
Workplan for IFAD’s Office of Audit and Oversight for 2024

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Action: The Executive Board is invited to provide confirmation of the workplan for IFAD’s Office of Audit and Oversight for 2024.

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Contents

I. Introduction	1
II. AUO proposed workplan for 2024	1
A. Risks and audit priorities for 2024	1
B. Proposed workplan for 2024	1
C. Internal audit activities	3
D. Investigation and anticorruption activities	6
III. AUO capacity and resource requirements for 2024	6

Workplan for IFAD's Office of Audit and Oversight for 2024

I. Introduction

1. This paper presents the workplan of the Office of Audit and Oversight (AUO) for 2024 and relevant background information.
2. The President has approved the AUO workplan for 2024. Pursuant to its terms of reference, the Committee may make proposals for the President's consideration. Once finalized, the workplan will be submitted to the Executive Board for confirmation at its session in December 2023.
3. The workplan is being presented to the Audit Committee prior to finalization of the 2024 budget process so that its size and complexity can be duly considered in the Committee's review of the adequacy of AUO's resources and budget proposal for 2024.

II. AUO proposed workplan for 2024

A. Risks and audit priorities for 2024

4. This is the final year of the 2022–2024 strategic planning period. AUO's strategic objectives for the period of the Twelfth Replenishment of IFAD's Resources (IFAD12), as formulated in 2021, have not changed. They consist primarily in AUO providing timely, quality and objective audit and investigation services to Management and the governing bodies. AUO reassessed the audit risk environment in September/October 2023 to gauge the ongoing validity of the previously identified key risks and tentative audit choices. This led to the following considerations for 2024:
 - With the end of the pandemic and the completion of several institutional reform initiatives, AUO lowered the audit priority on related risk areas. However, the organization is still going through a learning and readjustment phase in some areas, such as the recalibration of the Decentralization 2.0 initiative and the reassignment process, which is still creating some volatility in the IFAD process landscape.
 - Some priority risk areas emerged more prominently in the last two years. These include the high vacancy rate (although now on a downward trend), non-sovereign private sector operations, volume of loan/grant undisbursed commitments and external exposures such as cyber risks. More recently, the opportunities and associated risks of artificial intelligence have come to the fore.
 - Not only is 2024 the last year of IFAD12, it is also a transition year towards the IFAD13 period. The expected high volume of new project approvals and preparatory efforts to ensure that the Fund is properly structured to address the IFAD13 priorities and commitments will claim a significant amount of staff time and resources.

B. Proposed workplan for 2024

5. The audit/advisory assignment selection proposed for 2024 in table 1 below is drawn from the updated risk-based audit coverage and considers the AUO staff and non-staff resources as set out in section III. The country programmes selected for audits of supervision in 2024 are set out in the section II(C).

Table 1
Proposed AUO workplan for 2024

Internal audit and advisory

Audit and advisory assignments

- Country and regional offices (5)
- Supervision of country programme audits (6)
- Cross-cutting report on supervision of country programmes
- Management of emergency response and special initiatives (Rural Poor Stimulus Facility[RPSF]/Crisis Response Initiative[CR])
- Governance and management of IT security
- Implementation of the Enterprise Risk Management Framework
- Workforce planning

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 Management committees
 - Provision of comments and input in key proposed projects, products and institutional initiatives
 - Other tasks contributing to institutional risk mitigation
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Investigations and anticorruption

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

- Representation and advocacy at internal and external meetings
 - Maintenance and development of audit and investigation support tools
 - External review of audit/investigation functions (support, implementation of improvements)
 - Staff recruitment, training, evaluation and development
 - Coordination of United Nations and international financial institution (IFI) audit and investigation networks
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6. The business processes/functions listed in table 2 were also identified as audit priority areas and could be replacements for assignments included in the 2024 workplan (should risks/priorities change) or could be taken up in 2025.

Table 2
List of potential alternate audit/advisory assignments for 2024 and 2025

Internal audit and advisory

- Private sector operations
 - Assurance in fragile/conflict-affected settings
 - Business continuity
 - Governance of artificial intelligence
 - Disbursements
 - Mobility framework
 - Asset liability management
-

7. AUO may make changes during the year in response to emerging risks and priorities and will inform the Audit Committee accordingly.

C. Internal audit activities

8. The rationale for the selection is summarized below, along with a description of the expected scope and objectives of the proposed assignments for 2024:
- **Audit of country offices (5).** The decentralization and delegation of authority processes are directly linked to the effective operation of IFAD offices in the relevant country and region. AUO covers this area systematically each year. Five offices will be audited to provide assurance that they have been effectively established and are operating in compliance with IFAD rules and procedures. Given that the existing regional offices in East and Southern Africa (ESA) and West and Central Africa (WCA) have recently been covered, all five audits in 2024 will be of IFAD country offices. These audits will provide critical assurance on the effective use of delegated financial, administrative and operational authorities, which are key to effective management of a decentralized organization. This will also involve assessing the effectiveness of associated second-line checks performed by the Financial Controller's Division and other IFAD entities. In addition, the country office audits will assess the offices' alignment with the United Nations Management and Accountability Framework. The selection of the offices to be audited in 2024 will be driven by transactional volume, years since the last AUO internal audit, audit rating of the last AUO internal audit, type of decentralized office, regional spread, planned parallel audit of country programme, and any particular risks. AUO has a tentative listing of ICOs to be audited; however, their current status of establishment/upgrading is still very fluid so the selection will be finalized in early 2024.
 - **Supervision of country programme audits (6).** Audits of IFAD supervision and the implementation support activities of country programmes will again be a key element of the workplan, continuing to provide assurance that significant fiduciary risks pertaining to programme delivery are being managed effectively, including the antifraud mechanisms. Staff turnover, the constrained supervision resources and the challenging nature of many project areas contribute to these risks. In 2024, rather than review project procurement and financial management as the two primary objectives, the audits will "follow the funds", cutting across both domains and bringing synergies. A slightly reduced emphasis on these areas is merited given the significant corporate process improvements under way. Project external audit will continue to be reviewed as its role has become more important with the transition to interim financial reports for disbursements. The supervision of monitoring and evaluation (M&E) will be a secondary audit objective as recent audits have noted issues with the quality of such data. The audits will continue to provide assurance on financial management and the adherence to the requirements of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP).

Table 3
Supervision of country programme audits for 2024 and 2025

<i>Division</i>	<i>2024</i>	<i>Alternate / 2025</i>
<i>APR</i>	<i>Cambodia</i>	<i>Sri Lanka</i>
<i>ESA</i>	<i>Rwanda</i>	<i>Uganda/Angola</i>
<i>LAC</i>	<i>Argentina</i>	<i>Mexico</i>
<i>NEN</i>	<i>Tunisia</i>	<i>Bosnia and Herzegovina</i>
<i>WCA</i>	<i>Mauritania</i>	<i>Chad</i>
<i>6th choice</i>	<i>TBD</i>	<i>TBD</i>

Note: APR = Asia and the Pacific Division; ESA = East and Southern Africa Division; LAC = Latin America and Caribbean Division; NEN = Near East, North Africa and Europe Division.

The selection of country programmes to be covered in 2024 was based primarily on the active portfolio size and the volume of amounts recently disbursed for the country programme, the time since the last AUO internal audit, and other risk factors such as second-line assessments and indications from the investigation caseload. Considering the expected heavy workload in 2024 of colleagues involved in programme design and supervision, AUO may opt to conduct an audit in one of the alternate priority areas instead of a sixth audit of the supervision of a country programme.

- **Cross-cutting report on supervision of country programmes (advisory).** All observations in the country-specific reports with systemic implications will be grouped into a cross-cutting report in order to share lessons learned and mitigate risks across the broader portfolio.
- **Workforce planning** will mainly focus on the efficiency and effectiveness of the workforce planning controls in the context of vacancy management, but other aspects may also be covered depending on the risk-based scoping of the audit.
- **Management of emergency response and special initiatives (RPSF/CRI).** The RPSF was set up in response to the COVID-19 crisis and led to an investment of US\$89 million across 55 projects. It would therefore be informative to extract any lessons learned that could be of relevance to future initiatives, including the CRI currently under way.
- **Implementation of the Enterprise Risk Management Framework (ERMF).** The IFAD ERMF is now mainstreamed and the Enterprise Risk Management Committee structure is in place and operating. AUO will assess the maturity of the ERMF and its contribution to risk-based decision-making.
- **Governance and management of IT security.** Under this heading the audit assignment will examine risks pertaining to cybersecurity, an area that has consistently been either at the top or nearly at the top of global risk surveys.
- **Testing of internal controls over financial reporting.** The annual AUO assessment of all key controls over financial reporting provides an important insight into the continuing robustness of key financial reporting controls; this becomes increasingly important in the context of ongoing changes and the need to maintain a sound financial standing. This audit will also support the annual Management assertion on the effectiveness of these controls, on which the external auditor provides an opinion. AUO will coordinate with the IFAD external auditor in this area.
- The following audits will provide assurance on adequate and accurate 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 pursuant to 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 related to hosting IFAD's headquarters.
- **Data analytics.** AUO will continue using its capacity for data analytics in the context of the planned audits and share any ad hoc findings with Management. AUO will also use its data analytics experience to provide advisory support to other areas of the organization that are developing similar capabilities for management monitoring or second-line reviews.

Other audits tentatively identified for 2024–2025

- Cross-cutting reports on both country programmes and country/regional offices are foreseen for 2025.
 - **Mobility framework.** The framework was launched in early 2020 as a key instrument for transforming IFAD's workforce. AUO has not yet audited the framework as the process needs time to settle. A further recalibration is planned by Management of the key element of the framework – the reassignment process – for early 2024. AUO will therefore include this as a tentative option for 2025.
 - **Private sector operations.** Private sector operations are steadily growing and are a priority area for IFAD13. This is a relatively new area for IFAD and AUO will assess controls, structure and contribute to preparedness for taking on a more significant portfolio during IFAD13. As reforms are still planned for early 2024 in this area, AUO is timing its intervention for 2025.
 - **Business continuity** is included in the tentative 2025 assignment list; however, an external study of business continuity has just been completed and work in this area would only be required if the gaps identified are not addressed effectively.
 - **Artificial intelligence** has been expanding rapidly and represents a major opportunity with several key risks, including data protection, bias and intellectual property rights.
 - The Corporate Risk Dashboard (CRD) has identified a strategic risk of project approvals consistently being higher than disbursements, resulting in a **growing undisbursed balance of project commitments**.
 - Recent audits of IFAD supervision have highlighted the challenges of **gaining assurance over use of funds in fragile and conflict-affected settings**. A tentative assignment could be to compile lessons learned in this area and examine how technology can be used to innovate practices.
 - Having already covered liquidity management (2022) and capital adequacy (draft report status currently for finalization in 2023), which are the two key risks, an audit of **asset and liability management** would review the processes and tools to optimize and sustain IFAD's balance sheet.
9. **Advisory.** In addition to its role as an observer in 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. AUO will continue to actively follow up and report on outstanding audit recommendations and will support Management in determining necessary improvements and corrective measures. It will continue to work closely with the audit entities of other

United Nations agencies and IFIs to ensure coordinated audit approaches and effective information-sharing. In particular, AUO is co-chairing a working group with UNESCO to drive innovation within internal audit functions in the United Nations system.

D. Investigation and anticorruption activities

10. The key priorities of the AUO investigation section in 2024 remain the same: (i) to ensure timely, effective investigation of allegations; and (ii) to maintain strong collaboration with other IFAD divisions in mitigating fraud/corruption risks at an early stage. To this end, AUO is implementing the improvements identified through the external review of the IFAD investigation function and will continue to do so during the first semester of 2024.
11. AUO will continue supporting the implementation of the anticorruption policy in collaboration with the responsible offices and continue to liaise closely with the Ethics Office in handling allegations of sexual harassment, sexual exploitation and abuse. AUO will continue to work closely on such matters with the investigative entities of other United Nations agencies and IFIs.

III. AUO capacity and resource requirements for 2024

12. The proposed AUO budget for 2024 is US\$2.77 million (2023 actual US\$2.68 million) of which US\$403,000 for non-staff resources. All AUO staff positions funded from the regular budget (6 audit, 7 investigations, 2 front office positions) are encumbered. In addition, two associate audit officers are funded by Member States through the Joint Professional Officer Programme, with their term ending in 2024. The proposed non-staff budget 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. The amount is slightly lower than previous years, but AUO will strive to deliver its plan through more economical arrangements for travel and consultants.
13. AUO will continue to build its capacity to meet its core mandate through training in technical areas and through enhanced audit and investigation tools. This will also involve the implementation of the remaining recommendations from the external review of the IFAD investigation function and from the external quality assurance (EQA) review on the IFAD internal audit function. The overall rating of the 2023 EQA is "generally conforms" with current internal auditing standards – the highest possible rating – with some areas noted for improvement. The full EQA report will be shared with the Committee at its subsequent meeting together with an action plan for addressing the EQA recommendations.
14. As endorsed by the Executive Board, AUO will administratively house the impartial review process, an element of the enhanced complaints procedure for alleged non-compliance with IFAD's SECAP. No specific issues have been escalated to AUO through this mechanism so far in 2023 to trigger the recruitment of the SECAP complaints officer. AUO will propose that an additional budget provision be allocated to AUO to cover the eventuality of a SECAP complaint being escalated to the impartial review process in 2024. This is separate from the resources required to support the AUO workplan for 2024.