EBAP/14/54

June 3, 2014

To:        Members of the Executive Board

From:    The Secretary

Subject:  **Office of Internal Audit and Inspection—FY 2014 Activity Report**

Attached for the **information** of Executive Directors is the FY 2014 activity report from the Office of Internal Audit and Inspection (OIA).

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 Ms. Brady, OIA (ext. 39532).

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

# EXECUTIVE SUMMARY

This report, which provides an overview of OIA's activities from May 1, 2013 to April 30, 2014, fulfills management's commitment to keep the Executive Board regularly informed on control- and audit-related matters. In line with past reports, it includes information on the results of OIA's audits and other activities undertaken by OIA during the fiscal year.

Audits completed during FY 2014 include: the physical security of staff in the field, the control framework for the investment of the Fund's Staff Retirement Plans (SRP and RSBIA), the Information Technology (IT) change management process, and the Fund's Dispute Resolution System. These audits provided a range of recommendations for strengthening controls and improving the effectiveness and efficiency of operations. An advisory review relating to the use of chargeback mechanisms for IT services was also completed during the reporting period. Several FY 2014 audit projects are currently nearing finalization, including the audit of the Fund's administration of payroll and benefits.

During the first half of FY 2015, significant projects that will be undertaken include the audit of the Fund's data centers, a holistic review of the audit recommendation process, and an upgrade to OIA's risk assessment process.

| Approved By **Clare Brady** | Prepared by the Office of Internal Audit and Inspection |
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# INTRODUCTION

**1.       This report fulfills the Managing Director's commitment to regularly share information with the Board on control- and audit-related matters, and provides an overview of OIA's activities in FY 2014.** It includes the results of FY 2014 audits and reviews, the status of the FY 2014 work plan, the implementation of audit recommendations, and an overview of the FY 2015 work plan.

**2.       On June 10, 2014, a question and answer (Q&A) session with OIA is scheduled for Executive Directors and their offices.** This session will help Executive Directors to prepare for the June visit of the External Audit Committee (EAC), by providing an opportunity for OED members to discuss the results of FY 2014 audits with the OIA team.

# OFFICE OF INTERNAL AUDIT AND INSPECTION (OIA)

## A.   Mandate

**3.       OIA is an independent and objective assurance and advisory function that adds value to the Fund by improving its operations.** OIA assists the Fund in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control processes. OIA's work is carried out in accordance with the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). In line with best practices, OIA reports to Fund management and its activities are overseen by the EAC, thus ensuring its objectivity and independence. OIA's authority and responsibility are defined in General Administrative Order (GAO) No. 14, and Executive Board Decision, DEC/14892-(11/41).

# SUMMARY OF FY 2014 ENGAGEMENT RESULTS

## A.   Operational Audits and Reviews

**4.       The **Audit of Field Security** evaluated the effectiveness of the field security program. The scope of the review included the Fund field presence through mission travel and field offices. The audit found that, consistent with management's commitment to ensure the safety of Fund personnel in the field, spending on field security has nearly tripled over the last five years. While the decision to have a field presence is based on mission criticality, the audit observed that no consistent, objective, and documented criteria have been established for making such determinations. The audit noted that Emergency Action Plans have been completed for locations in only 32 countries (out of 115 countries). In addition, no centralized data exists to monitor the progress of recommended security upgrades for offices and residences of field personnel. The Fund's preferred hotels for accommodation during official travel, including high-risk locations, are not reviewed for security standards. The audit also found that a Fund-wide strategy for procurement, deployment, and maintenance of armored vehicles does not exist. The Fund's evacuation policy for certain categories

of personnel (such as participants from member countries attending conferences and training) remains unclear and situations are addressed on a case-by-case basis. OIA's main recommendation was that area departments should formulate, with input from functional departments, guidelines on what constitutes a critical field presence, for the SPG's approval. The audit also recommended that: a timetable be developed for completing all outstanding Emergency Action Plans; security measures be instituted at particular hotel properties; and a long-term Fund-wide strategy be developed for the procurement, deployment, and maintenance of armored vehicles. Since the date of OIA's report, the MD has tasked a Working Group to perform a full review of how the Fund operates in high-risk locations.

5.      The **Review of the Fund's Dispute Resolution System (DRS)** assessed the extent to which the DRS facilitates a timely and efficient disposition that provides employees with fair and impartial channels of recourse. The scope of the review included the Office of the Ombudsperson, Administrative Review, Grievance Committee, IMF Administrative Tribunal, Ethics Office and Mediation Office. The review found the Fund's DRS to be well constructed and comparable to other international organizations, with a proper balance between informal and formal mechanisms. The formal element of the system is assessed to be impartial, effective, and authoritative. However, staff members do not fully trust the dispute resolution process to help them, and they fear retaliation from supervisors for using it. To address these observations, OIA made recommendations to improve communications and information sharing, to address staff fear of reprisal, and to improve oversight of the DRS without compromising its independence and objectivity.

6.      The **Audit of the Management of the Fund's Travel Agent (TBiz)** assessed TGS's oversight of TBiz in delivering travel services in accordance with contractual terms. The audit found that TGS has implemented adequate controls to monitor TBiz's performance. However, the audit noted that TGS does not monitor compliance with the information security requirements to ensure proper management of Fund travelers' personal information. Also, while TGS has received TBiz's Business Continuity Plan (BCP), TGS had not confirmed whether the BCP had been formally tested. A review of the results of such a test would highlight any problem areas and help strengthen controls related to providing continuous, optimum, travel-related services. To address these observations, OIA recommended that TGS should monitor contractual information security requirements and obtain an annual summary of TBiz's BCP testing results.

7.      The **Audit of the Control Framework for the Investments of the Fund's Staff Retirement Plans** reviewed whether controls over the investments of the Staff Retirement Plans (the Plans, i.e., Staff Retirement Plan (SRP) and the Retired Staff Benefits Investment Account (RSBIA)), are adequate to ensure that: investments are conducted within the Plans' investment guidelines; investment risks are properly mitigated; and performance and activities are properly reported. The scope of the audit included the governance structure of the SRP (Pension Committee and Investment Committee) and functional departments and offices supporting investment operations (INV, LEG, FIN, and TGS). The audit found that policies, procedures, and practices are consistent with industry standards for similar plans in size and complexity. OIA did not identify any significant gaps in the Plans' governance and control framework. OIA made recommendations to improve INV's

compliance with Fund policies and standards with respect to IT controls, and to document procedures and controls.[1]

**8.** The **Audit of Field Offices Managed from Headquarters** assessed the adequacy and effectiveness of the financial control framework for managing local offices (i.e., field offices without a local Resident Representative (RR)). The scope of the audit included the financial transactions processed in the last quarter of FY 2013 for 11 local offices. The review found that the financial control framework has been adequately designed and effectively implemented to mitigate financial risks. OIA made recommendations to Area Departments: to formalize the authority, responsibility, and accountability of the designated Senior Budget Managers (SBMs)/Mission Chiefs, and to discuss with OBP the rationale for maintaining local offices or converting a RR office to a local office. OIA also recommended that FIN provides appropriate training on financial controls and fraud awareness; extend the annual financial control certification to the designated SBMs/Mission Chiefs; and update financial guidelines.

**9.** The **Audit of Financial Transactions of the HQ1 Renewal Project** is an ongoing project that is looking at the operating effectiveness of budgetary and financial controls implemented for the HQ1 renewal program. In FY 2012, the Fund embarked on a major renovation of its HQ1 building at an estimated cost of $431 million. The planning work for this audit was completed in FY 2014. During FY 2015, the audit's substantive work will be undertaken. A smooth implementation of the HQ1 renovation project is part of Management's goal to maintain state-of-the-art facilities and to create an enabling work environment for the Fund.[2]

## B. Information Technology (IT) Audits

**10.** The **Audit of IT Change Management** assessed the adequacy and effectiveness of controls over the IT change management process in ensuring the security of the Fund's information systems. The audit found opportunities to strengthen the implementation of the change management policy including: an improved assessment of the impact of changes; assigning roles for the risk assessment of a proposed change; a more consistent documentation of change approvals; and a strengthened security accreditation process for change requests. The audit also highlighted the need to better communicate the roles of the change process participants, including the Change Advisory Board and the Executive Sponsor. OIA recommended that certain roles and responsibilities relating to change management need to be defined and assigned, and that additional procedural guidelines and greater oversight and monitoring of change management, including an update of the risk assessment of proposed changes, be provided.

**11.** The **Audit of the IT Controls of the Board of Governors (BOG) Voting Systems** assessed the adequacy and effectiveness of the IT controls established over the systems used for the BOG's voting and election procedures. The scope of the audit included the BOG Extranet Voting System

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[1] Report issued on May 6, 2014.

[2] Fieldwork in progress.

(BOGeVS), the Annual Meetings System (AMS) Locator, and the Fund Vote Tracking System (FVTS). The audit identified certain areas in which IT controls could be strengthened before the voting systems are upgraded. OIA made recommendations covering the Fund's information systems policies, segregation of duties, the security of the online voting system web servers, the application of patches and updates to the servers, and IT roles and responsibilities.

## C.   Advisory Review

12.      The **Advisory Review of IT Services Chargeback**, conducted at the request of TGIST, looked at the potential for expanding the use of a chargeback framework for IT goods and services, and the value that might be gained from implementing such a process.

# STATUS OF THE FY 2014 WORK PLAN

13.      **The implementation status of each project contained in the FY 2014 work plan is presented in Table 1.** As of April 30, 2014, seven of the 17 audits/reviews planned had been completed, seven were in progress, and three were under review. In addition, the IT advisory review had been completed. The seven audits in progress are nearing completion and are expected to be completed by June 2014. In addition, OIA (as Secretariat to the ACRM) coordinated two separate risk management activities: (i) the periodic incident reporting exercise, and (ii) the Fund-wide departmental risk survey to help underpin the 2014 Report on Risk Management.

# IMPLEMENTATION OF AUDIT RECOMMENDATIONS

14.      **The pace of implementation of audit recommendations is relatively slow.** Repeat issues arise relatively frequently. This may suggest that tactical fixes have been implemented in the past to address the symptoms of control issues, while it is possible that deeper remedies could have addressed their root causes. OIA is proposing a backward look at the control issues that have been identified in the recent past, and the relative success or failure of the solutions that have been implemented to mitigate the associated risks. The aim is to deliver three outputs:

(i)     an analysis of the OIA issues raised in the last five years that identifies systemic risk themes;

(ii)    categorized risk information, derived from OIA's body of work over the same time period, as an input to the risk function; and

(iii)   a proposal for upgrading OIA's audit issue construction, follow up, and escalation processes.

# OVERVIEW OF THE FY 2015 WORK PLAN

**15.      During the first half of FY 2015, OIA will embark on an internal project to upgrade the risk assessment methodology, which has not been updated for more than five years.** The objective of this project is to align OIA's risk assessment methodology with leading practices. One important advantage of this internal project is to prepare OIA for the introduction of a new risk function and framework at the Fund. The revised risk assessment methodology will be an essential element for OIA in terms of the transition from a compliance-based audit approach to a risk-based approach (separate from, but interconnected with, the introduction of a new risk function and framework at the Fund). It will also position OIA to be able to build connectivity between the internal audit and risk management functions at an early stage of the development of a new risk function. In addition, it will be important for OIA to support a new risk function by referencing the same Fund-wide risk taxonomy. Once the revised risk assessment process is defined, OIA will populate the second half of FY 2015 with strategically relevant projects that have support from the Fund's leadership team.

**16.      Prior to the upgrade, OIA will work on a portfolio of engagements identified using the existing risk assessment methodology.** For the first six months of FY 2015, OIA plans to conduct 11 engagements: five audits, one advisory review, and one internal project on OIA's risk assessment. The engagements identified for the first six months of the fiscal year have the support of Fund management and are listed here:

- Audit of the Investment Account.

- Audit of the Control Framework for Regional Technical Assistance Centers (RTACs).

- Audit of the Fund's Data Centers.

- Audit of Software License Management.

- Audit of the Financial Transactions Related to the HQ1 Renewal Project.

- Review of OIA's Recommendation Follow-Up.

- Review of OIA's Annual Risk Assessment Process.

- Audit of Corrections to Article IV Consultation Staff Papers (continued from FY 2014).

- Audit of Payroll and Benefits (continued from FY 2014).

- Audit of the Financial Disclosure Program (continued from FY 2014).

- Audit of the IT Controls of the SWIFT System (continued from FY 2014).

# ADMINISTRATIVE MATTERS

**17.      In line with the recommendations of an external panel and with the support of the Evaluation Committee (EVC), OIA has been assigned with responsibility for independently assessing departmental progress on IEO recommendations. OIA will prepare the associated periodic monitoring reports (PMR), which are discussed by the EVC and approved by the Board.** To prepare the first PMR under this mandate, OIA met with the Chairman of the EVC and members of his staff, senior staff from the IEO, and senior staff from Functional and Special Services departments, Information and Liaison and Support departments, and area departments. The first such report is expected to be issued by July 2014.

**18.      In FY 2014, OIA replaced its aging audit software, Audit Leverage, with the industry's leading audit management software, TeamMate.** TeamMate is an audit management software system that supports the internal audit process by providing data/work flow through risk assessment, scheduling, planning, execution, review, reporting, and recommendations follow-up. It has also recently been implemented by the Inter-American Development Bank (IADB). TeamMate has specific modules to support OIA's activities: (i) TeamEWP helps OIA to deliver high quality audit work through consistent execution of the audit methodology; (ii) TeamRisk facilitates OIA's risk assessment; (iii) TeamSchedule supports the assignment of resources to each engagement; (iv) TeamTEC supports the management of budgeted and actual hours and expenses; (v) TeamCentral is a web-based tool used by Fund departments to access open issues and track progress in recommendations; and (vi) TeamStore facilitates knowledge sharing among OIA staff, by creating a live database of audit programs and other relevant audit information.

**19.      OIA's budget for FY 2014 was $4.6 million; the outturn was $4.1 million.** The small under run was due to the vacant Director position.

**Table 1. OIA's Work Plan, FY 2014**
**As of April 30, 2014**

| Project Title | Project Status |
|---|---|
| **Operational Audits and Reviews** | |
| 1  Audit of Financial Transactions Related to the HQ1 Renewal Program | Fieldwork in progress |
| 2  Audit of Payroll and Benefits | Reporting stage /1 |
| 3  Audit of the Control Framework for the Investments of the Fund's Staff Retirement Plans (SRP and RSBIA) | Completed /2 |
| 4  Review of the Implementation of the SRP Reforms | Reporting stage |
| 5  Review of the Financial Control Framework for Field Offices Managed from HQ | Completed |
| 6  Review of the Control Framework for Education Allowances | Reporting stage /1 |
| 7  Review of the Fund's Dispute Resolution System | Completed |
| 8  Physical Security for Staff in the Field | Completed |
| 9  Management Fee to cover Administrative Expenses for TA Related Activities | Under review |
| 10 Management of the Fund's Travel Service Provider | Completed |
| 11 Review of the Analytic Costing and Estimation System (ACES) | Under review |
| 12 Review of Corrections to Article IV Consultation Staff Papers | Reporting stage |
| 13 Audit of the Financial Disclosure Program | Reporting stage |
| **Technology Audits and Reviews** | |
| 1  Review of IT Change Management Process | Completed |
| 2  Audit of the IT Controls of the Board of Governors Voting Systems | Completed |
| 3  Review of Software Functionality and Cost-Efficiency | Under review |
| 4  Audit of the IT Controls of the SWIFT System | Reporting stage |
| **Standalone Board Reviews (EBAM/13/15, 10/7/2013)** | |
| 1  OED Financial Disclosure Program | Under review |
| 2  Adequacy of Secure Communications between OEDs and their Authorities | Under review |
| **Advisory Reviews** | |
| 1  Review of IT Services Chargeback | Completed |
| **Enterprise Risk Management** | |
| 1  2013 Report on Risk Management | Completed |
| 2  2014 Report on Risk Management | In Progress |
| 3  Secretariat Support & Advisory Committee | On-going |

Source: Office of Internal Audit and Inspection.
1/ Two separate elements of FY 2014 plan combined in one audit report.
2/ Report issued on May 6, 2014.