

**FOR
INFORMATION**

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To: Members of the Executive Board

From: The Acting Secretary

Subject: **Office of Internal Audit—FY 2019 Interim Activity Report**

Board Action:	Executive Directors' information
Publication:	No, due to content sensitivity.
Additional Information:	Ahead of the visit of the External Audit Committee, OIA will be available in the Board Committee room on January 22, 2019 to answer questions on this Interim Activity Report.
Questions:	Ms. Onyango, OIA (ext. 30511) Mr. Murugan, OIA (ext. 38132)



January 9, 2019

OFFICE OF INTERNAL AUDIT (OIA)—FY 2019 INTERIM ACTIVITY REPORT

EXECUTIVE SUMMARY

This report provides an overview of OIA's activities in FY 2019 to date. The report fulfills management's commitment to keep the Executive Board regularly informed on audit and control-related items.

In terms of work completed to date in FY 2019, OIA has concluded advisory reviews covering (i) the software selection process for the 1HR program; (ii) the Fund's compliance activities; and (iii) decentralized field-based short-term expert appointments. OIA also issued the third edition of its Good Practice Series (GPS) covering the topic of General Data Protection Regulation (GDPR) and data privacy. OIA is finalizing recommendations for three advisory reviews: (i) the Business Process Redesign phase of the 1HR program; (ii) talent acquisition; and (iii) the committee structure for risk management and is also drafting an "Insight Note" covering the Fund's change management practices. OIA also issued its inaugural Annual Report for FY 2018 – a key objective of the Report was to distill broader qualitative themes, anchored in OIA's body of work, that are forward-looking, insightful, and constructive.

Work is also well underway for an audit of the Fund's overseas presence and an audit of IT infrastructure managed services. Planning work for an audit of the quality control practices for Capacity Development (CD) outputs has also been completed, with field work scheduled to begin in January 2019.

The Evaluation Committee of the Board discussed, in June 2018, OIA's Ninth Periodic Monitoring Report (PMR). The Ninth PMR introduced several novel ideas to provide management and the Board a clearer view of where management or Board intervention may be required. In response to a recommendation from an external evaluation of the IEO, OIA has formulated, for Board approval, a framework to triage and follow-up on open management actions.

From a medium-term outlook perspective, OIA will continue to focus on striking a balance between its audit work and advisory support for strategic initiatives and programs. OIA's proposed Program of Work for FY 2020 will be submitted for management and External Audit Committee review in April 2019.

Approved By
Nancy Onyango

Prepared by Office of Internal Audit

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INTRODUCTION

1. This report fulfills the Managing Director's commitment to regularly share information with the Board on audit and control-related matters and provides an overview of the Office of Internal Audit's (OIA) activities in FY 2019 to date. The report includes a summary of the work completed and underway in the first half of FY 2019; results of OIA's follow up work on outstanding internal control issues; and an overview of key internal OIA activities.

2. On January 22, 2019, 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 visit of the External Audit Committee (EAC) by providing an opportunity to discuss FY 2019 audit coverage to date with OIA staff.

OIA'S MANDATE

3. OIA is an independent assurance and advisory function designed to protect and strengthen the Fund. The mission¹ of OIA is to: (i) bring a systematic and disciplined approach to assess and improve the effectiveness of the Fund's governance, risk management processes, and internal controls; and (ii) act as an advisor and catalyst for the improvement of the Fund's business processes by advising on best practice and the development of cost-effective control solutions.

4. OIA's work is carried out in accordance with the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). To provide for the independence of OIA, the Director of OIA reports to Fund management, and maintains a functional reporting relationship with the EAC.

SUMMARY OF WORK COMPLETED TO DATE IN FY 2019

A. Good Practice Series (GPS) on General Data Protection Regulation (issued May 2018)

5. OIA's third edition of its GPS series², initiated in FY 2018 and issued in May 2018, provided an overview of the new "EU General Data Protection Regulation" (GDPR) and privacy protection at the Fund. The GPS provided a primer on the key requirements of GDPR, and more importantly, highlighted data privacy mechanisms in the Fund, in the context of an increasingly digital and networked world, where organizational strategies and decisions are often informed by insights obtained from the analysis of vast volumes of data, including personal data.

¹ Source: OIA Charter (Approved in May 2017).

² OIA's Good Practice Series (GPS) was launched in FY18 with a view to supporting the institutional goal of integrating risk management into the Fund's operational fabric, by contributing to a more "risk-aware" culture.

6. Although the GDPR may not be directly binding on the Fund, the introduction of the GDPR could potentially pose reputational or operational risks to the Fund if baseline privacy measures are not in place. Given the strict accountability that the GDPR introduces, impacted third-parties from whom the Fund collects personal data may particularly want to ensure that the Fund has an “adequate level of protection” over such data. The introduction of the GDPR provides the Fund an opportunity to reassess its privacy controls and effectively embed personal data protection into its processes. Designing a realistic plan can offer the Fund a defensible and cost-effective approach to data privacy while also considering leading data privacy practices. In this context, the GPS outlined some key considerations, going forward, to support the ongoing institutional deliberations on GDPR and data privacy.

B. Informal Advisory Work on Software Selection Process for the 1HR Program (issued July 2018)

7. As part of its ongoing informal advice on the 1HR Program - to the Director, Human Resources Department, and the Deputy Managing Director and Chief Administrative Officer - OIA conducted a high-level review of the 1HR software selection process. OIA concluded that the 1HR Software Selection evaluation team had demonstrated reasonable “duty of care” in putting forward its recommendation for the technology solution (Workday). The 1HR evaluation team had taken a systematic approach by considering a range of data points and inputs – capability match, use case allocations driven by criticality and complexity of work streams, scoring of use cases and enterprise factors, review of industry reports and customer references, and consideration of information security and legal aspects – to inform the software selection decision. In terms of forward-looking considerations, as the project moves to the implementation phase, it would be important to carefully consider and manage the dependencies associated with the sequencing of the work streams on the Comprehensive Compensation and Benefits Review (CCBR) and the HR Strategy Review, and particularly, the flexibility of the proposed technology solution to implement future policy and process modifications that will emanate from these work streams.

C. Advisory Review of the Fund’s Compliance Activities (issued November 2018)

8. The advisory review was performed within the context of a separate discussion on managing risks of actual or perceived conflicts of interest (Col) associated with the Fund’s investment activities. The review aimed to inform the ongoing deliberation, led by the Office of Risk Management (ORM), on the Fund’s approach for covering broader compliance risks associated with cross-functional (administrative) areas of the Fund - by providing specific and actionable recommendations to improve identification and mitigation of compliance risks.

9. Compliance risks and exposures for the Fund inherently arise from three sources:
(i) regulations and external standards that the Fund has voluntarily chosen to adhere to (in the

absence of mandatory regulatory drivers); (ii) contractual obligations stemming from third-party agreements; and (iii) the Fund's administrative policies and procedures.

10. The review found that there is an opportunity to strengthen the Fund's compliance framework and underlying processes by building on existing policies and controls. The exact contour of, and the level of efforts dedicated to strengthening compliance activities will need to be anchored in a risk assessment, weighing the risks that non-compliance events could have on the Fund's reputation, operations, or finances. Specific actions recommended by OIA included: (i) tracking relevant external regulations to assess compliance exposures and prioritize immediate compliance monitoring needs; (ii) tracking contractual obligations of the Fund more systematically; (iii) leveraging key outcomes from current and planned compliance-type activities carried out across the different cross-functional areas to enable better institutional awareness and visibility into such activities and outcomes; and (iv) completing ongoing work on administrative policies and procedures, particularly to differentiate between mandatory policies and optional guidance.

11. Compliance practices at other Multilateral Development Banks/International Financial Institutions appear broadly comparable to those of the Fund. Benchmarking data collected by OIA shows that the approach is largely dependent on a decentralized model i.e., business units are primarily responsible for evaluating compliance risks and for ensuring compliance with internal policies as well as external regulations. From a governance perspective, OIA sees merit in adopting a hybrid model – one wherein compliance monitoring activities embedded within the business are still effectively leveraged, while at the same time, supplementing those efforts with a degree of central coordination, validation, standard-setting, and aggregation. Such a centralized role would also be potentially scalable (to cover enhanced CoI monitoring practices for the Fund's investment activities) and could be housed within an existing office or department (e.g., ORM, Legal, Ethics Office).

12. An institutional response, on the Fund's approach for coverage of compliance risks, is being formulated by ORM in consultation with relevant stakeholders.

D. Advisory Review of Decentralized Field-Based Short-Term Expert Appointments (issued December 2018)

13. This advisory review focused on the governance, oversight, and working practices for the engagement of field-based short-term experts. The Fund employs experts to help deliver technical assistance and training in member countries. While most staff appointments are delegated to HRD, the authority for field-based short-term technical assistance experts was delegated to CD delivery departments in 2009. Since then, the use of field-based short-term experts has grown, in volume, by more than 300 percent.

14. The Fund's employment framework or policy does not cover field-based expert appointments. In addition, there are no enforceable standards of conduct for short-term appointees of the Fund. In the absence of clearly defined rules of the game, field-based short-term experts can be hired on repeated assignments without limitation. Hiring departments determine

salaries for field-based short-term experts, based on their own internally developed methodology, making it difficult to tell whether wide variations in salaries appropriately reflect differences in skills and experiences across departments. Perhaps, most important, recruitment activities are supported by disintegrated technology solutions which hamper CD departments' ability to efficiently and effectively manage and oversee field-based short-term expert appointments.

15. In the absence of an institutional governance and control framework, CD departments have developed controls, guidance, and practices appropriate for their own use. Some good practices and controls were found in all departments at varying degrees. With support from these CD departments, the review makes recommendations to define institutional rules for the appointment of field-based short-term experts, monitor compliance with the rules, and enhance technology support.

16. CD departments have developed a robust set of action plans which, if effectively operationalized, will sufficiently mitigate the identified risks and result in increased effectiveness and efficiency. The implementation of the sequenced action plans will be overseen by an interdepartmental committee comprising senior staff from CD departments, HRD, and ITD.

E. OIA FY 2018 Annual Report

17. OIA issued its inaugural Annual Report, for FY 2018, in October 2018. The report is designed to leverage OIA's unique vantage point in the Fund – one that permits the function to “connect the dots and shine a light” on broader risk themes in the institution. The Executive Commentary of the Report highlights broader qualitative themes that are designed to be forward-looking, insightful, and constructive. The overarching themes presented in OIA's Annual Report cover important governance and risk management priorities. The report also presents profiles of OIA staff, and an overview of the External Audit Committee's oversight of internal audit matters, OIA's reporting products and audit methodology.

ENGAGEMENTS IN REPORTING/FIELDWORK PHASE

A. Advisory Review of the Business Process Redesign (BPR) Phase of the 1HR Program (reporting underway)

18. The review was designed to take stock of and distill lessons learned from the BPR phase that could be usefully applied to strengthen the detailed process design and solution configuration work in the implementation phase of the 1HR Program. The BPR phase of the 1HR Program (that substantially concluded in June 2018) was designed to apply leading practices and industry trends, and redesign HR business processes and practices as necessary, with clearly documented workflows and accountabilities to achieve the desired transformation objectives. The draft results of the advisory review are being discussed with HRD and the report is expected to be finalized in January 2019.

B. Advisory Review of Talent Acquisition (reporting underway)

19. The objective of this advisory engagement is to review the strategic effectiveness and efficiency of the Fund’s talent acquisition program in meeting the Fund’s needs, and provide forward-looking recommendations based on leading practices. The review analyzed sub-programs within the recruitment life cycle, including: governance; workforce and succession planning; branding and sourcing; diversity; job posting, screening, and selection; compensation; onboarding; due diligence; use of analytics and metrics; and use of technology. The review supports the proposed redesign of the Fund’s talent acquisition program in the context of the HR strategy and the modernization of HR processes and technology (1HR).

20. Preliminary findings, based on OIA’s draft report, indicate that the Fund’s talent acquisition program has been broadly effective in meeting the Fund’s needs. The Fund’s workforce is widely acknowledged to be among the top in their areas of expertise. The institution has generally adapted well to the changing demands, relying on its highly-skilled employees; the demand for the institution’s work has fluctuated over the years, often in response to economic and financial crises. Despite the offer rejection rate of 35 percent in 2017 and 26 percent in 2018, the Fund’s flagship Economist Program remains one of the most sought-after positions for young economists. The Fund continues to face competition for talent from academia and institutions like the Federal Reserve. While the Fund also continues to attract some of the best specialists as mid-career hires (for both Economist and Specialized Career Streams), more work is needed in setting appropriate benchmarks to measure and enhance effectiveness and efficiency. A key finding from the review relates to the need for better leveraging technology solutions for greater efficiency and consistency in work practices relating to candidate sourcing, screening, due diligence and onboarding. The draft report is under discussion with HRD and will be finalized in February 2019.

C. Advisory Review of the Committee Structure for Risk Management (reporting underway)

21. This OIA advisory engagement was performed at the request of the Fund Risk Committee (FRC) to review the risk management prerogatives and responsibilities of the various standing “management-led and staff-led committees and groups” in the Fund, and their role vis-à-vis the FRC and within the broader risk governance architecture. With the establishment of the FRC, it would be particularly important to clarify the roles and responsibilities of the various standing committees across the Fund, including vis-à-vis the FRC to facilitate systematic, coordinated, and holistic risk oversight.

22. As part of this review, OIA has compiled a detailed inventory of the various governance bodies within the Fund (that have some degree of risk management or risk oversight responsibilities). The OIA inventory is designed to inform a more holistic view on the completeness and adequacy of risk coverage from an institutional perspective.

23. OIA has formulated tailored recommendations - which are currently being discussed with relevant stakeholders - to streamline the Committee structure for risk management.

These recommendations, more broadly, relate to: (i) a more precise codification of the FRC's oversight remit such that its positioning as an enterprise risk committee can be more effectively leveraged; (ii) providing clarity on issues that need to be considered by or escalated to the FRC; and (iii) enabling more systematic monitoring of institutional risk mitigation actions through Committees' work program agendas and calendar of activities. The report is expected to be finalized in February 2019, after completion of stakeholder consultations.

D. Insight Note on Change Management (reporting underway)

24. OIA's upcoming and second "Insight Note"³ is designed to support institutional efforts to strengthen change management practices.

The Fund is increasingly undertaking large scale transformational programs ("Big 5" projects) that extend beyond single IT implementation projects and involve significant changes to processes and practices, and more importantly involve incentivizing shifts in underlying institutional culture. These projects, which have increased lately in line with the drive to modernize work practices, straddle both core and cross-functional areas of the Fund. The Insight Note would propose a tailored approach for program and change management that strikes the right balance between applicable standards, frameworks and leading practices and the needs of an organization with infrequent large projects. The Insight Note is planned for issuance in February 2019.

E. Audit of the Fund's Overseas Presence (field work underway)

25. This audit will assess the adequacy of the existing governance arrangements, processes, and controls relating to the administration of the Fund's field offices. It covers the following areas: (i) local employment; (ii) physical security, including business continuity; (iii) IT support including local IT service contracts; (iv) budget and financial administration; and (v) real estate operations. Specifically, the scope will include: the governance, accountability and oversight structure - delineation of roles and responsibilities across relevant departments; policies, procedures, and processes that support the operations of the Fund's field offices; control and compliance mechanisms, the processes for identifying, escalating and resolving issues and mitigating risks; and the availability and use of reliable data for monitoring, management reporting, and decision making.

26. The audit approach for the engagement has been specifically designed to incorporate a wide variety of data points and stakeholder perspectives. To this end, the audit work performed to date includes: (i) structured interviews with designated liaisons of the various departments; (ii) process walkthrough questionnaires to gather baseline data on various aspects of administrative practices of field offices; (iii) data profiling to inform scoring of "risk elements" of the

³ OIA's "Insight Note" a product offering introduced in FY 2018, is designed to contribute to institutional problem-solving by leveraging OIA's understanding of the organization's risk management and governance processes. OIA's first Insight Note covered the topic of the Fund's Administrative policies.

various field locations and the resulting selection of locations for OIA audit team on-site visits; and (iv) video-audio conferences to cover additional locations. The audit team on-site visits are being undertaken in a phased manner and are scheduled to be completed in February 2019. A draft of the report is expected to be completed by end of April 2019.

F. Audit of IT Infrastructure Managed Services (field work underway)

27. In FY 2016, ITD launched the “TransformIT” initiative, which included several programs designed to modernize and enhance ITD’s business delivery model. A key TransformIT program involved transitioning IT infrastructure services from a “Staff Augmentation” resourcing model to a “Managed Services Provider” (MSP) model. In November 2016, after a structured evaluation process and competitive bidding, the Fund selected Larsen and Toubro Infotech (LTI) as its infrastructure managed services provider. The services transitioned to the MSP include areas such as network operations and infrastructure and help desk services. The MSP transition introduces a substantial change in approach for managing and delivering the above-mentioned infrastructure services. The role of Fund ITD staff predominantly involves overseeing service delivery and managing the onsite and offshore LTI teams executing the relevant infrastructure service tasks.

28. The overall objective of this audit is to assess the governance arrangements, processes, and controls over the recently transitioned IT Infrastructure Managed Services. The audit will focus on early lessons from the transition, and key governance, risk, and control considerations for service delivery in the new managed services model. The audit execution work is well underway, and the report is expected to be finalized in March 2019.

G. Audit of Quality Control Practices for Capacity Development (CD) Outputs (fieldwork underway)

29. CD support is delivered to member countries through various modalities. These include short-term missions led by staff or experts from HQ or one of the regional centers, long-term in country placements of resident advisors, a network of regional capacity development centers (RCDC), and via on-line or face-to-face training. The Fund exercises quality control over various activities across the CD lifecycle. Quality controls ensure that, ultimately, Fund advice is tailored to the country’s needs and its absorptive capacity, reflects international best practices, and is complemented by the Fund’s analytical work.

30. The audit will provide assurance on the adequacy of administrative practices, processes, and procedures underpinning quality control of Fund CD mission outputs. To achieve this objective, the audit will examine quality control activities including the backstopping activities for experts (including assignment of back-stoppers to projects/experts), and the inter- and intra-departmental review processes for CD mission outputs, such as briefing papers, Back-to-Office reports, aides-memoires, Technical Assistance reports, training materials, etc. It will focus on: the governance and oversight arrangements for quality control activities, including policies, procedures, roles, responsibilities, accountabilities, and competencies; and the performance of quality control

tasks, including cross-departmental coordination. The field work is expected to be substantially completed by the end of April 2019.

ENGAGEMENTS IN PLANNING PHASE

31. OIA has commenced planning work on two engagements: (i) Audit of the HQ1 Renewal Program; and (ii) Audit of the Fund's Payment Processes and Systems. The Audit of the HQ1 Renewal Program is intended to provide assurance on the operating effectiveness of the budgetary and financial controls implemented for the Program, especially as the Program nears completion. The Audit of Payment Processes and Systems is designed to primarily focus on the governance, roles and responsibilities, and the business process and system aspects underpinning the payments made through the SWIFT system.

PERIODIC MONITORING REPORT

A. Ninth Periodic Monitoring Report (PMR)

32. The Ninth Periodic Monitoring Report (PMR) on the Status of Management Implementation Plans (MIPs) in Response to Board-Endorsed Independent Evaluation Office (IEO) Recommendations was discussed at the Evaluation Committee of the Board in June 2018 and was subsequently endorsed by the Board on a lapse of time basis. The Ninth PMR introduced several novel ideas to assist management and the Board with a clearer view of where management or Board intervention may be required. The Board concluded that progress on implementing the actions envisaged in the MIPs continues to be uneven. Despite challenges with defining measures of success, considerable progress has been made with the implementation of the actions contained in recent MIPs, partly as a result of improvements in the follow-up process approved by the Board in 2015.

B. A Framework to Address Long-Standing Management Actions

33. The Third External Evaluation of the IEO, completed in July 2018, also examined the long-standing actions in response to IEO recommendations, and suggested corrective actions. Specifically, the external evaluation recommended that the Board should make decisions to comprehensively address the backlog of open management actions, based on the improved format of the Ninth PMR.

34. In response, OIA has formulated a triage and follow-up framework, for Board approval, to address the backlog of open management actions. The proposal is guided by the external evaluation panel's suggestion for the PMR to categorize open action items into several groups to facilitate a more effective review. The proposed framework identifies five broad categories and corresponding interventions that are required to strengthen the progress of management actions. The framework, upon Board approval, would be implemented starting with the Tenth PMR.

The proposed triage framework is scheduled to be discussed at the Evaluation Committee (EVC) of the Board on January 29, 2019.

OVERDUE AUDIT ISSUES

35. OIA issued its six-monthly “snapshot” report on overdue audit issues as of October 31, 2018 (see Appendix I). Four “High” impact rated issues from prior OIA audits (in the areas of Business Continuity Management and Third-Party Vendor Risk Management) were actioned. A significantly overdue “High” impact issue on the development of a controls framework to support administration of salaries and benefits is being comprehensively tackled through the detailed control design work included in the 1HR implementation phase.

OIA INTERNAL ACTIVITIES

A. Program of Work for FY20

36. During FY 2020, OIA will continue its focus on striking the right balance between its core assurance work (audits) and advisory support of key strategic initiatives and transformational programs. For the FY20 work program, OIA’s coverage and engagement proposals will essentially be driven by the alignment to key institutional priorities and risks and OIA’s ability to add value in those areas. In formulating and executing its FY20 work program, OIA will carefully calibrate its resource usage from a budget utilization standpoint to be able to reprioritize coverage, as needed, in response to emerging institutional needs. OIA’s proposed Program of Work for FY20, will be submitted, for management and External Audit Committee review, in April 2019.

B. Other Internal Activities

37. OIA will continue the mainstreaming of its Quality Assurance and Improvement Program (QAIP) components into underlying OIA work practices. This will include the selection and implementation of a new/upgraded audit management tool in FY 2020.

38. OIA will host the annual Heads of Audit meeting of Multilateral Financial Institutions (MFI) in April 2019. This will provide OIA staff with greater opportunities to participate in, network, and engage with their professional peers on topical matters. OIA’s director has also actively participated in key MFI fora and audit leadership roundtable discussions.

ADMINISTRATIVE MATTERS

OIA expects to end FY 2019 at or above 99 percent of its overall budget allocation of \$5.1 million.

Appendix I. Report on Overdue Audit Issues as at October 31, 2018

