



# Internal Audit Vice Presidency (IADVP) Final FY11 Third Quarter Activity Report

April 25, 2011



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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 since the last 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

The areas of management and administration of WBG staff benefits that could be improved were the design and implementation of policies, enhanced monitoring and performance standards.

The level of governance, risk management and controls over real estate and facilities should be consistent between HQ and country offices.

Twelve engagements have been completed by IAD since the last quarterly report. These included two Group-wide reviews (WBG), five IBRD/IDA (Bank), four International Financial Corporation (IFC) reviews and one MIGA review. WBG reviews cover Group-wide strategies, end-to-end processes and/or shared services that have an impact on the institution as a whole.

- 1. Audit of the Management and Administration of World Bank Group Staff Benefits:** The review covered design aspects of the policy framework, governance structure, benefit administration, service delivery, data and system change management, exception reporting and adequacy of quality assurance processes. The review identified opportunities in the areas of policy design and implementation, monitoring mechanisms, performance standards and system enhancements.
- 2. Audit of WBG Global Real Estate and Facilities Management:** The scope of the audit included a review of WBG's strategic framework for evaluating key real estate options, roles and responsibilities, controls over the execution and monitoring of construction, acquisitions and leases, use of external vendors for facilities management and compliance with significant policies and procedures. The review indicated that governance processes and related controls over real estate and facilities in Headquarters are effective. However, real estate and facility management in the country offices requires further attention, particularly in the areas of strategy and accountability.
- 3. Bank's Process for Integrating Trust Funds in Country Programs:** Controls for aligning recipient-executed trust funds (RETFs) and country-specific bank-executed trust funds (BETFs) with country priorities were adequate. However, there is an opportunity to improve the alignment of country priorities to financial intermediary funds (FIFs) and network-managed BETFs, as well as reporting of country-specific trust fund portfolios.

## 1. Summary of Key Engagement Outcomes (continued)

Governance processes and related controls for the Trust Fund Financial Risk Management and Credit Risk Management are in place.

The Application Development and Maintenance reviews noted that the program and portfolio activities for both the Bank and IFC are well-managed.

4. The audit engagement of the **Bank's Trust Fund Financial Risk Management** indicated that governance processes and related controls over the management of financial risks of trust funds (TF) are in place. The Bank maintains an adequate Trust Fund Management Framework, which was reviewed and formally approved by the Board and addresses key aspects of TF management. Opportunities for improvement were identified on increasing donor awareness about exposure to currency risk, clarification of bank policies on the basis of commitments for grants and enhancement of reporting.
5. **Audit of Bank's Commercial Credit Risk Management:** The engagement indicated that operational controls over the management of commercial credit risk are operating effectively. The audit noted potential for improvement in the areas of documentation, key person dependency and system capability to aggregate counterparty exposure. In addition, similar to the challenge that most financial institutions are experiencing, there is dependency on credit rating agencies.
6. IAD concluded in the **Audit of Bank Application Development and Maintenance (ADM)** that the program, portfolio and project management activities are well-managed. However, control improvements were noted in the areas of application change management monitoring and the involvement of Enterprise Architecture in development projects. While IAD noted delays in some of the projects selected for review as well as occasional overruns of approved budgets, such exceptions were properly governed, decisions were taken in a transparent manner, and project and portfolio management activities were appropriate.
7. **Audit of IFC Application Development and Maintenance (ADM):** The audit determined that the ADM program and portfolio activities are well-managed through a centralized governance process. Control improvements were noted in the areas of application maintenance, project management and user access testing.

## 1. Summary of Key Engagement Outcomes (continued)

Continued focus on the oversight of the newly established Asset Management Company of IFC is required.

Two of the twelve reports issues were advisory engagements and related to donor fund-raising activities.

8. **Activities related to IFC's Asset Management Company (AMC):** This engagement focus on IFC's internal processes for handling AMC-related matters and managing relevant risks. It included IFC's oversight of its ownership of AMC, investment in AMC's funds, reporting, risk management, provision of services to AMC and information technology security. The review highlighted that continued focus is required on the implementation of defined procedures for managing its relationship with AMC.
9. IAD completed an **Audit of the IFC iDesk Portal** and determined that there is an opportunity to strengthen iDesk ownership and improve the monitoring of performance, functionality requirements and database activity. The change management process for the software or hardware associated with iDesk in general is appropriate.
10. **Audit of MIGA's Provisioning for Guarantee Losses:** The engagement of MIGA's Provisioning for Guarantee Losses identified that MIGA's provisioning methodology has significantly improved since the introduction of the model in FY05. However, there is still room for improvement in the areas of reserve calculation, core parameters review and model change approval.
11. **IFC's Donor Fund-Raising Activities for Advisory Services:** Advisory Services management recognized that fund-raising activities should be conducted in a more structured manner and with greater coordination among units raising funds at different levels of the organization. Management had already introduced a number of measures to facilitate information-sharing among fundraisers and to disseminate donor intelligence.
12. **Bank's Donor Fund Raising Activities:** This advisory review acknowledged Bank Management's increasing awareness of the need for a more coordinated and structured approach to donor fund-raising. Management had already carried out consultations for fund-raising coordination and introduced a number of measures to improve information sharing and gathering donor intelligence.

## 2. IDA Internal Controls

IAD continues to follow up and report on the implementation of corrective actions related to IDA internal controls. As of the time of issuance of this report, four items remained outstanding.

13. **Review of the Implementation of Management's IDA Internal Controls Assessment Five Point Action Plan:** IAD continues to monitor the implementation of the corrective actions related to IDA Internal Controls. As of the close of Q3, four out of 22 corrective actions remained outstanding. These corrective actions are related to clarifying lines of accountability; updating procurement policies; improving accessibility of operational documents and rationalizing processes and controls for Analytic and Advisory Activities.

Management is maintaining focus on the completion of the remaining corrective actions. IAD will also validate the operating effectiveness once the re-designed controls have been in operation for a sufficient period of time such that IAD can perform testing. While the implementation times of the corrective actions vary, IAD anticipates that testing will be completed by the end of FY13.

## 3. Other IAD Activities

As part of its Quality Assurance and Improvement Program, IAD reviewed a sample of engagements completed in the first and second quarter of FY11.

14. **Results of Quality Assurance:** As part of IAD's Quality Assessment and Improvement Program (QAIP), a semi-annual internal review is conducted to ensure that ongoing monitoring is performed at the engagement level. The semi-annual review concluded that IAD is still in conformance with established policies and procedures and the execution of newer audits indicated that the issues noted in the previous QAIP review were being addressed.

Specifically, the following improvements were noted:

- Improved discipline in using the audit tool;
- Improved articulation of audit objectives; and
- Key performance indicators were established to track budgeted workdays and audit milestones for each engagement.

There are still issues that need to be addressed. These include:

- Maintaining consistency in documentation; and
- Providing additional guidance to ensure consistency in reporting.

IAD has utilized \$8.3 million or 68% of its annual budget.

15. **Resources and Budget:** IAD continues to exercise strict fiscal responsibility in order to manage the budget. As of March 31, 2011, IAD had 48 permanent staff. Total expenditures during FY11 Q3 were \$2.8 million for a nine month total of \$8.3 million representing 68% of the FY11 budget of \$12.2 million.

## Annex 1: List of Engagements Included in the FY11 Q3<sup>1</sup> Activity Report

WBG Engagements (covering processes across Bank, IFC & MIGA)				
No.	Entity	Engagement Title	Report No.	Date Issued
1	WBG	Audit of the World Bank Group Global Real Estate and Facilities Management	WBG FY11-04	25-Feb-11
2	WBG	Audit of the Management and Administration of World Bank Group Staff Benefits	WBG FY11-05	1-March-11

Bank Engagements				
No.	Entity	Engagement Title	Report No.	Date Issued
3	IBRD/IDA	Audit of Bank Application Development and Maintenance	IBRD FY11-08	15-Feb-11
4	IBRD/IDA	Audit of Bank Trust Fund Financial Risk Management	IBRD FY11-09	13-Apr-11
5	IBRD/IDA	Advisory Review of Bank Donor Fund Raising	IBRD FY11-10	15-Apr-11
6	IBRD/IDA	Audit of Commercial Credit Risk Management	IBRD FY11-11	19-Apr-11
7	IBRD/IDA	Audit of Bank's Process for Integrating Trust Funds in Country Programs	IBRD FY11-11	15-Apr-11

IFC Engagements				
No.	Entity	Engagement Title	Report No.	Date Issued
8	IFC	Audit of IFC Application Development and Maintenance	IFC FY11-05	9-Mar-11
9	IFC	Review of IFC's Donor Fund-Raising Activities for Advisory Services	IFC FY11-04	25-Feb-11
10	IFC	Audit of IFC's Activities related to its Asset Management Company (AMC)	IFC FY11-06	30-Mar-11
11	IFC	Audit of IFC iDesk Portal	IFC FY11-07	12-Apr-11

MIGA Engagement				
No.	Entity	Engagement Title	Report No.	Date Issued
12	MIGA	Audit of MIGA's Provisioning for Guarantee Losses	MIGA FY11-02	22-Apr-11

<sup>1</sup> 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.