Controller's and Financial Services Division

Internal Control-Integrated Framework

Application of Principles in IFAD

IFAD
Investing in rural people

December 2015

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IFAD

Investing in rural people

I. Background and Purpose

a. Background

COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting (the Treadway Commission). The Treadway Commission was originally jointly sponsored and funded by five main professional accounting associations and institutes headquartered in the United States: the American Institute of Certified Public Accountants (AICPA), American Accounting Association (AAA), Financial Executives International (FEI), Institute of Internal Auditors (IIA) and the Institute of Management Accountants (IMA). The Treadway Commission recommended that the organizations sponsoring the Commission work together to develop integrated guidance on internal control. These five organizations formed what is now called the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The original chairman of the Treadway Commission was James C. Treadway, Jr. The Treadway Commission is dedicated to providing thought leadership to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

Why COSO?

In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its *Internal Control –Integrated Framework* (the original framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control). The original framework has gained broad acceptance and is widely used around the world[1]. It is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control, and hence its used by IFAD.

The 'New' COSO

The updated *Internal Control-Integrated Framework (Framework)* builds on what has proven useful in the original version. It retains the core definition of internal control and the five components of internal control. The requirements to assess the effectiveness of a system of internal control remains fundamentally unchanged.

The *Framework* includes enhancements and clarifications that are intended to ease use and application. One of the more significant enhancements is the formalization of fundamental concepts that were introduced in the original framework. In the updated *Framework*, these concepts are now **principles**, which are associated with the five components, and which provide clarity in designing and implementing systems of internal control and for understanding requirements for effective internal control

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[1] According to a poll by CFO magazine released in 2006, 82% of respondents claimed they used COSO's framework for internal controls. Other frameworks used by respondents included COBIT, AS2 (Auditing Standard No. 2, PCAOB), and SAS 55/78 (AICPA).

b. Purpose of this document

This document focusses on applying the Framework in the context of **external financial reporting** (a subset of the *Reporting* objective), specifically the preparation of financial statements for external purposes. Its purpose is to set out the prescribed principles of the new COSO framework and to demonstrate IFAD's alignment and compliance to them, as we adopt it to be the basis of the organization's internal control framework, and our annual internal control over financial reporting management's assertion report and external auditor's independent attestation thereof. It is intended for use by Management, staff members and all internal and external stakeholders who need to appreciate the role of the COSO framework in IFAD.

This document is independent of any existing policy or procedural documents. It is an umbrella framework which brings in all relevant applicable policies and procedures.

II. Objective of External Financial Reporting

IFAD Management's objective is to ensure that the consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Fund, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the notes to the consolidated financial statements

III. New vs Old Cube

The cube retains its familiarity. It begins with objectives along the top relating to operations, reporting and compliance, representing the cube's columns. The side of the cube, as shown below, depicts that objectives may be set for the entity as a whole, or be targeted to specific divisions, operating units and functions within the entity, illustrating the hierarchical top-down structure of most organizations.

On the face of the cube are the five components of internal control, representing the rows of the cube. Similar to the 1992 framework, these components support the organization in its efforts to achieve its objectives. They are relevant to an entire entity, meaning they operate at the entity level, as well as at all divisions, operating units and functions.

With the definition of internal control and the structure of the cube and its dimensions fundamentally the same as the original 1992 version, *the criteria used to assess the effectiveness of an internal control system remain largely unchanged.* The effectiveness of internal control is assessed, using a principles-based approach, relative to the five components of internal control.

New

Old

Deals primarily with risk reduction.

Achievement of Strategic Objectives is subject to external events & not always within organization's control

Views risk assessment through a sharper lens. Events may affect strategy.

Internal Control – Integrated Framework

Enterprise Risk Management – Integrated Framework

IV. Overview of the Framework

a. Internal Control – Integrated Framework sets out:

- **Definition** of internal control

- Categories of **Objectives**
    i. Operations
    ii. Reporting
    iii. Compliance

- **Components** of internal control
    iv. Control Environment
    v. Risk Assessment
    vi. Control Activities
    vii. Information and communication
    viii. Monitoring Activities

- **Principles** of internal control
    ix. Approaches

- **Requirements** for effectiveness
    x. Each component & each relevant principle is <u>present</u> & <u>functioning</u>
    . The five components are operating together in an integrated manner
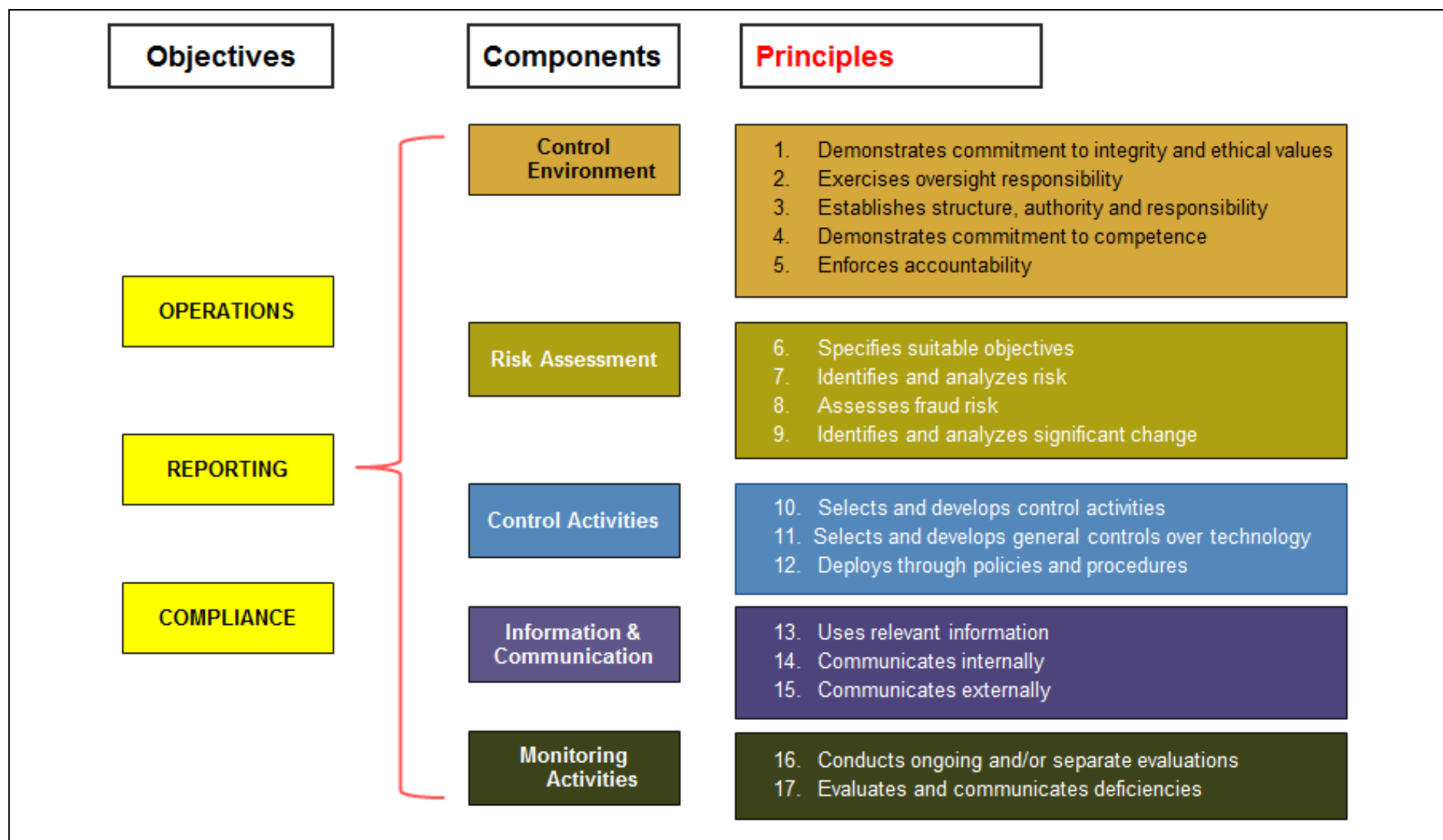
b. Components and Principles

Effective internal control provides reasonable assurance regarding the achievement of objectives, and requires that each Component and each relevant Principle is *present* and *functioning*. It also requires that there is no major deficiency that severely reduces the likelihood of achieving objectives.
Set out below under each Component, are the Principles that define the respective Components, and the evidence to support that they are indeed present and functioning within IFAD.

c. Approaches

Approaches describe how IFAD may apply the principle within its system of internal control over external financial reporting. They are intended to provide readers of this document of a summary-level description of activities that IFAD management may consider as they apply the Framework in an ICFR context.

V.   The Framework

VI.   Document Layout

The 17 Principles are set out under the respective Components. Each Component/Principle is set out as illustrated in the example below.

Component 1: CONTROL ENVIRONMENT

Principle 1 - Demonstrates commitment to integrity and ethical values

Approaches

Describe how IFAD may apply the principle within its system of internal control over external financial reporting.

Points of Focus	Related Controls
Important characteristics of Principles which should be demonstrated by IFAD in order to provide assurance that the related Principle exists within IFAD's internal control system. • **Sets the Tone at the Top**– The Executive Board and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.	The Controls in place in IFAD that provide evidence of existence of the principles. CE1.1, CE1.4, CE1.7
Controls to effect Principle A description of the Controls in place in IFAD, with details of **who** performs it, **how** it is performed, **why** it is performed and **when** it is performed. **CE1.1** Four **Core Values** (Focus on Results, Integrity, Professionalism, Respect) and corresponding behaviors represent the basis of IFAD's institutional culture.	**Reference Documents** The documents evidencing the existence and/or performance of the Controls. 1. Introductory message from the President to launch IFAD's Core Values – 2007

VII.   Practical application of ICFR in IFAD

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Component 1: CONTROL ENVIRONMENT

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The control environment is the set of standards, processes and structures that provide the basis for carrying out internal control across the organization. The resulting control environment has a pervasive impact on the overall system of internal control.

The control environment comprises the integrity and ethical values of the organization; the parameters enabling the Executive Board to carry out its oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing and retaining competent individuals. The Executive Board and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization.

Principle 1 - Demonstrates commitment to integrity and ethical values

Approaches

- Establishing Standards of Conduct
- Leading by Example on Matters of Integrity and Ethics
- Evaluating Management and Other Personnel, Outsourced Service Providers, and Business Partners for Adherence to Standards of Conduct
- Reporting and Taking Prompt Action on Deviations from Standards of Conduct

Points of Focus	Related Controls
Sets the Tone at the Top – The Executive Board and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.	CE1.1, CE1.2
Establishes Standards of Conduct – The expectations of the Executive Board and senior management concerning integrity and ethical values are defined in the entity's standards of conduct and understood at all levels of the organization and by outsourced service providers and business partners.	CE1.3, CE1.4, CE1.7
Evaluates Adherence to Standards of Conduct – Processes are in place to evaluate the performance of individuals and teams against IFAD's expected standards of conduct.	CE1.2, CE1.5

• **Addresses Deviations in a Timely Manner** – Deviations of IFAD's expected standards of conduct are identified and remedied in a timely and consistent manner	CE1.5, CE1.6,

Controls to effect Principle	**Reference Documents**
CE1.2 Four **Core Values** (Focus on Results, Integrity, Professionalism, Respect) and corresponding behaviors represent the basis of IFAD's institutional culture.	2. Introductory message from the President to launch IFAD's Core Values – 2007
CE1.3 IFAD's **Performance Evaluation System** (PES) was established as one of the management systems for planning, developing and evaluating staff performance against inter-alia, the standards of conduct.	3. Human Resources Procedures Manual (HRPM) Chapter 5)
CE1.4 Staff members must observe and comply with the obligations of the HR Policy, the Code of Conduct, and the Staff Rules and Implementing Procedures. To reflect the importance of the **Code of Conduct** and its obligations, staff members are required on a yearly basis to declare the following: (i) that they have read, understood and will ensure compliance with the Code of Conduct, (ii) all conflicts of interest and (iii) all sources of non-IFAD income, goods, services or assets. The yearly declaration is forwarded to the Ethics Officer. The Ethics Office will document and monitor receipt of certifications and ensure their confidentiality and safekeeping. Failure to comply with this obligation may result in corrective or disciplinary measures.	4. PB[2]/2010/08, IC/AUO/10/01, IC/OPV/10/03, Implementing Procedures Chapter 1.7 5. IC[3]/ETH/01/2012
CE1.5 An annual **Financial Disclosure Statement** is required to be completed and submitted by staff with key roles in finance, investments, procurement and external resource management. The implementation of this policy aims to enhance transparency in IFAD's financial operations.	
CE1.6 The **Ethics Office** was established in and is responsible for promoting and upholding the highest standards in the organization. The Office provides guidance to Management, and reinforces and promotes the standards of integrity expected within the organization. In carrying out its mandate, the Office manages the organization's ethics and anti-harassment programmes and has developed and conducted staff training in these areas. In addition, the Office reviews allegations of violations of the Code of Conduct and, where appropriate, requests the Office of Audit and Oversight to investigate, ensuring confidentiality and protection of staff against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations. The office also manages the yearly certification by staff that they will abide by the Code of Conduct, and the financial disclosure process for staff concerned. The Ethics Office reports to Senior Management on risks, incidents, initiatives	6. Ethics Office - PB/2011/05 IFAD's Anti-Corruption Policy : http://www.ifad.org/governance/anticorruption/

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[2] **President's Bulletins (PB)** issue instructions concerning the conduct of business of the Fund
[3] **Information Circulars (IC)** inform staff of important information regarding their Offices/Departments.

driven by the ethics and compliance programme, and progress toward programme goals.

IFAD's Anti-corruption policy (and related useful links) is published on the IFAD internet and is accessible by external parties.

Annual reports on investigative and anti-corruption activities are prepared by AUO and submitted to the President and the Audit Committee. These reports are also published and available to IFAD staff and to external parties on the IFAD website. The reports include the following information:

- Statistics/trends on the investigation activities carried out in a particular year, including total number of cases handled, number of new allegations, source of allegation, reporting method, nature of allegation

- Statistics on cases closed and sanctions imposed

- Cases leading to disciplinary or corrective measures

- Proactive awareness- raising activities undertaken by AUO during the year to implement the Anti-corruption policy, e.g. trainings, presentations etc.

CE1.7	The **Investigations Section** of the office of Audit and Oversight (AUO) and a **Sanctions Committee** deals with violations of policies and procedures. The Sanctions Committee, composed of IFAD Management, established by the President, is responsible for reviewing the findings of investigations conducted by AUO. The Committee acts as a recommending body to the President, who has the sole decisional authority with respect to disciplinary measures to be imposed on staff members. The Committee also decides on appropriate sanctions to be imposed by IFAD where it has been determined that firms, private entities or individuals , including consultants but excluding staff members, who have engaged in irregular practices in connection with IFAD-financed activities and operations. On an annual basis, AUO prepares and submits to the President and the Audit Committee, a report summarizing the investigative activities of AUO, its findings and the sanctions imposed or other measures taken by the Sanctions Committee and/or the President. The report is published and available to IFAD staff and to external parties on the IFAD website.	7. Sanctions Committee : PB/2013/07 Annual reports on investigative and anti-corruption activities : http://www.ifad.org/governance/anticorruption/
CE1.8	IFAD's suppliers are required to be registered through the UN Global Marketplace website. In so doing, they are expected to adhere to the UN Supplier Code of Conduct. The Code of Conduct sets for the minimum standards expected of suppliers to the UN. Non-adherence to the principles will be a factor in considering whether a supplier is deemed eligible to be registered as a UN supplier or to do business with the UN, in accordance with applicable UN policies and procedures.	8. UN Global Marketplace (www.ungm.org). UN Supplier Code of Conduct.

Principle 2 - Exercises oversight responsibility

The Executive Board demonstrates independence from management and exercises oversight of the development and performance of internal control

Approaches

- Establishing the Roles, Responsibilities, and Delegation of Authority of the Board of Directors
- Establishing Policies and Practices for Meetings between the Board of Directors and Management
- Identifying and Reviewing Board of Director Candidates
- Reviewing Management's Assertions and Judgments
- Obtaining an External View
- Considering Whistle-Blower Information about Financial Statement Errors and Irregularities

Points of Focus	Related Controls
Establishes Oversight Responsibilities—All powers of the Fund are vested in the Governing Council. The Governing Council may delegate some of its powers to the Executive Board. The Governing Council appoints the President. The Executive Board identifies and accepts its oversight responsibilities in relation to established requirements and expectations.	CE2.1, CE2.2, CE2.6, CE2.7
Applies Relevant Expertise—The Executive Board defines, maintains, and periodically evaluates the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions.	CE2.4, CE2.5
Operates Independently—The Executive Board has sufficient members who are independent from management and objective in evaluations and decision making.	CE2.3, CE2.5, CE2.7, CE2.10, CE2.11
Provides Oversight for the System of Internal Control—The President retains oversight responsibility for management's design, implementation, and conduct of internal control as follows:	CE2.8, CE2.9, CE2.6

- ➢ **Control Environment**—Establishing integrity and ethical values, oversight structures, authority and responsibility, expectations of competence, and accountability to the board.

- ➢ **Risk Assessment**—Overseeing management's assessment of risks to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control.

- ➢ **Control Activities**—Providing oversight to senior management in the development

and performance of control activities.

> **Information and Communication**—Analyzing and discussing information relating to the entity's achievement of objectives.

> **Monitoring Activities**—Assessing and overseeing the nature and scope of monitoring activities and management's evaluation and remediation of deficiencies.

Controls to effect Principle	Reference Documents
CE2.1 IFAD has a clearly set out governance structure of its governing bodies, who have clearly defined responsibilities, terms of reference and rules of procedures outlined in the **Agreement Establishing IFAD**.	1. Agreement Establishing IFAD: Article 6
CE2.2 The Agreement Establishing IFAD gives the **President** the responsibility for conducting the business of the Fund and entrusts him/her with the power to organize and manage IFAD staff in accordance with the guidelines adopted by the Executive Board. The structure is set up in such a way as to achieve efficiently the objectives and the mandate. Appropriate lines of reporting have been clearly defined in the structure.	2. Agreement Establishing IFAD
CE2.3 The **Independent Office of Evaluation (IOE)** evaluates IFAD-funded projects and programmes to assess what works and what doesn't, and to determine how far IFAD's policies and strategies are successful in tackling poverty alleviation in rural areas. IOE's evaluation is based on a coherent set of evaluation methodologies.	3. EB 2003/78/R.17/Add.1 IOE – Corporate Level Evaluation on IFAD's institutional efficiency & efficiency of IFAD-funded operations : July 2013.
CE2.4 The **Governing Council** of IFAD is the Fund's principal Governing Body having full decision-making powers. It consists of all of IFAD's Member States and meets annually. All powers of the Fund are vested in the Governing Council which takes decisions on such matters as approval of new membership; appointment of the President of IFAD; matters pertaining to the permanent seat of the Fund; adoption of regulations and by-laws to conduct the business of the Fund, approval of the administrative budget and adoption of broad policies, criteria and regulations governing financing by the Fund.	4. Rules of Procedure of the Governing Council
CE2.5 The Executive Board members are elected from the Members of the Fund at the annual session of the Governing Council. They are elected and appointed in accordance with the procedures set forth in the Agreement Establishing IFAD. In carrying out their duties, representatives must avoid any situation that poses an actual conflict or the potential for, or the appearance of, a conflict between their personal interests and the performance of their official duties. Specifically, representatives shall avoid any action that might result in, or create the potential for or the appearance of: • Giving unwarranted preferential or prejudicial treatment to any organization or	5. Agreement Establishing IFAD: Article 6, Section 5 & Schedule II Principles of Conduct for the IFAD EB Representatives – EB/2014/113/R.30

person	
• Impeding the efficiency of the decision-making processes in the EB	
• Losing independence or impartiality of action, and	
• Affecting adversely the confidence of Member States or the public in the integrity of IFAD	
CE2.6 Each member and alternate member of the Executive Board must appoint a person competent in the fields of the Fund's activities to represent it on the Board.	6. By-Laws for the conduct of the business of IFAD: Section 4
CE2.7 The Executive Board may establish committees and other subsidiary bodies from among its members and refer them any question for study and report. The President, with the approval of the Board, shall appoint members of such bodies.	7. Rules of Procedure of the Executive Board: Rule 11
CE2.8 The **Executive Board** is the Fund's second main Governing Body. The Executive Board has full authority to decide on the programme of work, approval of projects, programmes and grants and to adopt/recommend action, pending the final approval of the Governing Council, on matters related to policy, the annual administrative budget and applications for membership. The Executive Board establishes Policies and Practices for meetings between the Executive Board and Management. Each member and alternate member of the Board is communicated to the President by the official channel established by the State concerned. The Board may also invite representatives of cooperating international organizations and institutions or any person, including the representatives of other Members of the Fund, to present views on any specific matter before the Board. Upon request of either a Member State represented on the Board or of an organization/institution, an at the President's discretion, one observer may be admitted to attend any particular session of the Board.	8. Rules of Procedure of the Executive Board
Proposed dates for sessions of the following year's Executive Board meetings are presented in a document at the December EB session.	Proposed dates for Sessions of the EB: EB/2014/113/R.32
The Executive Board and the Audit Committee are responsible for determining whether the internal control and audit systems established by the President in accordance with regulation X of the Financial Regulations of IFAD are adequate and whether the internal audit function is efficient and effective.	TOR and Rules of procedure of the AC of the EB. EB 2009/97/R.50/Rev.1 (3.1(g)).
CE2.9 Documents relating to proposals to be considered by the Executive Board are distributed to board members at least 30 days in advance of the meeting at which such proposal is to be considered. Following the meeting, the President has draft minutes of the meeting prepared, in which decisions of the Board are recorded. Such minutes are circulated by the President to each Board member for corrections. If no requests for corrections are received, the minutes	9. Rules of Procedure of the Executive Board: Rule 6 and 12

are deemed to be approved by the Board	
CE2.10 As a **subsidiary body of the Executive Board**, the role of the **Audit Committee** is to assist the Executive Board in exercising supervision over the financial administration and internal oversight of the Fund. The Audit Committee is responsible for inter –alia**:**	10. TOR and Rules of procedure of the AC of the EB . EB 2009/97/R.50/Rev.1
a. Meeting annually with the external auditor to discuss its scope and design and to be informed about significant audit findings and recommendations	
b. Evaluate, retain or change external auditors	
c. Reviewing the audited financial statements of the Fund and providing its opinion and comments thereon to the Executive Board	
d. Reviewing AUO Audit plans	
e. Reviewing management assessment of internal controls over external financial reporting	
f. Reviewing management assertions and judgments over accounting policy and critical accounting estimates	
g. Reviewing the risks faced by the Fund and assessing the risk management practices and procedures in place, and providing its opinion and comments thereon,	
h. Determining whether the internal control and audit systems are adequate and whether the internal audit function is efficient and effective, and reporting to the Executive Board on any issues related thereto	
CE2.11 The Executive Board, through the Audit Committee, has a role in ensuring that the **Office of Audit and Oversight (AUO)** works independently. The Director of AUO reports directly and is accountable to the President, and discusses AUO's charter, annual work plan, adequacy of AUO's resources and results of AUO's work with the Audit Committee. The Director and staff of AUO are responsible for conducting and/or monitoring investigations of irregular practices in IFAD activities and operations and reporting results to the President and Sanctions Committee.	11. Revised Charter of the IFAD Office of Audit and Oversight : EB 2010/99/R/49/Rev.1
The audit committee considers information obtained from investigations and fraud assessment to monitor the risk of misstatements in financial reporting. Consistent with well-recognized international standards of financial management and accountancy, the President shall establish and maintain appropriate internal financial control and audit systems.	

Principle 3 - Establishes structure, authority and responsibility

Management establishes, with broad oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

Approaches

- Defining Roles and Reporting Lines and Assessing Them for Relevance
- Defining Authority at Different Levels of Management
- Maintaining Job Descriptions and Service-Level Agreements
- Defining the Role of Internal Auditors

Points of Focus	Related Controls
Considers All Structures of the Entity—Management and the Executive Board consider the multiple structures used (including operating units, legal entities, geographic distribution, and outsourced service providers) to support the achievement of objectives.	CE3.1, CE3.2, CE3.13
Establishes Reporting Lines—Management designs and evaluates lines of reporting to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity.	CE3.3, CE3.4, CE3.5, CE3.6
Defines, Assigns, and Limits Authorities and Responsibilities — Management and the Executive Board delegate authority, define responsibilities, and use appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the organization:	CE3.8, CE3.9, CE3.10, CE3.11, CE3.12, CE3.13

- ➤ **Executive Board**— Retains authority over significant decisions and reviews management's assignments and limitations of authorities and responsibilities

- ➤ **Senior Management**—Establishes directives, guidance, and control to enable management and other personnel to understand and carry out their internal control responsibilities

- ➤ **Management**—Guides and facilitates the execution of senior management directives within the entity and its subunits

- ➤ **Personnel**—Understands the entity's standard of conduct, assessed risks to objectives, and the related control activities at their respective levels of the entity, the expected information and communication flow, and monitoring activities relevant to their achievement of the objectives

- ➤ **Outsourced Service Providers**—Adheres to management's definition of the scope of authority and responsibility for all non-employees engaged.

Controls to effect Principle	Reference Documents
CE3.1 The President supports a corporate culture and structure that enables staff to perform their respective duties effectively, by giving authority and responsibility through IFAD's delegation of authority framework, IFAD has a clear policy for Delegation of Authority. The President of IFAD is the legal representative of the Fund and is responsible for conducting the business of the Fund. No member of the staff of IFAD has any authority unless it has been delegated to him/her by the President. In addition to the Agreement Establishing IFAD, the President's authorities and powers are set out in the various basic documents and other instruments. These are mainly: ▪ By-laws for the Conduct of the Business of IFAD (By-laws) ▪ Rules of Procedure of the Governing Council (RPGC) ▪ Rules of Procedure of the Executive Board (RPEB) ▪ Financial Regulations (FR) ▪ Lending Policies and Criteria (LP&C) ▪ Convention on the Privileges and Immunities of the Specialized Agencies ▪ Headquarters Agreement with Italy and other host country agreements ▪ Human Resources Policy Management defines the organizational structure to document and communicate roles and responsibilities within the Fund that emphasize accountability and focus on achievements of financial reporting objectives. An organizational chart is produced for each Division with the aim of documenting the following: ▪ set forth authority and responsibility ▪ segregation of duties ▪ define reporting lines and communication channels ▪ establish dependencies for roles and those accountable for external parties	1. Agreement Establishing IFAD (AEI) Article 6, Section 8(d),(h). 2. Organizational chart for each division Organigram FOD Chart CFS Chart
CE3.2 The authorities given to the President in these documents are exercised by him/her personally unless they have been delegated to someone else.	
CE3.3 To strengthen the accountability of line managers, to improve corporate decision-making and to enhance cross departmental and divisional cooperation and coordination, the President approved the establishment of two decision-making frameworks and processes: the Executive Management Committee (**EMC**) and the Operations Management Committee (**OMC**). a. **EMC**: The primary duties and responsibilities of the EMC are to provide advice to the President in the discharge of his/her responsibilities. The EMC is chaired by the President. Meetings are held regularly once a week. Once approved by the Chair, the decisions arising from the EMC	3. Framework for Delegation of Authority (PB/2011/07). 4. PB/2012/05

meetings, as well as the minutes of meetings, are posted on the IFAD Intranet.	
b. **OMC**: The OMC oversees the implementation and delivery of the Fund's corporate policies, strategies, programmes of work and budget. To this end, it is responsible for identifying and taking decisions on routine operational matters. The OMC is chaired by the Vice-President. The OMC meets regularly once every two weeks. The Vice-President, as chair of the meeting, is responsible for submitting reports to the EMC in the form of minutes with decisions and recommendations clearly identified.	
CE3.4 The IFAD Management Team (**IMT**) is responsible for discussing strategic issues and subjects that require a broader participatory consultation. The results of the deliberations of the IMT may be taken up by the OMC and EMC, as appropriate. The IMT is chaired by the President and meets three times a year. The Summary and Conclusions of each meeting (as well as the main purpose of the meeting) are published on the IFAD intranet.	
CE3.5 The **Office of Audit and Oversight** adheres to the Standards for the Professional Practice of Internal Auditing and to the Code of Ethics and carries out investigation work in accordance with internationally accepted standards commonly applied by UN organizations and IFIs. AUI's charter, annual work plan, adequacy of AUI's resources and results of AUI's work are discussed with the Audit Committee. The role and responsibilities of the Office of Audit and Oversights are set out in the Revised Charter of the IFAD Office of Audit and Oversight.	5. IFAD Management Committees and IMT: PB/2012/05, IMT Summary and Conclusions : http://intranet/events/imt/index.htm 6. EB 2010/99/R.49/Rev.1
CE3.6 **Contracts Review Committee (CRC)** : The purpose of the CRC is to recommend to the approving authority (as defined in the Procurement Guidelines paragraph 11.8), to award or reject a contract or Purchase Order regarding proposed contractual obligations presented to it.	
CE3.7 **Outsourced Service Providers** : Management ensures that there is no conflict of interest in the organization and with its Outsourced Service Providers. Outsourced Service Providers are provided with clear and concise contractual terms related to the entity's objectives and expectations of conduct and performance, competence levels, expected information, and communication flow. Outsourced Service Providers adhere to management's definition of the scope of delegated authority and responsibility as well as understand limitations of their decision-making rights. The responsibilities of external parties are outlined through service level agreement to define quality and timeline of data generated and provided by the service providers.	7. IFAD Manual, Section 604 8. See Master Custody Agreement with Northern Trust (June 2010) and MOU with the International Computing Centre (December 2004)
CE3.8 **IT Governance Committee (ITGC)** : The purpose of the ITGC is to co-ordinate IT initiatives at the inter-departmental level and foster IFAD-wide process integration. It ensures that the Information and Communications Technology division (ICT) supports the needs of the various departments in a prompt and flexible way, preventing the proliferation of IT systems across the house.	

CE3.9 **Strategic Workforce Plan (SWP)** : The SWP was IFAD's first exercise in planning human resources from an overall corporate perspective. Its objective was to align human resources (numbers, skills and location) with the achievement of the results articulated in the Results Management Framework (RMF). It was successfully completed in December 2012.	9. PB/2008/22
CE3.10 **Job Audit** : Senior management maintains job descriptions based on delegated authority level. Job descriptions are aligned with responsibilities and updated when deemed necessary. A job audit was conducted as a vital part of the change and reform process to help IFAD meet its 2015 strategic goals and operational commitments. It was successfully completed. The final report of the job audit was shared with Management in April 2012 and provided a major input to the strategic workforce planning exercise for 2013-2014.	10. EB 2010/100/INF.5 11. IAR/14/03, GC37/L.8
CE3.11 Access to PeopleSoft/Flexcube are driven by authority roles/workflows. This control enforces accountability and enables oversight such that every change in the organization structure is reflected in the system applications.	
Access to PeopleSoft is granted by IT on the basis of a request from an Accounting Officer/Division Director. As part of the role rationalization process, the PS IT team sends a half yearly report to all the business units which contains the following details: - User name - Role - Rights and authorization attached to the role. Key users are requested to provide feedback based on the report and encouraged to seek clarification where required. Key users from the business unit review the report sent by IT team to ensure that the users in the group have appropriate roles to perform their duty. The PS IT team generates a weekly report and verifies the list of user accounts not used for more than 3 months, to revoke roles from disabled accounts. PeopleSoft accounts are disabled based on staff contract termination dates thus aligning it with Active Directory. When an individual leaves the organization, both the LAN account and the PS accounts are disabled. Revoking security roles reinitializes the account and minimizes the risk of unauthorized access through historical access rights following staff re-hire. The PS IT teams receives a weekly report from HRD containing future staff movement which is used as a basis of removing invalid roles from staff who have changed divisions. **Access to Flexcube** is entirely controlled by the Active Directory. The definition of the roles and users is prepared by the SMEs for each area (setup, disbursement, debt services, GL accounting), and is currently restricted to employees in CFS and ICT (to grant security).	12. ICFR Process #4: IT Controls relating to PS/FXC

CE3.12 IFAD adopts a decentralized budget management structure, thereby placing decision-making authority, responsibility and accountability for budget management at the Director/Unit Head level, i.e. the Budget Holder. Budget authority roles/workflows are also managed through the PeopleSoft system.	
CE3.13 In line with **IFAD's Country Presence** policy/strategy, IFAD has a number of country offices located in multiple locations across the 5 regions. Expenditure/costs of all Country Offices is accounted for in line with IFAD headquarters policies and procedures. An IFAD Country Office Handbook, published as a reference guide for staff, sets out the IFAD policies and procedures that are applicable when carrying out financial and administrative support operations for the IFAD Country Office (ICO). AUO has audited several aspects of IFAD's country offices in recent years, including the budget and financial control structure and support services, as well as one or two individual offices per year. A key benefit of these audits is to assess how corporate systems and structures are being adapted to IFAD's transition to a decentralized business model. Audit work performed and related findings are published in audit reports.	13. 2008 Framework for Decentralized Budget Management 14. Activity Plan for IFAD's Country Presence – EB/2007/92/R.47 Country Presence http://intranet/guides/country_presence/index.htm AUO's annual workplan Audit reports on ICOs audited

Principle 4 - Demonstrates commitment to competence

IFAD demonstrates a commitment to attract, develop and retain competent individuals in alignment with the objectives.

Approaches

- Establishing Required Knowledge, Skills, and Abilities
- Linking Competence Standards to Established Policies and Practices in Hiring, Training, and Retention Decisions
- Identifying and Delivering on Financial Reporting Related Training as Needed
- Selecting Appropriate Outsourced Service Providers
- Evaluating Competence and Behavior
- Evaluating Sufficiency and Competency of Finance Personnel
- Developing Alternate Candidates for Key Financial Reporting Roles

Points of Focus	Related Controls
Establishes Policies and Practices—Policies and practices reflect expectations of competence necessary to support the achievement of objectives.	CE4.1, CE4.2
Evaluates Competence and Addresses Shortcomings—The President and management evaluate competence across the organization and in outsourced service providers in relation to established policies and practices, and acts, as necessary to address shortcomings.	CE4.4, CE4.8, CE4.9, CE4.10
Attracts, Develops, and Retains Individuals—The organization provides the mentoring and training needed to attract, develop, and retain sufficient and competent personnel and outsourced service providers to support the achievement of objectives.	CE4.5, CE4.6, CE4.7
Plans and Prepares for Succession—Senior management and the Executive Board develop contingency plans for assignments of responsibility important for internal control.	

Controls to effect Principle	Reference Documents
CE4.1 Recruitment and appointment at IFAD is conducted in accordance with the Agreement Establishing IFAD and procedures based upon open competition, merit and respect for (a) adequate publicity, (b) absence of discrimination and (c) highest standards. **Highest standards** requires that candidates are assessed on the basis of the highest standards of competency, integrity and appropriate experience to carry out IFAD's objectives.	1. Human Resources Policy (Provision 8.4) – EB 2004/82/R.28/Rev.1

CE4.2 IFAD's **Implementing Procedures (IP)** outline guiding principles and procedures for (a) managing a sound recruitment process, (b) creating, managing and monitoring career development for staff, (c) managing and monitoring performance evaluation for staff, and (e) managing a sound recourse and appeals process.
 	
The recruitment and selection of staff members at IFAD is guided by the following principles:
 	
   • Competition and adequate publicity
 	
   • Objectivity and highest standard
 	
   • Transparency
 	
   • Non-discrimination
 	
   • Diversity
 	
   • **Accountability**: all participants in the recruitment process are held accountable for carrying out their designated roles and responsibilities.
	2. PB/2005/07. Human Resources Procedures Manual (HRPM)
	
	Implementing Procedures: Chapter 2

CE4.3 IFAD's **Staff Rules** set out the rules governing the management of staff members. In order to enable the Fund to deliver its objective as stated in the Agreement Establishing IFAD, the President organizes, appoints, deploys, exchanges and transfers staff to meet the needs of the Fund.	3. Staff Rules
CE4.4 Staff Rule (2 h) states that procedures shall be established for periodic review of staff members' work performance in order to promote the most effective use of expertise, determine the quality of service, recognize staff achievements, and identify the training and development needs of staff members in the interests of the Fund. Management develops and maintains job descriptions. The terms of reference define the description of the job, the purpose of the task in terms of a) main purpose, key audience(s) and expected outputs, b) formal decisions that the task supports and planned use of outputs from the task, c) overall scope of the work and the desired type of analysis, approach and methods to	4. Staff Rules PB/2011/01 Implementing Procedures: Chapter 5 IFAD's Performance Management Process and Competency Framework

be adopted in performing the task.

IFAD's approach to **Performance Management** relies on a continuous performance review and feedback, where both supervisors and staff members work together for their mutual benefit. Guidelines to support performance enhancement at IFAD are set out in the "**Performance Management Process and Competency Framework".**

Yearly performance evaluations are carried out electronically through the E-performance System for all staff. Performance documents must be finalized in PeopleSoft E-performance in accordance with the annual deadlines published by HRD.

All performance assessments by supervisors are reviewed by the Management Review Group (MRG). The MRG makes a determination on the rating.

CE4.5	Staff Rule (5.4) states that staff members shall be provided with appropriate learning opportunities for the continued enhancement of their professional qualifications and for the enhancement of their effectiveness and efficiency in the performance of their duties. IFAD's **Learning and Development Strategy** sets out the strategic direction for IFAD's learning and development initiatives, and the most relevant actions that will allow the accomplishment of IFAD's skill and competency requirements. Managers, supervisors and staff members are all accountable for taking equal responsibility for development of staff and for contributing to the development of effective solutions. Key financial staff members involved in the preparation of financial information attend technical training sessions to enhance their competencies and skills.	5. Staff Rules IFAD's Learning and Development Strategy (May 2012)
CE4.6	A **training calendar** is published on the intranet in which various courses are made available in-house to all staff. Corporate KPI CORP05_16 tracks the number of staff who have attended at least a one-day training course. This is reported in the quarterly Divisional Management Report.	6. Training calendar
CE4.7	**Capacity building**: Many of the divisions provide training, in their respective areas of expertise, to IFAD's HQ staff, Country office and Project staff. E.g. CFS's Financial Management Workshops which have been conducted for each region, Direct Supervision courses etc...	7. n/a
CE4.8	**Consultancy Services**: Procedures and controls for the selection and use of consultants and firms are set out in **Chapter 13** of the **HRPM**. General Terms and Conditions for engaging consultants are set out in **Annex 5** of the **HRPM**. After a consultant has delivered the requisite services, the consultant's supervisor completes a performance evaluation form, which is forwarded to HRD for assessment of whether to keep the consultant in the database for future services.	8. HRPM, Chapter 13 + Annex 5
CE4.9	**Institutional Contracts:** The principles and rules that govern the use of Institutional Contracts (ICs) for the acquisition of services from Non-Commercial Entities in a transparent and impartial	9. Chapter 6 of the IFAD Manual Section 331 (Appendix)

manner are set out in the IFAD Manual.

The IC Initiating Officer, in consultation with technically-competent unit(s) or officer(s) and/or the Quality Assurance Officer or Unit as necessary, will identify potential Service Providers by investigation at the project site, searching through internet, or by "Expression of Interest". In support of the selection process, the IC Initiating Officer shall obtain relevant information to assess the capacity of Service providers to provide the services required. Relevant information may include:

- type of entity including eligibility

- technical and operational capacity including qualifications, expertise, previous experience and performance

- financial management capacity

- location

- on-going operations/commitments/ICs

- proven experience with IFAD and/or with other UN organizations or IFIs

- availability

- proposal or offer (if relevant)

CE4.10 The Procurement Officer, ADM, in consultation with the originator and the Director ADM, who is the person ultimately responsible for HQ Procurement, may exclude or remove a supplier from the database if it is determined that the supplier has performed poorly or is not providing services as contracted for, or has not delivered, or has unsatisfactorily delivered, contracted goods, works or services. The Procurement Officer, ADM, shall adequately document the process.	10. Chapter 6 of the IFAD Manual Section 331

Principle 5 - Enforces Accountability

IFAD holds individuals accountable for their internal control responsibilities in pursuit of objectives.

Approaches

- Defining and Confirming Responsibilities
- Developing Balanced Performance Measures, Incentives, and Rewards
- Evaluating Performance Measures for Intended Influence
- Linking Compensation and Other Rewards to Performance

Points of Focus	**Related Controls**
Enforces Accountability through Structures, Authorities, and Responsibilities—Management and the Executive Board establish the mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective action as necessary.	CE5.1, CE5.2, CE5.6
Establishes Performance Measures, Incentives, and Rewards—Management and the Executive Board establish performance measures, incentives, and other rewards appropriate for responsibilities at all levels of the entity, reflecting appropriate dimensions of performance and expected standards of conduct, and considering the achievement of both short-term and longer-term objectives.	CE5.3, CE5.4; CE5.5
Evaluates Performance Measures, Incentives, and Rewards for On-going Relevance—Management and the Executive Board align incentives and rewards with the fulfillment of internal control responsibilities in the achievement of objectives.	CE5.3, CE5.5
Considers Excessive Pressures—Management and the Executive Board evaluate and adjust pressures associated with the achievement of objectives as they assign responsibilities, develop performance measures, and evaluate performance.	CE5.3
Evaluates Performance and Rewards or Disciplines Individuals—Management and the Executive Board evaluate performance of internal control responsibilities, including adherence to standards of conduct and expected levels of competence and provide rewards or exercise disciplinary action as appropriate.	CE5.4, CE5.5

Controls to effect Principle	Reference Documents
CE5.1 IFAD's **Framework for the Delegation of Authority** (the "Framework"), sets out rules and procedures governing delegations, and makes a distinction between "authority" to make a decision and "power" to perform an act based upon a decision which has already been made. Delegations listed in the Framework are cases where the President has explicitly delegated the authority to make a decision or granted a power to implement a decision to an IFAD staff member, and may be relied upon by all staff members.	1. PB/2011/07
CE5.2 Under the annual assessment of risks and internal control system, management periodically obtains confirmation from individuals within the organization about their accountability. This confirmation, in the form of revised ICFR process flows and discussions held between management and process owners, is incorporated in the ICFR process flows description of internal procedures internal procedures and the related risk and control matrix. The individual process flows represent the process owner and other staff involved in the process and their confirmation that they fulfilled their internal control responsibilities during any given period of time. Any changes or exceptions are highlighted and reported/updated accordingly	2. E-mail correspondence (kept by the FM Officer) with various process owners evidencing revision to internal process. 2014 ICFR Key Risks and Controls - Risk Assessment
CE5.3 IFAD is a 'not-for-profit' organization. Given its mandate and the nature of its activities, IFAD management has established a performance measurement system which is strictly connected to its mission and operations. Each individual's objectives are linked to Divisional Management Results (DMRs), which are in turn linked to the Corporate Management Results (CMRs). The CMRs focus on development impact, administration and management and on support to Member States in their governance function. Personal objectives are not linked to/measured against the achievement of financial results. All financial and investment activities (e.g. Investments) are governed by strict policies and procedures.	3. IFAD's MTP 2013-2015
CE5.4 IFAD's **Performance Management Process** supports the achievement of Organizational objectives by: • enhancing staff performance at all levels • promoting a culture of continuous learning, personal development and high performance • empowering managers and making them accountable for managing their staff • recognizing excellent performance and managing underperformance in a fair and equitable manner • Encouraging staff participation throughout the performance cycle. IFAD"s approach to Performance Management is based on continuous performance review and feedback through a combination of informal and formal meetings to achieve individual, team and corporate results. The performance management cycle consists of distinct phases that occur sequentially or in parallel over a twelve-month period: Performance planning, performance delivery, Mid-year review, Year-end review.	4. Performance Management Process (April 2014)

CE5.5 IFAD's **Rewards and Recognition Framework** for high-performing staff is an instrument to reward staff who exceed expectations, this is meant to recognize and incentivize staff to perform even better. The Framework is in line with ICSC's framework for recognition and reward programmes, and has been shaped in response to feedback from IFAD managers, staff and ECSA. It takes into account best practices on talent and rewards management from other organizations and international institutions.	5. Rewards and Recognition Framework (April 2014)
CE5.6 A draft **Accountability Framework** paper was presented to the 127th Audit Committee in June 2013. The document essentially outlined the existence of the three pillars of accountability at IFAD and evidenced their existence namely political covenants with member states, internal controls and complaints mechanism.	6. Update on IFAD's Accountability Framework. EB 2013/110/INF.5

Component 2 : RISK ASSESSMENT

Every entity faces a variety of risks from both external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives, which in turn forms the basis for determining how risks will be managed so as to reduce risk to an acceptable level.

Principle 6 – Specifies suitable objectives

… with sufficient clarity to enable the identification and assessment of risks relating to objectives.

Approaches

- Identifying Financial Statement Assertions
- Specifying Financial Reporting Objectives
- Assessing Materiality
- Reviewing and Updating Understanding of Applicable Standards
- Considering the Range of Entity Activities

Points of Focus[4]	Related Controls
External Financial Reporting Objectives	
• **Complies with Applicable Accounting Standards**—Financial reporting objectives are consistent with accounting principles suitable and available for that entity. The accounting principles selected are appropriate in the circumstances.	RA6.1
• **Considers Materiality**—Management considers materiality in financial statement presentation.	RA6.2, RA6.3,
• **Reflects Entity Activities**—External reporting reflects the underlying transactions and events to show qualitative characteristics and assertions.	RA6.4, RA6.5
Compliance Objectives	

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[4] The Operations, External Non-Financial Reporting and Internal Reporting objectives and their related Points of Focus were assessed to not be relevant to IFAD's External Reporting objective and hence have not been included in this document.

• **Reflects External Laws and Regulations**—Laws and regulations establish minimum standards of conduct which the entity integrates into compliance objectives.	RA6.8, RA6.9

Controls to effect Principle	**Reference Documents**
RA6.1 IFAD's financial statements are prepared in accordance with International Financial Reporting Standards **(IFRS)** as issued by the International Accounting Standards Board (IASB). Management reviews publications from professional bodies for updates in accounting pronouncements relevant to the business. Periodically, management presents to the audit committee an analysis of changes released or emerging issues that may significantly impact financial reporting and notes.	1. ICFR Process #2 : Accounting Policy, Audit Committee documents
RA6.2 Management assesses materiality of significant accounts, considering both quantitative and qualitative factors. In conducting this annual assessment, management considers factors such as: • Size of financial statement elements (i.e. total assets, total liabilities, total income) and financial statement measures (i.e. financial position, financial performance, cash flows) • Uniqueness of the transaction(s) • Difficulty in valuing the balance or specific transactions • Trends (i.e. earnings, revenues, cash flows) Management specifies objectives relating to the preparation of financial statements, including disclosures, and identifies significant financial statement accounts based on the risk of material misstatement (which includes consideration of materiality). For each account and disclosure, Management identifies relevant assertions, underlying transactions, events, and processes supporting the financial statement accounts. The entity uses financial statement assertions relevant to its financial statement accounts and disclosures.	2. Account balance and fraud risk assessment of 2014 accounts (prepared by Accounting Officer and Contributions Manager, CFS and reviewed by Manager, Accounting and Financial Reporting, CFS and Director, CFS). Risk Assessment at Financial Statement level (prepared by Accounting Officer and Contributions Manager, CFS and reviewed by Manager, Accounting and Financial Reporting, CFS and Director, CFS)
RA6.3 Key risks underlying the Internal Controls over Financial Reporting are assessed for Impact and Probability. Materiality is considered in all disclosures, presentation, accounting treatment and accounting policies applied and in overall adherence to International Financial Reporting Standards. The risk impact is rated according to the financial impact the possible materialization of the risk may have on the business. Yearly management reviews organization activities and operations along with internal procedures, policies and guidelines, with the aim of determining whether all significant risks at account balance and transaction level and controls have been captured and reported in the ICFR process flow. This exercise is also performed for assessing	3. ICFR process flows : Risk and Control Summary for each process, which is agreed/confirmed with respective process owners (via email) ICFR Project Methodology and Scoping paper

and analyzing all material activities and verify if they were captured in the financial statement.	
RA6.4 IFAD Management issues a report on the effectiveness of Internal Controls over Financial Reporting on an annual basis. The assessment is based on the criteria for effective internal controls over financial reporting described in the Internal Controls-Integrated Framework issued by COSO. The first Management Assertion report was issued with 2011 financial statements and the second one in 2012 on which IFAD also got an independent external auditor's attestation. The 2013 independent auditor's attestation was issued on the basis of the new COSO Framework (issued in May 2013).	4. Report on the effectiveness of ICFR on an annual basis (Management Assertion Letter, External Audit Attestation Letter)
RA6.5 The financial statements are audited by independent auditors in accordance with International Standards on Auditing. The 2014 audit opinion states that IFAD's financial statements "… present fairly, in all material respects, the financial position ….and its financial performance ….. in accordance with International Financial Reporting Standards.	5. Appointment of the External Auditors and Financial Statements
RA6.6 The Agreement Establishing IFAD is the 'constitution' that governs the operations of the Fund; as it is an international organization free of any specific sovereign laws and regulations.	
RA6.7 IFAD's Investment Policy Statement (IPS) provides the overarching principles regulating IFAD's key investment responsibilities, investment universe and acceptable risk levels. The purpose of the IPS is to: a. Define the governance of IFAD's investments, b. Set out IFAD's investment objectives for risk and return, c. Define key components of investment guidelines, d. Establish formalized criteria to measure, monitor and evaluate performance and risk.	6. Agreement Establishing IFAD 7. EB 2014/113/R.23/Rev.1

Principle 7 – Identifies and analyzes risk

… to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

Approaches

- Applying a Risk Identification Process
- Assessing Risks to Significant Financial Statement Accounts
- Meeting with Entity Personnel
- Assessing the Likelihood and Significance of Identified Risks
- Considering Internal and External Factors
- Evaluating Risk Responses

Points of Focus	Related Controls
Includes Entity, Subsidiary, Division, Operating Unit, and Functional Levels—The organization identifies and assesses risks at the entity, subsidiary, division, operating unit, and functional levels relevant to the achievement of objectives.	RA7.1, RA7.3
Analyzes Internal and External Factors—Risk identification considers both internal and external factors and their impact on the achievement of objectives.	RA7.2
Involves Appropriate Levels of Management—The organization puts into place effective risk assessment mechanisms that involve appropriate levels of management.	RA7.1, RA7.3
Estimates Significance of Risks Identified—Identified risks are analyzed through a process that includes estimating the potential significance of the risk.	RA7.2
Determines How to Respond to Risks—Risk assessment includes considering how the risk should be managed and whether to accept, avoid, reduce, or share the risk.	RA7.4 – RA7.14

Controls to effect Principle	Reference Documents
RA7.1 Management includes a risk identification process that identifies risks of material omission and misstatement and the likelihood of occurrence of the risks to relevant financial statement assertions for each significant account and disclosure. In preparing this analysis, management considers the business processes and business units supporting financial statement accounts and disclosures. It also includes identifying the information technology systems that support those business processes that are relevant to the external financial reporting objectives.	1. Corporate Risk Register: Risk #8; ICFR Project Methodology and Scoping Paper, pages 5-10
RA7.2 Management identifies risks to the achievement of financial reporting objectives by considering risk factors related to each significant financial statement account and the associated financial statement assertions. Management analyzes the significance of identified risks based on the likelihood of the risk occurring and the inherent risk of a material misstatement to the entity's external financial reporting objectives. Based on this assessment, management develops risk response to mitigate risk impacts. This analysis is the key input into determining appropriate control activities and how to manage the risks to an acceptable/tolerable level. Management considers **external** factors that may impact the ability to achieve financial reporting objectives such as: • Economic changes • Natural or human-caused catastrophes or environmental changes • New standards • Changes to laws and regulations Management considers **internal** factors that may impact the risk assessment such as: • Resource availability for IFAD's commitments • Technology changes The process of identifying and analyzing risk considers both quantitative and qualitative factors, including the following factors: a) ***Impact on Financial Statement Accounts:*** The potential impact on financial reporting objectives is measured quantitatively. Each account is assessed in relation to its respective category, such as total assets or revenues. Management also qualitatively assesses the potential for certain accounts to be understated. Based on the quantitative and qualitative characteristics, accounts are categorized as high, medium, and low, based on their impact on the financial statements.	2. Account Balance and Fraud Risk Assessment of 2014 accounts IFAD Corporate Risk Register

b) ***Account Characteristics:*** Management considers internal factors such as volume of transactions through an account, judgment required, and complexity of accounting principles. Management also considers external factors such as economic, competitive, and industry conditions; the regulatory and political environment; any new regulations affecting the account; and changes in technology, supply sources, customer demands, or creditor requirements.	
c) ***Business Process Characteristics:*** Management identifies business processes that generate transactions in each of the financial statement accounts, considering factors such as complexity of the process, centralization versus decentralization, IT systems supporting the process, changes made or new processes added, and interaction with external parties such as vendors, creditors, shareholders, or customers.	
d) ***Fraud Risk*** : For susceptible accounts, management assesses the risk of misstatements due to fraud.	3. -
RA7.3 Key finance personnel (AVP,FOD, Director and Controller, CFS) meet regularly with:	
• Executive Management to identify initiatives, commitments, and activities affecting risks to financial reporting	Minutes of ERMC Meetings
• IT personnel to monitor changes in IT that may affect risks related to financial reporting	Minutes of ITGC Meetings
• HR business partner to identify and assess how changes in staff and movements in positions may affect competencies needed for ICFR	Staff Movements and vacancies filled
• Legal Counsel to stay abreast of legal and regulatory changes	
RA7.4 In 2008, an **ERM Committee**, chaired by the Vice-President, was established to catalyse the mainstreaming of ERM in IFAD, introduce a more formal and systematic approach to ERM, and regularly review ERM processes and outputs. The ERM Committee meets on a quarterly basis. A records of Committee meetings consist of a written summary of discussions and recommendations made by the Committee. Such recommendations are provided to the senior management team in writing and/or via the Chairperson as appropriate. The ERMC is responsible for preparing the President's reports to governing bodies on ERM matters.	4. ERMC - PB/2008/06
Between 2008-2012 an Annual Report on ERM activities in IFAD was prepared and presented to the Executive Board, which provided IFAD's governing bodies with an annual overview of enterprise risk management activities carried out by IFAD, and an update on the corporate risks IFAD faces.	ERM Annual Report : EB 2012/105/R.29 (being last ERM Annual report published)
In 2012, whilst maintaining a proactive approach to ERM, the ERM Annual Report was eliminated	Corporate Performance Report (Quarterly)

	and replaced by quarterly Corporate Performance Reports, with corporate risks being assessed and reported to Management every quarter, in the context of the corporate quarterly performance review process.	
RA7.5	IFAD's **ERM Policy** defines common terms and underlying principles applicable to ERM implementation and it outlines the associated benefits of doing so. In particular, these principles support internal and external horizon scanning for risk identification and assessment, and contribute to risk mitigation, monitoring and reporting. The policy also sets out the relevant roles and responsibilities of staff and other key stakeholders.	5. ERM Policy - PB/2009/08
RA7.6	IFAD issued an **ERM Framework** (**IC 2009**), setting out principles and good practices which, if adhered to will add assurance that risks are being properly identified, assessed, managed, monitored and assured throughout the organization.	6. ERM Framework
RA7.7	Through the ERM process, IFAD's corporate risks are effectively identified, assessed, monitored, managed and communicated.	7. Corporate Risk Register, Minutes of OMC Meeting – 30 September 2013
RA7.8	Through the quarterly **Divisional Management Reporting** process, risks at Divisional level are identified, assessed, monitored, managed and communicated.	8. Quarterly Corporate Performance Reports,
RA7.9	**Investment Policy Statement**: Sets out inter-alia, IFAD's investment objectives for risk and return (Section III), and establishes formalized criteria to measure, monitor and evaluate performance and risk (Section IV).	9. EB 2011/104/R.43
RA7.10	**IFAD Investments:** The organization identifies an investment universe to achieve the abovementioned objective, whereby it stipulates asset classes, credit rating floors, durations and corresponding benchmarks. It identifies various risks (i.e. market risk, currency risk, liquidity risk, credit risk, counterparty risk and operational risks) associated to IFAD's investment portfolio and describes how these risks are mitigated and managed by IFAD.	10. Internal Control Framework for IFAD Investments. EB 2014/113/R.23/Add.1
	A **Compliance Report** is prepared by the Financial Planning and Analysis Unit (FPA) on a monthly basis. The report is addressed to the AVP, FOD and the Director and Treasurer. It reports all breaches with respect to the investment portfolio(s) in comparison to the respective investment guidelines for both IFAD's internally and externally managed portfolios together with non-IFAD entities. It also reports on actions (if any) taken to address breaches flagged.	Monthly FPA Compliance Report

An **Investment Portfolio Risk Report** is prepared by the FPA Unit on a monthly basis. The report is addressed to the AVP, FOD and the Director and Treasurer. It reports IFAD's Conditional Value-at-Risk (CVaR), tracking error (active risk) and duration in comparison to IFAD's risk budget. It also contains the risk decomposition of IFAD's Investment Portfolio (i.e. the main sources of risk in IFAD's investment portfolio) and stress tests performed on IFAD's investment portfolio. CVaR levels are also reported for Global Strategic Portfolio (which is otherwise reported at amortized cost and has a zero CVaR value) and the Spanish Trust Fund and After Service Medical Coverage Scheme. When required, on the basis of the analyses provided, the report also sets out recommendations on any actions to be taken.		FPA Investment Portfolio Risk Report
A **Currency Risk Report** is prepared by the FPA Unit on a monthly basis (minimum). The report is addressed to the AVP, FOD and the Director and Treasurer. Its purpose is to monitor and report on IFAD's currency composition in comparison to the IMF SDR weights, highlighting any variance that represents IFAD's foreign exchange risk. The report also reports the ASAP currency composition which is also subject to SDR alignment. As required by IFAD's ICF, the FPA Unit may recommend a currency realignment strategy if the variance is above the prescribed tolerance levels.		FPA Currency Risk Report
	The FPA Portfolio Analytics Officer prepares an analysis of the '**Futures Traded on Regular Exchanges and Currency Forward Counterparty Credit Rating**' on a monthly basis. The analysis is shared internally via an email sent to the FPA unit with any breaches reported in the Compliance Report. A **Performance Estimate and Asset Allocation Report** is prepared by the Financial Planning and Analysis Unit (FPA) on a monthly basis and shared with the AVP, FOD and Treasury Services Division. It is also shared in FALCO and FISCO when required. Daily emails are generally distributed to Treasury. The report monitors and reports IFAD's performance in comparison to the prescribed benchmark by manager and portfolio. It also provides a historical comparison as well as manager/portfolio balances in United States dollars.	Futures Traded on Regular Exchanges and Currency Forward Counterparty Credit Rating Risk FPA Performance Estimate and Asset Allocation Report (CFS/FPA reconciliation of NAV portfolio is conducted on a monthly basis; prepared by an AA and reviewed by AO, CFS).
RA7.11	**ICFR Process Flows -** Key risks and Controls identified are documented and tested annually as part of the financial statements audit process. A risk assessment (Impact and Probability) of the key risks identified in each of the ICFR process flows is documented and evaluated by Management in determining how to manage it**.**	11. EB 2011/104/R.43 Document with key Risks and Controls + Risk Assessment
RA7.12	The Office of Audit and Oversight undertakes an annual risk assessment exercise as part of their annual work plan which involves Management of all functions as process and risk owners.	12. Workplan for AUO 2015 – EB 2014/113/R.25
RA7.13	The Investment, Finance and ALM Advisory Committee **(FALCO)**, operational committee, was created to assist and advise the Chief Financial Officer (CFO) in making decisions on financial or investment management matters that are under his/her authority or under specific delegation of authority from the President of IFAD. It reviews, monitors, discusses and makes	13. Rules of Procedure and TORs of FALCO

	recommendations to the FISCO for final decision by the President on strategic financial matters, which includes Investment risk management.	:PB/2012/10. Minutes of meetings.
RA7.14	The Investment & Finance Advisory Committee **(FISCO),** high-level committee, was created to assist and advise the President in determining the overall investment strategy and Investment Policy Statement (IPS) and deciding on other strategic financial matters. The scope of FISCO's review and recommendations, for final decision as required, by the President, includes Investment risk management.	14. Rules of Procedure and TORs of FISCO : PB/2012/10. Minutes of meetings

Principle 8 – Assesses fraud risk

Approaches

- Conducting Fraud Risk Assessments
- Considering Approaches to Circumvent or Override Controls
- Considering Fraud Risk in the Internal Audit Plan
- Using Information Technology Tools
- Reviewing Incentives and Pressures Related to Compensation Programs

Points of Focus	Related Controls
Considers Various Types of Fraud—The assessment of fraud considers fraudulent reporting, possible loss of assets, and corruption resulting from the various ways that fraud and misconduct can occur.	RA8.1, RA8.2, RA8.3, RA8.4, RA8.8
Assesses Incentive and Pressures—The assessment of fraud risk considers incentives and pressures.	RA8.5, RA8.8, CE8.2
Assesses Opportunities—The assessment of fraud risk considers opportunities for unauthorized acquisition, use, or disposal of assets, altering of the entity's reporting records, or committing other inappropriate acts.	RA8.6, RA8.7
Assesses Attitudes and Rationalizations—The assessment of fraud risk considers how management and other personnel might engage in or justify inappropriate actions.	RA8.4, RA8.6, RA8.7, RA8.8

Controls to effect Principle	Reference Documents
RA8.1 IFAD **Policy on Preventing Fraud and Corruption**. The policy aims to prevent fraud and corruption within the Fund itself and in activities financed by IFAD at local, national, regional and international levels. The office of Audit and Oversight (AUO) and its Investigation Section are mandated to investigate alleged and irregular practices, namely (i) fraud and corruption and (ii) staff misconduct. In so doing , an Annual Report on Investigation and Anticorruption Activities is prepared by AUO and presented to the President and the Audit Committee. The report sets out investigation activities conducted during the year as well as those to bolster the implementation of IFAD's anticorruption policy. The report is published on the IFAD public website.	1. IFAD Policy on preventing Fraud & Corruption - EB 2005/86/INF.8 AUO's Annual Report on Investigation and Anticorruption Activities
RA8.2 An **Ethics Office**, headed by an Ethics Officer is established. In carrying out its mandate, the Ethics Office will inter-alia: a. Manage the annual financial disclosure process for concerned staff, b. Oversee the assessment of organizational risk for misconduct and non-compliance to IFAD's Code of Conduct and Core Values. Report to Senior Management on risks and incidents.	2. PB/2011/05, IC-ETH-01-2012
RA8.3 The **Sanctions Committee (SC)** is an administrative body established by the President of IFAD to review the findings of investigations conducted by AUO. It acts as a recommending body to the President, who has the sole decisional authority with respect to disciplinary measures to be imposed on staff members. The committee decides on appropriate sanctions to be imposed by IFAD where it has been determined that firms, private entities and individuals, including consultants but excluding staff members, have engaged in irregular practices in connection with IFAD-financed activities and operations.	3. IFAD Investigation and Sanction Processes – PB/2007/02, Sanctions Committee Composition – PB/2013/07
RA8.4 The risk of Fraud and Corruption in IFAD-financed projects is identified, assessed, monitored and managed through the IFAD Corporate Risk Register as follows: • Root cause and/or driver of risk is identified • The Director CFS and Director AUO are nominated as the risk Champion and Sherpa respectively • A Risk Mitigation Plan is detailed • Progress in implementation of risk mitigation plan is reported on (quarterly basis to OMC)	4. Corporate Risk Register (Risk No. 5 : High profile cases and/or high incidence of fraud and corruption in IFAD- financed projects)

	• Risk Status (Improving, Stable, Worsening) is assigned to the risk on the basis of the progress of risk mitigation implementation plan	
RA8.5	Regular review of project audit reports with follow-up of related matters and follow up of supervision mission findings. All IFAD-financed projects are required to provide externally audited financial statements**.** The timely delivery, as well as the outcome and quality of the audit report itself are reviewed and monitored by CFS on a monthly basis**.**	5. General Conditions, Section 9.03 – Audit of Accounts. Status of Submission of Project Audit Report.
RA8.6	Execution of processes and procedures is governed by a strict segregation of duties controls that do not permit one individual to initiate and conclude a transaction, provides trail of people involved in processing transaction and deters fraud. Access to and use of the PeopleSoft Financials as well as Flexcube is restricted to authorized staff and is monitored on a regular basis by the ICT team. Roles and responsibilities for creating and approving transactions are clearly defined and assigned in the respective systems on the basis of approval by an authorized official, e.g The Director and Controller.	6. ICFR Process # 4: IT Controls relating to PeopleSoft & Flexcube
RA8.7	Any/all payments processed manually (Cash Disbursement Vouchers – CDVs) are on an exceptional basis only and all must be approved by the Director and Controller, CFS.	7. ICFR Process # 30: Manual Payments – CDVs
RA8.8	Management conducts a comprehensive fraud risk assessment to identify the various ways that fraud and misconduct can occur, considering: • The degree of estimates and judgments in external financial reporting • Methodology for recording and calculating certain accounts (e.g., fair value of loans) • Fraud schemes and scenarios that are common to the industry sectors and markets in which IFAD operates • Geographic regions where IFAD does business • Incentives that may motivate fraudulent behavior • Nature of automation • Unusual or complex transactions subject to significant management influence	8. Account Balance and Fraud Risk Assessment of 2014 accounts

Principle 9 – Identifies and analyses significant change

… that could significantly impact the system of internal control.

Approaches

- Assessing Change in the External Environment
- Conducting Risk Assessments Relating to Significant Change
- Considering Change through Succession
- Considering CEO and Senior Executive Changes

Points of Focus	Related Controls
Assesses Changes in the External Environment—The risk identification process considers changes to the regulatory, economic, and physical environment in which the entity operates.	RA9.1, RA9.2, RA9.3
Assesses Changes in the Business Model—The organization considers the potential impacts of new business lines, dramatically altered compositions of existing business lines, acquired or divested business operations on the system of internal control, rapid growth, changing reliance on foreign geographies, and new technologies.	RA9.2, RA9.3, RA9.4
Assesses Changes in Leadership—The organization considers changes in management and respective attitudes and philosophies on the system of internal control.	RA9.5, RA9.6

Controls to effect Principle	Reference Documents
RA9.1 An Annual Report on ERM activities in IFAD is prepared and presented to the Executive Board. The purpose of this report is to provide IFAD's governing bodies with an annual overview of enterprise risk management activities carried out by IFAD, and an update on the corporate risks IFAD faces. An update on the Corporate Risk Register is presented to the OMC on a quarterly basis for information, input and action as appropriate. The risk ratings are reviewed on a quarterly basis to assess applicability and relevance of assigned risk level. IFAD's corporate risk profile is fully reassessed on a periodic basis (next review to take place on early 2015), where existing risks are reviewed and potential new ones are added based on feedback from the OMC as well as other corporate groups.	1. EB 2012/105/R.29 OMC Minutes: 9 September 2014
RA9.2 The Quarterly Corporate Performance Report informs management on concrete progress against key performance indicators. Part A of the report highlights the current areas of success	2. Quarterly Corporate Performance Report,

and concern. A Corporate Performance Tracker report accompanies each quarterly Corporate Performance Report to provide responses and updates to issues raised in previous reports. This report is a 'tracker' for performance issues that are considered of corporate importance and that deserve follow-up actions and attention. The responsibility for following up on performance issues is assigned by the Vice President in agreement with respective Department Heads. The report is then presented to the OMC for discussion.	Corporate Performance Tracker
RA9.3 The business model does not change significantly but some aspects such as financing sources and options, review of lending policies and criteria, and investment strategy which respond to changing macro-economic climate are reviewed periodically and implemented. The impact on existing processes and controls, if any, is assessed and reflected in the revision of the key financial processes, by the process owners, as part of the annual ICFR exercise. ICFR processes are updated to reflect any changes in processes, policies, procedures and systems. The key internal controls are tested by the internal and external auditors for the purpose of Management Assertion and External Audit Attestation as to their functioning.	3. ICFR Processes.
RA9.4 The annual review of the IPS and ICF provides a framework to identify the adequacy of IFAD's internal controls over its investment-related activities, which are then reported to the Executive Board and Audit Committee. IFAD's two tier investment committees (i.e. FISCO and FALCO) meet regularly to review emerging challenges and risks to discuss and endorse mitigation strategies.	4. Investment Policy Statement- EB 2014/113/R.23/Rev.1 Internal Control Framework for IFAD Investments : EB 2014/113/R.23/Add.1 FISCO and FALCO Minutes of meetings
RA9.5 As part of the overall succession process, management reviews planned changes in management and leadership positions and the attitudes and values portrayed by the incumbents to those positions through a rigorous interview process.	5. HR Implementing Procedures: Chapter 2 – Staff Recruitment and Appointment
RA9.6 When the term of office of the President is due to expire, the appointment of a President is placed on the agenda of the annual session of the Governing Council immediately preceding the expiry of the term of office. Whenever, for other reasons, the office of the President becomes vacant or a vacancy is due to occur, the Executive Board requests that the Governing Council be convened in special session for the purpose of appointing the President.	6. By-laws for the Conduct of the Business of IFAD: Section 6.2

Component 3: CONTROL ACTIVITIES

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

Principle 10 – Selects and develops control activities

… that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Approaches

- Using Matrices, Workshops, or an Inventory of Control Activities to Identify Risks and Map Them to Control Activities
- Implementing or Monitoring Control Activities When Outsourcing to a Third Party
- Considering the Types of Control Activities
- Considering Alternative Control Activities to the Segregation of Duties
- Identifying Incompatible Functions

Points of Focus	Related Controls
Integrates with Risk Assessment—Control activities help ensure that risk responses that address and mitigate risks are carried out.	CA10.1, CA10.2. CA10.3, CA10.4
Considers Entity-Specific Factors—Management considers how the environment, complexity, nature, and scope of its operations, as well as the specific characteristics of its organization, affect the selection and development of control activities.	CA10.1, CA10.2. CA10.3
Determines Relevant Business Processes—Management determines which relevant business processes require control activities.	CA10.1, CA10.2. CA10.3
Evaluates a Mix of Control Activity Types—Control activities include a range and variety of controls and may include a balance of approaches to mitigate risks, considering both manual and automated controls, and	CA10.6

	Reference Documents
preventive and detective controls.	
• **Considers at What Level Activities Are Applied**—Management considers control activities at various levels in the entity.	CA10.6, CA10.9
• **Addresses Segregation of Duties**—Management segregates incompatible duties, and where such segregation is not practical management selects and develops alternative control activities.	CA10.7, CA10.8, CA10.10, CA10.11, CA10.12

Controls to effect Principle

Reference Documents

CA10.1 Risks are identified and mapped to relevant financial statements assertions. Management then determines relevant business processes and selects and develops control activities to address each risk. Management involves relevant stakeholders to identify the appropriate control activities. This includes those individuals responsible for the risks in their areas, finance personnel responsible for financial reporting, and other control experts, such as internal auditors or others who have relevant specialized knowledge. A Financial Management Officer responsible for IFAD's **Internal Control over Financial Reporting**, together with the process owners, reviews the risk and control matrices on an annual basis to help ensure that IFAD's financial reporting risks are being addressed. The selection and development and documentation of control activities is achieved using matrices to map identified risks to control activities. Key risks and related key controls are high-lighted.

1. ICFR Process flows and related risk and control matrices.

   Overview of IFAD ICFR Processes

Emerging risks are identified and appropriate control activities are introduced to mitigate them (Enhanced review and controls over the Payroll process – January 2013)

CA10.2 **Internal Control Framework for IFAD Investments** provides additional information pertaining to the internal control structure in place for IFAD's investments.

2. Internal Control Framework for IFAD Investments : EB 2014/113/R.23/Add.1

CA10.3 IFAD **outsources** some of its operations to a third party as follows**:**

3.

   a. The Fund appoints a **Custodian** to act as custodian of the Fund's cash and securities. The Custodian provides the Fund (annually) with:

   a. Custody Agreement dated 21 June 2010

	i. A copy of its annual SOC1 report (an independent auditor's report on the design and operating effectiveness of controls at a service organization), IFAD management reviews the report and assesses whether the described control objectives and control activities performed by the Custodian impact internal control over external financial reporting related to the existence, completeness and valuation of the investment portfolio. IFAD management considers the test results in the report and whether any exceptions have been identified and, if so, takes action accordingly. ii. A copy of any materially adverse findings relating to the Custody Account. In determining that the Custodian's processes are significant to internal control over external financial reporting, IFAD Management has developed additional control activities (internally) over the activities performed by the Custodian.	• SOC1 report • ICFR Process #6 : Treasury Investments : Portfolio Reconciliation – Activity #13, Control #3.

	b. The Fund has contracted the International Computing Centre (ICC) to host all IFAD PeopleSoft applications (PeopleSoft Financials, Flexcube as well as BI Data Warehouse) in the ICC's Data Centre in Geneva. The agreement also includes data storage and backup services to be provided by ICC to IFAD. IFAD's ICT department receives a report on controls at the service organization. However, management has identified significant IT processes covered by the Report in internal procedures in place in IFAD and has defined, under a risk assessment process, activities and controls to mitigate risk impacts. Management uses its own resources, such as Office of AUO, to review and test control activities and ensure that any external financial reporting risks are mitigated by the combination of IFAD control activities and those of the service organization.	b. Refer to the following agreements between IFAD and the ICC
		
		  i. Memorandum Of Understanding, December 2004
		  ii. Master Service Delivery Agreement, April 2012
		  iii. PeopleSoft Hosting Service Delivery Agreement (SDA), April 2012
		  iv. Flexcube Hosting (SDA), February 2012
		  v. BI Data Warehouse Hosting (SDA), February 2012
		
		  vi. ISAE 3402 Type 2 Audit Report - 2014

CA10.4	An Annual Report on ERM activities in IFAD is prepared and presented to the Executive Board. The purpose of this report is to provide IFAD's governing bodies with an annual overview of enterprise risk	4. ERM Policy and Framework, risk register

management activities carried out by IFAD, and an update on the corporate risks IFAD faces. An update on the Corporate Risk Register is presented to the OMC on a quarterly basis for information, input and action as appropriate. The risk ratings are reviewed on a quarterly basis to assess applicability and relevance of assigned risk level.

CA10.5 Business continuity and disaster recovery plans (BCP) in place to ensure operational sustainability and service delivery in times of unplanned disruptions.

5. PB/2011/02, IC/FOD/01/2011

CA10.6 Management considers the segregation of duties and a mix of transaction control activities and business process reviews. Management also considers using automated controls whenever the systems in place make it possible. These are supplemented by manual control activities where automated controls are not available.

6. Authorized signatory list for PeopleSoft and Manual Payments, Loan Disbursements approval authorities

In its selection and development of control activities, management considers the likelihood that a control might fail to operate effectively. In assessing the risk of failure, management assesses various factors, which may include:

Flexcube user roles and functions administered by ICT as authorised by the Manager Loans and Grants.

ICFR Process flows documentation for details of controls: Manual, system, frequency etc.

- The type of control (manual or automated) and the frequency with which it operates,

Monthly Statistics Report issued by CFS

- The complexity of the control,

- Any changes in key personnel who perform the control

- The competence of the personnel who perform the control

- Evidence of control performance from prior years

- Degree of correlation and aggregation with other controls

- Degree to which the control relies on the effectiveness of other controls

In balancing its control activities within the processing of journal entries in the financial reporting cycle, IFAD focuses on the following **preventative** control activities:

- *Restricted access* – ensuring that different people initiate, approve, and record key transactions such as manual journal

entries (PeopleSoft) , requests for loan/grant disbursements (Flexcube)

- *Authorization, Approval, Verification* – clearly defined lines of responsibility and expectations with written job descriptions. Setting limits for the authorization of journal entries and approval of payment vouchers, by job function in excess of a specified limit; controlling access to the general ledger (PeopleSoft) through passwords and program permission, and requiring review of supporting documents to verify that journal entries are appropriate, valid, and in agreement with IFAD's policies, by an Accounting Officer.

The following **detective** control activities complement the above control activities:

- *Reconciliations* – Performing regular, independent comparison of different sets of data to identify and investigate any discrepancies

- *Monitoring and performance reviews* – Regularly comparing reported results to budgets, prior periods and benchmarks to identify unexpected results that require additional follow-up.

CA10.7	Segregation of duties is applied through the processing and recording of transactions in the accounts (through the PeopleSoft workflow), Approval Framework, Authorized payment signatories.	7. Relevant sections of the Accounting Manual stipulate how the controls are set up and carried out, authorized signatory lists.
CA10.8	Execution of processes and procedures is governed by a strict segregation of duties controls that do not permit one individual to initiate and conclude a transaction, provides trail of people involved in processing transaction and deters fraud. Access to and use of the PeopleSoft Financials as well as Flexcube is restricted to authorized staff and is monitored on a regular basis by the ICT team. Roles and responsibilities for creating and approving transactions are clearly defined and assigned in the respective systems on the basis of approval by an authorized official, e.g the Director and Controller. Using organization charts, process flows and other means by which activities are documented, management identifies incompatibilities in functions that are needed to appropriately segregate duties. These are considered in developing and revising policies for granting access to the	8. ICFR Process # 4: IT Controls relating to PeopleSoft & Flexcube: Control 4.4

	system. Policies are regularly updated to reflect changing responsibilities and activities	
CA10.9	Ex-post controls are performed and documented on a periodic basis for review and processing of withdrawal applications, accounts payable payment processing, quarterly receipt accruals and travel payments. Any inconsistencies with underlying policies/procedures are noted and followed-up on.	9. Related/relevant ex-post controls review documents.
CA10.10	The Agreement Establishing IFAD provides that the President of IFAD is the legal representative of the Fund and is responsible for conducting the business of the Fund. No member of the staff of IFAD has any authority unless it has been delegated to him/her by the President. The **Framework for Delegation Of Authority** (revised in December 2014) sets out the delegated authorities in IFAD.	10. Framework for Delegation Of Authority
CA10.11	IFAD's **Financial Disclosure Policy** requires staff with key roles in finance, investments, procurement and external resource management to provide, every year, a signed, confidential statement reporting their significant outside activities and interests. The implementation of this policy aims to enhance transparency in IFAD's financial operations.	11. Financial Disclosure Policy - IC/ETH/01/2012
CA10.12	The **Accounting Manual**, in which roles and responsibilities for performing the various control activities in the Accounting Unit are detailed for each specific area (payroll, payments, contributions etc.), thus ensuring inter-alia, adherence to financial policies and procedures.	12. Accounting Manual

Principle 11 – Selects and develops general controls over technology

Approaches

- Using Risk and Control Matrices to Document Technology Dependencies
- Evaluating End-User Computing
- Implementing or Monitoring Control Activities when Outsourcing IT Functions to a Third Party
- Configuring the IT Infrastructure to Support Restricted Access and Segregation of Duties
- Configuring IT to Support the Complete and Accurate Processing of Transactions and Data
- Administering Security and Access
- Applying a System Development Life Cycle over Packaged Software
- Applying a System Development Life Cycle over Software Developed In-House

Points of Focus	Related Controls
Determines Dependency between the Use of Technology in Business Processes and Technology General Controls—Management understands and determines the dependency and linkage between business processes, automated control activities, and technology general controls.	CA11.1, CA11.7
Establishes Relevant Technology Infrastructure Control Activities—Management selects and develops control activities over the technology infrastructure, which are designed and implemented to help ensure the completeness, accuracy, and availability of technology processing.	CA11.2, CA11.4, CA11.7
Establishes Relevant Security Management Process Control Activities—Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect the entity's assets from external threats.	CA11.2, CA11.3, CA11.6, CA11.7, CA11.11
Establishes Relevant Technology Acquisition, Development, and Maintenance Process Control Activities—Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management's objectives.	CA11.2, CA11.5, CA11.7, CA11.8, CA11.9, CA11.10

Controls to effect Principle	Reference Documents
CA11.1 Management documents the underlying technology that supports control activities in risk and control matrices, flow charts and narratives. The linkage between control activities and technology is documented, evidencing the aspects of technology (infrastructure, security, development and maintenance processes) that are important to the continued, proper operation of the technology and automated controls.	1. ICFR Process #4 : IT Controls relating to PS/FXC
CA11.2 Management understands the use of end-user computing, which includes spreadsheets, that supports its financially significant processes and associated control activities. Management assesses the risks of a misstatement resulting from an error in one of these end-user applications. Based on the level of risk, management selects and develops general control activities over the technology covering the relevant processes over: Technology infrastructure • Security Management • End-user computing development and maintenance • Completeness and accuracy controls between the end-user computing systems and PeopleSoft/Flexcube For high-risk end-user computing applications, management considers converting to an IT-supported application, e.g. new fair value tool. In using spreadsheets, management considers the security, maintenance and update risks by establishing the following control activities: • Input controls: input data is reconciled to source documentation to cover completeness and accuracy (e.g. ICFR Process #9: HIPC) • Version controls: standard name and layout are kept to enforce understandability. A copy of the spreadsheet is saved in directory folders in the system, thus only approved finalized versions are kept. • Calculation testing: Formulas are tested against a manual calculation for accuracy. All spreadsheet formulas are checked for accuracy once a year.	2. ICFR Process #10 : Fair Value of Loans ICFR Process #9 : HIPC Supplementary Funds spreadsheets and related reconciliations to PeopleSoft.
CA11.3 User profiles and access rights (to PeopleSoft/Flexcube), are granted on the basis of an individual's role, need and functional responsibilities, ensuring proper segregation of duties,	3. ICFR Process #4 : IT Controls relating to PS/FXC

restricted administrator rights and proper trail in the system for users involved in processing various transactions. Reviews of access rights are performed by ICT (in consultation with business process owners) every six months, thus ensuring alignment with actual jobs.

System access rights are linked to contracts in HR: This ensures that staff whose contracts expire have their access rights and profile automatically disabled to ensure no risk of unauthorized access to systems.

CA11.4 **IT Support unit/function**: A 'footprints' system, accessible via the IFAD intranet, is in place and is used by all staff to log and report faults, disruption and requests for help in technological infrastructure, trouble shooting and general technical support to business users.	4. ICFR Process #4 : IT Controls relating to PS/FXC
CA11.5 **Information Technology Governance Committee (ITGC)** was established to inter-alia ensure the formulation of an appropriate IT strategy for IFAD aligned with the corporate priorities of the Fund, review and prioritize departmental requests for IT solutions and support and promote the implementation and maintenance of a disaster recovery programme for all corporate IT systems to guarantee business continuity. The Committee meets on a quarterly basis and the minutes of the proceedings and decisions are properly prepared and circulated.	5. Revised Responsibilities & Composition of the IT Governance Committee - PB/2008/22
CA11.6 Policies and procedures for implementing new functionality in the PeopleSoft financials module are in place in order to ensure that only authorized and tested functionality is transferred to the production environment on the basis of proper sign-off by the process owner.	6. ICFR Process #4 : IT Controls relating to PS/FXC
CA11.7 Implementing or Assessing Control Activities when **Outsourcing IT Functions to a Third Party.** Management outsources certain aspects of its IT infrastructure to an outside service provider (currently International Computing Centre (ICC)). Management obtains an Independent Service Auditor's Assurance Report (ISAE), including tests performed and results thereof on the suitability of the design and operating effectiveness of controls to achieve the related control objectives. Management uses this report to determine what financially significant IT processes are covered, whether appropriate controls are in place at the service organization, and what controls are required in its own organization to mitigate risks to external financial reporting to an acceptable level. Any exceptions are noted and followed-up on by Management. The ITC department receives a report on controls at the service organization. However, management has identified significant IT processes covered by the Report in internal procedures in place in IFAD and has defined, under a risk assessment process, activities and controls to mitigate risk impacts. Management uses own resources, such as Office of AUO, to review and test control activities and ensure that any external financial reporting risks are mitigated by the combination of IFAD control activities and those of the service organization	7. ISAE 3402 Type 2 Audit Report – 2013

CA11.8 IFAD has a BCP in place which is supported by periodic testing of effectiveness/readiness.	8. BCP - PB/2011/02
CA11.9 Off-site storage of back-ups of financial data is in place.	9. ICFR Process #4 : IT Controls relating to PS/FXC
CA11.10 Management considers many factors when selecting new software, including functionality, application controls, security features and data conversion requirements. Management utilizes competent internal resources or hires a third-party vendor to implement the software, following the organization's requirements. Management follows a defined change-control process to implement system upgrades/patches. This includes assessing the nature of the upgrade/patch and whether it is appropriate to implement. If deemed appropriate, the upgrade/patch is system and user tested in an environment that mirrors production before being implemented. Key stakeholders, such as the functional users, finance and IT sign off on the change before it is implemented. Appropriate documentation is maintained by IT to provide evidence that only authorized changes have been made in line with the tested results.	10. Flexcube implementation in November 2014 to replace the legacy Loans and Grants system. Technical Note : Loan, Grant DSF accounting procedures changes due to implementation of FXC Flexcube Conversion Strategy Doc.: Oct 2013 PeopleSoft upgrade, Payroll enhancements.
CA11.11 The PS IT team send a security report to key business users and front office staff to review the user list in their respective areas of responsibility to ensure that the users in the group have appropriate access to perform their duty. This report is sent twice yearly. For Flexcube, given the low number of users and security changes, the review is carried out on an annual basis. New requests for access to PeopleSoft and Flexcube are made by the Front Office or key users and are individually assessed by the PS Support team and any concerns are raised by them to the requester. The ICT department employ security controls to prevent unauthorized or inappropriate access to its financial reporting systems as follows: • *User Accounts*—Formal user account set-up and maintenance procedures are in place to request, establish, issue, suspend, change, and delete user accounts. • *Authentication Controls*—Authentication standards establish minimum requirements for password length and a finite number of login attempts. Only unique user IDs are used to promote accountability and auditability. • *Privileged Accounts*—The use of privileged ("super-user") accounts is limited to Support and application administrators who are responsible for IT security management and therefore deemed appropriate. Access to these accounts is carefully controlled by the PS IT team. • *Access Monitoring* —Server logs are continually generated and stored on a daily basis, which if required, could be used to monitor activity within the system.	11. ICFR Process #4 : IT Controls relating to PS/FXC – Activities 20 – 27 and Key Controls 4 and 6

Principle 12 – Deploys through policies and procedures

… deploys control activities through policies that establish what is expected and in procedures that put policies into place.

Approaches

- Developing and Documenting Policies and Procedures
- Deploying Control Activities through Business Unit or Functional Leaders
- Conducting regular and Ad Hoc Assessments of Control Activities

Points of Focus	Related Controls
Establishes Policies and Procedures to Support Deployment of Management's Directives—Management establishes control activities that are built into business processes and employees' day-to-day activities through policies establishing what is expected and relevant procedures specifying actions.	CA12.1
Establishes Responsibility and Accountability for Executing Policies and Procedures—Management establishes responsibility and accountability for control activities with management (or other designated personnel) of the business unit or function in which the relevant risks reside.	CA12.1
Performs in a Timely Manner—Responsible personnel perform control activities in a timely manner as defined by the policies and procedures.	CA12.1
Takes Corrective Action—Responsible personnel investigate and act on matters identified as a result of executing control activities.	CA12.1
Performs Using Competent Personnel—Competent personnel with sufficient authority perform control activities with diligence and continuing focus.	CA12.1
Reassesses Policies and Procedures—Management periodically reviews control activities to determine their continued relevance, and refreshes them when necessary.	CA12.1

Controls to effect Principle	Reference Documents
CA12.1 Management develops and documents policies and procedures for all significant external financial reporting-related control activities. Procedures are documented using the Sigmaflow software in the form of flowcharts, narratives and risk and control matrices. Management develops policies and procedures which may include: • Reasons for the policy and procedure, • Units and processes to which the policy and procedure applies • Roles and responsibilities for owning, creating, implementing, executing and maintaining the policy and procedure • Matters covered by the policy and procedure, including corrective action to be taken as part of performing the control activity • Escalation procedures for policy exceptions • Cross-references between associated policies and procedures • Required competency of personnel performing procedures • Required timeframe for performing procedures • Review date For ICFR management establishes a standardized report format which includes the following: • Process flow chart • Process narrative • Risks identified (including Key risks) • Risk assessment • Control description, type and frequency • Roles and responsibilities Internal control design is periodically reviewed and updated in order to set up control activities appropriately with respect to risk mitigation purposes. In this context control frequency is	- ICFR – Annual testing of Key Controls - ICFR process flows. AUO's report on testing of Key controls. - Accounting Manual: IC/FOD/02/11 - Financial Administration Manual (FAM) : PB/2012/08 - Corporate Procurement Guidelines : IFAD Manual Section 331 - IFAD Guidelines on Project Audits: PB/2011/10 - Country Office Handbook - Loan Disbursement Handbook - Treasury Manual : Treasury policies and procedures - **Ex-post controls** of Risk Based Disbursements (for Loans and Grants and Accounting) : Ex-post controls report : Risk Based Disbursement Guidelines - **Ex-post checks** on the Risk Based Controls & quarterly Receipt Accruals process : Ex-post controls report : Risk Based Controls in Accounting - IC/FOD/03/2012 - **Internal Control Framework for IFAD Investments** outlines IFAD's investment-related policies and procedures which govern IFAD's investment processes and controls. It makes reference to IFAD's Financial Regulations, ERM, IPS, Liquidity Policy, Investment Guidelines, ICF, Investment

defined in accordance with risk event occurrence in order to perform the control activity in a timely manner.

On a regular basis, or when changes are made to processes, operations or system, the control owner and FM Officer review the control description and update the documentation accordingly. Changes are made to streamline control performance and enforce mitigating actions, as well as removing redundant, obsolete and ineffective controls. This exercise is carried out by:

- periodic reviews and interviews with process owners;

- annual testing of controls performed by AUO

- ad hoc queries and discussions with AUO and external auditors

Business unit or functional leaders deploy control activities in their areas of responsibility by building the policies and procedures into their organization's day-to-day activities. Moreover, the FM Officer acts as a centralized function within the entity with business units and functional leader to help deploy policies and procedures consistently across the organization. Procedures are communicated by holding meetings and distributing documentation to all individuals involved.

Management and master custody agreements, Treasury Manual and FISCO and FALCO. Table 2 summarizes established risk limits, monitoring/reporting frequencies and procedures/actions to be taken in the event risk levels are breached

– Sec. II.C, Sec. II.D - Investment-related reports:
   a. Quarterly report on IFAD's Investment Portfolio
   b. Compliance monitoring versus investment guidelines report

- **Investment Management Agreements** with the respective investment managers, setting out the terms and conditions for managing IFAD's Asset Portfolio in line with IFAD's Investment Guidelines, Investment Policy Statement (IPS) and IFAD's direction. Investment Guidelines – EB/2011/104/R.44, IPS – EB/2014/113/R.23/Rev.1

- **Global Custody Agreement** with the financial institution appointed to act as IFAD's global custodian, setting out the terms and conditions for the safekeeping of IFAD's Asset Portfolio, settlement of its transactions and reporting services in support of IFAD's financial reporting according to IFRS. Global Custody Agreement

Component 4: INFORMATION AND COMMUNICATION

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of internal control.

Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

Principle 13 – Uses relevant information

… to support the functioning of internal control.

Approaches

- Creating an Inventory of Information Requirements
- Obtaining Information from External Sources
- Obtaining Information from Non-Finance Management
- Creating and Maintaining Information Repositories
- Using an Application to Process Data Into Information
- Enhancing Information Quality Though a Data Governance Program
- Identifying, Protecting, and Retaining Financial Data and Information

Points of Focus	Related Controls
Identifies Information Requirements—A process is in place to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the entity's objectives.	IC13.1, IC13.3, IC13.5
Captures Internal and External Sources of Data—Information systems capture internal and external sources of data.	IC13.1, IC13.2, IC13.3, IC13.4
	IC13.2, IC13.4, IC13.5

• **Processes Relevant Data into Information**—Information systems process and transform relevant data into information.	IC13.3, IC13.4, IC13.5, IC13.6
• **Maintains Quality throughout Processing**—Information systems produce information that is timely, current, accurate, complete, accessible, protected, and verifiable and retained. Information is reviewed to assess its relevance in supporting the internal control components.	
• **Considers Costs and Benefits**—The nature, quantity, and precision of information communicated are commensurate with and support the achievement of objectives.	IC13.1, IC13.4

Controls to effect Principle	**Reference Documents**
IC13.1. IFAD Management adopts the use of narratives, flowcharts, and procedures manuals to document end-to-end process flows that support the corporate internal control and financial reporting. These documents are produced so that information about these processes can be easily understood by users throughout the organization, including IT, finance and accounting specialists, support personnel, system developers and auditors. This documentation allows these personnel and other users to identify the source of data, responsible personnel and source systems used.	1. ICFR process flows.
IC13.2. Finance personnel often rely on publications, events and other information from external parties to gather information relevant to performing their responsibilities. The sources of data and information vary depending on the specific role and responsibilities of the individual. Sources of information may include: • Subscriptions to industry publications • Participation in industry conferences, workshops • Regular communication, both verbal and electronic, with suppliers, consultants, third-party service providers and borrowers Finance personnel evaluate the external information gathered and incorporate it into their day-to-day financial reporting or related internal control responsibilities	2. Contracts with suppliers, Consultants, Institutional Contracts, Loan or Grant Agreements, Financing Agreements, Requests for Personnel Actions (RPAs) etc.
IC13.3. External financial reporting objectives are impacted by non-financial activities	3. Minutes of OMC, EMC, IMT, ITGC meetings.

that occur throughout the business. Information about new events, changes or significant trends is needed to support accounting, disclosure and internal control activities. Therefore, senior accounting and finance personnel meet with management and personnel in other areas on a periodic basis.

IC13.4. Extensive information is available to management and comes from a wide variety of sources. For information to be relevant, it must be directly aligned to management's needs and responsibilities for overseeing external financial reporting and monitoring the internal control system. Information which is available to management for information, analysis and decision making purposes is produced periodically (as defined in the various procedures) includes the following:

- Quarterly financial reports providing key financial highlights

- Exception reports (payroll and accounts payable matching),

- Project Risk Registers : Containing the project's financial management risk ratings which are based on the Project Supervision Review (PSR) ratings, TI scores, audit review ratings, and which forms the basis on how withdrawal applications for the specific projects are processed.

- Monthly loans and grants data and statistics report.

- Treasury Investment Management Reports.

- Finance-related Governing Body documents, e.g. Resources available for Commitment, Draw-downs.

- Internal audit reports on the organization's adherence to policies and procedures.

Reports are systematically filed in the respective CFS/Treasury/FPA xdesk sites on the IFAD intranet.

IC13.5. Management designs its computer applications (PeopleSoft, Flexcube & Data Warehouse) to capture data from internal and external sources, transform the data into information, and maintain the quality of the data and information throughout processing and reporting. The activities relating to capturing and processing data about financial transactions (e.g. initiate/enter, authorize, record, process and report) are documented in IFAD's policies and procedures manuals. The application design includes automated application controls such as input

4. Financial accounting quarterly reports, Monthly L&G statistics report, Ex-post controls report on WA review, Risk based controls in accounting and Receipt Accruals.
Payroll and accounts payable exception reports.
Treasury Investment Management Reports:
   a. Monthly Internally Managed Portfolio Report
   b. Externally Managed Portfolio Quarterly Review
   c. Externally Managed Portfolio Monthly Performance Attribution Report
ICF for IFAD Investments : Table 2- Monitoring Frequency/Tools. EB/2014/113/R.23/Add.1

5. ICFR process flows

checks for existence and validity and output checks for completeness and accuracy **IC13.6.** Identifying, Protecting, and Retaining Financial Data and Information • Senior IT management establishes policies to define categories of data and assign requirements for physical handling, storage, security, and privacy. These policies support management and employee responsibilities for securing information from unauthorized access or change and for adhering to retention requirements.	6. ICFR Process #4: IT Controls Relating to PeopleSoft.

Principle 14 – Communicates internally

… information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

Approaches

- Communicating Information Regarding External Financial Reporting Objectives and Internal Control
- Communicating Internal Control Responsibilities
- Developing Guidelines for Communication to the Board of Directors
- Reviewing Financial and Internal Control Information with the Board of Directors
- Communicating a Whistle-Blower Program to Company Personnel
- Communicating through Alternative Reporting Channels
- Establishing Cross-Functional and Multidirectional Internal Control Communication Processes and Forums

Points of Focus	Related Controls
Communicates Internal Control Information—A process is in place to communicate required information to enable all personnel to understand and carry out their internal control responsibilities.	IC14.1, IC14.2, IC14.7, IC14.8
Communicates with the Executive Board—Communication exists between management and the Executive Board so that both have information needed to fulfill their roles with respect to the entity's objectives.	IC14.3, IC14.4
Provides Separate Communication Lines—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.	IC14.5, IC14.6
Selects Relevant Method of Communication—The method of communication considers the timing, audience, and nature of the information.	IC14.1, IC14.2, IC14.3

Controls to effect Principle	Reference Documents
IC14.1. Management communicates information about the organization's financial reporting objectives, financial control requirements and internal control policies and procedures through a variety of communication channels, but typically in departmental and	1. CFS and FOD minutes of meetings.

accounting meetings.

Changes in policies or procedures in the Controller's and Financial Services Division are shared across divisions, e.g. with CSD, BOD, AUO and LEG, after which they are formally communicated to the rest of the house via Information Circulars or Presidents Bulletins.

Relevant Information Circulars or President's Bulletins.

IC14.2. **Communicating Internal Control Responsibilities:** Documentation on internal controls related to financially significant business processes and systems is stored in a shared repository that is accessible to management and personnel who are responsible for external financial reporting. This repository contains:

    a. Risk assessment documentation

    b. Business process documentation, including process flow diagrams and supporting narratives

    c. Internal controls identified by management based on risk assessments

    d. List of individual internal controls, including assignment responsibility for performance and review/approval to specified employees and management

2. https://xdesk.ifad.org/sites/fc/financialmanagement/ICFR/).

Updates to specific internal controls are communicated to both the control performer and reviewer through email alerts with links to the repository.

IC14.3. The Executive Board establishes a board charter that defines the guidelines for information to be shared with the board directors, responsibilities for communication, and the method of communication. The charter specifies key guidelines which include:

- Frequency and number of meetings

- Nature and extent of information to be shared at each meeting

- Responsibility for preparing and approving minutes.

3. Rules of Procedure of the Executive Board

IC14.4. At designated Executive Board meetings, the AVP, FOD and supporting personnel present financial information, provide an analysis of the results compared with expectations, give updates on forecasts and major changes to original budgets, and communicate other matters of significance to financial reporting.

On an annual basis, the AVP, FOD presents the draft external financial statements. Material events, changes in significant estimates or assumptions an significant new disclosure matters are also presented and discussed. (The external auditors attend the Audit Committee meetings at which the draft external financial statements are reviewed, to present their point of view on

4. Executive Board Documents (Finance-related) which can be found at - http://www.ifad.org/gbdocs/eb/index.htm

the financial statements).

IC14.5. Management established **a whistle-blower program** for employees to use a hotline to communicate concerns, instances of perceived misconduct, matters relating to external financial reporting, or other significant matters that may impact internal control.

The program allows employees who report matters through the hotline to remain anonymous, and all communication is completely confidential. AUO adheres to strict standards of confidentiality throughout the investigation process. IFAD has a commitment to protect from retaliation anyone who in good faith has reported fraud, corruption and misconduct, or who has otherwise cooperated with an investigation. An investigation will be initiated and corrective and disciplinary measures imposed on a staff member, who is found to have retaliated against anyone who reported in good faith a concern to AUO or otherwise cooperated with an investigation.

5. IFAD Policy on Preventing Fraud and Corruption – EB/2005/86/INF.8,

Revised Charter of the IFAD Office of Audit and Oversight – EB/2010/99/R.49/Rev.1

IC14.6. Management provides an alternate to reporting to a line manager so that employees are confident that they will be heard. Such alternative reporting channels include:

- Town hall meetings where employees are encouraged to ask questions and discuss their concerns

- The Executive Committee of the IFAD Staff Association (ECSA) which is the sole organization representing IFAD staff. It comprises employees from various departments and various levels which meet to discuss various issues and relays comments and observations to management.

6. Records of Town Hall meetings held

Cooperation agreement between IFAD and ECSA of 21 September 1987

IC14.7. Various quarterly/monthly reports are shared with Senior Management and CFS staff.

IC14.8. Financial Information/reports is saved on xdesk, to which all CFS staff have access. Restricted access is provided to confidential information (e.g. payroll /budget

7. CFS Quarterly financial & statistical reports Monthly arrears reports (for internal use only – data for reports is extracted from Accounting PeopleSoft Financials and Flexcube/Data warehouse (Loans & Grants)).

8. Treasury Investment management reports

Principle 15 – Communicates Externally

… with external parties regarding matters affecting the functioning of internal controls.

Approaches

- Communicating Information to Relevant External Parties
- Obtaining Information from Outside Sources
- Surveying External Parties
- Communicating the Whistle-Blower Program to Outside Parties
- Reviewing External Audit Communications

Points of Focus	Related Controls
Communicates to External Parties—Processes are in place to communicate relevant and timely information to external parties including shareholders, partners, owners, regulators, customers, and financial analysts and other external parties.	IC15.1, IC15.2, IC15.3
Enables Inbound Communications—Open communication channels allow input from customers, consumers, suppliers, external auditors, regulators, financial analysts, and others, providing management and the Executive Board with relevant information.	IC 15.4, IC15.5
Communicates with the Executive Board—Relevant information resulting from assessments conducted by external parties is communicated to the Executive Board.	See : IC14.3, IC14.4
Provides Separate Communication Lines—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.	See : IC14.5, IC14.6
Selects Relevant Method of Communication—The method of communication considers the timing, audience, and nature of the communication and legal, regulatory, and fiduciary requirements and expectations.	See : IC14.1, IC14.2, IC14.3

Controls to effect Principle	Reference Documents
IC15.1. The consolidated financial statements and the Annual Reports are published and sent to member states. Annual Management assertion and external audit attestation reports on the internal controls over financial reporting (through the ICFR initiative) are published together with	1. IFAD's Consolidated Annual Financial Statements. Management Assertion and external audit Attestation Reports.

the consolidated financial statements	
IC15.2. Evaluation reports and reports of external consultants on IFAD's processes including non-finance processes are made available to the Executive Board.	2. Reports published by IOE.
IC15.3. IFAD's **Policy on the Disclosure of Documents** established the principle of presumption of full disclosure of documents, under which all information on its operations and activities is disclosed unless there are compelling reasons not to do so.	3. Policy on Disclosure of Documents – EB/2010/100/R.3/Rev.1
IC15.4. Management and other personnel stay abreast of new matters relevant to their area of responsibility in order to identify and respond to changes that may impact, directly or indirectly, external financial reporting objectives or the related internal control. Management of each division (CFS, LEG, ICT etc.) identifies relevant means to receive information from outside the company, and assigns responsibility to themselves and other personnel to be responsible for obtaining, reviewing, and sharing relevant information within the organization, as appropriate. Sources of information include: • Publications that provide updates to financial accounting, reporting, and disclosure standards or regulations, • Technical journals that analyze the impact of financial accounting and reporting matters, • Industry, market, economic data relevant to key metrics or accounting estimates, • Alerts from outside counsel on regulatory or legal changes, • Periodic meetings with external auditors and advisors to understand new accounting and disclosure requirements, • Meetings with outside advisors or subject matter specialists with the expertise to assess complex accounting and disclosures for major transactions or events, • Information gathered at industry or trade association meetings or on relevant trainings attended.	4. Example: Subscriptions to Accounting Journals, BTOS from accounting–related trainings/conferences including: Annual attendance by Controller to MDB Controller's Forum; Annual attendance by Accounting Manager to MDB Chief Accountant's Forum; Annual attendance by Accounting Officer to European Networking Group (ENG) ICFR Conference where Back-to-Office reports are prepared by the attendees and shared as appropriate; or FM supervision missions, calculation of interest rates for loans concluded on ordinary & intermediate variable terms is based on data obtainable from market sources (LIBOR rates and EURIBOR for EURO), the IMF (SDR exchange rates and currency composition) and the World Bank / IBRD (the applicable variable spread), where IFAD applies the revised World Bank applicable variable spread as published by the IBRD at the start date of an applicable semester.
External audit communication is in the form of periodic meetings with CFS, TRE, AUO, LEG and other Divisions. The external auditors report to the Audit Committee on audit strategy and risk assessment for audit procedures. They prepare a Management Report with comments and recommendations, which is also presented to the Audit Committee.	5. Management Report

Component 5: MONITORING ACTIVITIES

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

Ongoing evaluations, built into business processes at different levels of the entity, provide timely information.

Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other managerial considerations.

Findings are evaluated against criteria established by regulators, standard-setting bodies, or management and the Executive Board, and deficiencies are communicated to management and the Executive Board as appropriate.

Principle 16 – Conducts ongoing and/or separate evaluations

… to ascertain whether the components of internal control are present and functioning.

Approaches

- Periodically Reviewing the Mix of Monitoring Activities
- Establishing a Baseline
- Identifying and Using Metrics
- Designing and Implementing a Dashboard
- Using Technology to Support Monitoring Activities
- Conducting Separate Evaluations
- Using Internal Audit to Conduct Separate Evaluations
- Understanding Controls at an Outsourced Service Provider

Points of Focus	Related Controls
Considers a Mix of Ongoing and Separate Evaluations—Management includes a balance of ongoing and separate evaluations.	MA16.1, MA16.2, MA16.3, MA16.4, MA16.5, MA16.6, MA 16.11
Considers Rate of Change—Management considers the rate of change in business and business processes when selecting and developing ongoing and separate evaluations.	MA16.7, MA16.8

• **Establishes Baseline Understanding**—The design and current state of an internal control system are used to establish a baseline for ongoing and separate evaluations.	MA16.9
• **Uses Knowledgeable Personnel**—Evaluators performing ongoing and separate evaluations have sufficient knowledge to understand what is being evaluated.	MA16.7, MA16.10
• **Integrates with Business Processes**—Ongoing evaluations are built into the business processes and adjust to changing conditions.	MA16.10, MA16.11
• **Adjusts Scope and Frequency**—Management varies the scope and frequency of separate evaluations depending on risk.	MA16.10
• **Objectively Evaluates**—Separate evaluations are performed periodically to provide objective feedback.	MA16.11, See CA10.3

Controls to effect Principle	**Reference Documents**
MA16.1. Through the ICFR initiative, the key processes are reviewed on an annual basis by the process owners. Risks and controls (to mitigate risks) are reassessed/re-evaluated and documented. The office of Audit & Oversight (AUO) reviews the functioning of internal controls by performing tests on the 'Key' controls. Internal audit collaborates with the external auditors in performing the tests. Findings/deficiencies are documented/reported on and immediate remediation undertaken by Management to the extent possible.	1. Annual internal audit report on tests performed on the ICFR key controls.
MA16.2. Ex-post controls are performed on the Withdrawal Application (WA) processed to ensure that the principles of Risk Based Disbursements are being followed and correctly applied in the approval for disbursement of the WA. Findings are documented, significant issues high-lighted and corrective action is taken accordingly. Nature and extent of controls are adjusted accordingly.	2. Bi-monthly report on WA ex-post controls (internal report).
MA16.3. Ex-post checks are performed on a quarterly basis on the 'Self-approved' payments vouchers below a set threshold for all streams (ADMIN, HCONS and COINS). Nature and extent of controls are adjusted accordingly.	3. Quarterly ex-post controls report (internal report).
MA16.4. Two levels of supervisory checks are undertaken on the monthly payroll process. The second review is performed by the Manager, Accounting and Financial Reporting, whose involvement in the monthly payroll process is that of review only.	4. Monthly payroll reconciliation summary.
MA16.5. Monthly reconciliations (e.g. bank accounts, investments and Contributions, general ledger and the Loans and grants system) are prepared by an Accounting Assistant and reviewed/approved	5. Various monthly reconciliations.

by an Accounting Officer.	
MA16.6. A regular follow-up on contribution delays or arrears is performed and status of contributions is reported on.	6. Monthly arrears report.
	7. EB/2010/99/R.49/Rev.1
MA16.7. Through its activities, AUO provides independent, objective assurance and advisory and investigation services designed to add value and improve the operations of the Fund. It helps the Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.	
AUO assesses whether IFAD's risk management, control and governance processes are adequate to ensure that:	
a. Financial, managerial and operational information is accurate, reliable and timely,	
b. Activities comply with policies, standards, procedures, agreements, and applicable laws and regulations,	
c. Assets and resources are acquired, utilized and protected appropriately and	
d. Programmes, plans and objectives are achieved.	
MA16.8. The Workplan for IFAD's Office of Audit and Oversight is based on a risk assessment exercise and is approved by the President. The Audit Committee may, in accordance with its terms of reference, make proposals for the consideration of the President. Once finalized, the workplan is submitted for confirmation to the Executive Board at its December session.	8. AUO Workplan : EB 2014/113/R.25
MA16.9. Management focuses the organization's monitoring efforts by identifying material account balances and prioritizing risk accordingly. The process flows are documented, evidencing the design and operation of controls to establish a baseline. The documentation includes a written description, flowchart and Risk and Control Matrix describing the key risks and a narrative of how they are mitigated by key controls. On an annual basis, internal audit, together with external audit, perform separate evaluations to reconfirm the system of internal control against the baseline and the effectiveness of the ongoing monitoring procedures.	9. ICFR Process Flows
MA16.10. Key personnel responsible for processes and sub-processes are recorded on the front page of each individual process flow. These individuals are responsible for reviewing the process flows and on an annual basis and communicating any changes thereto to the Financial Management Officer responsible for updating the process flow documentation.	10. ICFR Process Flows
MA16.11. Management uses technology to support the monitoring of the system of internal controls in the ordinary course of business through monitoring applications to efficiently and continuously review large volumes of data. Monitoring activities include queries which have been developed	11. Relevant queries, exception reports, monthly statistics reports in ICFR Process Flows: Process #1: TB and Year-end Statements; Process #3: Bank Reconciliations;

and tested to extract data such as: exceptions in the payments module where the matching process failed, any/all payments processed manually (CDV's), monthly exception report for all General Service Staff net salaries above EUR5,000 and all Professional staff net salaries above USD15,000, month on month comparison for all staff in all pay groups with significant movements from previous month of 10%, monthly statistics report of status of loans and grants extracted from Data warehouse.	Process #5: Exchange Rates; Process #6: Treasury Investments: Portfolio Reconciliation; Process #10: Fair Value Loans; Process #11: L&G: Approval and Set-up + Workflow from Approval to Disbursable in Flexcube; Process #12: Debt Servicing; Process #13: Receipt WAs, review WAs, input & approval of Was in WATS, input & approval of RFD in Flexcube; Process #14: Accounting for Loans & Grants; Process #15: Payroll Processing HRD; Process #16: Payroll Process CFS; Process #17 HCONS Process; Process #19 ADM Procurement; Process #20: APPO Payments; Process #21 APPO Receipts; Process #22: Disbursement CM; Process #26 Receipts CM; Process #27A: TI Purchasing of Time Deposits & Bonds, and Sales of Bonds; Process #30: Manual Payments (CDVs)
MA16.12. Understanding controls at an Outsourced Service Provider: Management obtains and reviews periodic information from outsourced service providers to detect any changes in activities that impact the entity's system of internal control over external financial reporting. Information obtained may include: a) The outsourced service provider's applicable control objectives b) Details about which of the outsourced service provider's internal control have been examined and included in any report c) The details and results from any independent audit testing performed d) Special considerations for the outsourced service provider that impacts the report	12. ICFR Process #6 Treasury Investment: Portfolio Reconciliation

Principle 17 – Evaluates and communicates deficiencies

… in a timely manner to those parties responsible for taking corrective action, including senior management and the Executive Board, as appropriate.

Approaches

- Assessing and Reporting Deficiencies
- Monitoring Corrective Action
- Developing Guidelines for Reporting Deficiencies

Points of Focus	Related Controls
• **Assesses Results**—Management and the Executive Board, as appropriate, assess results of ongoing and separate evaluations.	MA17.1, MA17.2
• **Communicates Deficiencies**—Deficiencies are communicated to parties responsible for taking corrective action and to senior management and the Executive Board, as appropriate.	MA17.1, MA17.2
• **Monitors Corrective Actions**—Management tracks whether deficiencies are remediated on a timely basis.	MA17.3, MA17.4, MA17.5

Controls to effect Principle	Reference Documents
MA17.1. AUO reviews and monitors the functioning of internal controls over financial reporting. Evaluations performed and any resulting deficiencies, regardless of materiality, are documented and formally communicated to Management and the Audit Committee.	1. AUO's annual report on the Testing of Internal Controls over Financial Reporting.
MA17.2. As part of their audit work, the external Auditors issue a Report on Management's Assertion	2. External Auditor's annual report on Internal

over the ICFR, which highlights any control deficiencies. The report is presented to the Audit Committee of the Executive Board .	Controls and Accounting Procedures. For 2013 see AC 2014/132/R.4
MA17.3. Management establishes a practice to review the status of corrective actions taken to verify that reported deficiencies are remediated in a timely manner. Outstanding internal and external audit recommendations are followed-up on and reported on though the quarterly DMP. Long outstanding high priority recommendations are flagged to Senior Management. The Status of outstanding internal audit recommendations are reported by AUO to the Audit Committee.	3. AUO report to the AC on status of outstanding internal and external audit recommendations.
MA17.4. Progress in implementing external audit and IOE recommendations is also reported back to the Executive Board.	4. Annual report of status of audit recommendations/IOE recommendations.
MA17.5. ICF for IFAD Investments summarizes the frequency and timeliness of communicating any investment-related internal control deficiencies to relevant parties, including the Treasurer, AVP FOD, IFAD's investment committees as well as the Executive Board and Audit Committee	5. ICF for IFAD Investments: Table 2

VIII.   End Notes

The Controls described under each principle above provide assurance of their respective existence in ensuring that the Reporting objective is being met. Audits of respective areas will confirm that controls are working effectively, as intended.

IX.   References

External Reference

- Internal Control – Integrated Framework : May 2013

    http://www.coso.org/documents/Internal%20Control-Integrated%20Framework.pdf

Internal References

- IFAD President Bulletins (PBs)
- IFAD Executive Board documents (EBs)
- IFAD Policies, Procedures, Manuals, Guidelines, Documents
- Information Circulars (ICs)