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## **Amendment to the Charter of the IFAD Office of Audit and Oversight**

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**Useful references:** Revision of the Charter of the IFAD Office of Audit and Oversight ([EB 2021/134/R.49](#)); Workplan for IFAD's Office of Audit and Oversight for 2024 ([EB 2023/140/R.8](#)); Annual report on the activities of the Office of Audit and Oversight during 2023 (EB 2024/141/R.4).

**Action:** The Executive Board is invited to confirm the amended Charter of the IFAD Office of Audit and Oversight, as reviewed by the Audit Committee and approved by the IFAD President.

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**Technical questions:**

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# Amendment to the Charter of the IFAD Office of Audit and Oversight

## A. Introduction

1. The IFAD Office of Audit and Oversight (AUO) comprises the internal auditing and investigation functions. The audit activities of AUO are conducted in conformity with the Code of Conduct and International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA). The IIA standards require that AUO has a formal Charter that defines AUO's purpose, authority and responsibilities. The Charter establishes AUO's position within the organization; authorizes access to records, personnel and physical property relevant to the performance of engagements; and defines the scope of its activities. The AUO Charter also 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 2021. The revised Charter is set out in the annex and the amendments to the Charter are reflected as follows: deleted text with strikethrough, added text underlined. The proposed changes:
  - Introduce a term limit to the appointment of the Director of AUO of a period of four years renewable once, after which he/she shall not be eligible for a staff appointment in IFAD; and
  - Reflect changes to the International Professional Practices Framework (IPPF) for internal auditing promulgated by the IIA, which now comprises the newly released Global Internal Audit Standards (incorporating principles and standards on ethics and professionalism), topical requirements (for specific audit engagements) and global guidance.
3. **Term limit (section 4.1 of the Charter).** The 2023 External Quality Assessment of the AUO internal audit function recommended introducing term limits to the appointment of the Director of AUO. This suggestion is in line with the practices of most United Nations agencies and international financial institutions (IFIs) and is aimed at enhancing the independence of AUO and of its Director. AUO conducted a benchmarking exercise of such policies. The findings indicated that:
  - Most United Nations agencies and IFIs apply a limit to the term of the Chief Audit Executive (who also heads the investigation function in United Nations agencies but not in IFIs);
  - Common term arrangements include:
    - Five years, renewable once (several United Nations funds and programmes and IFIs) with one United Nations programme having a four-year term, renewable once;
    - Six or seven years non-renewable (some United Nations specialized agencies).
4. The President has approved that a four-year term, renewable once, be adopted for the appointment of the Director of AUO, and this is submitted for confirmation by the Executive Board, after the review of the Charter by the Audit Committee. The revised Charter further stipulates that the Director of AUO shall not be eligible for a staff appointment in IFAD thereafter. These term limits are aligned to those in place for other term-limited positions in IFAD (the President, and the Chief, Ethics Office).
5. **IPPF-related changes.** The changes are primarily related to terminology and impact sections 2, 3 and 7 of the Charter.

# Charter of the IFAD Office of Audit and Oversight - 2024

## 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 and purpose

- 2.1. Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organization's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The purpose of AUO's internal auditing activity is to strengthen IFAD's ability to create, protect and sustain value by providing IFAD's governing bodies and Management with independent, risk-based and objective assurance, advice, insight and foresight. It aims to enhance IFAD's successful attainment of its objectives, its governance, risk management and control processes, its decision-making and accountability, its reputation and credibility with its stakeholders and its ability to serve the public interest.
- 2.2. Investigation is a fact-finding exercise of an administrative nature by which investigators gather all information that will either substantiate or refute an allegation. The purpose of AUO's investigation activity is to strengthen IFAD's ability to protect and sustain value; and enhance IFAD's successful attainment of its objectives, its risk management and control processes, its decision-making and accountability, its integrity and ethical environment, its reputation and credibility with its stakeholders, and its ability to serve the public interest by investigating allegations of prohibited practices<sup>1</sup> in IFAD-financed activities, as well as allegations of staff misconduct and by actively promoting ethics, accountability, quality and continuous improvement in IFAD operations.

## 3. Scope of work

- 3.1. As one of IFAD's third line functions,<sup>2</sup> the scope of AUO's internal audit activity covers the entire breadth of IFAD's activities, including all assets and personnel, and 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

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<sup>1</sup> Defined in the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2018/125/R.6) as corrupt, fraudulent, collusive, coercive and obstructive practices.

<sup>2</sup> The Institute of Internal Auditors' (IIA) 'The Three Lines Model' defines the 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": Independent and objective assurance and advice on all matters related to the achievement of objectives.

- d) Programmes, plans and objectives are achieved.<sup>3</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 AUO assuming management responsibility for such improvements.
- 3.3. The scope of AUO investigation activities includes all matters related to prohibited practices by entities, contractors and individuals in activities financed and/or managed by IFAD directly or through its loans and grants;<sup>4</sup> and unacceptable behaviour, unsatisfactory conduct and/or misconduct by IFAD staff and persons hired by IFAD under non-staff contracts, which includes but is not limited to prohibited practices and acts of sexual harassment or sexual exploitation and abuse; failure to observe prescribed regulations, procedures, including 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 appointment of the Director of AUO shall be for a period of four years renewable once, with ineligibility to be hired by IFAD under any contract at the end of either of the terms.
  - (b) 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).
  - (c) The President ensures that AUO is provided with the necessary staffing and budgetary resources to achieve its mission and maintain its independence.
  - (d) 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.
  - (e) 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.
  - (f) Individual internal audit reports may be provided to the Audit Committee and to Executive Board representatives upon request, in accordance with the

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<sup>3</sup> This excludes evaluation activities that fall clearly within the scope of the Independent Office of Evaluation of IFAD.

<sup>4</sup> Consistent with the revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2018/125/R.6).

internal audit report disclosure procedure,<sup>5</sup> respecting privacy, legal, confidentiality, sensitivity and security requirements.

- (g) 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.
- (h) 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.
- (i) The President consults with the Audit Committee on the appointment, renewal, 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 prohibited practices or misconduct in IFAD activities and operations;
- (e) Conducting and/or monitoring investigations into credible allegations or knowledge of prohibited practices or misconduct 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;

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<sup>5</sup> Audit Committee members and Executive Board representatives are informed of recently issued internal audit reports in advance of Audit Committee meetings. AUO provides access by posting the report on a restricted section – accessible to the Committee and, by request, to 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. 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.

- (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>6</sup> 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 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 the purpose of such activities 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

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<sup>6</sup> IIA 'The 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.

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 Global Internal Audit Standards (incorporating principles and standards on ethics and professionalism) and the topical requirements for specific audit engagements.
- 7.2. AUO's investigative activities are guided by the Uniform Principles and Guidelines for Investigations as endorsed by the Conference of International Investigators, 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.