

\*EBAP/10/112

December 1, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **The Internal Audit Function in the Fund—2011 Mid-Year Activity Report**

Attached for the **information** of Executive Directors is the 2011 mid-year activity report on the internal audit function in the Fund, which is being circulated as background for the **informal session** tentatively scheduled for **Thursday, December 16, 2010**, to brief Executive Directors.

Questions may be referred to Mr. Kincaid, OIA (ext. 37356).

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

\*Secretary's note of transmittal amended on 12/15/10 to indicate that this document provides background for an informal session.



INTERNATIONAL MONETARY FUND

**The Internal Audit Function in the Fund**

**2011 Mid-Year Activity Report**

Prepared by the Office of Internal Audit and Inspection

Approved by G. Russell Kincaid

November 30, 2010

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## I. INTRODUCTION

1. **This paper presents the mid-year activity report for the FY 2011 work plan of the Office of Internal Audit and Inspection (OIA).** This mid-year report aims to keep the Board updated on OIA's activities on a timely basis. As such, it further strengthens the Managing Director's commitment to regularly share information with the Board on control- and audit-related matters (FO/DIS/05/153, 12/20/05).

2. **The information provided in this report covers OIA activities over the six months ending October 31, 2010.** It includes details on implementation of audits and reviews, and the results and status of recommendations. Since the last report to the Board in June 2010, 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.

## II. AUDIT WORK PROGRAM

3. **OIA's FY 2011 work program includes 13 audits and reviews.** These projects comprise (i) five financial audits, (ii) four information technology (IT) reviews, and (iii) four operational and effectiveness reviews. The FY 2011 work program also included seven projects carried over from the FY 2010 work program. Thus, 20 audits/reviews were planned for FY 2011. In addition, OIA would devote resources to an ongoing investigation, several advisory activities, and serve as secretariat to the Advisory Committee on Risk Management.

4. **The implementation status of the FY 2011 work program is presented in Table 1.** All seven carryover projects from FY 2010 were completed during the first six months of FY 2011. Of the 13 new FY 2011 projects: (i) one financial audit and one IT review were completed; (ii) seven audits/reviews are in progress and are expected to be completed during the next six months; and (iii) four additional reviews will start later in FY 2011. Thus, mid-way through the financial year, OIA has completed nine audits/reviews of 20. OIA's reports for its audits and reviews are available to Executive Directors (and their Alternates) with restricted access on the intranet ([http://www.intranet.imf.org/departments/OIA/about\\_oia/Pages/SelectedReport.aspx](http://www.intranet.imf.org/departments/OIA/about_oia/Pages/SelectedReport.aspx)). In addition, during the first half of FY 2011, OIA conducted three advisory reviews and completed one investigation. One advisory review for HRD has been completed and two others (HCM and HQ1 program Review Team) are still in progress and are expected to conclude before the end of FY 2011. For the current six-month period, and consistent with the FY 2010 annual outturn, seventy percent of OIA total staffing resources were utilized to conduct audits and reviews.

**Table 1. OIA Audits and Reviews, FY 2011  
As of October 31, 2010**

<b>Project Title</b>	<b>Originating Work Plan</b>	<b>Project Status</b>
<b>Financial Audits</b>		
1 Review of the Fund's Medical Benefit Plan	FY 2010	Completed
2 Precautionary balances	FY 2011	Planned
3 Financial controls over the new facilities for low-income countries	FY 2011	Planned
4 Controls over publication activities	FY 2011	In Progress
5 Financial statements of the Per Jacobsson Foundation	FY 2011	Completed
6 OED's Expenditures Framework and Related Audits	FY 2011	In Progress
<b>Technology Audits and Reviews</b>		
1 Review of effectiveness of remote access	FY 2010	Completed
2 Review of network security	FY 2010	Completed
3 IT governance	FY 2011	In Progress
4 Follow-up review of OIA's review of IT strategic sourcing	FY 2011	Planned
5 Data center	FY 2011	Completed
6 Wireless networks	FY 2011	Planned
<b>Operational Audits</b>		
1 Review of the governance and management of the HCM project	FY 2010	Completed
2 Review of the organization and structure of FINAX	FY 2010	Completed
3 Review of the backstopping of TA experts	FY 2010	Completed
4 Review of the implementation of the new review process for country papers	FY 2010	Completed
5 Review of the WEO, GFSR, FM and REOs	FY 2011	In Progress
6 Follow-up Review of OIA's 2008 HR Review	FY 2011	In Progress
7 Allocation of Travel Budget	FY 2011	In Progress
8 Review of Conditions of Local Employees in Fund's Field Offices	FY 2011	In Progress
<b>Investigations</b>		
1 Investigation January 2010	FY 2010	Completed
<b>Advisory Reviews</b>		
1 HCM Advisory Review (ongoing, to be completed by Apr. 2011)	FY 2010	In Progress
2 HQ1 Program Review Team (PRT)	FY 2010	In Progress
3 HRD Advisory	FY 2011	Completed
<b>Enterprise Risk Management</b>		
1 Secretariat support & Advisory Committee		In Progress

Source: Office of Internal Audit and Inspection.

### III. RESULTS AND STATUS OF AUDIT RECOMMENDATIONS

5. **Overall, OIA audit recommendations have been addressed in a timely manner by departments.**<sup>1</sup> However, to improve the handling of outstanding recommendations, OIA has undertaken two initiatives. One, OIA has proactively reached out to departments to help them address and implement outstanding recommendations, focusing initially on departments with the highest concentration of outstanding recommendations. Those departments have responded positively to this initiative. Two, OIA is streamlining its recommendation tracking process, to lighten the departmental reporting burden and to allow timelier reporting. This initiative will give departmental access to a portal where they will be able to update their implementation actions on an ongoing basis. Based on these departmental inputs, OIA will continue to seek additional clarification and/or documentation as necessary.

6. **The number of outstanding recommendations rose to 89 as of October 31, 2010 compared to 71 at April 30, 2010 (Table 2).** This increase in outstanding recommendations is explained by a larger number of new recommendations during the most recent period compared with the previous cycle (42 versus 31); meanwhile the number of recommendations closed remained unchanged at 24. The increase in new recommendations is due solely to two IT reviews that resulted in 20 new recommendations in total. Excluding these two IT audits, the average number of recommendations per audit/review was four during this six-month cycle, which is unchanged from the previous six-month cycle.

**Table 2. Outstanding Recommendations, Mid-FY09–Mid-FY11**

	Mid-FY09	End-FY09	Mid-FY10	End-FY10	Mid-FY11
Outstanding recommendations at beginning of the period	58	55	56	64	71
Plus: New recommendations added in last six months	26	25	32	31	42
Minus: Recommendations (proposed to be) closed	29	24	24	24	24
Equals: Open recommendations remaining	55	56	64	71	89

Source: Office of Internal Audit and Inspection.

<sup>1</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.

7. **About 75 percent of outstanding recommendations stem from audits/reviews completed during FY 2010 and FY 2011 (Table 3) indicating a reasonable implementation pace by departments.** During the first half of FY 2011, 24 recommendations having a high- or medium- impact were closed. Nineteen (19) of the recommendations that were closed were implemented in full. The remaining five were either (i) substantially implemented, even if the steps taken were not exactly as originally proposed (for three of them); or (ii) not implemented because context has changed since the issuing of the recommendation (for two of them). Of the 89 outstanding recommendations, 16 are classified as high-impact, of which 14 are older than one year. Nearly 60 percent of the open recommendations pertain to TGS and HRD, which is in line with their share of total recommendations.

**Table 3. Outstanding Recommendations by Impact and Financial Year  
(As of October 31, 2010)**

	Issued in Financial Year					Cumulative
	2007	2008	2009	2010	2011	
Total outstanding recommendations	1	5	15	33	35	89
High impact	—	2	5	7	2	16
Medium impact	1	3	10	26	33	73

Source: Office of Internal Audit and Inspection.