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Internal Audit Vice Presidency (IADVP)

FY13 First Quarter Activity Report

October 26, 2012



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The Internal Audit Vice Presidency (IAD) is an independent and objective assurance and advisory function designed to add value to the World Bank Group (WBG) by improving the operations of the WBG organizations. It assists WBG in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization’s risk management, control and governance processes.

The purpose of this report is to provide a high level overview of IAD activities in the quarter to Senior Management and the Audit Committee. This Quarterly Activity Report is also publicly disclosed, under the Bank’s Access to Information Policy.

1. Summary of Key Engagement Outcomes

IFC's Performance Based Grants Initiative (GPOBA) is aligned with IFC's advisory services strategy

Operational processes to manage CIF activities were developed through close collaboration and knowledge sharing with other MDBs and client countries.

One audit and one advisory review relating to the FY12 Work Program, and four engagements relating to the FY13 Work Program were finalized during FY13 Q1. These included: one World Bank Group (WBG) advisory review, three International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) engagements, and two International Financial Corporation (IFC) audits.

1. IAD's audit of **IFC's Performance Based Grants Initiative (GPOBA)** covered the oversight, implementation and reporting of results for its three tranches and for the overall Initiative. IFC's GPOBA is aligned with IFC's advisory services strategy; has a rigorous process for the approval of grants; and, a monitoring framework. IAD recommended that management report back to the Board on the results of the strategic value of the overall initiative, and also formalize its internal management review process for its oversight of the GPOBA partnership activities.
2. IAD's audit of **IFC's Loan Accounting Operations** evaluated the management and operation of loan accounting. The design and implementation of controls within IFC's loan accounting operations are effective. Roles and responsibilities are clearly defined, there is adequate management oversight, with robust systems support and automation.
3. The objective of IAD's advisory review of **WBG's Management of its Climate Investment Funds (CIF)** activities was to advise and support management in making appropriate operational arrangements for its growing CIF activities, and to examine whether operational risks are proactively managed by the Bank and IFC. The review noted that operational processes to manage the highly innovative CIF activities were developed through close collaboration and knowledge sharing with other MDBs and client countries.

IAD recommended that WBG's management clarify the accountability of CIF focal points, adopt a formal process for quality review of Strategic Climate Fund (SCF) investment plans, standardize and automate program level performance and results reporting, and establish a framework for maintaining CIF policy and procedural guidance.

1. Summary of Key Engagement Outcomes (contd.)

IAD performed testing on internal controls to support Management's assertion on Internal Controls over Financial Reporting (ICFR), and External Financial Reporting.

4. The objective of IAD's advisory review of the **HRS Global Staff Mobility Processes and Infrastructure**, was to provide recommendations to management on the operational processes and procedures, and design of the control environment of the HRS Global Mobility unit. Although the global mobility process has been improved in the past two years, IAD noted opportunities to strengthen its effectiveness through increased accountability, and a more formal operational framework.
5. IAD's **FY12 Testing of IBRD/IDA's Internal Control over Financial Reporting (ICFR)**, did not identify any deficiencies, which management deemed either individually or in the aggregate, a significant deficiency or material weakness in IBRD's and IDA's internal control over external financial reporting as of June 30, 2012. However, IAD noted that there is room for improvement in streamlining the number of controls to focus only on those key disclosure controls with an impact on external financial reporting.
6. IAD tested the operating effectiveness of the **Bank's Disclosure Controls and Procedures over External Financial Reporting**, on behalf of management. Based on the information and evidence provided by management, all the disclosure controls tested by IADVP were operating effectively as of June 30, 2012, except for one control relating to application development and maintenance policies and procedures, for which management has initiated a review of the policy.

2. Budget Update

Total expenditures during FY13 Q1 were \$2.2 million representing approximately 19% of the FY13 budget of \$11.2 million.

Annex 1: List of Reports issued in the FY13 Q1*

WBG Engagements

| No. | Entity | Engagement Title | Report No. | Date Issued |
|-----|--------|---|-------------|-------------|
| 1 | WBG | Advisory Review of World Bank Group's Management of its Climate Investment Funds (CIF) Activities | WBG-FY12-10 | 10-Sept-12 |

IBRD/IDA Engagements

| No. | Entity | Engagement Title | Report No. | Date Issued |
|-----|----------|---|--------------|-------------|
| 2 | IBRD/IDA | FY12 Testing of IBRD/IDA's Internal Control over Financial Reporting (ICFR) | IBRD FY13-01 | 07-Aug-12 |
| 3 | IBRD/IDA | FY12 Testing of the Bank's Disclosure Controls and Procedures over External Financial Reporting | IBRD FY13-02 | 07-Aug-12 |
| 4 | IBRD/IDA | Advisory Engagement on the HRS Global Staff Mobility Processes and Infrastructure | IBRD FY13-03 | 28-Sept-12 |

IFC Engagements

| No. | Entity | Engagement Title | Report No. | Date Issued |
|-----|--------|--|-------------|-------------|
| 5 | IFC | Audit of the Management of IFC's Performance Based Grants Initiative | IFC FY12-11 | 21-Sept-12 |
| 6 | IFC | Audit of IFC's Loan Accounting Operations | IFC FY13-01 | 15-Oct-12 |

ICFR testing on behalf of management for FY12 was finalized in FY13Q1.

FY12 carry-overs: Four audits and two advisory reviews have been carried over from FY12.

 *As per paragraph 16 (d) of the Bank's Access to Information Policy, July 1, 2010, audit reports prepared by IAD shall not be publicly disclosed, except its finalized Annual and Quarterly Activity Reports.