

EBAP/09/83

May 28, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **The Internal Audit Function in the Fund—2009 Activity Report and Background Information**

The attached paper, which presents an activity report and background information on the internal audit function in the Fund, provides background for an informal briefing of Executive Directors on Control and Audit Related Matters on **Friday, June 5, 2009**, and is circulated for the **information** of Executive Directors.

This paper is intended for the use of the Executive Board only. The staff does not propose the publication of this paper after the informal briefing.

Questions may be referred to Mr. Potter (ext. 35669) and Mr. Nelson (ext. 38132) in OIA.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

**The Internal Audit Function in the Fund: 2009 Activity Report
Background Information**

Prepared by the Office of Internal Audit and Inspection

Approved by Barry H. Potter

May 27, 2009

1. **The attached tables and appendices are circulated as background to the informal briefing of the Executive Board on the work of the Office of Internal Audit and Inspection (OIA) scheduled for June 5, 2009.** A PowerPoint presentation will be given at the briefing.
2. **Information is provided in this paper on: the OIA work program; the main issues and findings emerging from OIA audits and reviews; and the status of implementation of audit recommendations.**¹
3. **The tables are as follows.**
 - Table 1 sets out the OIA budget and resource allocation for the period FY 2008–FY 2011.
 - Tables 2 and 3 provide a list of all audits and reviews carried out or underway in FY 2009 and FY 2008, respectively.
 - Tables 4 and 5 summarize progress in implementing the recommendations outstanding in recent years and the status of outstanding recommendations, respectively.
4. **The appendices contain the following information.**
 - Appendix I: A summary of individual audits completed since the last report to the Executive Board.
 - Appendix II: A description of OIA’s audit planning approach.
 - Appendix III: A list of recent developments in professional practices.

¹ *Control- and Audit-Related Matters—Information Sharing with the Executive Board* (FO/DIS/05/153, 12/20/05, and EBM/06/17, 2/22/06).

Table 1. OIA FY 2008-FY 2011 Budget and Resource Allocation

	FY 2008	FY 2009		FY 2010 Budget	FY 2011 Budget
		Budget	Est. 1/		
		(In FTEs)			
Staff	19.2	16.5	13.3	15.5	14.5
Contractuals	0.9	0.5	1.3	2.5	3.5
Total employment	20.1	17.0	14.6	18.0	18.0
		(In \$ million)			
Total resources	4.82	4.36	3.57	4.44	4.53
		(In percent)			
Support services	96	96	97	97	97
Audits, reviews, and risk management	80	81	77	76	76
Other 2/	16	15	20	21	21
Governance 3/	2	3	3	3	3
Other	2	1	0	0	0

Source: OIA and OBP.

1/ FTEs are net of regular staff that chose to separate under the voluntary separation scheme but continued to work in the department at least part of the year (2.3 FTEs).

2/ Includes training of staff to maintain audit certifications as well as general administration and overhead.

3/ Includes reporting to management, the External Audit Committee (EAC), and the Executive Board, and coordinating with the Fund's external auditors.

Table 2. OIA Audits and Reviews, FY 2009
(As of April 30, 2009)

Project Title	Project Originated From	Project Status in FY 2009
Financial		
1. Compliance Review of Service Contracts	FY 2008 Work Plan	Completed
2. Financial Review of Benefits and Allowances	FY 2008 Work Plan	Completed
3. Compliance Review of Travel Expenditures	FY 2008 Work Plan	Completed
4. Controls over the Calculation of Reimbursements and Revenues (Including PRGF-ESF Trust)	FY 2009 Work Plan	Completed
5. Financial Operations of Concordia	FY 2009 Work Plan	Completed
6. Financial Statements of the Per Jacobsson Foundation	FY 2009 Work Plan	Completed
7. Controls over Payments of Separation Benefits	FY 2009 Work Plan	Completed
8. Compensation Review	FY 2009 Work Plan	Completed
9. Review of the Documentation of Controls over Salary and Benefit Payments in HRD	FY 2009 Work Plan	Ongoing
10. Controls over the Inventory of Furniture, Equipment and Supplies	FY 2009 Work Plan	Ongoing
11. Review of Cash and Check Handling	FY 2009 Addition	Ongoing
Information Technology		
1. Controls on Confidentiality of Fund information	FY 2008 Work Plan	Completed
2. IT Controls in Budget Management Systems and Practices	FY 2008 Work Plan	Completed
3. High Availability, Storage Management, and Redundancy in Critical Infrastructure	FY 2008 Work Plan	Completed
4. Security Review of iFIN	FY 2009 Work Plan	Completed
5. Handling of Sensitive Information	FY 2009 Work Plan	Completed
6. Software Asset Management	FY 2009 Work Plan	Completed
7. Security review of PeopleSoft Financials (FACTS)	FY 2009 Work Plan	Completed
8. Review of Network Security	FY 2009 Work Plan	Postponed
Operational and Effectiveness		
1. Costs of Bank-Fund Meetings	FY 2009 Work Plan	Completed
2. Controls over selected RTAC administrative practices	FY 2009 Work Plan	Completed
3. Tax Allowances	FY 2009 Work Plan	Ongoing
4. IT Offshoring	FY 2009 Work Plan	Ongoing
5. Follow-up on the Zero-Based Review of TGS - Implementation	FY 2009 Work Plan	Ongoing
6. Review of the Fund's Capital Budget	FY 2009 Work Plan	Ongoing
Other Reviews 1/		

Source: Office of Internal Audit and Inspection.

1/ Three investigations were completed.

Table 3. OIA Audits and Reviews, FY 2008

Project Title	Project Originated From	Project Completed In
Financial		
1. Documentation of Controls of Key Financial Systems	FY 2007 Work Plan	FY 2008
2. Review of the Investment Account	FY 2008 Work Plan	FY 2008
3. Compliance Review of Service Contracts	FY 2008 Work Plan	FY 2009
4. Financial Review of Benefits and Allowances	FY 2008 Work Plan	FY 2009
5. Controls over Currency Holdings in the GRA	FY 2008 Work Plan	FY 2008
6. Financial Reporting of Selected Accounts	FY 2008 Work Plan	FY 2008
7. Controls over Appointment and Remuneration of TA Experts	FY 2008 Work Plan	FY 2008
8. Financial Statements of the Per Jacobsson Foundation	FY 2008 Work Plan	FY 2008
9. Compliance Review of Travel Expenditures	FY 2008 Work Plan	FY 2009
10. Review of Controls and Procedures over Other Expenditures	FY 2008 Work Plan	FY 2008
11. Review of SRP and SBF Reforms	Special Review	FY 2008
Information Technology		
1. Review of Progress on IT Management	FY 2007 Work Plan	FY 2008
2. Controls on Confidentiality of Fund information	FY 2008 Work Plan	FY 2009
3. Controls in Budget Management Systems and Practices	FY 2008 Work Plan	FY 2009
4. Review of the Enterprise Automated Provisioning System	FY 2008 Work Plan	FY 2008
5. High Availability, Storage Management, and Redundancy in	FY 2008 Work Plan	FY 2009
6. Review of the Annual Meetings System Replacement IT Project	FY 2008 Work Plan	FY 2008
Operational and Effectiveness		
1. Zero-based Review of EXR	FY 2007 Work Plan	FY 2008
2. Zero-based Review of SEC	FY 2007 Work Plan	FY 2008
3. Review of the Official Communications Distribution Group and Communications Center	FY 2008 Addition	FY 2008
4. Continuous Auditing	FY 2008 Work Plan	FY 2008
5. Zero-based Review of HRD	FY 2008 Work Plan	FY 2008
6. High-level Zero-based Review of Area Departments	FY 2008 Work Plan	FY 2008
7. Effectiveness of Follow-up on Implementation of TA	FY 2008 Work Plan	FY 2008
8. Review of the Resident Representative Program	FY 2008 Work Plan	FY 2008
9. Commitment Risk in External Donor Financing	FY 2008 Work Plan	FY 2008
10. Review of the Framework for Conducting Investigations	FY 2008 Work Plan	FY 2008
11. Review of the Financial Certification and Disclosure Program	FY 2008 Work Plan	FY 2008
Other Reviews 1/		

Source: Office of Internal Audit and Inspection.

1/ Two investigations were completed.

Table 4. Outstanding Recommendations, October 2006-April 2009 1/

	Mid- FY 2007	End- FY 2007	Mid- FY 2008	End- FY 2008	Mid- FY 2009	End- FY 2009
Outstanding recommendations at beginning of period	114	117	56	66	58	55
Plus: New recommendations	47	19	45	22	26	25
Minus: Recommendations closed	44	80	35	30	29	24
Equals: Outstanding recommendations	117	56	66	58	55	56

Source: Office of Internal Audit and Inspection.

**Table 5. Outstanding recommendations by Impact and Financial Year
(As of April 30, 2009 1/)**

	Issued in Financial Year				Cumulative
	2006	2007	2008	2009	
Total outstanding recommendations	1	7	12	36	56
High impact		1	5	9	15
Medium impact	1	6	7	27	41

Source: Office of Internal Audit and Inspection

1/ Data are based on the most recent available status update (i.e. April 30, 2009). Updated information on each reportable recommendation is requested from the auditees every six months.

The classification of OIA recommendations into high, medium, and low impact is described in OIA's Policies and Procedures Handbook (available on OIA's website).

Reportable recommendations comprise high and medium impact recommendations only.

Appendix I. Summaries of Audits and Reviews Completed Since End-FY 2008

A. Financial Audits and Reviews

1. Compliance Review of Service Contracts (July 2008)

Objectives and Scope

The audit reviewed the management of contracts with certain providers of services to the Fund. Thirty-four contracts were selected for inclusion from a total of 284 active service contracts. The service contracts audited included building maintenance, security, mail services, temporary staffing, etc, related to expenditures of some \$36 million per annum. The audit's objectives were to identify whether the effectiveness of contract management could be improved and if so, how.

Main Issues and Findings

The review noted that a restructuring of the Fund's procurement function to strengthen contract management was already underway in TGS. OIA recommended that the restructuring should focus on strengthening process and controls in three functional categories: (i) contract administration, including the clarification of roles and responsibilities; (ii) invoice processing, including exercising the right to audit; and (iii) developing contract closeout procedures.

2. Financial Review of Benefits and Allowances (July 2008)

Objectives and Scope

The review assessed whether the policies approved by the Executive Board on education allowances, resettlement allowances, the Separation Benefits Fund (SBF), separation grants, spouse and child Allowances, tax allowances, the G-5 program (for foreign domestic employees of G-4 staff) and the Medical Benefits Plan (MBP) were properly administered and the associated transactions appropriately processed.² The staff benefits reviewed covered some 8 percent of FY 2007 gross administrative expenditures, i.e., \$75 million.

² In the case of the MBP, however, the review was limited in scope to the determination and implementation of the revised staff contribution to the plan.

Main Issues and Findings

The review concluded that the relevant benefit policies were to a very large degree properly administered and transactions accurately processed. This included confirmation that the revised contribution for staff members established under the 2007 MBP was properly implemented and controlled. However, the review also concluded that controls over the calculation of SBF payments needed to be strengthened; HRD was asked to put in place remedial measures, to come into effect for staff separations under the downsizing initiative (see item 7).

3. Compliance Review of Travel Expenditures (July 2008)

Objectives and Scope

The audit reviewed business travel expenditures recorded during the first half of FY 2008 to ensure that: (i) controls were in place within departments to process appropriately travel expenses before payment by FIN; (ii) travel expenses paid were in compliance with existing travel policies (as applied prior to changes implemented in FY 2008 and FY 2009); and (iii) system access rights of staff to information on and transactions related to travel were consistent with their specific responsibilities. The audit excluded the evaluation of controls over the approval of travel authorizations.

Main Issues and Findings

OIA did not find any significant errors in the reimbursement of travel expenses to staff. The audit concluded that departments generally have adequate controls over the processing and control of business travel expenses, before payment by FIN. However, OIA recommended a better delineation of the control structure in smaller departments to ensure proper segregation between processing and approval of business travel requests and claims. OIA also noted that the introduction of the dollar budgeting process and adoption of the Fund's travel policy in the Offices of the Executive Directors (OED) represented an important step in harmonizing practices; some additional travel guidelines could be useful in OED to assist compliance with GAO No. 4.

4. Controls over the Calculation of Reimbursements and Revenues (including PRGF-ESF Trust) (December 2008)

Objectives and Scope

The Fund derives a small amount of its income from a number of so-called revenue and reimbursement mechanisms. The review examined whether some \$30 million of such revenues received from sales, commissions and certain specific charges, and reimbursements

from third parties were (i) adequately controlled; (ii) adequately recorded in the financial systems; (iii) in compliance with the relevant legal agreements; and (iv) appropriately presented in the Fund's quarterly financial statements. The review also assessed whether the reimbursements to the General Resources Account (GRA) for administrative expenditures incurred on work related to separate trusts were based on reasonable estimates.

Main Issues and Findings

The review noted that overall, the revenue and reimbursement amounts were accurate, complete and adequately controlled across departments. OIA did not find any significant control weaknesses. Accounting entries related to revenue items were adequately documented. However, the review identified a need to further strengthen procedures in a few relatively minor areas related to reimbursements, including: (i) written documentation on the methodology and data sources used in the calculations for the Bank/Fund cost sharing agreements; (ii) the protection of spreadsheets used during the calculations; (iii) minor improvements to the controls over the calculations of cost of work undertaken in connection with MDRI-I Trust, PRGF-ESF Trust and SDR Department reimbursements to the GRA; and (iv) better safeguarding of cash and check resources held temporarily in the HQ buildings.

5. Financial Operations of Concordia (November 2008)

Objectives and Scope

The Concordia is a building complex owned by the Fund, principally used to provide hotel-style accommodations for INS course participants. Other eligible categories of external guests can stay at the Concordia and are charged for room night stays.

The review assessed the reliability and integrity of the Concordia's FY 2008 financial and operational information, including the internal controls in place, both at the property and at the Fund. The review included (i) a validation of revenues recognized and expenses incurred; (ii) an assessment of the procedures and practices used by TGS to validate Concordia invoices as recorded in the Fund's financial system; and (iii) a review of the medium-term strategy in place for the Concordia.

Main Issues and Findings

The review concluded that (i) the FY 2008 revenues and expenses reported by the Concordia were accurate; however, some improvements could be made in the areas of financial reporting, accounting classification, revenue and expenses matching, transaction and account review, cash management, and expense reporting; (ii) there was a risk that sales might not be recorded in the Concordia systems, since approximately 45 percent of sales were paid in cash—although the audit did not discover any unrecorded sales, this risk could be reduced

through additional financial controls; (iii) the oversight and administration of the Concordia by TGS was generally appropriate and adequate, but OIA recommended that contract management and invoice processing controls be strengthened.

6. Financial Statements of the Per Jacobsson Foundation (July 2008)

Objectives and Scope

OIA audited the financial statements of the Foundation, which is a statutory requirement to maintain its tax-exempt status.

Main Issues and Findings

A clean audit opinion was issued and presented to the Foundation's board.

7. Controls over Payments of Separation Benefits (April 2009)

Objectives and Scope

Under the Fund's restructuring initiative, the separation packages comprised mainly payments from the Separation Benefits Fund (SBF), which constituted the main element both of the \$185 million restructuring budget and of the \$111 million restructuring provision recorded in the Fund's FY 2008 financial statements. In light of both the findings of the earlier financial review of benefits and allowances (see item 2 above) and the amounts at stake, OIA deemed it necessary to check the accuracy of calculation of all individual SBF payments under the voluntary separation scheme, and to review the accuracy of the accrual amount taken in the FY 2008 financial statements for such separation benefits. Additionally, the review checked, on a sample basis, on the accuracy of the calculation of certain other separation-related benefits and allowances, such as retirement allowance, resettlement allowance, separation grant, and lump sum for unused annual leave.

Main Issues and Findings

OIA reviewed all 490 individual records of staff receiving an SBF payment under the voluntary separation program or accessing their pension benefits under the Rule of Age 50).³ The team concluded that the SBF payment calculations were accurate and that the control processes were generally adequate.⁴ New measures put in place in HRD following a previous

³ The Rule of Age 50 was introduced in February 2008 to reduce early retirement penalties for Staff Retirement Plan participants and provide an option for staff to retire as early as age of 50 with an immediate pension.

⁴ Out of the 492 voluntary separations that were accepted by management, 2 staff withdrew their applications.

review performed by OIA (see item 2 above) had enhanced the accuracy of SBF entitlement calculations and ensured the proper processing of the SBF payments. Similarly, the calculation of the selected separation-related benefits and allowances was found adequate based on the sample of 34 individual files OIA reviewed. The review also confirmed that the calculation of the restructuring provision provided for a reasonable recording of the SBF payments accruals in the FY 2008 financial statements.

8. Compensation Review (March 2009)

Objectives and Scope

The review assessed the accuracy and completeness of the pay line data supporting the figures presented in the 2009 compensation review. It included a detailed examination and verification of the calculations supporting the market pay lines and the proposed Fund salary structure for FY 2010.

Main Issues and Findings

OIA concluded that the data supporting the pay lines included in the *2009 Review of Staff Compensation* paper were reliable (accurate and complete) and were prepared in accordance with the approved Fund policies, rules, and calculation methods. OIA recommended that going forward HRD consider developing a software application to substitute for the present spread-sheet based system, which remains vulnerable to human error and is expensive (because the data have to be verified by separate teams).

B. Information Technology Audits and Reviews

1. Controls on Confidentiality of Fund Information (October 2008)

Objectives and Scope

This review assessed the effectiveness of the Fund's information security policy and guidelines on document security to ascertain how far the risks of unauthorized access and dissemination of confidential information are appropriately mitigated. The work included a review of follow-up of the recommendations of the Working Group on Document Security and a survey comparing the Fund's policy and practices with those of other international comparator organizations and industry best practices.

Main Issues and Findings

OIA noted the progress made in promoting better practices in both document classification and handling, following the issuance in November 2007 of a revised GAO on Information

Security. However, OIA concluded that further efforts are needed to enhance the focus on information security at the departmental level, and to clarify the individual accountability of staff members.

Accordingly, the review recommended strengthening departmental awareness efforts and emphasizing staff members' personal and individual responsibility for adhering to information security requirements through an annual certification process. The report also recommended that some additional measures be put in place to help deter leaks of confidential information.

2. IT Controls in Budget Management Systems and Practices—iBBIS (September 2008)

Objectives and Scope

This review focused on the security controls that limit staff and contractuels' access to the integrated Budgeting and Business Intelligence System (iBBIS) software application. iBBIS provides a central data repository for financial and other data on the Fund's administration and contains various planning, analytical and reporting tools.⁵

Main Issues and Findings

The review found that adequate security controls were generally in place, that restricted access to the iBBIS application to a list of approved users and limited that access to only those data and capacities needed to undertake the users' specific duties. Some gaps and weaknesses remained however. While TGS and OBP had already taken action to address many of these weaknesses, OIA recommended that the access control environment be further strengthened through a comprehensive (and periodic) review of existing user access rights. In addition, OIA recommended that the safeguards that control access to the database, which underpins the iBBIS application should be consistently and comprehensively used and that further steps be taken to ensure that iBBIS is available to key users in the event of an outage.

3. High Availability Program (July 2008)

Objectives and Scope

The High Availability (HA) Program supports the IT business continuity and disaster recovery needs of the Fund. It comprises four linked IT projects designed to reduce the number of IT outages and to minimize the time it takes to restore ten critical IT systems and

⁵ OIA's review was conducted in parallel with another review by the Fund's Chief Information Officer (CIO) that focused on how the development of iBBIS's management information component should proceed.

data, should an outage occur. OIA's review focused on whether the goals of the HA Program were met, and, in particular, to what extent critical IT systems were fully protected in case of an emergency. The review also ascertained whether disaster recovery plans were up-to-date and tested.

Main Issues and Findings

The review concluded that the HA Program had already led to considerable improvement in the quality, reliability and availability of the Fund's IT systems both in general and in the event of an emergency. The goal of 99.9 percent general availability appeared to have been met, and good progress made in ensuring that the ten most critical systems could be quickly recovered after an emergency. However, the implementation of the HA program was behind schedule; and, while some critical outages had been handled successfully, some uncertainty remained about the timely recovery of all key systems in a real emergency. OIA recommended that the broader IT disaster recovery plans should be strengthened through improved testing of critical systems. In due course, service levels should be set for the recovery of all Fund IT applications in line with prioritized needs.

4. Security Review of iFIN (December 2008)

Objectives and Scope

iFIN is an integrated set of customized commercial-off-the-shelf (COTS) and in-house developed software applications, that support the Fund's financial operations, accounting, and reporting system. iFIN is one of the Fund's most critical IT systems.

The review assessed security controls over iFIN, in particular whether the security policies, procedures, and the related standards and guidelines provided effective controls. It focused on asset protection, access management, change management, and security monitoring and oversight.

Main Issues and Findings

The review found that FIN and TGS periodically assess the security vulnerabilities of individual iFIN component systems, in addition to the annual review performed by the external auditor (Deloitte). Overall, the current control structure over iFIN was robust and impressive. However, to address small areas of residual potential vulnerability, OIA recommended that: (i) a segregation of duties matrix for the TGS personnel involved in the production support for iFIN be created, in accordance with the Fund's information security guidelines, to ensure that support staff are not performing incompatible functions (i.e., both database or security administration and production support); and (ii) FIN and TGS review how the Fund's business relationship with the software developer and contract manager is

managed, to ensure that the wider risks associated with third party vendors are comprehensively addressed.

5. Handling of Sensitive Information (January 2009)

Objectives and Scope

Following the review of controls on confidential Fund information, this review assessed staff awareness of responsibilities and processes for handling sensitive information (i.e., classified as Confidential or Strictly Confidential within the Fund), and their use of the electronic facilities deployed to help classify documents and e-mails.

Main Issues and Findings

The review found that while TGS's initiatives had enhanced staff awareness, changing the attitudes and behavior of staff towards information security remained a challenge. Fund employees were not, in practice, using the electronic classification tools consistently in the way intended, and did not seem to be strictly adhering to the guidelines on the handling of paper documents. A late evening walkthrough of both HQ buildings revealed sensitive business or personal information and documents left on desks and shelves.

The review recommended developing additional awareness activities with enhanced monitoring mechanisms and (as noted in the earlier review) a greater emphasis on individual responsibility, along with information privacy guidelines. Some adjustments to enhance the effectiveness of the classification and marking tools were also recommended.

6. Software Asset Management (December 2008)

Objectives and Scope

The review aimed to determine whether the Fund's existing software management practices are effective in mitigating the business and legal risks related to the licensing and use of software, and in holding down IT costs.⁶ The review compared the Fund's processes and procedures with Software Asset Management best practices.

⁶ There are approximately nineteen thousand different software applications in use in the Fund: within the overall annual IT capital budget of some \$26 million, around \$4.3 million is spent each year on new software licenses and fees; maintenance fees (which score as current administrative expenditures) are approximately \$9 million each year.

Main Issues and Findings

The review indicated that procedures in TGS were broadly in line with Software Asset Management (SAM) best practices. However, there was a need to strengthen procedures in a few areas: (i) development of a comprehensive list of authorized software installed within the Fund's IT environment and their number of licenses; (ii) periodic reconciliation of software installations on Fund's hardware, against the number allowed under the terms of the software license agreements; and (iii) establishment of a formal SAM framework.

7. Security Review of FACTS (April 2009)

Objectives and Scope

The Financial Administrative Control and Tracking System (FACTS) supports the processing of the Fund's administrative budget transactions and associated controls; it is also the official repository of information on the Fund's administrative and capital expenditures. Security management and control for FACTS is a shared responsibility between TGS and business users (FIN, OBP, and TGS' Procurement Division).

The review assessed the effectiveness of the security controls in place for FACTS to ensure the confidentiality, integrity and availability of financial information. Specifically, the review sought to establish: (i) how far the security risks associated with the system have been systematically managed; and (ii) whether effective security controls are in place.

Main Issues and Findings

OIA concluded that TGS has managed FACTS' complex security arrangements effectively, especially considering the extent of customization of this system to meet business needs. However, these security arrangements should be further tightened in terms of both users' access rights and segregation of duties between system development and production. The review also concluded that FACTS' version control and change management processes needed to be enhanced, to better ensure the system's integrity.

C. Operational and Effectiveness Audits and Reviews

1. Costs of Bank-Fund Meetings (April 2009)

Objectives and Scope

The costs of Bank-Fund meetings held in the Spring and in the Fall are split between the respective budgets of each institution according to a set of complex cost sharing

arrangements.⁷ The review estimated the annual costs of these meetings and the Fund's aggregate share, and assessed the compliance with the cost sharing agreements. Additionally, the review followed up on the recommendations of an informal joint review of the Annual Meetings held in Dubai in 2003.

Main Issues and Findings

Administrative expenses on the Bank-Fund meetings are estimated at some \$14 million in FY 2008, with each institution covering about 50 percent of the costs each year. While the review indicated that the associated transactions are in general properly recorded and accounted for, the cost sharing arrangements have serious weaknesses: the sharing arrangements are old (dating back to the early 1980s and before) and have not been reviewed since the late 1980s; they lack transparency and consistency: the agreements are not mutually consistent and costs are not clearly defined; and they may not reflect the current relative work input from each institution. Additionally, in the absence of a system to monitor the consolidated costs, they tend to dilute financial accountability: incentives are weakened when, at the margin, each institution only pays around half the cost of each spending decision. More fundamentally, despite the commendable progress in recent years following in particular the implementation of the recommendations of the 2004 joint review, the Annual Meetings remain expensive, as suggested by a survey of 10 other international organizations.

The review concluded that the current cost-sharing arrangements needed to be reformed and simplified, to promote full financial accountability. It also identified various cost savings measures that should be explored, including through the outsourcing of the majority of meeting preparations to a professional conference management firm.

2. Controls Over Selected RTAC Administrative Practices (November 2008)

Objectives and Scope

The review assessed whether there were appropriate guidelines on administrative practices in RTACs; examined RTAC financial management and controls; reviewed the governance structure of RTACs; and assessed the effectiveness of IT support for RTACs.

⁷ For the purpose of the review, the term Bank-Fund meetings comprised the Joint Annual Meeting of the Boards of Governors of the Fund and the World Bank Group held in the Fall; the two meetings each year of the international Monetary and Financial Committee (IMFC) held during the Annual Meetings and in April; and the meetings of the Development Committee (DC) held on the same cycle as the IMFC.

Main Issues and Findings

With six in place and four more planned, the RTACs are becoming an increasingly significant delivery mechanism for the Fund's capacity building work. RTACs involve many "stakeholders," internal—area departments (notably the RTAC coordinators), functional departments and OTM (as well as support departments)—and external (constituent countries and donors). The review found that all parties had shown flexibility and creativity in putting in place practical administrative arrangements and financial controls which have enabled, to date, the successful expansion of the RTAC initiative.

Yet the review concluded that the complexity of the internal governance and financial control structures combined with the excessive reliance on outdated administrative guidelines or local ad hoc procedures entailed some risks, that might damage the Fund's reputation and ability to raise future donor finance. The review recommended developing a comprehensive RTAC Handbook as well as specific immediate improved controls over certain local administrative practices. It also recommended the development of a unified financial budgeting, accounting and reporting framework, and, in view of the expanding role of RTACs, a more holistic review of the RTAC governance structure.

Appendix II. OIA's Audit Planning Approach

I. OIA's Audit Universe

OIA follows a risk-based approach to audit planning. First, a list of auditable units is identified, called the audit universe. Second an internal macro-level risk assessment is conducted, by assessing for each auditable entity six dimensions of risk (See Section II.)

OIA's audit universe has been recently revised to better align the auditable entities with the Fund's strategic objectives and enterprise risk management framework (still focusing on operational aspects of processes and activities that are linked to or give rise to strategic, core mission, financial, and reputational risks). The revised approach also aims at integrating further the non-IT and the IT auditable entities into a common risk-assessment framework.

OIA's audit universe comprises three broad categories, that are then further divided into narrower operational and process-related entities; at the third level of disaggregation are the individual auditable entities. The three broad groups are the following:

- **Operating processes:** this group aligns with the Fund's strategic missions, as defined in the budget's KOAs (Key Output Areas) for the following areas: "Global monitoring," "Country specific and regional monitoring," "Country programs and financial support," and "Capacity building." This group comprises 11 auditable entities (they could be revised to reflect future changes made to the Fund's KOAs).
- **Management and support processes:** this group takes as a starting point the budgetary category referred to as "Administration and governance" but breaks it down further covering the full range of the Fund's business processes.⁸ This group comprises 39 auditable entities, including 15 IT auditable entities.
- **The Fund's organizational units:** the Fund's departments and offices, including the regional offices (EUO, OAP, RTACs, and RTIs) and the Resident Representative Program, make up the third broad group. It comprises 27 entities.

The detailed list of auditable entities is shown in Appendix Table 1.

⁸ The resulting entities are broadly based on the taxonomy of business processes provided by APQC's Process Classification Framework, modified to cover only those processes relevant to the Fund. APQC is a member-based nonprofit organization that provides benchmarking and best-practice research. It is an internationally recognized resource for process and performance improvement. (see: <http://www.apqc.org/portal/apqc/site>).

Appendix Table 1. OIA Audit Universe

Tier 1	Tier 2	Tier 3: Auditable Entity
1. Operating Processes		
	1.1. Global monitoring	1.1.01. Oversight of the international monetary system 1.1.02. Multilateral surveillance 1.1.03. Cross-country statistical information and methodologies 1.1.04. General Research
	1.2. Country specific and regional monitoring	1.2.01. Bilateral and regional surveillance 1.2.02. Standards and codes and financial sector assessments
	1.3. Country programs and financial support	1.3.01. Generally available facilities 1.3.02. Facilities specific to low-income countries 1.3.03. Other Use of Fund related activities
	1.4. Capacity building	1.4.01. Technical assistance 1.4.02. External training
2. Management and Support Processes		
	2.1. Manage financial resources	2.1.01. IMF Quotas and financial operations with members 2.1.02. Gold and SDA 2.1.03. Other GRA assets and liabilities 2.1.04. Investment Account 2.1.05. SDR Department 2.1.06. Administered accounts
	2.2. Manage human resources	2.2.01. HR planning, policies, and strategies 2.2.02. Staff recruitment and development 2.2.03. Staff compensation and benefits 2.2.04. Staff separation and retirement
	2.3. Manage information technology	2.3.01. IT Management 2.3.02. Enterprise software – Financial applications 2.3.03. Enterprise software – HR applications 2.3.04. Enterprise software – Budget and MI applications 2.3.05. Enterprise software – Support and other applications 2.3.06. Operating systems 2.3.07. Database management 2.3.08. Network – Infrastructure 2.3.09. Network – Services 2.3.10. Network – Security 2.3.11. Systems development 2.3.12. Systems processes 2.3.13. Other information security processes 2.3.14. Other IT processes 2.3.15. Major projects
	2.4. Administer budget, accounting, and risk management processes	2.4.01. Corporate budgeting and planning

Tier 1	Tier 2	Tier 3: Auditable Entity
		2.4.02. General accounting and reporting
		2.4.03. Risk management
		2.4.04. Business Continuity Management
	2.5. Manage other processes	2.5.01. Payroll and benefits processing
		2.5.02. Accounts payable and expense reimbursements
		2.5.03. Travel and other administrative expenses
		2.5.04. Procurement strategy and activities
		2.5.05. Facilities management and physical security
		2.5.06. Knowledge management
	2.6. Manage external relationships	2.6.01. External relations and communication
		2.6.02. Publications
	2.7. Governance processes	2.7.01. Governance structure and policies
		2.7.02. Governance practices
3. Fund's Organization		
	3.1. Area Departments (incl. the resident representative program)	3.1.01. AFR
		3.1.02. APD
		3.1.03. EUR
		3.1.04. MCD
		3.1.05. WHD
		3.1.06. Resident Representative Program
	3.2. Functional and Special Services Departments	3.2.01. FIN
		3.2.02. FAD
		3.2.03. INS
		3.2.04. LEG
		3.2.05. MCM
		3.2.06. SPR
		3.2.07. RES
		3.2.08. STA
	3.3. Information, Liaison, and Support Departments	3.3.01. EXR
		3.3.02. HRD
		3.3.03. SEC
		3.3.04. TGS
	3.4. OMD	3.4.01. OMD
		3.4.02. Investment Office
		3.4.03. OBP
		3.4.04. OTM
		3.4.05. Ethics Office
	3.5. Regional Offices	3.5.01. EUO
		3.5.02. OAP
		3.5.03. RTACs
		3.5.04. RTIs

II. OIA Macro Risk Assessment's Risk Factors

Six risk factors are considered in OIA's macro level risk assessment. Each is scored on a scale of 1 to 4 with 1 being low and 4 being high, and assigned weights based on their relative contribution to the risks, as shown below:

- **Control risk:** This factor considers the degree to which the process or business unit has identified, developed, and applied effective internal controls to mitigate risks as well as whether prior internal or external audit results indicate significant issues. (Weight: 20 percent).
- **Financial risk:** Financial risk considers the level and extent of financial resources managed by the operations of the unit/process as well as the risk that a loss or error in the financial transactions will have a significant impact on the Fund. (Weight: 15 percent).
- **Fraud risk:** Fraud risk considers the vulnerability or exposure of the process or business unit to fraud. It combines the probability of fraud occurring and the corresponding impact estimated in financial terms or in terms of the impact on the Fund's reputation. (Weight: 5 percent).
- **Human Resources risk:** Human resources risk is related to the capacity of management and staff resources. It includes a number of underlying risk elements that have to be considered simultaneously in the risk assessment: clarity of management roles and responsibilities; adequacy and stability of the organizational structure; adequacy of the staffing level, intellectual capital and staff expertise; appropriateness of the ethical values and culture; stability of the work environment and practices, and; turnover of key personnel. (Weight: 20 percent).
- **Information Technology risk:** Information Technology risk is the risk that systems in place to support the work of the Fund are not functioning adequately to provide the confidentiality, availability and integrity of information, and to ensure that information management systems provide complete, relevant, up-to-date, and accurate information to support decision-making processes. (Weight: 20 percent).
- **Operations risk:** Operations risk is related to the actual conduct of activities or performance of functions. The risk is linked to the complexity of the business processes, including whether there are changes in the operational work affecting the business processes or the organizational units involved, or changes in the environment that could impair the ability of the relevant staff their objectives. (Weight: 20 percent).

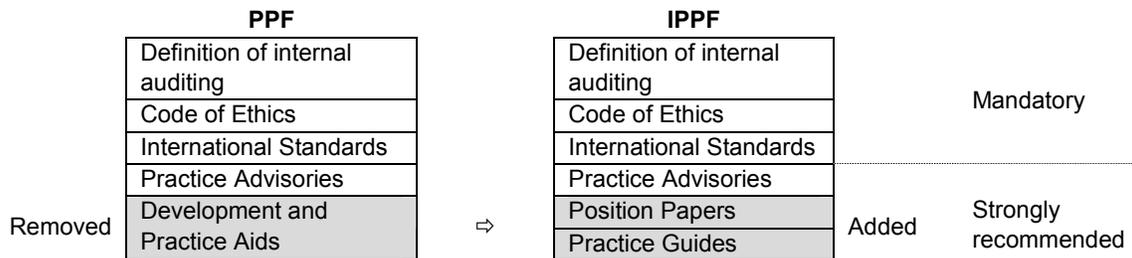
A similar but non identical set of risk factors has been developed for the IT auditable entities.

Appendix III. Recent Development in the Internal Audit Profession

The International Professional Practices Framework

The Institute of Internal Auditors (IIA), the international professional association considered the global voice of the internal audit profession, recently released a new International Professional Practices Framework (IPPF) to replace the former Professional Practices Framework (PPF) as of January 2009.

In revising its guidance on governance, the IIA sought to foster its international position as a trustworthy guidance-setting body. A new guidance oversight board will provide an independent review of the standard-setting process, and a three-year review cycle will be implemented to ensure that guidance is current and relevant. In addition, the IPPF's scope has been narrowed to include only authoritative guidance developed by IIA international technical committees following appropriate due process. The chart below aligns the PPF and IPPF structures.



The IIA's authoritative guidance now consists of two categories:

Mandatory. Adherence to the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The three mandatory elements of the IPPF are the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Strongly Recommended. Strongly recommended guidance is endorsed by the IIA through a formal approval processes. It describes practices for effective implementation of the IIA's Definition of Internal Auditing, Code of Ethics, and *Standards*. The three strongly recommended elements of the IPPF are Position Papers, Practice Advisories, and Practice Guides. The latter two elements replace the development and practice aids, that comprised a much broader range of practical guidance, including conferences and seminars, research reports, and educational products.