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Workplan for IFAD's Office of Audit and Oversight in 2022

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Contents

I. Introduction	1
II. Internal oversight strategy for the medium term (2022-2024)	1
A. AUO strategic objectives	1
B. Risks and priorities	2
III. AUO workplan for 2022	3
A. Selection of audits	3
B. Internal audit activities	4
C. Investigation and anticorruption activities	6
IV. AUO capacity and resource requirements for 2022	6

Workplan for IFAD's Office of Audit and Oversight in 2022

I. Introduction

1. This paper presents the workplan for 2022 of the Office of Audit and Oversight (AUO) and relevant background information.
2. The AUO workplan for 2022 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 2021 session.
3. The workplan is presented to the Audit Committee prior to the finalization of the 2022 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 (2022-2024)

A. AUO strategic objectives

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. AUO adds value by contributing to mitigating risks that could jeopardize the achievement IFAD's objectives.
5. For the Twelfth Replenishment of IFAD's Resources (IFAD12) period, AUO will aim to:
 - Provide timely, quality and objective assurance to Management and the governing bodies on the effective management of risks that could have a significant impact on the achievement of IFAD's institutional objectives; such assurance will normally be provided in relation to business processes or functions, the underperformance/failure of which could significantly undermine the achievement of institutional deliverables;
 - Provide timely and objective advisory feedback at the request of, or in agreement with, Management to support Management in effectively managing risks. Such engagements will normally relate to ongoing or planned reforms or initiatives;
 - Ensure that (i) all allegations of wrongdoing in IFAD's activities and operations brought to the attention of AUO are investigated thoroughly and expeditiously, with due consideration to the rights of all parties involved and to operational needs; and that (ii) associated risks are managed in a timely manner in coordination with other IFAD divisions, where appropriate, to mitigate operational, financial and reputational risks. Specifically, all high priority allegations are to be investigated within six months of receipt, or sooner if so required by operational needs, and all other allegations of wrongdoing are to be addressed within a reasonable time frame; and
 - Promote IFAD's anticorruption stance through internal and external awareness events and communications and coordinate with other IFAD divisions to help prevent wrongdoing in IFAD activities and operations.
6. AUO will rely significantly on the IFAD enterprise risk management process, in particular, the identified high risk areas (strategic, financial, operational,

programme delivery) in selecting subjects for audit and advisory work. AUO will reduce its involvement in areas in which other internal or external independent bodies (such as the Independent Office of Evaluation of IFAD [IOE]) and the external auditor) are mandated to provide assurance to Management and the governing bodies. AUO may also, after assessment, limit its involvement in areas in which internal second line functions (such as the Office of Enterprise Risk Management (RMO) and risk committees, the Financial Controller's Division, the Quality Assurance Group and the Ethics Office) systematically and competently track and monitor the performance of first line controls.

B. Risks and priorities

7. AUO aligned the time frame of its strategic planning with the IFAD12 period. This is because replenishment consultations generally establish or adjust institutional objectives and commitments, the delivery of which is threatened by institutional risks associated with IFAD's efficiency, effectiveness and credibility. In approving the IFAD12 Resolution, the Member States mandated IFAD to develop its business model into a more comprehensive financial, policy-oriented and programmatic package that places an overarching emphasis on expanding and deepening results on the ground, building on the platform of recent financial and institutional reforms and fully using all tools at IFAD's disposal to deliver results and scale up impact. IFAD committed to targets in relation to impact, outcomes and outputs, operations, financing and resource allocations, policies and institutional matters. The effective conclusion of institutional reforms launched or intensified during IFAD11 (e.g. Decentralization 2.0, the Enterprise Risk Management Framework, the Integrated Borrowing Framework and human resources reform) is critical to the achievement of the IFAD12 targets, and conversely their non-satisfactory completion would represent a significant risk to the achievement of the same targets.
8. The achievement of IFAD12 and other IFAD strategic objectives will also depend on the effective management of other institutional risks already identified by AUO in its planning for 2020 and 2021, such as the stress on the Internal Control Framework, staff engagement caused by the continuing high pace and complexity of change, the potential funding constraints for IFAD's programme of loans and grants, and the continuing restrictions due to the COVID-19 pandemic and associated impact on operations and staff activities. Indications from AUO audit and investigation work and the external risk environment point to the need for continuous vigilance over project procurement and contract management, financial fraud and losses, and cybersecurity risks.
9. Considering the general risks and priorities outlined above, the main guiding factors to be considered by AUO in selecting audit areas for each year from 2022 to 2024 will be the following:
 - Most strategic objectives of the Fund will be achieved through its programme of work and outputs. The reforms and associated key risks in relation to, inter alia, programme design and supervision, decentralization, delegated authorities, staff reforms and resource limitations will impact the effectiveness and quality of its programme outputs. Accordingly AUO will maintain audits of country programme activities as high priority both through missions and through thematic reviews.
 - The newly implemented Delegation of Authority Framework is closely linked to decentralization. AUO will continue to give high priority to audits of IFAD country offices of all types, to provide Management with timely feedback on controls, risks and lessons learned.
 - 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 that could lead to control gaps and lapses. Accordingly, AUO will maintain as a high priority audits of

financial business processes through a mix of advisory and assurance assignments, depending on the advancement of corresponding underlying reforms. Such assurance will be important also in ensuring that IFAD's strong credit rating is maintained.

- Other specific areas to be audited each year will be selected, based, inter alia, on the institutional risk information generated by RMO, supplemented with AUO's own specific risk assessment exercise.
10. These considerations will guide AUO's audit choices in the medium term; however, AUO will need to be flexible and agile in adjusting its services and products to support Management in promptly responding to the evolving risks.

III. AUO workplan for 2022

A. Selection of audits

11. The selection and prioritization of audits for 2022 took into consideration the institutional risks, the priorities outlined above, feedback from the Audit Committee, indications included in the IOE multi-year evaluation strategy (2022-2027), the high-level preview of IFAD's results-based programme of work and regular and capital budgets for 2022, the external auditor's strategy for 2022, credit rating agency reports, feedback from Senior Management and AUO's own reflections. The proposed scheduling of assignments also reflects factors such as the length of time since last audit or whether the underlying process is not yet mature for audit, e.g. if it is subject to significant ongoing business reforms. The proposed 2022 assignment selection is drawn from this risk-mapping exercise and is consistent with the expected AUO capacity and resources in 2022 (as set out in section IV below).
12. The proposed AUO workplan for 2022 is set out in table 1. AUO may make changes during the year in response to emerging risks and priorities, and will inform the Audit Committee accordingly.

Table 1

AUO workplan for 2022

Internal audit and advisory

Audit and advisory assignments proposed for 2022

- Country and regional offices: Three audits
- Six country programme audits focusing on efficiency and quality of fiduciary supervision
- Cross-cutting report on IFAD supervision of country programme (advisory – to be repeated annually)
- Application of IFAD project procurement guidelines
- Digital signatures and electronic submission of documents
- Effectiveness and efficiency of People, Processes and Technology Plan (PPTP)
- Advisory assignment to be determined

Limited scope reviews (recurrent)

- Internal controls related to financial reporting
- Expenditure on the President's residence (April to March)
- Certification of headquarters expenditures submitted to the Government of Italy for reimbursement
- Data analytics: Cross-cutting studies, trends, exceptions and risk indicators

Other advisory work

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

Investigations and anticorruption

- Effective and timely investigations
 - Promotion of new anticorruption policy (training, awareness, advocacy)
 - Coordinated risk mitigation work with other IFAD divisions
-

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 of United Nations and international financial institution (IFI) audit and investigation networks
-

B. Internal audit activities

13. The rationale for the selection is summarized below, along with a description of the expected scope and objectives of the assignments proposed for 2022:

- **Audit of country and regional offices (3).** The key risks in relation to programme delivery, decentralization and delegation of authority are directly linked to the operation of IFAD offices in the relevant country and region. Continuing the rolling audit coverage that started in 2020, three offices 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. With the evolving implementation of the Enterprise Risk Management Framework, such audits will also aim to assess the framework's effective application in relation to country programme risks. The audits will review key aspects, including budgeting, communications, monitoring mechanisms, security and business continuity arrangements. It is expected that of the three offices to be audited in 2022, one will be a regional office.
- AUO plans to cover all four regional offices in the period 2022 to 2024 and 10 of the remaining 46 decentralized offices, thereby covering over half of the IFAD funds flowing through decentralized structures. The selection of the 10 offices will be driven by transactional volume, years since the last AUO internal audit, type of decentralized office, regional spread and any particular risks.
- **Country programme audits (6).** Audits of the IFAD supervision and implementation support activities of country programmes provide assurance that the significant fiduciary risks pertaining to programme delivery – which may have been exacerbated by the ongoing reforms, resource challenges, the largely remote supervision modality in place over most of the period 2020 to 2021 and internal turnover of staff among other factors – continue to be effectively managed. Accordingly, AUO will maintain its coverage of country programme audits in 2022 to assess the adequacy of fiduciary supervision and consider aspects of project efficiency such as project overheads and management costs. Particular attention will be given to the roll-out of new project procurement supervision and project risk management mechanisms. In addition, these audits will review the adequacy of controls and supervision of any funding that is being repurposed in relation to the COVID-19 pandemic or has been granted through the Rural Poor Stimulus Facility. All observations that have systemic implications will be grouped into a cross-cutting report.
- AUO plans to perform audits of the IFAD supervision of 18 country programmes (out of approximately 100 active country programmes) during the three-year period. The selection will be based on the size of the active portfolio, the number of years since the last AUO internal audit, the type of decentralized supervision in place and the project delivery risks. The aim is to cover countries representing over half of IFAD disbursements, although not

every project in the portfolio will be audited. The annual cross-cutting reports support significantly risk mitigation for all IFAD country programmes, not only the six audited each year. This is because control weaknesses and risks identified through country programme audits are usually typical to the regional or entire IFAD portfolio.

- **Application of IFAD project procurement guidelines.** AUO continues to focus on the adequacy of project procurement oversight as a key risk area impacting the achievement of IFAD's financing objectives, in order to prevent and detect potential fraud and corruption and ensure that IFAD funding is used for its intended purpose. Project procurement remains the area in which IFAD receives the majority of allegations of prohibited practices. This audit will examine, among other, the consistency and adequacy of reviews of national/implementing partners' procurement systems and the effective application of the recently revised IFAD procurement guidelines with emphasis on provisions relevant to the prevention of fraud and corruption.
- **Digital signatures and electronic submission of documents.** The ability to transfer and sign documents electronically or digitally in a secure manner is a common component of business continuity and contributor to operational efficiency. The audit will examine the temporary measures introduced during 2020 and assess whether they are commensurate with the underlying transactional risk and aligned with best practice. The scope of the audit will not encompass the underlying delegations of authority on which the approvals are given.
- **Effectiveness and efficiency of People, Processes and Technology Plan.** The PPTP is a US\$14.675 million initiative to increase the delivery of results in a more decentralized environment through strengthened staff capacity, efficient corporate processes and appropriate technological solutions. The plan was a response to internal and external feedback and implements the business process re-engineering changes. This audit will assess implementation progress to date, including efficiency and effectiveness aspects, to identify if any adjustments to the remaining activities are needed.
- **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 auditor provides an opinion.
- **Data analytics.** AUO has been developing its capability and approaches to performing data analytics to assess compliance with corporate rules and norms; examine trends, data integrity and consistency; and identify outliers, anomalies or areas where managerial information or monitoring might be needed. Continuing this work in 2022, 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 to other areas of the organization that are developing similar capabilities 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:
 - **Audit of expenditure on the President's residence.** AUO will audit the expenditures related to the President's residence in accordance with the related 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 expenditures and request reimbursement from the Government of Italy of expenditures in relation to hosting IFAD's headquarters.
 - As per the Audit Committee's discussions, AUO assessed the possible inclusion of an assignment on the implementation and impact of the IFAD transparency action plan. However, due to the significant and demonstrable improvement achieved in this area in recent years, AUO considers that other areas have higher priority for auditing 2022. Accordingly, AUO does not propose an assignment on this subject in its workplan.
14. **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. AUO will continue to work closely with the audit functions of other United Nations agencies and IFIs to ensure coordinated audit approaches and effective sharing of information.

C. Investigation and anticorruption activities

15. The key priorities of the AUO Investigation Section in 2022 will be to (i) strengthen and mainstream its collaboration with other IFAD divisions in mitigating fraud/corruption risks at an early stage, building on the framework put in place in 2020 and (ii) ensure the timely and effective investigation of allegations. AUO will continue prioritizing cases that represent significant ongoing reputational, integrity, financial or operational risks to IFAD.
16. AUO will support the continued implementation of the anticorruption policy in collaboration with the responsible offices, and will endeavour to increase its outreach to IFAD Country Offices (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.
17. In 2022, AUO will organize an external review of its investigation function, to be overseen by the Office of the President and Vice-President. The review will assess AUO's adherence to best IFI/United Nations practices and to the specific investigation framework and guidelines that guide AUO's investigative activities as per its Charter. A summary of the results of the review will be reported to the Audit Committee.

IV. AUO capacity and resource requirements for 2022

18. Table 2 provides (with some approximation) the AUO workforce projections for the next triennium, as determined in the Human Resources Study by McKinsey. The study assessed the medium-term capacity requirements of all IFAD functions, considering the ongoing and planned organizational and business reforms and ambitions. The Human Resources Study by McKinsey proposal is consistent with the AUO resource plan for the medium term, which is based on the projected audit assurance and investigation capacity needs of IFAD.

Table 2
AUO staff resources, including full-time consultant resources for 2022-2024

AUO staff resources (including vacant posts)	<i>Approximately 2021</i>	<i>Proposed 2022</i>	<i>Possible 2023</i>	<i>Possible 2024</i>
Audit section	5	6	7	8
Investigation section	5	7	8	8
AUO front office	1.5	2.5	3	3
Total full-time equivalent (FTE) staff	11.5	15.5	18	19
AUO full-time consultant resources	<i>Approximately 2021</i>	<i>Proposed 2022</i>	<i>Possible 2023</i>	<i>Possible 2024</i>
Audit section	1	-	-	-
Investigation section	2	1	-	-
Total FTE consultants	3	1	-	-

19. These projections are based on the assumption that country office and full-scope advisory assignments require on average three months of full-time audit staff equivalent. Country programme audits, full business process/function audits and regional office audits require approximately four months of audit FTE. For 2022, it is anticipated that audits of decentralized offices will take slightly longer given that the underlying structures and processes are relatively new. It is also assumed that the new AUO data analyst/forensic officer (organizationally located in the AUO front office) will devote 50 per cent of their time to auditing data analytics work. Recently, assignments have claimed slightly more staff time; however AUO will endeavour to streamline its audit scoping and report finalization practices so as to achieve the coverage foreseen in the workplan.

Table 3
Planned internal audit activities for 2022-2024 and AUO audit resources

AUO audit time use (no. of assignments)	<i>Possible 2022</i>	<i>Possible 2023</i>	<i>Possible 2024</i>
ICO/regional office audits (3,5,6)	1.2	1.5	1.8
Country programme audits (6,6,6)	2.0	2.0	2.0
Business process/function audits (3, 5, 7)	1.0	1.7	2.3
Standard limited scope assignments (3, 3, 3)	0.2	0.2	0.2
Data analytics	0.5	0.6	0.7
Advisory assignments (2, 2, 2)	0.5	0.5	0.5
Other advisory work	0.3	0.2	0.2
Total FTEs – internal audit work	5.7	6.7	7.7
Capacity-building/representation/management	0.8	0.8	0.8
Total audit FTE requirement (including data analyst)	6.5	7.5	8.5

20. The new positions are expected to be mainly at the P-2 or P-3 level and will be entry-level positions aimed at creating scope for internal career growth and retaining specific IFAD audit and investigation skills in the AUO team. The 2022 workforce plan reflects the addition of a new investigation officer position in 2022 and includes the junior professional officer auditor position (not funded under the IFAD administrative budget) that was added to AUO staffing in 2021.
21. In addition to staff resources, AUO estimates that it will need a non-staff budget of approximately US\$300,000 each year for local, regional and expert consultants, mission travel, and specialist forensic and other audit and investigation tools and services. It is also expected that some long-term consultancy support will be needed to assist AUO in managing the investigative caseload, at least in 2022. These estimates are based on actual cost experience and the projected workload for the next three years.
22. The proposed AUO budget for 2022 of US\$325,000 for non-staff resources will cover the cost of local experts and specialist audit and investigation services from firms, travel, audit and investigation tool licences, and specialist training to complement staff capacity in the investigation area.
23. 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 through enhanced audit and investigation tools.