

EB/CAM/11/8

April 6, 2011

To: Members of the Committee on Executive Board Administrative Matters
(Mr. Hockin, Chairman; Mr. Alkholifey, Mr. Bakker, Mr. Mac Laughlin,
Mr. Majoro, Mr. Nogueira Batista, Mr. Temmeyer, Ms. Vongpradhip)

From: Kenneth Meyers, Committee Secretary

Subject: **Audit Coverage of the Executive Board—Revised Draft Decision**

At the request of the Chairman of the CAM, please find attached a paper on the above topic, which was previously discussed by the Committee on December 7, 2010 and February 10, 2011. The attached paper presents a revised draft decision, reflecting Directors' comments at these two meetings.

In line with the process outlined by the Chairman at the meeting of the CAM on March 31, 2011, it is not proposed to bring this item to the agenda of the Committee for further discussion unless a Director so requests by the **close of business on Monday, April 11, 2011**. In the absence of such a request, the Committee will be deemed to have endorsed the attached draft decision, and it will be forwarded to the Executive Board for formal approval on a lapse of time basis.

Questions may be addressed to Mr. Kincaid (ext. 37356) and Mr. Nelson (ext. 38132) in OIA.

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

Att: (1)

Other Distribution:
Members of Executive Board

Audit Coverage of the Executive Board—Revised Draft Decision

1. The Committee on Administrative Matters (CAM) met on February 10, 2011 to discuss a staff note entitled, *Audit Coverage of the Executive Board—Further Considerations on Selected Issues*, (EB/CAM/11/4; 2/8/11). That note addressed requests for clarifications made at the CAM meeting in December 2010, specifically on the accountability of the Office of Internal Audit and Inspection (OIA) to the Executive Board with regard to Board audits and the need to ensure the confidentiality of records of the Executive Board, Offices of Executive Directors (OEDs), and the Independent Evaluation Office (IEO). The majority of CAM members and other Executive Directors supported, on balance, the proposed safeguards contained in the illustrative draft decision. However, they requested that the meaning of “activities” in paragraph 2 of the draft decision be clarified, and that provision for review of the arrangements be included in the decision.
2. Addressing the above noted issues, the draft decision attached to this note incorporates changes to the illustrative draft decision that was circulated as background for the February 10, 2011 CAM discussion. Changes appear in red in paragraph 2, and a new paragraph 6 has been added. The term, “activities” has been replaced with “compliance with applicable Fund policies, regulations, and procedures”. This language adapts to the circumstances at the Fund, the IIA definition of compliance (see Glossary to the International Professional Practices Framework (2011)). In this case, applicable means those administrative policies, regulations, and procedures that are relevant to the Board, OEDs or IEO, as warranted.¹
3. Regarding the proposed periodicity for review of the arrangements, the time allowed should allow sufficient experience to provide a basis for a satisfactory review. It is not possible at this time to predict the number or nature of audits that might sample OED records or involve directly the Board/OED/IEO, or when, if at all, they might be completed in FY2012.² Therefore, to have the flexibility to ensure that a suitable number of audits are completed under the arrangements set forth in this draft decision, the review is proposed to take place within two years following its adoption.

¹ In addition, the redlined portions of the illustrative draft decision attached to EB/CAM/11/4 have been accepted and now appear in black.

² None of the audit/reviews that remain to be initiated from OIA’s FY2011 Work Program—Precautionary Balances, Financial Controls over the New Facilities for Low-Income Countries, and IT Strategic Sourcing—utilize OED records. OIA’s risk-based assessment for FY2012 of the Fund’s auditable universe, which excludes the Board, OEDs, and the IEO, is nearly complete. The draft work program for FY2012 is discussed with the EAC. (A detailed description of OIA’s audit planning approach can be found in Appendix III of its 2010 Activity Report (EBAP/10/46; 5/28/10).)

DRAFT DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

As part of a comprehensive internal audit framework at the Fund, the Office of Internal Audit and Inspection (OIA) shall carry out objective and independent audits of the Executive Board, Offices of Executive Directors (OED), and the Independent Evaluation Office (IEO) and its staff, in accordance with the terms of this decision:

1. In conducting and reporting on audits of Fund-wide systems and policies under General Administrative Order No. 14 that are used by, or apply to, all Fund employees, OIA shall have access to, and may include, samples pertaining to OED and IEO employees, to ensure that a fully representative sample of the Fund is utilized in the audit.
2. With respect to audits that specifically apply to expenditure **of or compliance with applicable Fund policies, regulations and procedures**, the Executive Board, OEDs or the IEO (“OED audits”), the following procedures shall apply:
 - a. In conducting and reporting on OED audits, the Director and staff of the OIA shall adhere to the prevailing professional guidance and standards provided by

the Institute of Internal Auditors (IIA), as appropriate to the performance of their functions and responsibilities.

- b. The Director of OIA shall have a functional reporting relationship, including direct communication with the External Audit Committee (EAC) for OED audit related matters. The Executive Board may also consult directly with the EAC on the conduct of OED audit related matters.
 - c. The Director of the OIA shall report to the Executive Board, and the Director of the IEO, as appropriate, on the results of the OED audits and on the status of implementation of recommendations arising from those audits.
 - d. The Director of OIA shall propose to the Executive Board periodic work programs related to OED audits, consistent with a risk assessment and review by the EAC.
 - e. OED audits shall be coordinated with the appropriate Executive Director or the Director of the IEO and other employees of the OED or IEO, as needed.
3. The Director and staff of OIA are authorized to:
- a. have unrestricted access, as needed for the proper discharge of audit and review duties, to all personnel, property and records in units where audits are performed, and other information provided, however, that this shall not include access to confidential communications between OEDs and their authorities;

- b. allocate resources, set frequencies, select objects, determine scope of work and apply the techniques required to accomplish audit and review objectives; and
 - c. obtain the necessary assistance of personnel in units where audits and reviews are performed, as well as other specialized services from within or outside the Fund.
- 4. The Executive Board, the IEO or the Office of an Executive Director may request advisory services from OIA to help ensure that their work practices are structured and conducted in a way that enables them to fulfill their objectives effectively and efficiently.
- 5. As mandated by its professional standards, the OIA shall respect the confidentiality, value, and ownership of information that it receives during audits and reviews under this decision and shall not disclose this information without proper authorization from the Executive Board, relevant Executive Director, or IEO Director, unless there is an obligation to do so. With respect to information on possible misconduct, OIA will refer, in a confidential manner, the matter to the Board Ethics Committee, Executive Director, or IEO Director, as applicable in accordance with the prevailing code of conduct.
- 6. **The Executive Board shall review the arrangement set forth in this decision within two years following its adoption.**