IFAD

Enabling poor rural people
to overcome poverty

Workplan for IFAD's Office of Audit and Oversight for 2010

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Review**

Note to Executive Board members

This document is submitted for confirmation by the Executive Board.

To make the best use of time available at Executive Board meetings, representatives are invited to contact the following focal point with any questions about this document before the meeting:

Carman L. Lapointe
Director, Office of Audit and Oversight
telephone: +39 06 5459 2791
e-mail: c.lapointe@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra
Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Contents

Workplan for IFAD's Office of Audit and Oversight for 2010

I. Introduction

1.   The Office of Audit and Oversight (OA) 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 and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.   OA 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.   OA is committed to strengthening organizational effectiveness, a key element of the IFAD Strategic Framework 2007-2010 and to achieving the objectives set for the Eighth Replenishment period and the corporate management results. Organizational effectiveness entails efficiently managing the Fund's budget, human resources and internal processes, as well as fostering a culture of accountability and integrity in IFAD activities and operations. The pursuit of these institutional goals is the guiding priority for OA in shaping its annual plan.

4.   This report presents the workplan of IFAD's Office of Audit and Oversight for 2010, together with the basis upon which it was developed. It has been discussed with Senior Management and approved by the President. The activities outlined in the workplan are intended to assist Management and the Audit Committee of the Executive Board in determining whether the internal controls related to financial administration and internal oversight are adequate. The Audit Committee may, in accordance with its terms of reference, make proposals regarding the workplan for the consideration of the President.

II. Internal Audit assurance and advisory activities

Nature of internal audit activities

5.   In conducting internal audit assurance activities, OA determines the scope of its work independently based on risks by generally assessing whether IFAD's risk management, control and governance processes are adequate to ensure that:

- Financial, managerial and operational information is accurate, reliable and timely;

- Activities comply with policies, standards, procedures, agreements, and applicable laws and regulations;

- Assets and resources are acquired, utilized and protected appropriately; and

- Programmes, plans and objectives are achieved.

6.   Assurance reports include an overall audit opinion, communicating the significance of the audit results. Overall opinions classify audit results as **satisfactory**, **needs improvement** or **unsatisfactory**, indicative of the following:

- **Satisfactory:** Risk management, control and governance processes are adequate and effective to provide reasonable assurance regarding the achievement of control and/or business objectives under review. Nevertheless, opportunities for improvement may exist.

- **Needs Improvement:** Deficiencies exist in risk management, control or governance processes, such that reasonable assurance regarding the achievement of control and/or business objectives under review may be at risk.

- **Unsatisfactory:** Significant and/or pervasive deficiencies exist in risk management, control or governance processes such that reasonable assurance regarding the achievement of control and/or business objectives under review cannot be provided.

7. The nature and scope of advisory services are agreed with Management and may involve providing advice or analyses to promote improvements, without assuming management responsibility for implementing processes, in order to avoid conflicts of interest. Advisory reports do not include an overall opinion but may, nevertheless, include recommendations that require OA follow-up.

Risk assessment as the basis for the audit workplan

8. In accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, and following the practice of previous years, OA has prepared the 2010 plan on the basis of a risk assessment exercise. This involved consideration of various sources of input, including the following:

- Financial implications (materiality) of operations;

- Key objectives of the Eighth Replenishment and corporate management results;

- Emerging issues in the minutes of Senior Management (the Executive Management Committee [EMC] and Operations Management Committee [OMC]) and Audit Committee meetings;

- Corporate risk registers and the corporate risk profile;

- Distribution of open and overdue audit recommendations;

- External audit workplans and reports;

- History of internal audit activities (or absence thereof) and accumulated concerns in each area; and

- Discussions with EMC members.

9. This year's risk assessment also benefited from OA's participation in the Enterprise Risk Management process that culminated in the discussion and formulation of a corporate risk profile. The corporate risk register was also refined and updated through a series of intensive workshops carried out during the second half of 2009.

Internal audit activities planned

10. In addition to completing five audit engagements initiated in 2009, 13 assurance engagements and four advisory engagements are proposed for the 2010 plan. Assurance engagements include a series of narrowly focused follow-up reviews in areas where high priority OA recommendations remain long overdue. Some audit activities will benefit from a combination of investigative and audit skills. Furthermore, opportunities are being explored for collaboration with the audit functions of the two other Rome-based agencies in the development of standard methodology for auditing country programmes. The objective, if practicable, is the pooling of resources to conduct these audits.

11. OA will continue to provide advice and input to various working groups and committees in IFAD through ongoing membership, in either an **observer or an advisory support capacity**. These include the Enterprise Risk Management Committee, the Country Presence Working Group, the Working Group on Knowledge Management and Innovation, the Information Technology Governance Committee, the Contracts Review Committee, and the Property Survey Board. In addition, the OA Director attends meetings of the OMC and the Investment and Finance Advisory Committee. OA will also support additional ad hoc committees, as appropriate, in its efforts to prioritize support to the organization in addressing emerging risks and challenges in a timely manner.

III.   Investigation activities

12.   Within OA, the Investigation Section is mandated[1] to receive and investigate all matters related to irregular practices in IFAD activities and operations. Irregular practices include staff misconduct, as well as fraud and corruption in relation to entities, contractors and non-staff individuals applying for or participating in IFAD-financed projects or headquarters-related contracts.

13.   The main activities of the Investigation Section for 2010 will include promoting and advocating for IFAD's anticorruption policy, conducting and administering investigations, and serving as secretariat to the Sanctions Committee. The strategy of engagement and collaboration combined with training for the Programme Management Department and project staff that characterized activities of the unit in 2008 and 2009 will continue. In addition, OA plans to increase its visibility in field operations by developing an anticorruption and audit training module, which will include case studies based on actual IFAD experiences, to more effectively engage project staff.

14.   The Investigation Section will also work to improve accessibility of anticorruption materials to both IFAD staff and project staff, including distributing information through electronic channels and promoting the involvement of civil society representatives to monitor, prevent and report corruption during project implementation. OA will also continue to encourage OE to develop evaluation methods aimed at assessing the impact of corruption on IFAD's capacity to fulfil its mission of alleviating poverty.

IV.   Workplan for 2010

Planning risks

15.   The nature of audit and investigation work makes it difficult to predict the actual level of effort required to conclude individual engagements. All assignments may be subject to rescheduling or reconsideration of priority and scope at the time of initiation, based on a preliminary review of conditions and the availability of skilled persons to carry out the assignments. The modest size of OA limits its ability to maintain sufficient in-house capacity to conduct all of the work; therefore, consulting and short-term expertise is used as a supplement.

16.   Furthermore, staff turnover is unpredictable, and, while turnover is generally healthy (particularly when staff rotate within the organization), market conditions and staffing processes affect the time it takes to replace staff. OA is benefiting for a third consecutive year from the services of an Associate Professional Officer (APO) in the Investigation Section, a resource provided by Germany against a commitment to fund this position for the fourth year. This needs to be taken into account in terms of staffing and related budget implications. In order to compensate, we have solicited candidates for an APO auditor with IT skills to replace an auditor who will retire in April. If the search is unsuccessful, then alternative cost-effective staffing strategies will be explored; this includes hiring consultants or short-term staff or proposing formal exchanges in the interests of capacity development.

17.   The OA workplan for 2010 has been set aggressively, given the staffing context. Nevertheless, it should be viewed as a rolling plan such that a constant pipeline of activities is ongoing. The proposed activities are set out in the table below.

---

[1] President's Bulletin 2007/02 of 21 February 2007, section 2.4.1.

Table
OA workplan for 2010

	Percentage	*Number of staff days*
Internal audit activities	**53**	**1 000**
Internal audit assurance engagements		
1. Direct supervision of projects – implementation support[a][b]		
2. Delegation of authority and decision-making processes[a]		
3. Debt Sustainability Framework grants[a]		
4. Business continuity and recovery[a]		
5. Suitability of employment contract instrument[a]		
6. IT network security		
7. Headquarters procurement		
8. Accounting items requiring Management estimates or assumptions		
9. Entity-level review of control environment		
10. Travel expense claims		
11. Develop and pilot a standard methodology for auditing country programmes		
12. Certification of expenditure to be reimbursed by the Government of Italy		
13. OP expenses		
14. Follow-up communications strategy and service		
15. Follow-up consultant management		
16. Follow-up grant management, supervision, record-keeping		
17. Follow-up country presence memorandum of understanding		
18. Follow-up assessment of national procurement systems in appraisal		
Internal audit advisory engagements		
19. Develop field staff anticorruption and audit training module		
20. Advisory on Human Resources reform output		
21. Benchmarking of cost of evaluation		
22. Develop testing structure for management assertion on internal controls over financial reporting		
Investigation activities	**26**	**480**
Implementation of IFAD's anticorruption policy (see also 19 above)		
Investigative work		
Administrative support to investigations and sanctions processes		
Office management and capacity-building	**21**	**400**
Office capacity-building		
Staff training and development		
Representation in internal and external meetings		
Office management and administration		
Total OA staff days[a]	**100**	**1 880**

[a] Assumes replacements for investigation and audit officers.
[b] Project in progress at beginning of 2010.

Audit activities from 2009 to be completed in 2010

18. The audit of **direct supervision and implementation support** was substantially completed in 2009, with the reporting process expected to be completed during the first quarter of 2010. This audit maps relevant processes and builds on previous audits of the direct supervision procurement and disbursement processes to help mitigate the risks associated with this major institutional initiative.

19. A study was conducted in 2009 on the structure of **delegation of authority and decision-making processes**, the final report for which will be issued in early

2010. This work will contribute to efforts to strengthen accountability and improve the quality and speed of decision-making.

20. A review of the effectiveness of financial management processes and the adequacy of fiduciary oversight requirements for grants under the **Debt Sustainability Framework** was performed in the last part of 2009, and the report will be finalized in the first quarter of 2010. This area was audited because of the high monetary value and potentially unrecognized inherent risk in this new type of grant funding.

21. An audit on **business continuity and recovery** was performed during the latter months of 2009, and the report will be issued in early 2010. It is important to periodically review the adequacy of IFAD's business continuity and recovery capability as a reflection of the organization's capacity to use resources efficiently, while minimizing risks to the security and stability of IFAD's operations, staff and property.

22. OA has begun an audit on the **suitability of employment contract types**, with compliance testing yet to be completed. The report process is expected to be finalized in the first half of 2010. This work is being undertaken in close cooperation with the Human Resources Division (FH) to ensure that it can support ongoing human resource reforms.

Internal audit assurance engagements proposed for 2010

23. Originally part of the 2009 plan, an assessment of the status of the **IT network security** was delayed until appropriate expertise can be arranged and as a result of changes in audit priorities during the year. IT technology and structures have dramatically changed in recent years. This area has not been audited since 1999, and will therefore be given high priority in 2010.

24. Although OA is an observer on the Contracts Review Committee, **headquarters procurement** was included in the 2009 plan, as it had not been audited since 1999. The assignment commenced in January and will be completed during the first quarter of 2010. The audit will cover recent developments, such as the introduction of e-tendering, with assistance from investigation staff.

25. A review of **accounting items requiring Management estimates and assumptions** is proposed for 2010 due to the materiality of these items, and because they have never specifically been audited outside the annual external audit process. The Office of Audit and Oversight will need to understand how these items are managed in anticipation of supporting Management's assertions on internal controls over financial reporting.

26. An **entity-level review of the control environment** is needed to ensure that there is ample time to address and verify any potential weaknesses before OA is required to support Management's assertion on financial reporting. Although elements of the control environment are regularly touched upon indirectly in the context of most internal audits, the control environment as a whole has never been assessed in a structured and comprehensive manner by OA.

27. A compliance review of **travel expense claims** is required periodically because of its inherent risk and potential for fraud. This is also an audit activity that will be assisted by the Investigation Section for data-mining and continuous auditing opportunities.

28. **The development and piloting of a standard methodology for auditing country programmes** are proposed for 2010 because: (a) there is a high materiality of country programme management in the 2010 budget; (b) two of IFAD's 10 corporate management results (CMR) relate to improving project design and supervision; and (c) OA did not audit country programmes prior to IFAD's implementation of direct supervision. A standardized country programme audit regime would promote the application of IFAD's zero-tolerance anticorruption

policy, as well as assess the effectiveness of IFAD's country presence. Such a programme would focus on procurement actions, disbursements, supervision and project audit reports as triggers for effective coordinated interventions at the earliest possible stage. This assignment will be a joint initiative with the Investigation Section. Opportunities for collaboration with the other Rome-based agencies will be explored.

29. Two recurrent audit activities – **expenses for the Office of the President** and **certification of expenditures for the Italian Government's reimbursement** – are also included.

30. A series of focused **follow-up audits** are planned for areas where high-priority recommendations have been outstanding for extended periods of time. It will be useful to reassess outstanding issues to determine whether risks have been partially or fully mitigated by process changes or other compensating measures, or to reconfirm more clearly the priority for actions to address the risks. These areas are:

- **Communications strategy and service;**
- **Consultants management;**
- **Grant management supervision and record-keeping;**
- **Country presence memoranda of understanding arrangements;** and
- **Assessment of country financial management systems during appraisal** (specifically procurement, the use of internal and external audit, and the choice of external audit standards).

Internal audit advisory engagements proposed for 2010

31. OA plans to develop an **anticorruption and audit training module** for delivery to staff, project implementation teams and others in headquarters and in the field. This module will build awareness and help overcome reluctance, uncertainty and other barriers to coming forward with information and allegations about corruption in IFAD operations. It will also help to mainstream IFAD's anticorruption policy and support capacity development for project supervision. Similar to the methodology for auditing country programmes, this module will be developed jointly by both the Audit and the Investigation Sections.

32. The ongoing **HR reform programme** represents one of the key institutional initiatives and represents two of the top three corporate risks. OA may be able to provide business analytical input and a cross-organizational view of processes. Substantial budgetary investment is planned in 2010 for this area, and there are a number of related open high-priority audit recommendations.

33. An unplanned ad hoc review was performed during 2009 to understand the contributing factors to the apparently high cost of the independent Office of Evaluation function in IFAD. The original intention was to benchmark these costs with other similar institutions, but it was decided to defer this work, pending the results of the external Peer Review, to determine the extent to which this might be duplicative. **Benchmarking of the costs and certain HR management practices** is now being carried out through the audit functions of comparator organizations.

34. OA consulted with the Financial Services Division during 2009 in relation to their progress in documenting **internal controls over financial reporting** in preparation for Management's providing an assertion on these controls. OA's development of a process for testing these controls, on behalf of Management, to promote the eventual use of this work by the external auditors, was delayed pending further progress in the documentation exercise. This will be attempted again in 2010.

V. OA budget and resources

35. OA has been provided with budgeted resources for 2010 of US$1,602,400 compared with US$1,454,100 for 2009, representing an increase of 10.2 per cent. Staff costs account for 90 per cent of OA's budget.

36. Expenditures related to internal auditing will account for approximately 73 per cent of the resources, while investigations will consume 27 per cent of the total.