and effective investigation of allegations, notwithstanding the restrictions in place due to the COVID-19 pandemic. AUO will prioritize cases presenting significant ongoing reputational, integrity, financial or operational risks to IFAD. External/local resources will be used where feasible. The investigative processes will be modified to the extent possible in line with the restrictions in place, ensuring at all times that confidentiality obligations, due process and victim rights are fully respected. Alternative solutions for cases of lower priority and materiality will be adopted, while remaining in line with IFAD's anticorruption policy.
15. AUO will support the continued implementation of the anticorruption policy in collaboration with the responsible offices, and will endeavour to increase its outreach to ICOs and regional hubs. 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.

IV. AUO capacity and resource requirements for 2021

16. The expectations and needs for oversight assurance of AUO's clients have increased in the last few years and will increase further in the coming ones. The main drivers are the decentralization, increased delegation of authority, higher digitalization of IFAD processes and the more complex and dynamic financial architecture. The 2019/2020 experience brought to the fore several challenges for AUO in meeting its audit and investigation objectives with its current capacity.
17. Considering the above challenges and expected AUO 2021-2023 obligations, the resourcing proposal set out in table 3 is put forward for 2021. It includes the proposed conversion of the two full-time investigation consultant arrangements to staff positions. This will help ensure more stable capacity, which will significantly improve efficiency, quality, continuity and consistency in outputs. It also proposes the conversion of the full-time audit consultant arrangement to an "IT forensic and data analysis officer" position in the AUO front office to boost IT expertise and support both audit and investigation sections with their specialist IT needs, particularly data analytics. Such a position will help build the IT skills of the team and ensure that AUO is well positioned for the soon foreseen increased reliance on IT audit and investigation tools. The consultancy, travel and other non-staff elements of the AUO budget will be reduced accordingly. It is still expected that at least US\$170,000 will be required to cover the costs of audit and investigation missions to hubs and country programmes (if conditions permit), support from local consultants and expert specialists for audit areas in which AUO does not have up-to-date skills (e.g. liquidity management).

Table 3
AUO staff resources, including full-time consultant resources, for 2019-2021

	<i>Planned 2020</i>	<i>Proposed 2021</i>
AUDIT SECTION		
Staff resources (including vacant posts)	5	5
Full-time consultant (full-time equivalents [FTEs]) (average)	1	0.5
Total full-time FTEs – audit	6	5.5
INVESTIGATION SECTION		
Staff resources (including vacant posts)	5	6.5
Full-time consultant/secondments FTEs (average)	2	-
Total full-time FTEs – investigations	7	6.5
AUO FRONT OFFICE		
Director AUO and AUO Administrative Assistant	1.5	1.7
IT forensic and data analysis officer	-	0.5
Total FTEs – AUO front office	1.5	2.2
Total FTEs – AUO	14.5	14.2

18. The budget of US\$250,000 in non-staff resources will cover the cost of local experts and specialist audit and investigation services from firms, travel, licences for audit and investigation tools and specialist training.
19. The proposed AUO budget for 2021, including staff costs, amounts to US\$2.62 million, compared to approximately US\$2.45 million in 2020. 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.