

EBAP/10/46

May 28, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **The Internal Audit Function in the Fund—2010 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 11, 2010**, 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 Ms. Lim, OIA (ext. 37622).

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

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

**The Internal Audit Function in the Fund**

**2010 Activity Report and Background Information**

Prepared by the Office of Internal Audit and Inspection

Approved by G. Russell Kincaid

May 27, 2010

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## I. INTRODUCTION

1. **As background for an informal Board briefing, this paper presents recent activities of the Office of Internal Audit and Inspection (OIA).** This activity report is the fifth such one provided in accordance with the Managing Director's commitment to share information on control- and audit-related matters.<sup>1</sup> Accordingly, the annual internal audit activity report provides information on:

- the implementation of the OIA work program in the preceding financial year, as well as the internal audit plan for the current financial year;
- the main issues and findings emerging from OIA projects and reviews, including a summary of more important recommendations and the actions taken or planned by the concerned department or office; and
- the implementation of audit recommendations, including information on aging of open recommendations.

2. **This paper is organized as follows.** Section II provides information on OIA's activity and budget. Section III provides details on OIA's work program and the status of audit recommendations. Section IV discusses the main findings and recommendations of audits and reviews concluded in FY 2010.

## II. OIA'S ACTIVITIES AND BUDGET<sup>2</sup>

3. **Audits/reviews cover the bulk of OIA's activities and resource use (Table 1).** About seventy percent of OIA total resources are used to conduct audits and reviews. In addition, advisory services are performed in response to departmental requests. In this context, OIA provides independent examinations of the effectiveness of various operations and activities, controls, risk management, and governance processes.

4. **OIA conducts investigations at the request of management.** Over the past three financial years, OIA conducted, on average, four investigations per year. These investigations, on average, consumed less than one-half of full-time-equivalent (FTE) of staff resources. OIA Director also serves on the Oversight Committee of the Fund's Integrity Hotline, a channel established to handle allegations of staff misconduct.

5. **OIA also serves as Secretariat to the Advisory Committee on Risk Management (ACRM).**<sup>3</sup> In this capacity, OIA facilitates the implementation and reporting of risk

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<sup>1</sup> *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).

<sup>2</sup> OIA's FY 2011–13 Business Plan is available through the following link: [http://www-intranet.imf.org/departments/OIA/about\\_oia/Pages/current\\_oia\\_business\\_plan.aspx](http://www-intranet.imf.org/departments/OIA/about_oia/Pages/current_oia_business_plan.aspx).

<sup>3</sup> The ACRM was established to assist Fund management in: analyzing, synthesizing, and reporting risks; enhancing the awareness in departments' risk management; and reporting to the Board on risk management matters. Its terms of reference is available through this link: [http://www-intranet.imf.org/departments/OIA/risk\\_management/Pages/default.aspx](http://www-intranet.imf.org/departments/OIA/risk_management/Pages/default.aspx).

management in the Fund. Specifically, OIA coordinates Fund wide risk assessment exercise and production of an annual risk management report to the Board. OIA, along with FIN, participates in the annual IFI's Risk Forum and contributes to the on-going discussions on ways to strengthen the Fund's risk management framework. In the past year, OIA coordinated a pilot incident reporting project and development of key risk indicators; and jointly organized an IFI Risk Forum. This activity consumes about eight percent of OIA's resources.

**Table 1. OIA FY 2009-11 Budget and Resource Allocation**

|                    | FY 2009 | FY 2010          |        | FY 2011 |
|--------------------|---------|------------------|--------|---------|
|                    |         | Budget           | Actual | Budget  |
|                    |         | (In FTEs)        |        |         |
| Staff              | 13.3    | 15.5             | 13.3   | 14.5    |
| Contractuals       | 1.3     | 2.5              | 2.5    | 4.0     |
| Total employment   | 14.6    | 18.0             | 15.8   | 18.5    |
|                    |         | (In \$ Millions) |        |         |
| Total resources    | 3.4     | 4.4              | 4.1    | 4.7     |
|                    |         | (In Percent)     |        |         |
| Support services   | 93      | 96               | 95     | 95      |
| Audits and reviews | 63      | 66               | 71     | 70      |
| Advisory Services  | —       | —                | 1      | 2       |
| Investigations     | 2       | —                | 3      | 3       |
| Risk management    | 6       | 6                | 8      | 8       |
| Other 1/           | 22      | 24               | 12     | 12      |
| Governance 2/      | 4       | 2                | 2      | 2       |
| Other Resp. Areas  | 4       | 2                | 3      | 3       |

Sources: OIA and OBP.

1/ Includes staff training to maintain audit certifications and departmental support.

2/ Includes interaction with the External Audit Committee (EAC), the Executive Board, and the external auditor.

6. **OIA also assists in the external audit process and support the activities of the External Audit Committee (EAC).** The EAC exercises independent oversight over the annual audit process and reports periodically to the Executive Board. This activity utilizes about 2 percent of OIA's resources.

7. **OIA accounts for about 0.6 percent of Fund staff and about 0.5 percent of the gross administrative budget.** OIA's steady-state budget envisages a staffing level of 14.5 FTE in FY 2011. Following the Fund's restructuring, OIA places a greater reliance on lower cost contractual staff and consulting services, especially for specialized IT audit work to supplement staff expertise. Most OIA professionals are auditors with certifications in areas, such as internal auditing and public accounting. OIA also employs economists on mobility assignments for a period of one to two years; these economists help performed operational reviews.

8. **A comparison of the internal audit activities at international financial institutions (IFIs) suggests that OIA is broadly in line with other organizations** (Table 2). OIA's budget relative to the Fund's budget is broadly in line with the budget share for internal audit offices in other IFIs. On average, Fund's internal auditors handle a higher ratio of expenditures and assets than their counterparts in selected IFIs. The Fund, together with two other IFIs makes the full audit reports available to the Board, and no institution shares the full reports with all staff.

**Table 2. Internal Audit Indicators at Selected International Financial Institutions**

| Institution 1/  | 1  | 2     | 3     | 4      | 5     | 6      | Avg.   | IMF    |
|---|--|-------|-------|--------|-------|--------|--------|--------|
|   | (number)                                     |       |       |        |       |        |        |        |
| Total no. of internal auditors 2/                           | 21   | 12    | 6     | 10     | 25    | 65     | 23     | 17     |
| Total no. of employees 3/                                   | 4,359  | 2,084 | 1,731 | 2,597  | 2,894 | 19,633 | 5,550  | 2,964  |
| No. of field offices  | 32   | 25    | 35    | 21     | 28    | 180    | 54     | 101    |
| No. of annual audits  | 32   | 33    | 10    | 28     | 48    | 61     | 35     | 30 4/  |
| No. of employees per internal auditor                       | 208  | 174   | 289   | 260    | 116   | 302    | 241    | 174    |
| Avg. no. of staff resources per audit                       | 1.5  | 2.8   | 1.7   | 2.8    | 1.9   | 0.9    | 1.5    | 1.8    |
|   | (in US\$ millions, unless specify otherwise) |       |       |        |       |        |        |        |
| Total budget of the institution                             | n/a  | 399   | 347   | 890    | 552   | 2470   | 932    | 938    |
| Internal Audit (IA) budget                                  | 5.2  | 3.3   | 1.3   | 3.7    | 4.0   | 11.9   | 4.9    | 4.7    |
| IA budget as a percent of total budget                      | n/a  | 0.8   | 0.4   | 0.4    | 0.7   | 0.5    | 0.5    | 0.5    |
| Assets per internal auditor                                 | 5,690  | 2,984 | 7,009 | 47,000 | 3,257 | 7,294  | 12,206 | 25,832 |
| Annual expenditure per internal auditor                     | n/a  | 33.3  | 57.8  | 89.0   | 22.1  | 38.0   | 40.5   | 55.2   |
| Are audit reports shared with the Board?                    | No   | No    | Yes   | No     | No    | Yes    |        | Yes    |
| Are full reports available by all staff in the institution? | No   | No    | No    | No     | No    | No     |        | No     |

Sources: OIA and IFIs

1/ Data not identified by institution to preserve confidentiality.

2/ Total number of internal auditors includes consultants but exclude the Chief Audit Executive.

3/ Employees consist of permanent staff, contractual and vendor staff and Board members. IFI 2 and IFI 4 did not report the number of Board members.

4/ The number of annual audits includes investigations conducted by OIA.

### III. AUDIT WORK PROGRAM AND STATUS OF AUDIT RECOMMENDATIONS

9. **The implementation of the audit work programs for FY 2010 and FY 2009 are shown in Tables 3 and 4.** The FY 2010 audit plan, approved by management, consisted of 15 audits and reviews with appropriate balance among financial (6), information technology (4) and operational (5) reviews. As of end-April, 2010, five financial audits, and three IT audits were completed. The six remaining audits/reviews are in progress and are expected to be completed in the first quarter of FY 2011, and one was postponed until the current financial year (i.e., FY 2011). Eleven projects were carried over from the FY 2009 work

program into FY 2010, and majority were completed in 1Q FY 2010. Efforts are underway to increase the implementation rate and reduce the number of carryover projects for FY 2011.

10. **In addition to audits and reviews, OIA performed two advisory reviews and conducted two investigations in FY 2010.** Both advisory reviews are still in progress. In HQ1 Program Review Team, OIA has an observer role and provides comments on issues related to financial and audit controls.<sup>4</sup> In the HCM Advisory Review, OIA provides advice on IT controls in support of the Human Capital Management (HCM) project. At the request of management, OIA conducted two investigations. One investigation was completed and the other is still in progress.

11. **Consistent with past practices, the FY 2011 work program is formulated utilizing OIA's risk-based audit approach applied to the Fund's auditable entities** (see Appendix III for details). Those auditable entities correspond to the Fund's main activities and administrative processes, and organizational units, and are aligned with the recently revised Fund's Responsibility and Key Output Areas. The plan also reflects the results of the Fund-wide risk assessment conducted by the ACRM, as well as views collected from selected departments, the Independent Evaluation Office, the external audit firm and the EAC. The work program is approved by management

12. **The current audit plan consists of 13 audits and reviews to be drawn from a list of 16 possible projects (Table 5).**<sup>5</sup> Of the 16 audits and reviews, five are financial audits, four are IT audits and seven are operational reviews.<sup>6</sup> Consistent with previous years, the current plan balances emerging risks in financial, technology and operational areas, and builds upon past and ongoing audit/review activities, including the external audit firm (Deloitte & Touche). Compared with prior years, the current plan is more focused on operational reviews in order to better support the continuing restructuring and efficiency efforts at the Fund.

13. **OIA audit recommendations have been addressed in a timely manner** (Tables 6 and 7). OIA monitors implementation of its recommendations on a semi-annual basis. During the second half of FY 2010, twenty-four recommendations having a high- or medium- impact were closed.<sup>7</sup> Sixteen of the recommendations that were closed were implemented in full. The remainder was substantially implemented. Of the 71 open recommendations, 17 are classified as high impact. Only ten high-impact recommendations are older than one year and they are being addressed by departments.

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<sup>4</sup> The Project Review Team comprises senior and professional staff from FIN, LEG, OBP and TGS whose function is to provide close oversight and support to the project team.

<sup>5</sup> OIA posts its current work program on its website. A brief description of each project is available in the business plan.

<sup>6</sup> Four operational reviews are planned for FY 2011, but depending on available resources in OIA and scheduling needs in departments, up to seven operational reviews could be undertaken in FY 2011.

<sup>7</sup> 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.

**Table 3. OIA Audits and Reviews, FY 2010 (As of April 30, 2010)**

| Project Title   | Project<br>Originated From | Project<br>Status<br>in FY 2010 |
|---|----------------------------|---------------------------------|
| <b>Financial</b>  |                            |                                 |
| 1. Review of Documentation of Controls over Salary and Benefits Payments in HRD             | FY 2009 Work Plan          | Completed                       |
| 2. Controls over the Inventory of Office Equipment, Supplies, and other Physical Assets     | FY 2009 Work Plan          | Completed                       |
| 3. Controls over Payments of Separation Benefits  | FY 2009 Work Plan          | Completed 1/                    |
| 4. Review of Cash and Check Handling  | FY 2009 Addition           | Completed                       |
| 5. Review of Home Leave Benefits  | FY 2010 Work Plan          | Completed                       |
| 6. Review of Fund's Travel Card Program   | FY 2010 Work Plan          | Completed                       |
| 7. Review of the Funds P-card Program and Other e-Procurement Processes                     | FY 2010 Work Plan          | Completed                       |
| 8. Financial Statements of the Per Jacobsson Foundation                                     | FY 2010 Work Plan          | Completed                       |
| 9. Review of Financial Operations in Fund Field Offices                                     | FY 2010 Work Plan          | Completed                       |
| 10. Review of the Fund's Medical Benefit Plan   | FY 2010 Work Plan          | Ongoing                         |
| <b>Information Technology</b>   |                            |                                 |
| 1. Security Review of PeopleSoft Financials (FACTS)   | FY 2009 Work Plan          | Completed 1/                    |
| 2. Review of Controls over PeopleSoft HR  | FY 2010 Work Plan          | Completed                       |
| 3. Review of the Security of the Fund's Web Applications                                    | FY 2010 Work Plan          | Completed                       |
| 4. Review of Fund's Telecommunication System  | FY 2010 Work Plan          | Completed                       |
| 5. Review of Effectiveness of Remote Access   | FY 2010 Work Plan          | Ongoing                         |
| 6. Review of Network Security   | FY 2009 Work Plan          | Ongoing                         |
| <b>Operational and Effectiveness</b>  |                            |                                 |
| 1. Tax Allowance  | FY 2009 Work Plan          | Completed                       |
| 2. Review of IT Strategic Sourcing  | FY 2009 Work Plan          | Completed                       |
| 3. Follow-up on the Zero-Based Reviews of TGS   | FY 2009 Work Plan          | Completed                       |
| 4. Review of the Fund's Capital Budget  | FY 2009 Work Plan          | Completed                       |
| 5. Cost of Bank-Fund Meetings and Sharing Arrangements                                      | FY 2009 Work Plan          | Completed 1/                    |
| 6. Review of the Backstopping of TA Experts   | FY 2010 Work Plan          | Ongoing                         |
| 7. Review of the Governance and Management of the HCM Project                               | FY 2010 Work Plan          | Ongoing                         |
| 8. Review of the Organization and Structure of FIN/Administrative Expenditures              | FY 2010 Work Plan          | Ongoing                         |
| 9. Review of the Implementation of the New Review Process for Country Papers                | FY 2010 Work Plan          | Ongoing                         |
| 10. Review of Processes and Controls Over the Input of Data in the WEO (and/or the GFSR) 2/ | FY 2010 Work Plan          | Postponed                       |
| <b>Advisory Work and Other Reviews 3/</b>   |                            |                                 |
| 1. HCM Advisory Review  | FY 2010 Addition           | Ongoing                         |
| 2. HQ 1 Program Review Team   | FY 2010 Addition           | Ongoing                         |

Source: Office of Internal Audit and Inspection

1/ These three projects were completed during the first week of FY 2010 and audit summaries were included in last year report (EBAP/09/83)

2/ The review has been postponed until FY 2011 so that the review team will be in a position to assess the implementation of the Working Group on Data Issues for Multilateral Surveillance's recommendations (issued in June, 2009) and a new software platform for WEO database (to be introduced by mid-2010).

3 / Two investigations were conducted. One was completed; the other is still in progress.



**Table 4. OIA Audits and Reviews, FY 2009**

| Project Title  | Project<br>Originated From | Project<br>Completed In |
|--|----------------------------|-------------------------|
| <b>Financial</b>   |                            |                         |
| 1. Compliance Review of Service Contracts  | FY 2008 Work Plan          | FY 2009                 |
| 2. Financial Review of Benefits and Allowances   | FY 2008 Work Plan          | FY 2009                 |
| 3. Compliance Review of Travel Expenditures  | FY 2008 Work Plan          | FY 2009                 |
| 4. Controls over Currency Holdings in the GRA  | FY 2008 Work Plan          | FY 2009                 |
| 5. Controls over the Calculation of Reimbursements and Revenues (Including PRGF-ESF Trust) | FY 2009 Work Plan          | FY 2009                 |
| 6. Financial Operations of Concordia   | FY 2009 Work Plan          | FY 2009                 |
| 7. Financial Statements of the Per Jacobsson Foundation                                    | FY 2009 Work Plan          | FY 2009                 |
| 8. Compensation Review   | FY 2009 Work Plan          | FY 2009                 |
| 9. Controls over Payments of Separation Benefits   | FY 2009 Work Plan          | FY 2010 1/              |
| 10. Review of the Documentation of Controls over Salary and Benefit Payments in HRD        | FY 2009 Work Plan          | FY 2010                 |
| 11. Controls over the Inventory of Furniture, Equipment and Supplies                       | FY 2009 Work Plan          | FY 2010                 |
| 12. Review of Cash and Check Handling  | FY 2009 Addition           | FY 2010                 |
| <b>Information Technology</b>  |                            |                         |
| 1. Controls over Confidentiality of Fund Information                                       | FY 2008 Work Plan          | FY 2009                 |
| 2. IT Controls in Budget Management Systems and Practices                                  | FY 2008 Work Plan          | FY 2009                 |
| 3. High Availability, Storage Management, and Redundancy in Critical Infrastructure        | FY 2008 Work Plan          | FY 2009                 |
| 4. Security Review of iFIN   | FY 2009 Work Plan          | FY 2009                 |
| 5. Handling of Sensitive Information   | FY 2009 Work Plan          | FY 2009                 |
| 6. Software Asset Management   | FY 2009 Work Plan          | FY 2009                 |
| 7. Security Review of PeopleSoft Financials (FACTS)  | FY 2009 Work Plan          | FY 2010 1/              |
| 8. Review of Network Security  | FY 2009 Work Plan          | Postponed 2/            |
| <b>Operational and Effectiveness</b>   |                            |                         |
| 1. Controls over Selected RTAC Administrative Practices                                    | FY 2009 Work Plan          | FY 2009                 |
| 2. Cost of Bank-Fund Meetings and Sharing Arrangements                                     | FY 2009 Work Plan          | FY 2010 1/              |
| 3. Tax Allowance   | FY 2009 Work Plan          | FY 2010                 |
| 4. Review of IT Strategic Sourcing   | FY 2009 Work Plan          | FY 2010                 |
| 5. Follow-up on the Zero-Based Review of TGS – Implementation                              | FY 2009 Work Plan          | FY 2010                 |
| 6. Review of the Fund's Capital Budget   | FY 2009 Work Plan          | FY 2010                 |
| <b>Other Reviews 3/</b>  |                            |                         |

Source: Office of Internal Audit and Inspection

1/ These projects were completed during the first week of FY 2010.

2/ This project was postponed pending the results of a study on Fund's network architecture security posture commissioned by TGS. The study was completed in May 2009.

3/ Four investigations were completed.

**Table 5. OIA Audits and Reviews, FY 2011**

| Project Title   |   |
|---|---|
| <b>Financial</b>  |   |
| 1.  | Precautionary Balances  |
| 2.  | Audit of Financial Controls over the New Facilities of Low-Income Countries.  |
| 3.  | Controls over Publication Activities  |
| 4.  | Financial Statements of the Per Jacobsson Foundation  |
| 5.  | Possibly audit one or more of the following three areas of OED's expenditures—personnel expenses and related benefits, travel expenses, and cellular phone expenses |
| <b>Information Technology</b>   |   |
| 1.  | IT Governance   |
| 2.  | Follow-up Review of OIA's Review of IT Strategic Sourcing   |
| 3.  | Data Center   |
| 4.  | Wireless Networks   |
| <b>Operational and Effectiveness</b> (3-4 reviews from the following) |   |
| 1.  | Review of the World Economic Outlook (WEO), Global Financial Stability Report (GFSR) and Regional Economic Outlook (REO)  |
| 2.  | Review of the Consultative Group on Exchange Rate Issues (CGER)   |
| 3.  | Review of Governance over Technical Assistance-related Operations   |
| 4.  | Follow-up Review of OIA's 2008 HR Review  |
| 5.  | Allocation of Travel Budget   |
| 6.  | Review of Conditions of Local Employees in the Fund's Field Offices   |
| 7.  | Outreach Strategy and Implementation  |

Note: A brief description of each project is available in OIA's FY 2011–2013 business plan.

14. **The number of outstanding recommendations has trended upward over the last financial year.** This upward trend can be explained by an increase in the number of new recommendations per audit/review, while the number of recommendations closed remains fairly stable. Of the open recommendations, each audit/review contains on average, four recommendations in FY 2010 compared to three in FY 2009. TGS and HRD account for 44 percent and 15 percent, respectively, of the open recommendations

**Table 6. Outstanding Recommendations, End-FY 08–End-FY10**

|  | End-FY<br>2008 | Mid-FY<br>2009 | End-FY<br>2009 | Mid-FY<br>2010 | End-FY<br>2010 |
|--|----------------|----------------|----------------|----------------|----------------|
| Outstanding recommendations at beginning of period | 66             | 58             | 55             | 56             | 64             |
| Plus: New Recommendations                          | 22             | 26             | 25             | 32             | 31             |
| Minus: Recommendations closed                      | 30             | 29             | 24             | 24             | 24             |
| Equals: Outstanding recommendations                | 58             | 55             | 56             | 64             | 71             |

Source: Office of Internal Audit and Inspection.

**Table 7. Outstanding Recommendations by Impact and Financial Year  
(As of April 30, 2010)**

|                                   | Issued in Financial Year |      |      |      | Cummulative |
|-----------------------------------|--------------------------|------|------|------|-------------|
|                                   | 2007                     | 2008 | 2009 | 2010 |             |
| Total outstanding recommendations | 3                        | 6    | 17   | 45   | 71          |
| High impact                       | 0                        | 3    | 5    | 9    | 17          |
| Medium impact                     | 3                        | 3    | 12   | 36   | 54          |

Source: Office of Internal Audit and Inspection

#### IV. AUDIT FINDINGS AND RECOMMENDATIONS

15. **Since the last report to the Executive Board in mid 2009, OIA has not noted any material or significant weaknesses that would have a bearing on the internal control structure and financial statements of the Fund.** Summaries of findings and recommendations of the audits and reviews completed since end-FY 2009 are provided in Appendix I. The reports are also available on OIA's website.<sup>8</sup>

<sup>8</sup> See [www-intranet.imf.org/departments/OIA/about\\_oia/Pages/SelectedReport.aspx](http://www-intranet.imf.org/departments/OIA/about_oia/Pages/SelectedReport.aspx).

16. **Under OIA's long standing disclosure policy, reports are posted on its internal website that are of general interest within the organization.** However, reports are not posted if posting would "interfere with the smooth functioning of the organization" or inhibit the candor with which views are reported to OIA. Executive summaries may be posted in lieu of full reports. Reports on investigations, which are generally classified as Strictly Confidential, are not posted on OIA's website.

17. **With management approval, OIA has recently adopted new posting practices within the disclosure policy.** To safeguard the smooth functioning of various activities and to ensure full candor, all recent reports in their entirety are available on OIA's intranet website for Executive Directors, their Alternates and Department Heads. For the remainder of the institution, the reports are scrutinized for security risks, owing to their wider distribution, and some (minimal) redaction may be necessary. All previously posted OIA reports are now posted in a new, more secure SharePoint environment, which is linked to the Fund's document management system.

18. **To ensure timely disclosure to the Executive Directors and their Alternates of OIA's reports, a consultation process on posting has been instituted.** When an individual OIA report is discussed in draft with the relevant department(s), OIA seeks views of the relevant department(s) regarding disclosure risks which are then conveyed to management with the final report along with a recommendation.

## **Appendix I. Summaries of Audits and Reviews Completed since End–FY 2009**

### **A. Financial Audits and Reviews**

#### **1. Controls over the Inventory of Office Equipment, Supplies and other Physical Assets (June 2009)**

##### *Objective and Scope*

The audit evaluated the controls over the Fund's property administration process to assess how far they: (i) ensure accurate inventory records; (ii) prevent misappropriation, loss, theft, or damage; and (iii) contain the cost of expandable supplies. The Fund's inventory of office equipment and other physical assets includes audiovisual and graphics equipment, computers, copiers, facsimile machines, servers, automobiles and generators. As of February 2009, there were 6,361 such physical assets with an estimated value amounting to \$33.7 million and are located in headquarters or in overseas offices.

##### *Main Findings and Recommendations*

The audit concluded that the Fund's present arrangement for day-to-day administration of its property has been working well. The day-to-day property administration and periodic inventory exercises both at headquarters and in the resident representative offices have been outsourced to two separate vendors. There is no evidence from either inventory exercises or insurance claims, of any significant problems in safeguarding physical assets.

OIA recommended further strengthening of the overall property administration function. These include, continuation of work to develop a policy and a related procedures manual on property administration, further strengthening controls to ensure completeness of property and inventory records, and development of a policy on the administration of gifts received by staff and management.

#### **2. Review of Documentation on Controls in HRD over Salaries and Benefits (June 2009)**

##### *Objective and Scope*

The review examined how far the controls within the Human Resources Department (HRD), designed to ensure accuracy in the calculation of staff (and other employees) salaries and benefits are appropriately documented. Business processes in the Compensation and Benefits Division, the HR Services Division, and the HR Information Systems Section of HRD's Immediate Office were included in the review.

##### *Main Findings and Recommendations*

The review found that HRD has taken significant steps and made good process in documenting such controls over the calculation of salaries and benefits. However, the downsizing initiative has led to a significant loss of experienced staff and institutional knowledge in HRD: this elevates the need to ensure full and comprehensive documentation of standard operating procedures. OIA recommended that HRD should complete its documentation of controls and consider further leveraging intranet applications to improve staff access.

### **3. Review of Cash and Check Handling (July 2009)**

#### *Objective and Scope*

OIA evaluated the control regimes for handling incoming cash and checks at headquarter in Washington and how well these regimes interact with the Fund's financial accounting and recording systems. In CY 2008, cash and checks receipts (primarily checks) across the Fund (excluding field offices) amounted to about \$7.8 million: TGS, HRD and EXR accounted for 97 percent of this total.

#### *Main Findings and Recommendations*

OIA found that the Fund's exposure to the risks of handling cash and checks is low. The control regimes for handling incoming cash and check transactions at headquarter were adequate, and there were no significant control weaknesses or recording errors in the financial accounts. Nevertheless, OIA recommended actions to further reduce the risk. First, cash and check handling should be minimized and greater use made of electronic funds transfer, payroll deduction and credit card. Second, there is room to then formalize the residual cash and checks handling arrangements in HRD, TGS, and EXR. Third, EXR should schedule periodic audits (possibly by an independent audit firm) of the vendors collecting revenue, when publication orders are filled, to ensure that the operating system and internal controls are reliable.

### **4. Review of the Fund's Travel Card Program (January 2010)**

#### *Objective and Scope*

The review assessed the design and effectiveness of the controls in place for the Fund's travel card program. The program was introduced in March, 2008 to streamline official travel payments by eliminating cash advances. Since the implementation of the program, more than 800 cards have been issued, of which about 700 are currently active. In FY 2009, travel card transactions amounted to approximately \$3.8 million. The scope of the review covered travel cards issued since the implementation of the program, with the exception of the travel cards issued to the Executive Directors and their staff.

#### *Main Findings and Recommendations*

The review found that the control framework established for the travel card program is generally effective. However, improvements are necessary to ensure that travel cards are more efficiently cancelled for separating staff. OIA recommended that FIN should determine the most appropriate modus operandi of the staff separation notification process and discuss with the departments that have staff with travel cards the action plan to implement it.

### **5. Review of the Fund's P-Card Program and Other e-Procurement Processes (February 2010)**

#### *Objective and Scope*

OIA examined the controls established for Fund small purchases through purchase credit cards (P-Cards) and online office supplies programs. In FY 2009, P-Card and office supplies' procurements

amounted to \$1 million and \$1.3 million respectively, representing slightly less than 1 percent of annual procurement spending. The review excluded the P-Card transactions of the Offices of the Executive Directors (30 percent of cards issued) and their ordering of office supplies.

#### *Main Findings and Recommendations*

The review concluded that the controls established for the P-Cards and online office supplies programs are generally effective. However, there are opportunities to improve controls over the supervisory review of transaction documentation, and over steps to be taken when cardholder staff separate from the Fund. The review also noted that to achieve further efficiencies and costs savings, TGS should redirect its remaining and other applicable low-dollar value purchases through P-Cards.

### **6. Financial Statements of the Per Jacobsson Foundation (August, 2009)**

#### *Objective and Scope*

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

#### *Main Findings and Recommendations*

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

### **7. Review of Home Leave Benefits (March 2010)**

#### *Objective and Scope*

The review evaluated the control framework established for the processing of home leave benefit payments. In FY 2009, home leave benefit payments to staff amounted to about \$24 million. The scope of the review excluded home leave benefit payments made to staff in the Offices of the Executive Directors.

#### *Main Findings and Recommendations*

The review concluded that the controls established for the processing of home leave benefits are reasonable, but there are opportunities for improvements. The review noted that controls over automated processing could be enhanced through periodic monitoring and controls over manual processing could be strengthened through improved documentation. The review also recommended that HRD establish performance objectives for the processing of home leave benefits based on a cost and benefit analysis.

### **8. Review of Financial Operations in Fund Field Offices (March 2010)**

#### *Objective and Scope*

The review examined and assessed the controls established (and followed) for the financial operations, including the handling of cash and checks, in selected Fund field offices to ensure that the Fund's

financial assets are appropriately safeguarded. At the start of FY 2010, the Fund had about 100 field offices, and field office expenditures for FY 2009 were about \$13.7 million. The scope of the review focused primarily on FY 2010 financial operations.

### *Main Findings and Recommendations*

The review found that the policies, procedures and practices established for the financial operations in Fund field offices are generally adequate. These guidelines, if followed, sufficiently safeguard Fund and donor resources from the risk of significant loss. However, the review concluded that many resident representative and Regional Technical Assistance Center (RTAC) offices are not fully complying with the established financial guidelines, and that additional guidance and clarification in certain areas of financial operations administered by either FIN or TGS are needed. The review also confirmed that field offices are conforming to the established reporting requirements for periodic expenditure submissions to HQ.

The review recommended that area departments should seek clarification or guidance in certain areas from FIN, TGS and OTM. As these areas are clarified and guidance is provided, field office guidelines should be updated accordingly and communicated to office heads. In addition, area departments should evaluate different alternatives to ensure office heads are more vigilant in adhering to established financial guidelines.

## **B. Information Technology Audits and Reviews**

### **1. Review of Controls over PeopleSoft HR (January 2010)**

#### *Objective and Scope*

The review assessed the effectiveness of security controls in place to ensure the confidentiality, integrity, and availability of information in PeopleSoft HR. This critical IT system supports human resources-related functions at the Fund including human resources management; hiring, promotion and retirement; payroll and personnel payments; and benefit processing. The review focused on three main modules of PeopleSoft HR: human resources administration, benefits administration and payroll processing.

#### *Main Findings and Recommendations*

The review found that while the security arrangements have been well managed, security-related controls need to be tightened in some areas. Instances were noted where users had a wider range of access to PeopleSoft HR than needed. OIA recommended that TGS: (i) strengthen the review process of user access rights and ensure that access is consistent with job responsibilities, and (ii) ensure that access to modify system configurations and setup options in production is limited to production support personnel. In addition, any change to the production environment must be carried out by following the process outlined in the change management procedure to avoid any adverse impact on PeopleSoft HR application. TGS has already addressed some of the findings and recommendations and further actions are being taken in others, in consultation with departmental users, to further strengthen system-security.



## **2. Review of the Fund's Telecommunications System (March 2010)**

### *Objective and Scope*

OIA reviewed the Fund's telecommunication system to ensure that telephone, fax services and mobile device services are reliable and secure. Annually, the Fund's volume of telephone calls average 11.0 million and faxes average over 260,000. The telephone system in the Fund is digital, and calls are routed over computer servers; hence, the system is exposed to the same type of security risks associated with data networks. The Fund's telecommunication system also supports mobile devices that enable staff to access their email, send messages, and make telephone calls remotely.

### *Main Findings and Recommendations*

The review concluded that the capacity of the Fund's telecommunication system is sufficient to manage the volume of telephone calls and faxes, and to handle mobile devices. TGS has built sufficient backup contingencies into the telecommunications infrastructure to minimize service disruptions. The Fund's telecommunication system appears to be secured from external security breaches, but some internal weaknesses in the telephone's infrastructure were identified that could allow unauthorized access to the system and potentially lead to service disruption. The review recommended strengthening the robustness of the telephone system's security configuration and safeguarding it against unauthorized access and service disruption.

## **3. Review of the Security of the Fund's Web Application Environment (April 2010)**

### *Objective and Scope*

OIA assessed the effectiveness of the security controls over the Fund's web application environment to ensure that the web application operating system and services are properly configured and administered. The review focused on the web, application and database servers associated with the Fund's internal mission-critical applications and internet-facing web applications.

### *Main Findings and Recommendations*

The review found that while the internet-facing environment, presumably the most exposed to external threats, conformed to best practices, the security of some other areas need to be strengthened. The identified vulnerabilities pointed mostly to an inconsistent enforcement of robust security standards. The review recommended that a number of processes be established to enhance the enforcement of the security standards.

## **C. Operational and Effectiveness Audits and Reviews**

### **1. Review of IT Strategic Sourcing (July 2009)**

#### *Objective and Scope*

The review assessed: (i) the extent to which the objectives of the global sourcing initiatives are being achieved; (ii) how far the planned savings have been realized; (iii) whether the services delivered by Tata Consulting Services (TCS) are meeting departments' needs, in terms of timeliness, quality and security; and (iv) what broader lessons might be learned for future global sourcing, whether for IT or

other support services in the Fund. In FY 2008, the Fund migrated the maintenance of 26 IT software applications to TCS. In FY 2009, the maintenance services for a second wave of applications were transferred to TCS. The applications transferred to TCS include many of the main software packages that are critical to the work of Fund departments, such as HRD, FIN, OBP, INS, EXR, STA and TGS.

### *Main Findings and Recommendations*

The review found that even though both transitional and ongoing costs of IT offshoring are proving to be higher than envisaged, IT offshoring is expected to realize significant budgetary savings. But, offshoring—so far—has been at some cost to previous service standards, particularly in terms of timeliness and quality. Survey-based satisfaction with TCS varied by application and user department. Most respondents were broadly satisfied with routine maintenance services, although resolution time on priority incidents was judged too long. A majority also reported that they are spending considerably more time on minor enhancements and application developments than under the previous staff augmentation model.

OIA recommended several steps to improve performance. Carefully specifying the role of business analysts in TGS will help facilitate improvement in TCS' work on enhancements. TCS needs to do more to facilitate work planning by clarifying its staffing plans, while departments can help TCS by laying out their needs for new enhancements well in advance. The use of performance measures has been effective in stimulating TCS' responsiveness to weaknesses identified and they can be further broadened and deepened. Some additional measures to tighten information security arrangement at TCS were recommended. TGS has already addressed some of the recommendations and further actions are being taken to improve performance. The review also concluded that risks associated with the proposed transfer of maintenance services for the iFIN application call for a further review by FIN and TGS before proceeding. Also, departments, in preparing, and OBP in reviewing, cost-benefit analysis need to ensure that estimates are comprehensive and realistic including by applying scenario analysis.

## **2. TGS Support Services Follow-up Review (August 2009)**

### *Objective and Scope*

The review assessed the extent to which TGS has implemented OIA's recommendations resulting from a review, conducted in FY 2007 and aimed at identifying efficiency opportunities in TGS support services. The services examined were: Creative Services, Facilities Management, Hospitality Services, Information Services, Language Services, Procurement, Security Services, and Transportation Services. The scope of the follow-up review covered all sixteen recommendations made in the earlier review. In addition, a more detailed review was undertaken for three service areas, the division of Facilities Management, Information Services and Security Services to include other actions taken by TGS to streamline their business delivery models.

### *Main Findings and Recommendation*

The review confirmed that TGS has taken a number of steps to increase efficiency and reduce costs. Partly as a result of the Fund's restructuring, the decrease has exceeded the savings envisioned in the 2007 review. As this was a follow-up review, no recommendation was made.

### **3. Tax Allowance (August 2009)**

#### *Objective and Scope*

The review examined whether the current tax allowance system, broadly speaking, is achieving its main policy objectives of: (a) achieving external and internal equity, and (b) providing a tax allowance that is “reasonably related” to taxes paid by Fund staff on their Fund salaries. In conducting the review, OIA compared the Fund’s tax allowance policy with those of selected international organizations. The review also analyzed tax allowance payments for 2007 with the aim of identifying any patterns in the data set. Given one of the underlying policy objectives of external equity, the review also compared the key components of the tax allowance system to the compensation exercises.

#### *Main Findings and Recommendations*

The review concluded that achieving the tax allowance system’s cornerstone goal of equity is inherently challenging. The review recommended a number of possible options that could be pursued to change the system. Two of the options would entail approaching the U.S. authorities to seek exemption for U.S. staff members from U.S. income tax on their Fund income, or to seek agreement for a lump sum payment that the Fund could make to cover the aggregate tax liability. The other two options relate to adjusting the tax allowance policy, including investigating further the approach used in the UN system, or a thorough review of the system, which has not taken place since 1992.

### **4. Review of the Fund’s Capital Expenditure Budget (November 2009)**

#### *Objective and Scope*

This review focused on the operational aspects of the capital budget and considered: (i) how far the existing governance structures for determining the capital expenditures budget remain appropriate; (ii) whether the Fund’s procedures for designating expenditures as either administrative or capital are adequate and remain appropriate; (iii) whether the cost and benefit analysis approach is in practice, and should be, universally used as a project appraisal tool; and (iv) how far the application of two benchmarks (one for facilities and one for IT) remains an appropriate mechanism for restraining the size of the capital budget. The review surveyed other IFIs to provide a basis for a comparison of the Fund’s practices on capital budget with those elsewhere.

#### *Main Findings and Recommendations*

The review found that the implementation of the Fund’s capital budget is broadly appropriate. The Fund’s capital budgeting and accounting practices are broadly in line with those in other IFIs. The relative size of the Fund’s capital budget also seems to be of a similar magnitude to that in other IFIs. The division of the capital budget into two main categories (facilities and IT) also reflects general IFI practice. The review team continues to see value in a facilities capital budget benchmark, and any replacement benchmark must be framed against external comparators. Similarly, IT benchmark has been a useful tool for guiding spending levels.

OIA made four recommendations aimed at further improving governance, reducing risks and improving efficiencies. They were: (i) reporting to the Board on project implementation could be improved; (ii) the capital expenditure budgeting and accounting systems could be aligned; (iii) the cost-benefit analysis framework could be enhanced; and (iv) the budget resource envelope on facilities projects should be updated to make room for possible maintenance projects in the HQ2 building.

## **Appendix II. Internal Audit Function at the Fund and the Role of Internal Audit in Risk Management**

### **What is the internal audit function?**

The Institute of Internal Auditors (IIA)<sup>9</sup> defines internal auditing as follows:

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

The IIA maintains the “International Standards for the Professional Practice of Internal Auditing” that constitute best practice for the professions and a Code of Ethics for internal auditors. Use of these standards constitutes best practice for internal audit operations, and together with the Code of Ethics, is mandatory for practicing auditors who have earned a professional certification from the IIA. Additional guidance is provided through the IIA’s International Professional Practices Framework (IPPF).

### **How is internal audit organized in the Fund?**

OIA plays a key role in the Fund’s audit arrangements (see Box 1). In line with the IIA’s definition, OIA provides management and the Board, via the External Audit Committee (EAC), reasonable assurance on the effectiveness of the risk management, internal controls and governance processes of the organization.<sup>10</sup>

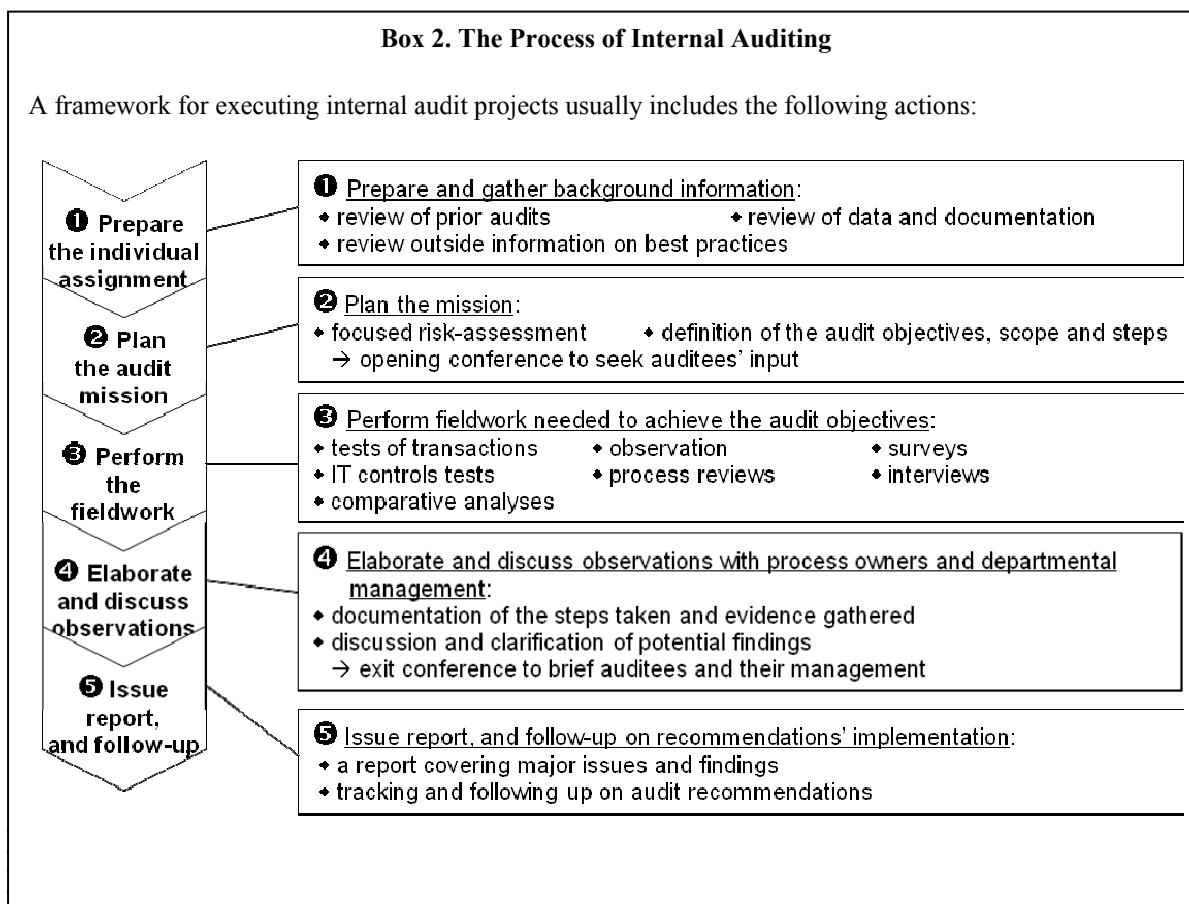
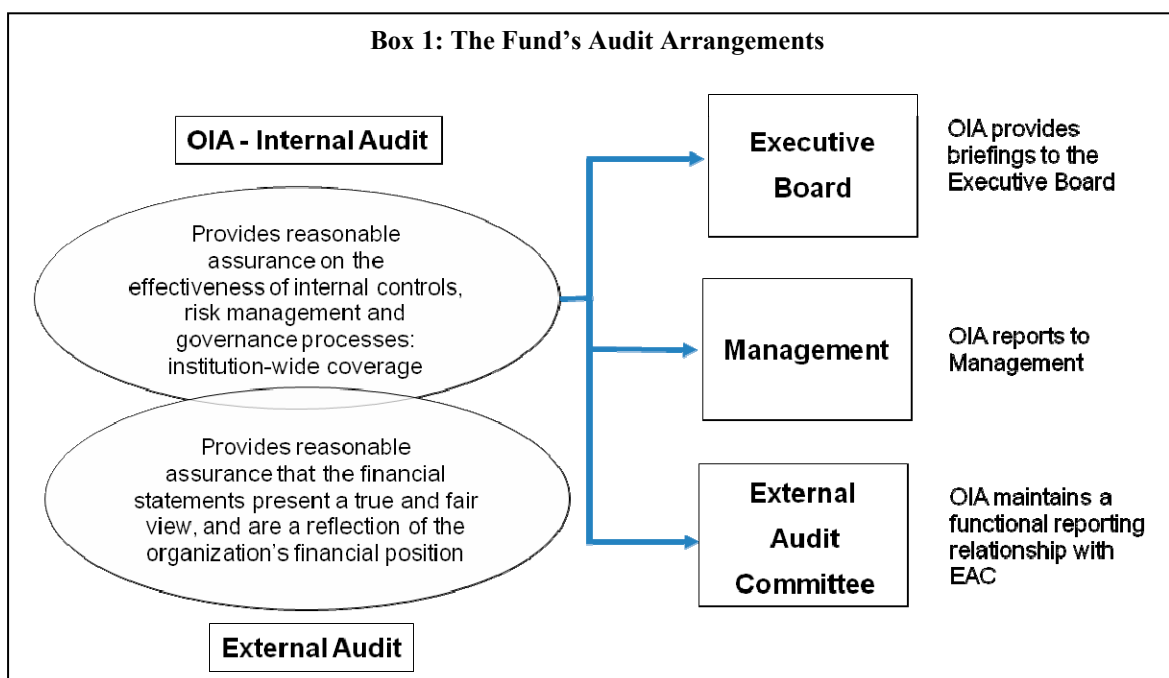
### **How is the internal audit work actually performed?**

A framework for executing internal audit work usually starts with the annual risk assessment to derive a work program (see Box 2). Once the work program has been formulated with inputs from various stakeholders, the first step is to discuss the terms of reference of the audit with the auditees. The fieldwork phase leads to observations and recommendations, which are also discussed with the auditees. The final stage is to monitor progress in implementing agreed-upon actions, in consultation with the auditees. It is also worth noting that during the audit all relevant information to support the auditors’ conclusions is recorded in the auditors’ working papers in a systematic way.

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<sup>9</sup> The IIA is an international professional association and considered the global voice of the internal audit profession.

<sup>10</sup> OIA’s mission is set forth in GAO No. 14, Rev. 4, *Internal Audit and Inspection in the Fund*, Nov., 2006.



OIA adheres to the IIA's standards (see Box 3). It follows a "no exception" policy with respect to adherence to these standards and has put in place a quality assurance program covering all internal audit activities which includes monitoring adherence to this framework.

### Box 3. Overview of Main Standards for the Auditing Profession

#### Attribute Standards

1. Purpose, authority and responsibility (Standard 1000 series)  
*The purpose, authority, and responsibility of the internal audit activity should be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.*
2. Independence and objectivity (Standard 1100 series)  
*The internal audit activity must be independent, and internal auditors must be objective in performing their work.*
3. Proficiency and due professional care (Standard 1200 series)  
*Engagement must be performed with proficiency and due professional care.*
4. Quality assurance and improvement program (Standard 1300 series)  
*The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.*

#### Performance Standards

5. Managing the internal audit activity (Standard 2000 series)  
*The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.*
6. Nature of work (Standard 2100 series)  
*The internal audit activity must evaluate and contribute to the improvement of risk management, governance and control processes using a systematic and disciplined approach.*
7. Engagement planning (Standard 2200 series)  
*Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.*
8. Performing the engagement (Standard 2300 series)  
*Internal auditors must identify, analyze, evaluate and document sufficient information to achieve the engagement objectives.*
9. Communicating results (Standard 2400 series)  
*Internal auditors must communicate the engagement results.*
10. Monitoring Progress (Standard 2500 series)  
*The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.*
11. Resolution of senior management's acceptance of risks (Standard 2600 series)  
*When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.*

## The role of internal audit in risk management

According to the IIA, internal audit core role with regards to risk management is to provide objective assurance to the board that major business risks are being managed appropriately and that the risk management and internal control framework is operating effectively. IIA also provides guidance on the type of risk management activities that an effective professional internal audit activity should and should not undertake (see Box 4).

### Box 4. Internal Auditing's Role in Risk Management

|   |   |
|---|---|
| <b>Core internal audit roles in regard to risk management</b>                                 | <ul style="list-style-type: none"> <li>• Giving assurance that risks are correctly evaluated</li> <li>• Evaluating risk management processes</li> <li>• Evaluating the reporting of key risks</li> <li>• Reviewing management of key risks</li> <li>• Giving assurance on the risk management processes</li> </ul>  |
| <b>Legitimate internal audit roles with safeguards to ensure independence and objectivity</b> | <ul style="list-style-type: none"> <li>• Facilitating identification &amp; evaluation of risks</li> <li>• Coaching management in responding to risks</li> <li>• Coordinating risk management activities</li> <li>• Consolidated reporting on risks</li> <li>• Maintain &amp; develop the risk management framework</li> <li>• Championing the establishment of Enterprise-wide Risk Management</li> <li>• Developing risk management strategy for board approval</li> </ul> |
| <b>Roles Internal audit should not undertake</b>  | <ul style="list-style-type: none"> <li>• Setting the risk appetite</li> <li>• Imposing risk management processes</li> <li>• Management assurance on risks</li> <li>• Taking decisions on risk responses</li> <li>• Implementing risk responses on management behalf</li> <li>• Accountability for risk management</li> </ul>  |

Source: IIA Position Paper: The Role of Internal Auditing in Enterprise-wide Risk Management

## Appendix III. 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 RAs (Responsibility Areas) for the following areas: "Global, cooperative economic solutions," "Strengthen oversight of the global economic and financial systems," "Advise member countries on economic policies," "Support countries economic policy adjustments," and "Provide capacity building." This group comprises 14 auditable entities (they could be revised to reflect future changes made to the Fund's RAs).
- **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.<sup>11</sup> 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.

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<sup>11</sup> 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**

| <b>Tier 1</b>                              | <b>Tier 2</b>  | <b>Tier 3: Auditable Entity</b>  |
|--|--|--|
| <b>1. Operating Processes</b>              |  |  |
|  | 1.1. Global, cooperative economic solutions                            | 1.1.01 Global economic analysis<br>1.1.02 Cooperative economic policy solution<br>1.1.03 Tools to prevent and resolve systemic crisis<br>1.1.04 Regional approaches to economic stability  |
|  | 1.2. Strengthen oversight of the global economic and financial systems | 1.2.01 Development of international financial architecture<br>1.2.02 Data transparency<br>1.2.03 The role of the Fund in the International monetary system   |
|  | 1.3. Advise member countries on economic policies                      | 1.3.01 Assessment of economic policies and risks<br>1.3.02 Financial soundness evaluation<br>1.3.03 Standards and Codes evaluation   |
|  | 1.4. Support countries' economic policy adjustments                    | 1.4.01 Arrangements supported by Fund resources<br>1.4.02 Arrangements not supported by Fund resources   |
|  | 1.5 Provide capacity building  | 1.5.01 Technical assistance<br>1.5.02 Training   |
| <b>2. Management and Support Processes</b> |  |  |
|  | 2.1. Manage financial resources  | 2.1.01. IMF Quotas and financial operations with members<br>2.1.02. Gold and SDA<br>2.1.03. Other GRA assets and liabilities<br>2.1.04. Investment Account<br>2.1.05. SDR Department<br>2.1.06. Administered accounts  |
|  | 2.2. Manage human resources  | 2.2.01. HR planning, policies, and strategies<br>2.2.02. Staff recruitment and development<br>2.2.03. Staff compensation and benefits<br>2.2.04. Staff separation and retirement   |
|  | 2.3. Manage information technology                                     | 2.3.01. IT Management<br>2.3.02. Enterprise software – Financial applications<br>2.3.03. Enterprise software – HR applications<br>2.3.04. Enterprise software – Budget and MI applications<br>2.3.05. Enterprise software – Support and other applications<br>2.3.06. Operating systems<br>2.3.07. Database management<br>2.3.08. Network – Infrastructure<br>2.3.09. Network – Services<br>2.3.10. Network – Security<br>2.3.11. Systems development<br>2.3.12. Systems processes |

| Tier 1                        | Tier 2  | Tier 3: Auditable Entity                            |
|-------------------------------|---|---|
|                               |   | 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            |
|                               |   | 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                        |
| <b>3. Fund's Organization</b> |   |   |
|                               | 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   |

| Tier 1 | Tier 2                | Tier 3: Auditable Entity |
|--------|-----------------------|--------------------------|
|        |                       | 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<sup>12</sup>

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).

<sup>12</sup> A similar but non identical set of risk factors has been developed for the IT auditable entities.

- **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).