

EBAP/11/48

May 26, 2011

To: Members of the Executive Board

From: The Secretary

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

Attached for the **information** of Executive Directors is a paper on the internal audit function in the Fund—activity report and background information.

This paper is intended for the use of the Executive Board only and it is not intended to publish this paper on the Fund's external website.

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

INTERNATIONAL MONETARY FUND

The Internal Audit Function in the Fund

Activity Report and Background Information

Prepared by the Office of Internal Audit and Inspection

Approved by G. Russell Kincaid

May 25, 2011

Contents	Page
I. Introduction	2
II. OIA Activities and Resource Allocation	2
III. FY 2011 Audit Work Program	4
IV. FY 2012 Audit Work Program	5
V. Results and Status of Audit Recommendations	8
Tables	
1. OIA Budget and Resource Allocation	3
2. OIA Audits and Reviews, FY 2011	6
3. OIA Audits and Reviews, FY 2012	7
4. Outstanding Recommendations, End-FY09–End-FY11	9
5. Outstanding Recommendations by Impact and Financial Year	9
Appendixes	
I. Internal Audit Function at the Fund and the Role of Internal Audit in Risk Management ..	10
II. OIA’s Audit Planning Approach	15
Appendix Table	
1. OIA Audit Universe	16

I. INTRODUCTION

1. **This paper presents recent activities of the Office of Internal Audit and Inspection (OIA).** This report aims to keep the Board updated on OIA's activities on a timely and regular (i.e., semi-annually) basis. As such, it fulfils the Managing Director's commitment to regularly share information with the Board on control- and audit-related matters (see *Control- and Audit-Related Matters—Information Sharing with the Executive Board* (FO/DIS/05/153, 12/20/05)).
2. **The last informal Board briefing on OIA's activities was in December 2010 covering OIA activities between May 1 and October 31, 2010** (see *The Internal Audit Function in the Fund—2011 Mid-Year Activity Report* (EBAP/10/112, 11/30/2010) and *The 2010 Activity Report and Background Information* (EBAP/10/46, 5/27/2010)). Thus, the information provided in this report covers OIA activities over the six-month period between November 1, 2010 and April 30, 2011. It includes details on implementation of audits and reviews, and the results and status of recommendations. It also includes details on the FY 2012 audit/review plan. Since the last report to the Board, 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. OIA ACTIVITIES AND RESOURCE ALLOCATION

3. **In the conduct of its audits/reviews, OIA follows the *International Professional Practices Framework (IPPF)* established by the Institute of Internal Auditors (IIA) (Appendix 1).**¹ The Fund's internal audit activities are subjected to an external quality assessment, normally every five years. The last IIA external quality assessment of OIA (in March 2008) concluded that the internal audit activities “generally confirms” (the highest rating) to the *International Standards for the Professional Practice of Internal Auditing* as well as the Code of Ethics, which is part of the IIA's IPPF. In fulfilling their mission, OIA's auditors are guided by professional standards, which bring a “systematic, disciplined approach” to their evaluation. Under IIA standards, OIA staff is professional bound to “respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.”
4. **The bulk of OIA's activities and resource use is devoted to audits/reviews (Table 1).** About seventy percent of OIA total resources are employed to conduct audits and reviews. In addition, advisory services are performed in response to departmental requests. Through these activities, OIA provides independent examinations of the effectiveness of various operations, controls, risk management, and governance processes. OIA's FY 2012-14 Business Plan provides more details (see link: http://www-intranet.imf.org/departments/OIA/about_oia_business_plan.aspx).

¹ The IIA (www.theiia.org), established in 1941, is the only professional organization dedicated to the practice of internal auditing, providing leading-edge guidance and certification. It has more than 170,000 affiliates in more than 160 countries and many multilateral institutions (e.g., World Bank, BIS, ECB).

Table 1. OIA Budget and Resource Allocation

	FY 2010 Outturn	FY2011 Outturn	FY 2012 Plan
Total Resources (\$ million)	4.1	4.2	4.6
Allocation (percent)			
Audits/Reviews	71	69	71
Advisory Services	1	1	1
Investigations	3	3	3
Risk Management	8	8	8
Staff Training	6	5	6
Dept. Support	6	7	6
Governance	2	4	2
Fund's Responsibility Areas ^{1/}	3	2	3

^{1/} Primarily in the areas of “lead the global economic policy dialogue” and “support countries” economic policy adjustment.”

Sources: OIA’s FY 2011-2013 and FY 2012-2014 Departmental Business Plans.

5. **OIA also conducts investigations at the request of management.** Over the past three financial years, OIA conducted, on average, two to three investigations per year. These investigations, on average, consumed less than one-half of a full-time-equivalent (FTE) or 3 percent of OIA’s resources. OIA Director also serves on the Oversight Committee of the Fund’s Integrity Hotline, a channel established to handle allegations of staff misconduct. Please refer to the annual report published by the Ethics Office for detail on the Integrity Hotline (see link <http://www-intranet.imf.org/sites/ethics/office/Pages/default.aspx>).

6. **Separate from its internal audit function, OIA serves as Secretariat to the Advisory Committee on Risk Management (ACRM).**² In this capacity, OIA facilitates the implementation and reporting of risk management in the Fund. Specifically, OIA coordinates Fund wide operational risk assessment exercise and production of an annual risk management report to the Board (see *2011 Report on Risk Management (SM/11/101, 5/18/2011)*, which is scheduled to be discussed at the Board on Tuesday, June 7, 2011). OIA 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 last six months, OIA provides logistical assistance to an External Panel of Experts created by the Managing Director (in December 2010) to review the Fund’s risk management framework. This activity consumes about 1 FTE or eight percent of OIA’s resources.

² The ACRM was established to assist Fund management in: analyzing, synthesizing, and reporting risks; enhancing the awareness in departments of risk management; and reporting to the Board on risk management matters. The terms of reference is available through this link:

http://www-intranet.imf.org/departments/OIA/risk_management/Pages/default.aspx

7. **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. These governance activities utilize about 3 percent of OIA's staffing resources.

8. **OIA accounts for about one-half percent of Fund staff and of the gross administrative budget.** In FY 2011, OIA achieved its steady-state size (i.e., 14.5 FTE), following an FTE reduction of 20 percent from its FY 2007 baseline as part of the downsizing exercise. OIA's auditors have certifications in areas such as internal auditing, public accounting, and IT auditing. Audit staff are required to maintain professional certifications which necessitates staff training time (5 to 6 percent). In addition, OIA uses consulting services, especially for specialized IT audit work to supplement staff expertise.

9. **A comparison of the internal audit activities at six international financial institutions (IFIs) suggests that OIA is broadly in line with them.** OIA's budget relative to the Fund's budget is consistent with the budget share for internal audit offices in other IFIs. On average, the 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 Internal Audit Office shares its full reports with all staff.

III. FY 2011 AUDIT WORK PROGRAM

10. **Twenty audits and reviews were planned for FY 2011.** Of the twenty projects, seven (excluding one review, "*Review of the WEO, GFSR, FM, and REOs*" which was postponed from FY 2010 to FY 2011) were carried over from the FY 2010 work program. In addition, OIA conducted two investigations and four advisory engagements, and served as secretariat to the Advisory Committee on Risk Management.

11. **The implementation status of the FY 2011 work program is presented in Table 2.** Of the twenty audits/reviews planned for FY 2011, nine were completed during the first half of FY 2011. During the last six months of FY 2011, six of the remaining eleven audits/reviews were completed. The extension of internal audit coverage to the Executive Board was one of the six projects completed during the second half of FY 2011. As of April 30, 2011, five projects (excluding an investigation) are carried into FY 2012 or two fewer audits/reviews than were carried into FY 2011 and five fewer than were carried into FY 2010. Reduced carryovers allow OIA to focus in a more-timely manner on its most recently identified risks. One (IT Governance) of the five projects carried over into FY 2012 has already been completed, and the other four are expected to be completed during the first half of FY 2012. In addition, OIA conducted four advisory reviews in FY 2011; three were completed during the second half of FY 2011 and one during the first half of FY 2011. No advisory review is carried into FY 2012 compared to two advisory reviews carried forward into FY 2011. One investigation which commenced only in March 2011, has been carried forward to FY 2012.

12. **OIA's reports for its audits and reviews are available to Executive Directors (and their Alternates) with restricted access on the intranet.**³ Beginning in March 2011, to facilitate more timely review of these reports, Executive Directors (and their Alternates) are notified via e-mail when a new audit/review report is posted on OIA's website. All six audit reports issued during the second half of FY 2011 and one report issued in early May have been posted on the intranet.

IV. FY 2012 AUDIT WORK PROGRAM

13. **Consistent with past practices, the FY 2012 audit/review plan is formulated utilizing OIA's risk-based audit approach applied to the Fund's auditable entities** (see Appendix II for a description of OIA's planning approach). Those auditable entities correspond to the Fund's main activities and administrative processes, and organizational units, and are aligned with the Fund's Responsibility and Key Output areas. The plan also reflects the most recent Fund-wide risk assessment conducted by the Advisory Committee on Risk Management (see also SM/11/101, 5/18/2011) and departmental and IEO comments. Inputs are also gathered from the external audit firm and the External Audit Committee (EAC). In particular, the EAC expressed support for the FY 2012 audit/review plan.

14. **The FY 2012 audit/review plan consists of 12 new audits and reviews.** Of these 12 new audits and reviews, four are financial, two are information technology (IT) and six are operational reviews (Table 3). The FY 2012 work plan also includes three audits/reviews carried over from the previous year (i.e., Precautionary Balances, Financial Controls over the New Facilities for Low-Income Countries and Follow-up Review of OIA's Review of IT Strategic Sourcing) and two operational reviews (i.e., Outreach Strategy and Implementation and Review of Consultative Group on Exchange Rate Issues) put forward for the FY 2011 audit/review plan. Thus, the total number of possible audits/reviews is seventeen. 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. Compared with the previous year, the current plan is more focused on financial and operational categories to better reflect the evolving demands faced upon the Fund and its shifting risk profile.

15. **Budget resources allow implementation of 15 audits and reviews in FY 2012.** This target recognizes the fact that operational reviews on average are roughly twice as resource intensive as financial and information technology reviews. However, OIA has developed a flexible audit plan that allows this number to increase depending on the number of investigations and advisory services that may be added to the work program during the year. Consistent with annual outturn in previous years, OIA will allocate seventy-one percent of staffing resources to conduct audits and reviews. OIA will seek again, in FY 2012 to increase its implementation rate for audits/reviews and to further lower the carryover of projects into FY 2013. Lowering the carry forward of projects will allow OIA to focus its efforts on the audits/reviews that have been most recently assessed to have higher risks. This will increase the effectiveness of OIA recommendations.

³ OIA's reports are accessible through the following link: http://www.intranet.imf.org/departments/OIA/about/oa/Pages/Selected_Report.aspx.

**Table 2. OIA Audits and Reviews, FY 2011
As of April 30, 2011**

Project Title	Originating Work Plan	Project Status
Financial Audits		
1 Review of the Fund's Medical Benefit Plan	FY 2010	Completed
2 Precautionary balances	FY 2011	In Progress
3 Financial controls over the new facilities for low-income countries	FY 2011	Planned
4 Controls over publication activities	FY 2011	Completed
5 Financial statements of the Per Jacobsson Foundation	FY 2011	Completed
6 Internal audit coverage of the Executive Board	FY 2011	Completed
Technology Audits and Reviews		
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 ^{1/}
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	Completed
Operational Audits		
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	Completed
6 Follow-up Review of OIA's 2008 HR Review	FY 2011	Completed
7 Allocation of Travel Budget	FY 2011	In Progress
8 Review of Conditions of Local Employees in Fund's Field Offices	FY 2011	Completed
Investigations		
1 Investigation January 2010	FY 2010	Completed
2. Investigation March 2011	FY2011	In Progress
Advisory Reviews		
1 HCM Advisory Review	FY 2010	Completed
2 HQ1 Program Review Team (PRT)	FY 2010	Completed
3 HRD Advisory	FY 2011	Completed
4 OED Overtime Entries	FY 2011	Completed
Enterprise Risk Management		
1 Secretariat support & Advisory Committee		In Progress

Source: Office of Internal Audit and Inspection.

1/ This review was completed on May 6, 2011.

Table 3. OIA Audits and Reviews, FY 2012

Project Title
Financial
1. Controls over the Calculation of Members' Quota
2. Review of Controls over the Fund's Gold Sales Program
3. Review of Controls Over the Fund's Gold Holdings
4. Financial Statements of the Per Jacobsson Foundation
5. Financial Controls over the New Facilities for Low-Income Countries 1/
6. Precautionary Balances 1/
Information Technology
7. Review of Mobile Devices Security
8. Review of Information Security Practices in the Fund's Field Offices
9. Follow-up Review of OIA's Review of IT Strategic Sourcing 1/
Operational and Effectiveness (4 of the 6 non-departmental reviews will be undertaken)
10. Review of OBP Operations
11. Review of STA Operations
12. Review of the Control Framework for HQ1 Renewal Program and Concordia Project
13. Review of Technical Assistance-Related Operations
14. Outreach Strategy and Implementation 2/
15. Review of Consultative Group on Exchange Rate Issues (CGER) 2/
16. Review of the Fund's Business Continuity Planning
17. Review of the Fund's Dispute Resolution System

Source: Office of Internal Audit and Inspection

1/ Audits and reviews carried over from FY 2011.

2/ Optional operational reviews put forward for the FY 2011 audit plan.

V. RESULTS AND STATUS OF AUDIT RECOMMENDATIONS

18. **OIA monitors implementation of its recommendations, as mandated by the IIA standards, on a semi-annual basis.** 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.

19. **Overall, OIA audit recommendations have been addressed in a timely manner by departments (Table 4).**⁴ During the second half of FY 2011, twenty-seven recommendations having a high- or medium- impact were closed. Twenty-five of the recommendations that were closed were implemented in full. Of the remaining two recommendations, one was substantially implemented and the other was superseded by a newer recommendation from a separated, but related audit. The number of outstanding recommendations reduced to 82 as of April 30, 2011, compared to 89 at October 30, 2010. Fewer new recommendations were added during the recently concluded six-month cycle because five audits (excluding internal audit coverage of the Executive Board, and an audit which was completed on May 6, 2011) were completed compared to an average of seven to eight audits over the previous four reporting cycles. In addition, the average number of recommendations per audit declined to four from six in the previous period, returning to the longer-term average of four.

20. **About 83 percent of outstanding recommendations stem from audits/reviews completed during FY 2010 and FY 2011 indicating a reasonable implementation pace by departments (Table 5).** Of the 82 outstanding recommendations, 12 are classified as high-impact, of which 10 are older than one year. Of the ten, five recommendations may be expected to be implemented in the next reporting cycle ending October 31, 2011. Forty-five percent of the outstanding recommendations pertain to TGS and HRD, which is in line with their share of total recommendations.

⁴ 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 4. Outstanding Recommendations, End-FY 2009–End-FY 2011

	End- FY09	Mid- FY10	End- FY10	Mid- FY11	End- FY11
Outstanding recommendations at beginning of the period	55	56	64	71	89
Plus: New recommendations added in last six months	25	32	31	42	20
Minus: Recommendations (proposed to be) closed	24	24	24	24	27
Equals: Open recommendations remaining	56	64	71	89	82

Source: Office of Internal Audit and Inspection.

**Table 5. Outstanding Recommendations by Impact and Financial Year
(As of April 30, 2011)**

	Issued in Financial Year				Cumulative
	2008	2009	2010	2011	
Total Outstanding Recommendations	2	12	22	46	82
High Impact	1	2	7	2	12
Medium Impact	1	10	15	44	70

Source: Office of Internal Audit and Inspection.

Appendix I. Internal Audit Function at the Fund and the Role of Internal Audit in Risk Management

What is the internal audit function?

According to the IIA, internal auditing is defined as “*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.*”

External auditing, on the other hand, is an activity that provides reasonable assurance that the financial statements present a true and fair view, and are a reflection of the organization’s financial position.

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.

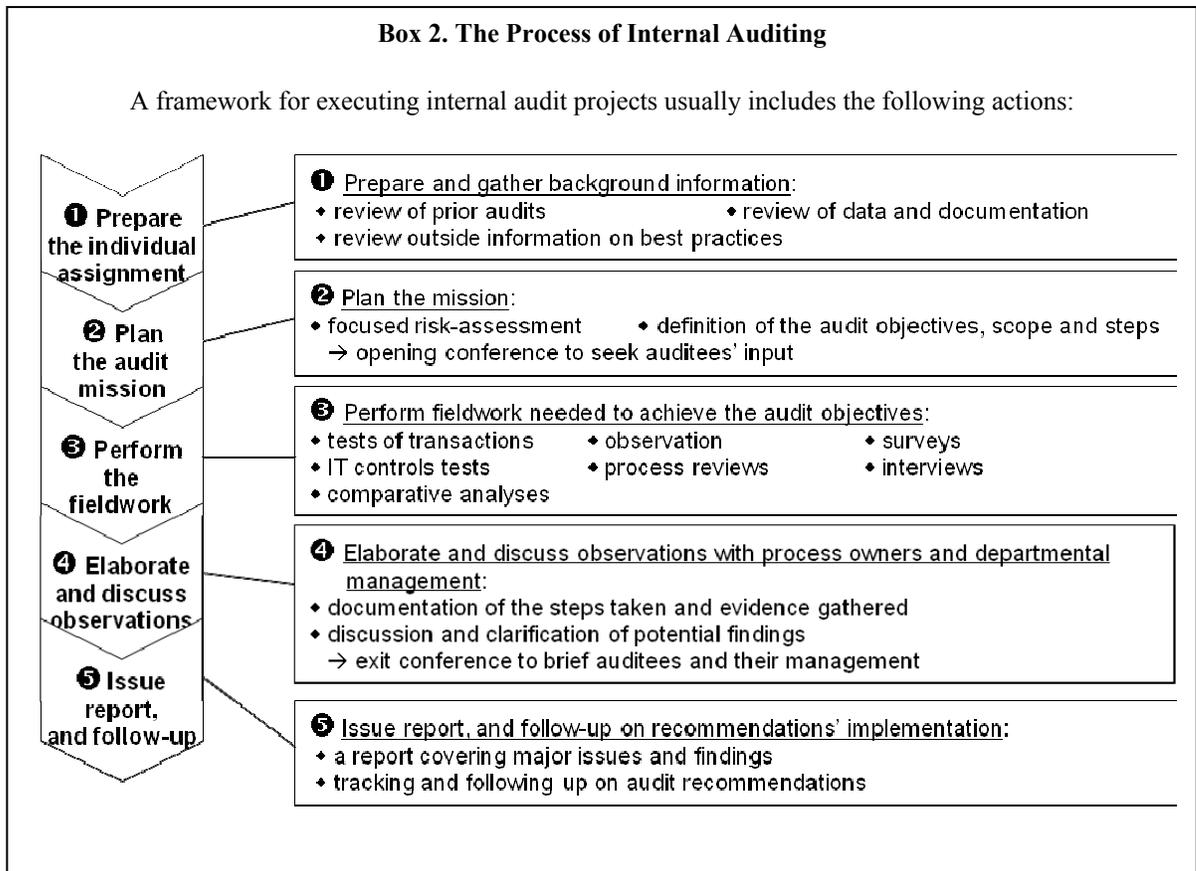
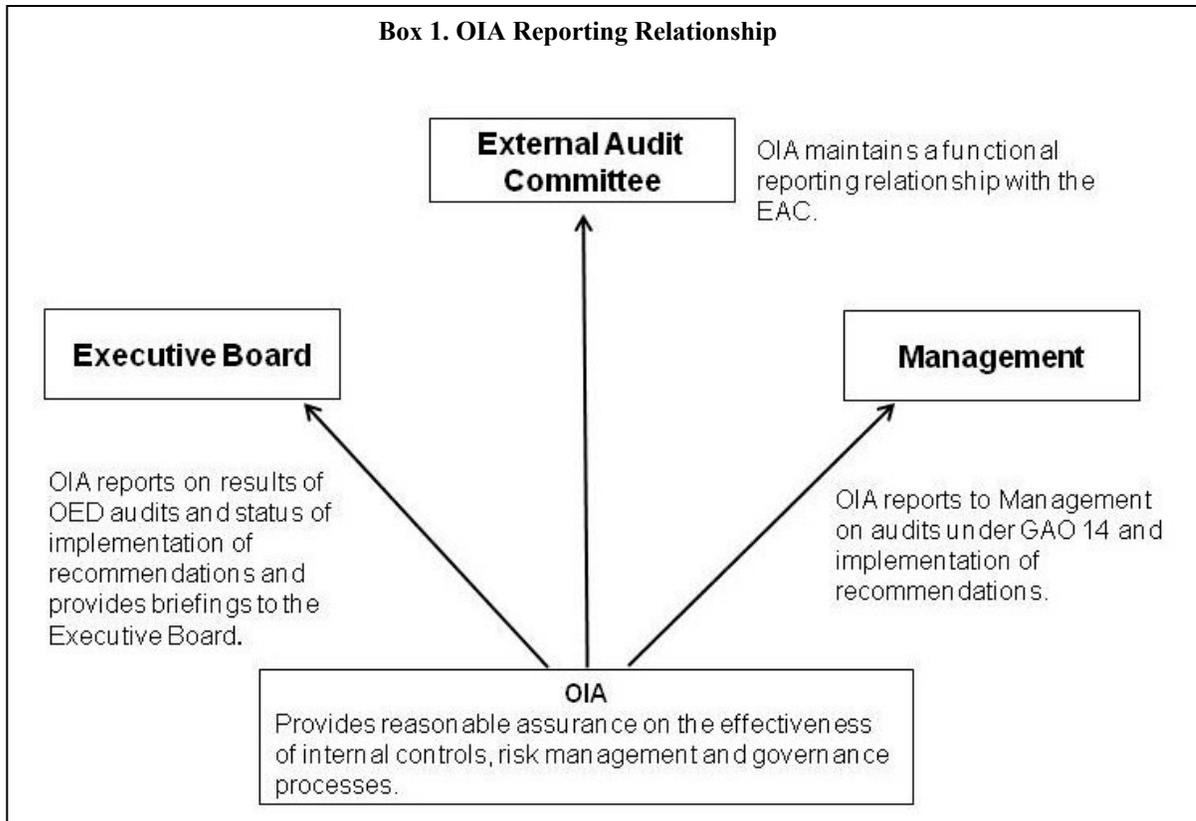
How is internal audit organized in the Fund?

OIA’s work is integral to the Fund’s audit and control framework, complementing the work of the external audit firm. 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.⁵ Box 1 depicts OIA’s dual reporting relationship.

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.

⁵ OIA’s mandate is set forth in GAO No. 14, Rev. 4, *Internal Audit and Inspection in the Fund*, Nov., 2006, and in *Audit Coverage of the Executive Board*, DEC/14892, 4/29/11.



International Professional Practices Framework (IPPF)

The IPPF has three mandatory elements: (i) Definition of Internal Auditing (presented above), (ii) Code of Ethics (Box 3), and (iii) *International Standards for the Professional Practice of Internal Auditing* (Box 4). Conformance with the mandatory guidance is essential in carrying out the responsibilities of internal auditors and the internal audit activity.

OIA follows a “no exception” policy to the IIA’s standards 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. Code of Ethics

Internal auditors are expected to apply and uphold the following principles.

1. **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. **Objectivity:** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. **Confidentiality:** Internal auditors respect the value and ownership of information they received and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency:** Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Source: Institute of Internal Auditors, International Professional Practices Framework (2011)

Box 4. 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 must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the 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.

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board (an organization governing body, including the audit committee to whom the chief audit executive may functionally report). This can be achieved through a dual-reporting relationship.

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 results to the appropriate parties.

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 5).

Box 5. Internal Auditing's Role in Risk Management

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

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 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.⁶ 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.

⁶ 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. Lead the global economic policy dialogue	1.1.01 Global economic analysis 1.1.02 Cooperative economic policy solution 1.1.03 Tools to prevent and resolve systemic crisis 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 1.2.02 Data transparency 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 1.3.02 Financial soundness evaluation 1.3.03 Standards and Codes evaluation
	1.4. Support countries' economic policy adjustments	1.4.01 Arrangements supported by Fund resources 1.4.02 Arrangements not supported by Fund resources
	1.5 Provide capacity building	1.5.01 Technical assistance 1.5.02 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

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
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

Tier 1	Tier 2	Tier 3: Auditable Entity
	3.5. Regional Offices	3.4.05. Ethics Office
		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 not identical set of risk factors has been developed for the IT auditable entities.