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## **Revision of the Charter of the IFAD Office of Audit and Oversight**

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**For: Confirmation**

# Revision of the Charter of the IFAD Office of Audit and Oversight

## Introduction

1. The IFAD Office of Audit and Oversight (AUO) is responsible for internal auditing and investigation. The AUO's audit activities are conducted in conformity with the Code of Conduct and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA). The IIA standards require that AUO have a formal Charter that defines AUO's purpose, authority and responsibilities. The AUO Charter establishes AUO's position within the organization and authorizes access to records, personnel and physical property in the performance of its duties. It also defines the scope of AUO's activities and reflects the purpose, authority and responsibilities relative to the AUO investigation function.
2. The AUO Charter was last revised and confirmed by the Executive Board in 2018. A proposed new revision is set out in annex I and the amendments to the Charter are marked in **bold** (added text) or ~~double strikethrough~~ (deleted text). The proposed changes:
  - update the reference to the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, which was revised in 2018: (3.3, footnote 3);
  - clarify the authority for AUO to administratively house the impartial review function of the Enhanced SECAP Complaints Procedure (3.4, 6.1(d)) – further explained below;
  - reflect the simplified procedure for disclosure of audit reports, requested by the Audit Committee in 2021: (4.1(e) footnote 4);
  - reflect the requirements of the IIA standards on coordination with internal assurance providers and IFAD's espousal of the Institute of Internal Auditors' Three Lines Model<sup>a</sup> and the assignment of "second-line" responsibilities (such as risk management, compliance and controllership) to the Office of Enterprise Risk Management (RMO) and the Financial Controller's Division (FCD), (paragraphs 3.1, 5.1(g), 6.1(d)); and
  - update the reference to the professional guidelines and principles that govern AUO's investigative activities (7.2)).
3. The proposed addition of paragraphs 3.4 and 6.1(d) will allow AUO to transparently support IFAD in strengthening the independence of the SECAP Complaints Procedure. AUO will initially provide administrative "housing" for the impartial review function of the Enhanced SECAP Complaints Procedure, limited to budgetary and logistics support, with no AUO involvement or accountability as to the performance of impartial reviews. An external expert will be retained and located in AUO to lead and manage this activity in full autonomy, with no functional reporting to the Director, AUO. This activity, to be funded through a separate budget allotment, will be rigorously segregated from the performance of AUO internal audit and investigation activities. AUO considers that its administrative "housing" of the impartial review function of the Enhanced SECAP Complaints Procedure is compatible with, and helps promote, its mission; and that it is compliant with the

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<sup>a</sup> Last updated in July 2020, the Institute of Internal Auditors' Three Lines Model helps organizations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. The Three Lines Model is referred to in IFAD's Enterprise Risk and Internal Control Frameworks. It differentiates between organizational risk and control responsibilities as follows: First-line roles: responsible for the provision of products/services to clients; managing risk; Second-line roles: expertise, support, monitoring and challenge on risk-related matters; and Third-line": independent and objective assurance and advice on all matters related to the achievement of objectives.

applicable IIA standards on independence and with the provisions of the new paragraph 6.1(d).

4. The 2021 Charter of AUO has been approved by the President and is now transmitted to the Audit Committee for review and proposals thereon for consideration by the President. Once finalized, the Charter will be submitted for confirmation to the Executive Board.

# Charter of the IFAD Office of Audit and Oversight - 2021

## 1. Introduction

- 1.1. In accordance with the requirements of regulation X paragraph 1(c) of the Financial Regulations of IFAD, this Charter is promulgated by the President of IFAD and confirmed by the Executive Board in order to establish and maintain appropriate internal audit systems consistent with well-recognized international standards.
- 1.2. The IFAD Office of Audit and Oversight (AUO) comprises the internal auditing and investigation functions.

## 2. Mission

- 2.1. The mission of AUO is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. AUO provides independent and objective assurance and advisory services designed to add value and improve the operations of IFAD. It helps IFAD accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2. AUO also reviews and investigates possible or alleged irregular practices, including staff misconduct, fraud and corruption in IFAD activities, and actively promotes ethics, accountability, quality and continuous improvement in IFAD operations.

## 3. Scope of work

- 3.1. **AUO assesses As one of IFAD's third-line functions,<sup>1</sup> AUO provides assurance on the adequacy and effectiveness of the activities performed by the first and second lines by assessing** whether IFAD's risk management, control and governance processes are adequate to ensure that:
  - (a) Financial, managerial and operational information is accurate, reliable and timely;
  - (b) Activities comply with policies, standards, procedures, agreements, and applicable laws and regulations;
  - (c) Assets and resources are acquired, utilized and protected appropriately; and
  - (d) Programmes, plans and objectives are achieved.<sup>2</sup>
- 3.2. The nature and scope of AUO advisory services are agreed with Management; such services may involve advice or analyses to promote improvements in risk management, control and governance processes, without assuming management responsibility for such improvements.
- 3.3. The scope of investigation activities includes all matters related to irregular practices by entities, contractors and individuals in activities financed and/or managed by IFAD directly or through its loans and grants;<sup>3</sup> and misconduct by staff or consultants which includes but is not limited to irregular, corrupt, fraudulent, collusive or coercive practices; failure to observe prescribed

<sup>1</sup> The Institute of Internal Auditors' (IIA's) "The Three Lines Model" defines organizational risk and control responsibilities as follows: first-line roles: responsible for the provision of products/services to clients and for managing risk; second-line roles: expertise, support, monitoring and challenge on risk-related matters; and third line functions independent and objective assurance and advice on all matters related to the achievement of objectives.

<sup>2</sup> This excludes evaluation activities that fall clearly within the scope of the Independent Office of Evaluation of IFAD.

<sup>3</sup> Consistent with the revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2005/85/R.5/Rev.1 2018/125/R.6).

regulations, procedures or the IFAD Code of Conduct; and failure to report allegations or knowledge of any such practice.

**3.4. AUO may undertake other activities compatible with its mission, provided that such activities do not impact negatively the effectiveness, integrity and objectivity of audits and investigations or the actual or perceived independence of the AUO Director and staff.**

**4. Objectivity and independence**

- 4.1. To ensure appropriate organizational independence and objectivity of the internal oversight function, and to enable AUO to fulfil its responsibilities **impartially and** free from interference in determining the scope of work, performing its work and communicating results:
- (a) The Director of AUO reports directly, has access as required and is accountable to the President, and shall discuss the AUO Charter, the annual workplan, adequacy of AUO's resources and results of AUO's work with the Audit Committee of the Executive Board (Audit Committee).
  - (b) The President ensures that AUO is provided with the necessary staffing and budgetary resources to achieve its mission and maintain its independence.
  - (c) The AUO workplan and Charter are approved by the President, transmitted to the Audit Committee for review and proposals thereon for consideration by the President, and, once finalized, are submitted for confirmation to the Executive Board.
  - (d) Annual reports are provided by the Director of AUO to the President and transmitted unchanged to the Audit Committee and then shared confidentially with the Executive Board for information. Such annual reports summarize significant oversight results, including recommendations for improvements and the status of Management actions taken or planned in response to reported results.
  - (e) Individual internal audit reports may be provided to the Audit Committee and to Executive Board representatives upon request, in accordance with the internal audit report disclosure procedure,<sup>4</sup> respecting privacy, legal, confidentiality, sensitivity and security requirements.
  - (f) The Director of AUO may attend all meetings of and communicate directly with the Audit Committee, except meetings designated as closed sessions or meetings restricted to the external auditor; the Director of AUO shall have access as required to the Audit Committee and may meet privately with the Audit Committee for the purpose of providing information and views on matters of internal control and audit systems.
  - (g) The Director of AUO shall confirm to the Audit Committee, at least annually, the organizational independence of AUO and will disclose to the Audit Committee any interference in determining the scope of AUO activities, performing work, and/or communicating results.
  - (h) The President consults with the Audit Committee on the appointment,

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<sup>4</sup> Audit Committee members and Executive Board representatives are informed of recently issued internal audit reports in advance of Audit Committee meetings. Committee members may request access to any report and AUO provides such access by posting the report on a restricted section – accessible to Committee and Executive Board members on a confidential basis – of the Member States Interactive Platform (MSIP). The Audit Committee Chairperson may decide to include any report on the agenda for further discussion by the Committee, normally in a closed session. Executive Board representatives may also request access to any report, copying the Audit Committee Chairperson. Arrangements will be made to grant confidential access to the requesting Board representative. AUO will provide explanations and clarifications on any report to Audit Committee members or Executive Board representatives if requested. Should representatives request that an internal audit report be discussed during an Executive Board session, the Audit Committee will review the report prior to the scheduling of such a discussion, which will be conducted in a closed session of the Board. In such case, the report will be shared confidentially with all Executive Board representatives.

performance and termination of employment of the Director of AUO.

## 5. Responsibility

- 5.1. The Director and staff of AUO are responsible for:
  - (a) Developing and submitting an annual risk-based workplan to the President for approval, transmitting the workplan to the Audit Committee for its review and proposals thereon for consideration by the President and, once finalized, submitting the workplan for confirmation to the Executive Board;
  - (b) Implementing the approved workplan and periodically informing the President and the Audit Committee of progress in carrying out the workplan and the impact of amendments thereto, including scope limitations, if any, and reporting significant results on a timely basis;
  - (c) Adopting and adhering to appropriate standards, policies and procedures for the conduct of internal auditing and investigation activities;
  - (d) Operating secure and confidential channels for receiving reports of alleged or suspected irregular practices in IFAD activities and operations;
  - (e) Conducting and/or monitoring investigations into credible allegations or knowledge of irregular practices in IFAD activities and operations and reporting, as appropriate, the results of the investigations to the President and the Sanctions Committee in a prompt manner;
  - (f) Establishing a quality assurance and improvement programme that covers all aspects of AUO activities, continuously monitoring and periodically reporting on its effectiveness to the President and the Audit Committee;
  - (g) Ensuring that AUO maintains or has access to sufficient knowledge, skills, experience and competencies needed to fulfil its Charter, and that resources are used efficiently and effectively;
  - (h) Reporting at least annually to the President and the Audit Committee on the adequacy of AUO's resources and organizational independence; AUO's performance relative to its plan; significant risk exposure and control issues, including fraud risks, governance issues, and other matters; and the status of Management actions taken to respond to reported results;
  - (i) Informing IFAD Management and the Audit Committee of emerging trends and practices in internal auditing and investigation activities;
  - (j) Coordinating with IFAD's External Auditors, **with IFAD offices or functions tasked with providing independent assurance to the governing bodies and with IFAD's second-line roles,<sup>5</sup> for the purpose of providing optimal audit coverage at a reasonable overall cost for the purpose of providing proper coverage of risks and avoiding duplication of effort; and**
  - (k) **Coordinating** with external oversight entities and law enforcement authorities, as necessary, for investigation purposes.

## 6. Authority

- 6.1. In accordance with the objectivity, independence and responsibility provisions outlined in this Charter:
  - (a) The Director of AUO may allocate resources within the budget allocated to

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<sup>5</sup> In IIA's Three Lines Model, second-line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations and acceptable ethical behaviour; internal control; information and technology security; sustainability; and quality assurance. Alternatively, second-line roles may span a broader responsibility for risk management such as enterprise risk management (ERM). At IFAD, some of the main second-line responsibilities are assigned to RMO and FCD.

- AUO, establish schedules, select subjects, determine the scope of work, and apply the techniques required to accomplish audit and investigation objectives;
- (b) AUO staff shall obtain all assistance, cooperation and explanations that they deem necessary for the discharge of audit or investigation responsibilities, including unrestricted access to staff, records (except medical records), documents, property, registers, data, systems and assets in the custody or under the control of IFAD or any authority, institution, undertaking or person who is a beneficiary of IFAD operations, to the extent that such right of access is enjoyed by IFAD;
  - (c) AUO may, subject to availability of appropriate resources, provide internal audit and investigation services to entities hosted by IFAD, upon request by the concerned entities;
  - (d) Subject to availability of appropriate resources, AUO may undertake joint activities, cooperate with, or provide support to, other IFAD offices or functions tasked with providing independent assurance to the President, to the Governing Bodies or to external stakeholders. Such collaboration shall take place only if its purpose is compatible with AUO's mission and if the effectiveness, integrity and objectivity of audits and investigations are not impacted and the actual or perceived independence of the AUO Director and staff is not impaired;**
  - (e) AUO may undertake, jointly with the internal oversight functions of other development partners, audits or investigations of activities or programmes jointly funded or implemented by IFAD and such development partners, respecting applicable privacy, legal, confidentiality, sensitivity and security requirements; and
  - (f) AUO may provide information to the Audit Committee to assist it in reviewing the adequacy of risk management and internal controls, the efficiency and effectiveness of internal audit and investigation activities, the results of investigations and sanctions applied, and the adequacy and timeliness of Management responses to the issues identified.

## 6.2. AUO staff are not authorized to:

- (a) Perform any non-AUO operational duty for IFAD, except for capacity development in AUO-related activities;
- (b) Initiate or approve transactions external to AUO;
- (c) Direct the activities of any staff member not employed by AUO, except to the extent that such staff member has been appropriately assigned to AUO or to assist AUO; nor
- (d) Conduct any investigation in which AUO staff may have a direct or indirect personal involvement or interest.

## 7. Professional standards

- 7.1. AUO's internal auditing activities shall be carried out in adherence to the mandatory elements of the International Professional Practices Framework for internal auditing promulgated by the Institute of Internal Auditors (IIA). These comprise the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.
- 7.2. AUO's investigative activities are guided by the Uniform **Principles and Guidelines for Investigations** as endorsed by the ~~Tenth~~ Conference of International Investigators in ~~2009~~, which are applicable to the conduct of

administrative investigations, and by the Uniform Framework for Combating Fraud and Corruption adopted by the International Financial Institutions Anti-Corruption Task Force in September 2006.

## **8. Amendment of AUO Charter**

- 8.1. Proposed amendments to this Charter shall be approved by the President and reviewed by the Audit Committee which may make proposals for the consideration of the President. The finalized Charter shall be approved by the President and submitted for confirmation to the Executive Board.