

EBAP/12/62

June 1, 2012

To: Members of the Executive Board

From: The Secretary

Subject: **The Internal Audit Function in the Fund—FY 2012 End-Year Activity Report**

Attached for the **information** of Executive Directors is a paper on the internal audit function in the Fund—FY 2012 end-year activity report.

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)

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Department Heads



INTERNATIONAL MONETARY FUND

**The Internal Audit Function in the Fund**

**FY 2012 End-Year Activity Report**

Prepared by the Office of Internal Audit and Inspection

Approved by G. Russell Kincaid

May 31, 2012

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## I. INTRODUCTION

1. **This report keeps the Board updated on the activities of the Office of Internal Audit and Inspection (OIA) on a regular (i.e., semi-annually) basis.** As such, it fulfills 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 information provided in this report covers OIA's activities over the six-month period ending April 30, 2012.** It includes details on implementation of audits and reviews, and the results and status of recommendations. It also includes details on the FY 2013 audit/review plan. Since the last report to the Board (see EBAP/11/132, 12/22/2011), 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.
3. **OIA is scheduled to chair on June 12, 2012, a question and answer session for members of the Offices of Executive Directors (OED), helping OEDs to prepare for the June visit of the External Audit Committee (EAC).** The session will allow interested members of the OED to quiz OIA on audits and reviews posted on OIA's website since the last such session on January 24, 2012.<sup>1</sup> Executive Directors are scheduled to meet with the EAC on June 19, 2012.

## II. OIA ACTIVITIES AND RESOURCE ALLOCATION

4. **The bulk of OIA's activities and budget resources are devoted to audits/reviews (Table 1).** OIA's outturn for FY 2012 was equivalent to about 0.4 percent of the Fund's total actual gross expenditures. Compared with other audit offices at international financial institutions, OIA is somewhat smaller when scaled by expenditures or assets. Over 70 percent of OIA's resources are employed to conduct audits and reviews. In addition, advisory services are performed in response to departmental requests. Through these activities, OIA provides objective and independent examinations of the effectiveness of various operations, controls, risk management, and governance processes.
5. **OIA also conducts investigations at the request of the Managing Director.** Over the last three financial years, OIA conducted on average, one or two investigations per year. These investigations consumed, on average, two percent of OIA's budget resources. The Director of OIA also serves on the Oversight Committee of the Fund's Integrity Hotline, a channel established to handle allegations of staff misconduct. More information on the Integrity Hotline is available in Ethics Office's annual report which is available at, <http://www-intranet.imf.org/news/Pages/EthicsOfficePublishes2011AnnualReport.aspx>

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<sup>1</sup> Executive Directors (and their Alternates) are notified via e-mail when a new audit/review report is posted on OIA's secure website. These reports are accessible through, [http://www-intranet.imf.org/departments/OIA/about\\_oia/Pages/SelectedReport.aspx](http://www-intranet.imf.org/departments/OIA/about_oia/Pages/SelectedReport.aspx)

**Table 1. OIA Budget and Resource Allocation**

	FY 2011 Outturn	FY 2012 Outturn
Total Resources (\$ million)	4.2	4.4
Allocation (percent )		
Audits/Reviews	69	79
Advisory Services	1	1
Investigations	3	1
Risk Management	9	5
Staff Training	6	5
Departmental Support	6	5
Governance	4	3
Fund's Responsibility Areas 1/	2	1

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

Source: Office of Internal Audit and Inspection.

6. **Separate from its internal audit function, OIA serves as Secretariat to the Advisory Committee on Risk Management (ACRM).** In this capacity, OIA facilitates the implementation and reporting of risk management in the Fund. In particular, OIA coordinates a semi-annual incident reporting exercise and helps to produce an annual risk management report to the Board.

7. **OIA also assists in the external audit process and supports the EAC’s work.** The EAC exercises independent oversight over the annual audit process and reports periodically to the Executive Board. This governance activity consumes about three percent of OIA budget resources.

8. **Staff training and various self-improvement activities are actively pursued.<sup>2</sup>** Internal auditors are required by professional standards to undertake at least 40 hours of training each year and maintain various certifications to ensure the requisite technical proficiency. OIA also engages in annual office retreats to improve the functioning of the Office. Each retreat formulates a self-improvement program; implementation is assessed by staff at the subsequent retreat. In particular, internal post-mortem evaluations of audits/reviews were successfully implemented to draw lessons to be shared within OIA to improve future projects. An internal quality assurance program ensures that all audits/reviews

<sup>2</sup> For greater details, please refer to OIA’s Business Plan for FY 2013-15 available through this 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)

are conducted in compliance with the Institute of Internal Auditors' (IIA) standards.<sup>3</sup> In addition, OIA learns lessons from other internal audit offices. In particular, it attends annual conferences of the Chief Audit Executives (CAE) of International Financial Institutions, engaging in e-mail communication between conferences. Such networking facilitates information sharing, enhancing dissemination of IFI-specific best practices, and identified common risks.

### III. FY 2012 WORK PROGRAM

9. **Fifteen audits/reviews were planned for FY 2012.** Of these planned projects, four audits/reviews were carried over from FY 2011. In addition during FY 2012, OIA conducted two investigations and three advisory engagements; served as Secretariat to the ACRM; and provided technical and logistical support to the External Panel charged by the Managing Director to review the Fund's risk management framework.

10. **The implementation status of the FY 2012 work program is presented in Table 2.** Eleven of these 15 audits/reviews were completed in FY 2012; these include the Review of Fund's Budget and Planning Operations, which was finalized on May 4, 2012. During the last six months of FY 2012, 10 reviews were completed. Five reviews were in progress at end FY 2012 and one additional project—the Control Framework for the HQ1 Renewal Program—was carried over into FY 2013. As regards the latter review, it was initially combined with the Control Framework for the Concordia Project but because the controls manual for the Concordia project was ready before the manual for the HQ1 renovation, this single review was split into two reviews, adding one new review. The Control Framework for the HQ1 Renewal Program is expected to commence in FY 2013 after the HQ1 controls manual is completed and endorsed by the Program Controls Team. Four ongoing reviews—Follow-up Review of OIA's Review of IT Strategic Sourcing, Information Security Practices in the Fund's Field Offices, Control Framework for the Concordia Project, and Outreach Strategy and Implementation—are targeted for completion in the first quarter of FY 2013. The review on the Fund's dispute resolution system is scheduled to be finalized in the third quarter of FY 2013. OIA also conducted three advisory reviews in FY 2012—Workforce Planning of the Human Capital Management (HCM) program; the cash disbursement to AFR's Regional Advisory Group participants; and coordination/monitoring for an inter-departmental group to review aspects of information security. The first two advisories were completed in the first half of FY 2012 and the third project, which started in the second half of FY 2012, is ongoing.

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<sup>3</sup> The IIA ([www.theiia.org](http://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 2. OIA's Work Program, FY 2012  
As of April 30, 2012**

Project Title	Originating Work Plan	Project Status
<b>Financial Audits</b>		
1 Precautionary Balances	FY 2011	Completed
2 Financial Controls over the New Facilities for Low-Income Countries	FY 2011	Completed
3 Review of Controls over the Calculation of Members' Quotas	FY 2012	Completed
4 Review of Controls over the Fund's Gold Sale Program	FY 2012	Completed
5 Review of Controls over the Fund's Gold Holdings	FY 2012	Completed
6 Financial Statements of the Per Jacobsson Foundation	FY 2012	Completed
<b>Technology Audits</b>		
1 Review of Mobile Devices Security	FY 2011	Completed
2 Follow-up Review of OIA's Review of IT Strategic Sourcing	FY 2012	In Progress
3 Information Security Practices in the Fund's Field Offices	FY 2012	In Progress
<b>Operational Audits</b>		
1 Allocation of Travel Budget	FY 2011	Completed
2 Review of the Fund's Business Continuity Planning	FY 2012	Completed
3 Review of the Consultative Group on Exchange Rate Issues (CGER)	FY 2012	Completed
4 Review of the Fund's Budget and Planning Operations	FY 2012	Completed 1/
5 Outreach Strategy and Implementation	FY 2012	In Progress
6 Review of the Fund's Dispute Resolution System	FY 2012	In Progress
7 Control Framework for the Concordia Project	FY 2012	In Progress
8 Control Framework for the HQ1 Renewal Program	FY 2012	Planned
<b>Investigations</b>		
1 Investigation January 2010 2/	FY 2010	Completed
2 Investigation March 2011	FY 2011	Completed
<b>Advisory Reviews</b>		
1 HCM Advisory Review - Workforce Planning	FY 2010	Completed
2 Cash Disbursement to AFR's Regional Advisory Group Participants	FY 2012	Completed
3 Support and Coordination for the Information Security Group	FY 2012	In Progress
<b>Enterprise Risk Management</b>		
1 Secretariat Support & Advisory Committee		In Progress
2 External Panel Review of the Fund's Risk Management Framework		Completed

Source: Office of Internal Audit and Inspection.

1/ This review was completed on May 4, 2012.

2/ This investigation was reopened in May 2011 and was subsequently closed in September 2011.

11. **During the second half of FY 2012, OIA coordinated two separate risk management activities.** The periodic incident reporting exercise was conducted—the second of FY 2012—with OIA producing a consolidated analysis for discussion by the ACRM. OIA also organized a Fund-wide departmental risk survey to help underpin the *2012 Report on Risk Management*, which is tentatively scheduled to be discussed at the Board on August 1. OIA's other major risk management activity was the technical and logistical support provided to the External Panel that reviewed the Fund's Risk Management Framework. The Panel's report was submitted to the Managing Director in November 2011 and circulated to members of the Executive Board (as FO/DIS/11/232). An informal Board briefing by members of the External Panel took place in January 2012. To follow up on the Panel's recommendations, the Managing Director established in March 2012 (see FO/DIS/12/29), a staff working group (that includes the OIA Director) that is overseen by the FDMD Mr. David Lipton and DMD Mr. Min Zhu.

12. **During FY 2012, OIA conducted a client survey as part of OIA's broader effort to enhance its value added.** The survey was administered to 51 individuals (who worked directly with OIA staff in 2011) in 17 departments, and a response rate of about 25 percent was achieved. Overall, the survey ratings were positive with nearly three quarters considering that the audit results added value. The full survey results are posted on the OIA's website, [http://www-intranet.imf.org/departments/OIA/oia\\_reports/oiaclientsurvey/Pages/default.aspx](http://www-intranet.imf.org/departments/OIA/oia_reports/oiaclientsurvey/Pages/default.aspx)

#### IV. IMPLEMENTATION OF AUDIT RECOMMENDATIONS

13. **OIA monitors on a semi-annual basis the implementation by departments of its recommendations as mandated by the IIA standards.**<sup>4</sup> During this six-month reporting cycle (to end-April 2012), 14 recommendations, having a high- and medium-impact, were closed (Table 3), or the same number as in the first half of FY 2012. Of the 14 closed recommendations in the second half of FY 2012, two were high-impact. The closure level for FY 2012 (28 in total) lags behind FY 2011 when there were 51 closed recommendations and during the prior two financial years when 50 recommendations were closed on average. OIA has attempted a root-cause analysis for this drop off, but it has not as yet identified a convincing explanation. Work continues however.

14. **The number of outstanding recommendations increased to 82 as of April 30, 2012, compared to 74 as of October 31, 2011.** This increase is primarily explained by a significant number of new recommendations (22) added during the just concluded six-month cycle (to end-April 2012). However for the entire financial year, the number of open

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<sup>4</sup> OIA recommendations are classified as high, medium, and low impact (see OIA's Policies and Procedures Handbook (available on OIA's website)). Reportable recommendations comprise high- and medium-impact recommendations only. OIA's Policies and Procedures Handbook can be accessed through the following link: [http://www-intranet.imf.org/departments/OIA/oia\\_policies\\_procedures\\_handbook/Pages/default.aspx](http://www-intranet.imf.org/departments/OIA/oia_policies_procedures_handbook/Pages/default.aspx)



recommendations remained basically unchanged from end-FY 2011. The number of new recommendations in FY 2012 was substantially less than during previous years, reflecting the broadly adequate control structures found in several audits (e.g., Financial Controls over the New Facilities for Low-Income Countries, Controls over the Fund's Gold Sale Program and Controls over the Calculation of Members' Quotas). The duration of audit recommendations also lengthened in FY 2012. Four departments accounted for 20 of the 22 recommendations that were two years or older at end-FY 2012. Half of all open recommendations related to the need to strengthen information security controls. Of the 82 outstanding recommendations, 12 are classified as high-impact, and of which six are older than two years (Table 4).

**15. OIA continues to seek to streamline reporting on implementation of audit recommendations.** About a year ago, OIA introduced a web portal to streamline recommendations tracking and allow timelier reporting by departments. Since then, feedback from departments has resulted in enhancements to expand the portal's functionality and improve its control features. OIA intends to proactively engage with departments to update the portal on a more regular basis within the reporting cycle. OIA will also pilot a formal quarterly follow-up of high-impact recommendations with departments. In FY 2012, OIA introduced, on a pilot basis, mutually agreed target dates starting with reviews involving a single department. Due dates are now being tracked for two completed audits. Target dates for recommendations made for multi-departmental reviews will be considered once sufficient experience is gained with due dates for single department reviews.

**Table 3. Outstanding Recommendations, FY 2009–FY 2012**

	Year FY 09	Year FY 10	Year FY 11	Six months to Mid- FY 12	Six months to End- FY 12
Outstanding recommendations at the beginning of period	58	56	71	82	74
Plus: New recommendations	51	63	62	6	22
Minus: Recommendations closed	53	48	51	14	14
Equal: Open recommendations remaining	56	71	82	74	82

Source: Office of Internal Audit and Inspection.

**Table 4. Outstanding Recommendations by Impact and Financial Year  
(As of April 30, 2012)**

	Issued in Financial Year				Cumulative
	2009	2010	2011	2012	
Total Outstanding Recommendations	8	14	32	28	82
High Impact	2	4	2	4	12
Medium Impact	6	10	30	24	70

Source: Office of Internal Audit and Inspection.

## V. FY 2013 WORK PROGRAM

16. **Consistent with past practices, the FY 2013 audit/review plan is formulated utilizing OIA’s risk-based audit approach applied to the Fund’s auditable entities.**<sup>5</sup> Those auditable entities correspond to the Fund’s main activities and administrative processes, and organization units, and are aligned with the Fund’s Responsibility and Key Output areas. The plan also reflects the most recent Fund-wide risk survey and two incident reporting exercises conducted by the ACRM, plus departmental views and discussions with the Independent Evaluation Office. Inputs are also gathered from the Ethics Advisor, Management advisors, the external audit firm, the EAC, and Executive Directors: (i) during question and answer sessions with OIA, and (ii) through the EAC. The EAC also commented upon, and expressed support for, the FY 2013 audit/review plan.

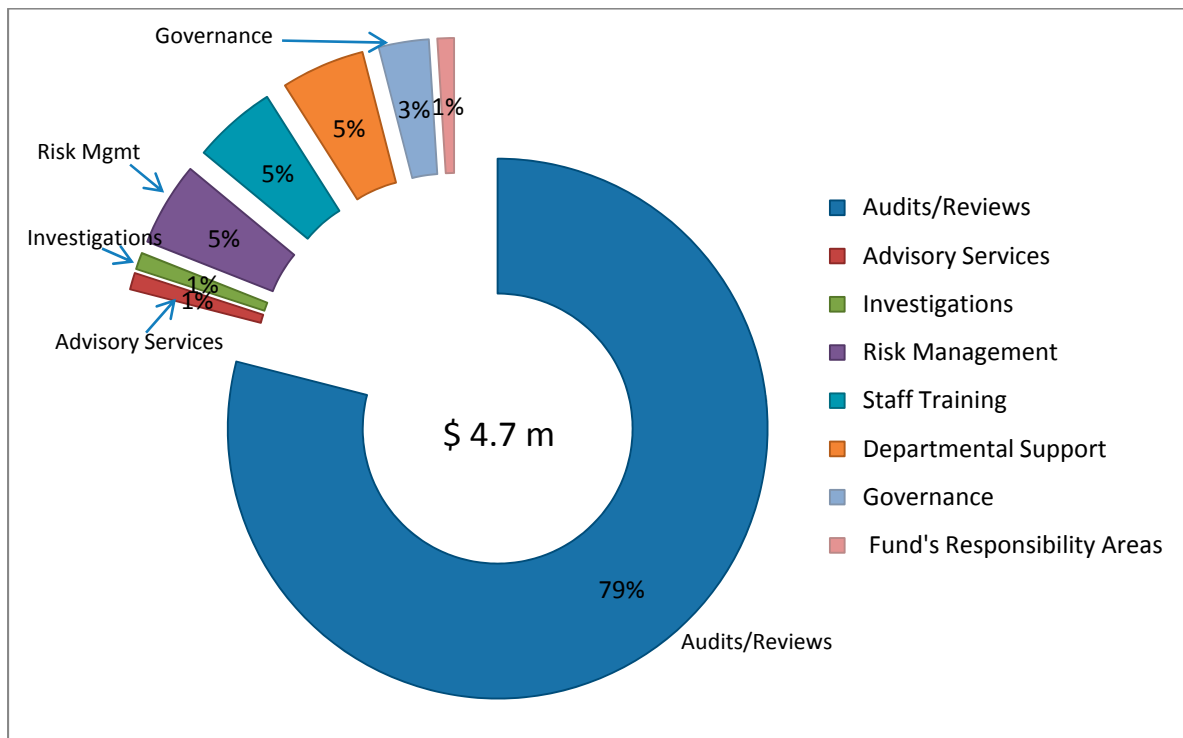
17. **The FY 2013 audit/review plan consists of nine new audits (Table 5), plus six carry-over projects.** The total number (15) of audit/reviews for FY 2013 is unchanged from FY 2012. Of the nine new audits/reviews, four are financial, two are information technology (IT), and three are operational. FY 2013 work plan also includes six audits/reviews carried over from the previous year. They are two IT audits (i.e., Follow-up Review of OIA’s Review of IT Strategic Sourcing and Information Security Practices in the Fund’s Field Offices), and four operational audits (i.e., Control Framework for Concordia Project, Fund’s Dispute Resolution System, Outreach Strategy and Implementation, and Control Framework for HQ1 Renewal Program). 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.

<sup>5</sup> Please refer to Appendix II of *The Internal Audit Function in the Fund—Activity Report and Background Information* (EBAP/11/48, 5/26/2011) for information on OIA’s risk-based audit planning approach.

18. **OIA budget resources allow for the implementation of 15 audits/reviews in FY 2013 (Figure 1).** This target recognizes the fact that operational reviews on average are roughly twice as resource intensive as financial and technology reviews. Consistent with annual outturn in previous years, OIA will allocate nearly 80 percent of staffing resources to conduct audits and reviews. OIA will seek again, in FY 2013, to lift its implementation rate (above 75 percent) and to keep the number of projects carried over into FY 2014 to about five. Some carry-over of audits/reviews from one year to the next is inevitable. A limited carry-over forward allows OIA to focus its efforts on the audits/reviews that have been most recently assessed to have higher priority, increasing the effectiveness of OIA.

19. **During FY 2013, OIA will undergo its mandated periodic external quality assessment.** The International Professional Practices Framework (IPPF) established by the IIA specifies that internal audit activities are subjected to an external quality assessment, at least once every five years. The standards require that the review team must be qualified, experienced, and independent, coming from outside the organization. The last external quality assessment of OIA (in March 2008) concluded that the internal audit activities “generally conforms” (the highest rating) to the International Standards for the Professional Practices of Internal Auditing as well as the Code of Ethics, which is part of the IIA’s IPPF. Similar to the last external quality assessment, OIA will attempt to attain the highest possible rating for the upcoming assessment.

**Figure 1. OIA Resource Allocation, FY 2013**



Source: Office of Internal Audit and Inspection

**Table 5. OIA Audits and Reviews, FY 2013**

Project Title
<b>Financial Audits</b>
1. Compliance Audit of Technical Assistance Donor Reporting
2. The Financial Transactions Plan, Use of Bilateral Borrowed Resources and Resource Mobilization Plan
3. Audit of Financial Transactions related to the HQ1 Renewal Program
4. Audit of Financial Transactions related to the Concordia Project
<b>IT Audits</b>
5. Review of IT Change Management
6. Review of Database Management
<b>Operational Reviews</b>
7. Voting Procedures for Adoption of Resolutions and the Election of Executive Directors
8. Physical Security for Staff in the Field
9. Vulnerability Exercises
The following FY 2012 projects are carried over into FY 2013.
<b>IT Audits:</b>
1. Follow-up Review of OIA's Review of IT Strategic Sourcing
2. Information Security Practices in the Fund's Field Offices
<b>Operational Reviews:</b>
3. Control Framework for the Concordia Project
4. Outreach Strategy and Implementation
5. Fund's Dispute Resolution System
6. Control Framework for the HQ1 Renewal Program

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Source: Office of Internal Audit and Inspection.