

Annual Report

Fiscal Year
2010

Internal Audit
Vice Presidency



World Bank Group Internal Audit Vice Presidency

Introduction and Internal Audit Vice Presidency 's ("IAD") Mandate

Fiscal Year 2010 marked an unprecedented shift in the way the World Bank Group ("WBG") operates. With a vision of a modernized multilateralism as a key driver, the ***New World Bank for a New World*** charted a new course that will serve the emerging multipolar global economy. This new course includes the endorsement of the World Bank's first major capital increase in more than twenty years, the vigorous pursuit of the internal reform agenda and post-crisis strategy, and a range of operational reforms that will allow the WBG to enhance its effectiveness, accountability, and transparency as it delivers financial and technical resources to its clients.

As WBG's strategy and operations shifted in response to market realities and its donors and client governments provided much needed support, it became even more important for WBG to maintain a high level of fiduciary standards, risk management and control systems to demonstrate responsible stewardship. Maintaining high standards included the continued empowerment of oversight units to independently assess the efficiency and effectiveness of these risk management and control mechanisms. IAD was elevated to a Vice Presidency in October 2009, and a new Vice President and Auditor General was appointed. This repositioning confirmed the importance of IAD's role in the institution's oversight architecture.

IAD is an independent and objective assurance and advisory function designed to add value to WBG by improving the operations of WBG's entities. It assists WBG in accomplishing its objectives by bringing a systematic and disciplined approach, to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes. With the pace of change that WBG is undergoing, IAD's mission is to continually support Management to ensure that risks are appropriately identified, managed and monitored. IAD is also focused on raising awareness of risks and controls, providing advice to management in developing control solutions and monitoring the implementation of management's corrective actions to further mitigate risks and enhance controls.

Oversight of IAD

IAD reports to the President and is under the oversight of the Audit Committee. The Audit Committee of the Board of Executive Directors has a mandate to assist the Board in overseeing the World Bank Group's finances, accounting, risk management and internal controls. The Audit Committee oversees the external auditors with respect to the integrity of the financial statements for the entities and financial reporting for trust funds; the Integrity Vice Presidency with respect to anti-fraud and anti-corruption measures; and IAD with respect to internal controls over operations. The Audit Committee's responsibilities with respect to IAD include:

- ❑ The review of IAD's Terms of Reference and recommendation to the Board for approval.
- ❑ The review of IAD's annual Work Program and recommendation to the Board for approval.
- ❑ The review of the results of IAD's work which covers internal controls over operations and compliance with key provisions of IBRD/IDA, IFC and MIGA's charters and policies.
- ❑ The review of the overall effectiveness of IAD.

On at least a quarterly basis, IAD briefs and updates the President and the Audit Committee on audit outcomes and the progress of management action plans to improve WBG's control environment. IAD also briefs the Audit Committee on any changes to the annual Work Program, that may occur as a result of emerging risks or additional requests from Management for advice on internal control matters. Throughout FY10, IAD has benefited in particular from the Audit Committee's guidance and feedback.

Foreword from the Vice President and Auditor General

Internal reforms and a changing business environment underscore the growing importance of effective governance, risk management and internal controls. Following its elevation to a Vice Presidential Unit (“VPU”), IAD has been afforded the opportunity to progress beyond ensuring compliance with policies and procedures, and to function as a progressive and strategic risk advisor. This expectation is consistent with the heightened expectation of WBG from its shareholders, donors and client governments.

FY10 marked a significant transition for IAD. During the year, we implemented a strategic change in our risk assessment process and put in place a number of methodological changes that allowed us to bring additional value to WBG. I believe IAD is in a privileged position as one of the few functions with a remit that spans the different WBG entities, and has the ability provide a holistic, institutional view on matters of governance, risk management and control. We have the ability to promulgate good control practices given our ability to compare and contrast practices amongst the WBG entities. We intend to leverage this unique position and do our part in further improving the operations of WBG.

This Annual Report describes the activities, engagement outcomes, thematic observations for FY10. Where possible, we highlighted in this Annual Report, the areas where IAD’s transition has made the most impact in terms of our activities, engagement with our stakeholders and review outcomes.

I would like to extend my sincere appreciation to the President and the Audit Committee for their continued guidance in support of IAD, to management for collaborating and extending their courtesies to our team during engagements, and the IAD staff for their efforts in delivering our mandate and serving our stakeholders.

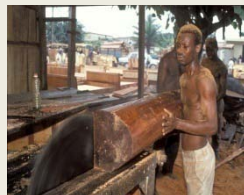
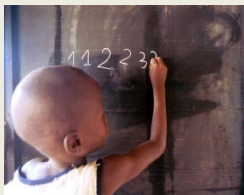
Clare Brady

Vice President and Auditor General



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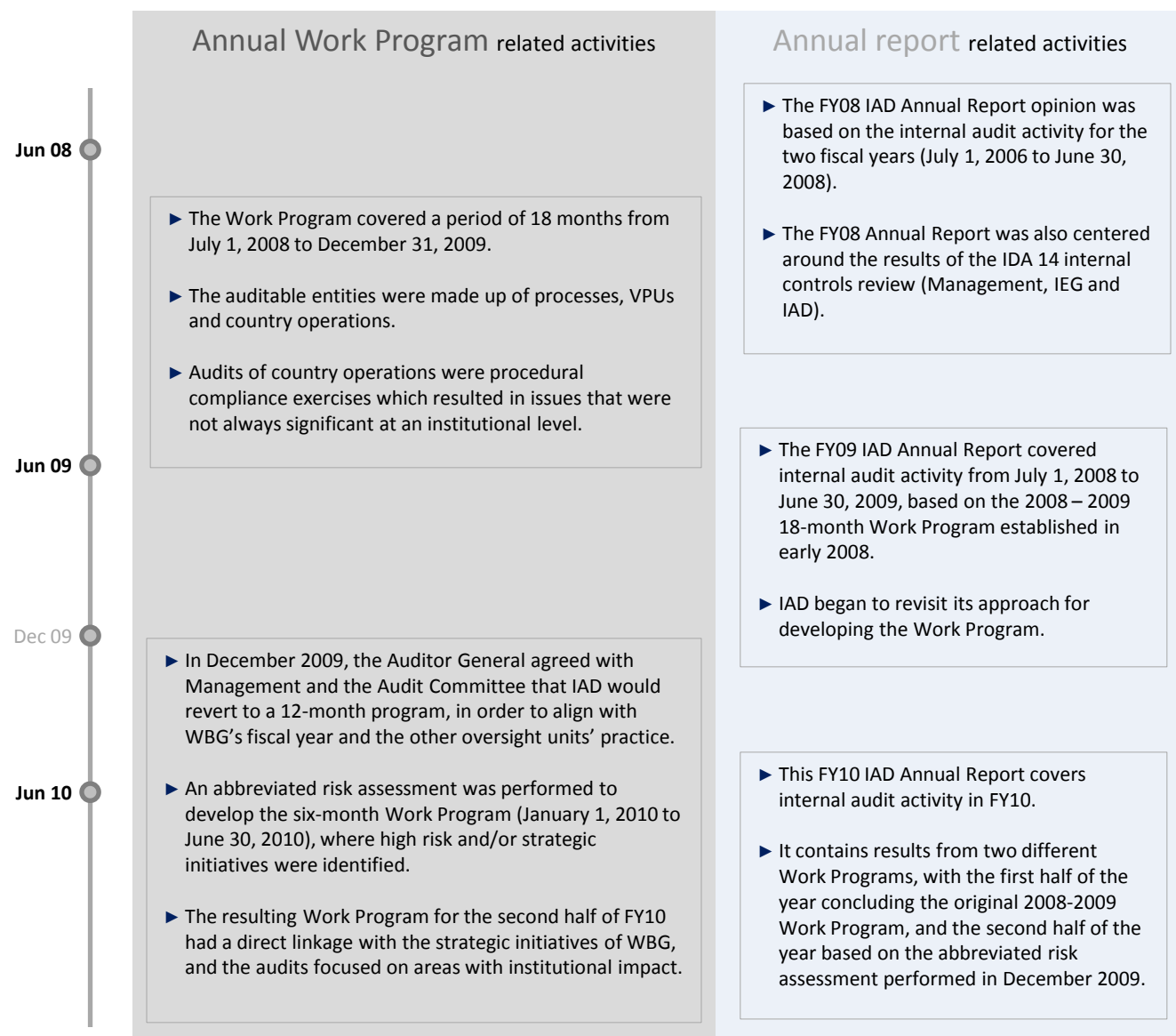
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Understanding the FY10 Annual Report

IAD's approach for developing the annual Work Program and the related Annual Reports has evolved over the past few years. In **Figure 1** below, a snapshot of key activities and prior decisions explains how the FY10 Annual Report was developed. Throughout the document, we will also discuss the different audit approaches adopted in previous years, and how lessons learned are helping us improve our approach for FY11 and beyond.

Figure 1: Key Activities and Decisions that Shaped the FY10 Annual Report

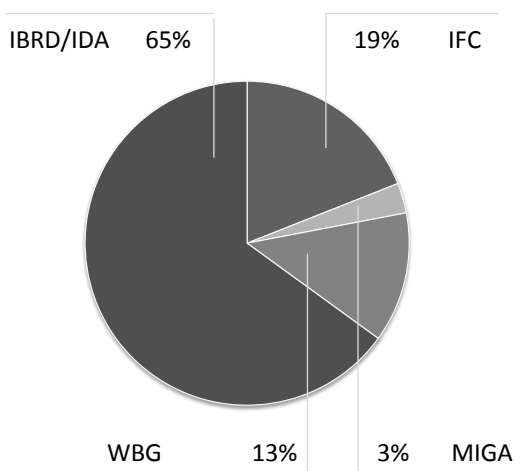


Going forward, the Annual Reports will cover Work Programs that are aligned with the fiscal year. In addition, the Work Programs will be developed with a view to covering high risk processes and linked to the Group's strategic initiatives.

FY10 Work Program Summary

There were 52 engagement reports delivered in FY10 comprising reviews of key WBG operations, core corporate and administrative processes, information technology areas, and select country operations. Individual engagements were carried out based on objectives and scopes unique to each engagement and were categorized either as assurance or advisory reviews. Appendix A lists all audit reports issued in FY10 and Appendix B describes the audit lifecycle. **Figure 2** below shows the Work Program breakdown.

Figure 2: Work Program Breakdown by Entity for FY10 (based on staff days)



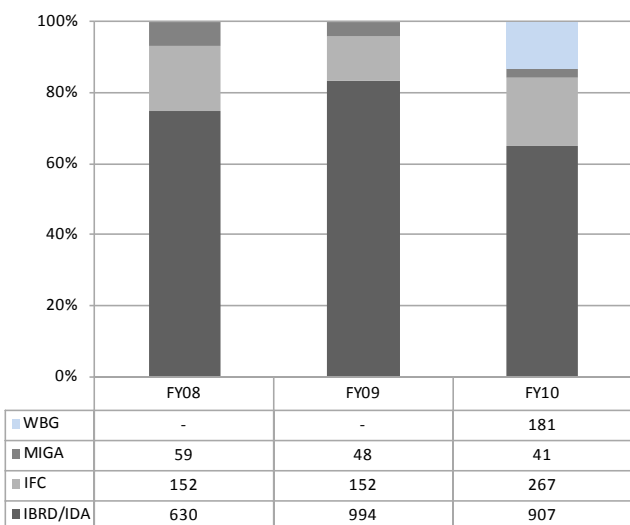
During FY10, 34 reports were issued for IBRD/IDA, nine for IFC, and three for MIGA. Of the 34 reports issued for IBRD/IDA, 12 reports were for country operations audits that were originally planned for the first half of FY10. The results of the country operations audits pointed to a potentially significant area of improvement in IAD's risk assessment and audit execution process. IAD performed a review of these processes, and recognized that the selection of countries under review had not been fully risk-based, the execution focused on procedural

compliance such that issues raised were not always significant at an institutional level, and the cyclical coverage model made it a challenge for IAD to properly draw out thematic issues.

An abbreviated risk assessment exercise was performed in December 2009. The objective of the exercise was to focus on high risk processes in the second half of FY10. As a result, the revised Work Program had linkages with the strategic initiatives of WBG, and the engagements focused more on areas with institutional impact.

In addition to the individual entity's reports, IAD also issued six reports that covered Group-wide processes. FY10 is the first year in which IAD performed "WBG reviews" (**Figure 3**). WBG reviews covered end-to-end processes that cut across the different entities. IAD leveraged its position to look at similar processes across entities, and highlighted inconsistencies in practices and provided recommendations for collective improvement.

Figure 3: Work Program Breakdown for the last Three Fiscal Years



Staff effort in terms of weeks

FY10 Work Program Summary (continued)

As previously noted, the second half of FY10 focused more on linking IAD reviews to WBG’s initiatives. The review of the WBG’s operations for that period matched the four key drivers that were shaping WBG’s post crisis role, as highlighted by the President during the Annual Meeting of the Board of Governors in October 2009 (**Table 1** below shows the four key drivers and associated reviews undertaken by IAD):

1. Traditional and innovative development finance;
2. Delivering knowledge products;
3. Global public goods agenda; and
4. Future crises.

Table 1: Four Key Drivers and IAD Engagements

WBG’s Four Key Drivers	IAD Engagements
1. Traditional and innovative development finance	
<ul style="list-style-type: none"> <input type="checkbox"/> Lending <input type="checkbox"/> Disbursements <input type="checkbox"/> Investment Lending Reform <input type="checkbox"/> Other Financial Products (Recipient-executed Trust Fund, Financial Intermediary Funds) <input type="checkbox"/> Crisis Response Window Facility 	<ul style="list-style-type: none"> <input type="checkbox"/> Bank’s Process for Managing Development Policy Operations <input type="checkbox"/> Audit of the Bank’s Disbursement Process <input type="checkbox"/> Review of the Implementation of Management’s IDA Internal Controls Assessment 5-Point Action Plan <input type="checkbox"/> Bank’s Process for Administering Carbon Funds and Advisory Engagement on the Bank’s Development of a Carbon Finance Contract Management System <input type="checkbox"/> Process for Administering the Trust Funds of International finance Facility for Immunization (IFFIm) and GAVI Fund Affiliate (GFA), Process for Administering the Education for All-Fast Track Initiative Trust Funds
2. Delivering knowledge products	
<ul style="list-style-type: none"> <input type="checkbox"/> Demand for Practitioner Knowledge 	<ul style="list-style-type: none"> <input type="checkbox"/> Review of the Implementation of Management’s IDA Internal Controls Assessment 5-Point Action Plan
3. Global public goods agenda	
<ul style="list-style-type: none"> <input type="checkbox"/> International Financial Architecture and Trade <input type="checkbox"/> Climate Change <input type="checkbox"/> Communicable Diseases 	<ul style="list-style-type: none"> <input type="checkbox"/> Bank’s Process for Administering Carbon Funds and Advisory Engagement on the Bank’s Development of a Carbon Finance Contract Management System from the Business Process Perspective <input type="checkbox"/> IFC’s Carbon Finance Activities <input type="checkbox"/> Process for Administering the Trust Funds of International finance Facility for Immunization (IFFIm) and GAVI Fund Affiliate (GFA)
4. Future Crises	
<ul style="list-style-type: none"> <input type="checkbox"/> Future Crises 	<ul style="list-style-type: none"> <input type="checkbox"/> Global Food Crisis Response Program

For the FY11 Work Program, an enhanced risk assessment process was undertaken. This included leveraging the WBG entities’ risk assessment frameworks and taxonomies; incorporating Management’s view of top risks; and the streamlining of the auditable areas. In addition, outcomes from engagements during the second half of FY10 also provided directional guidance for FY11. For example, the IDA controls review highlighted the need to focus on the regional quality assurance process; IFC’s Global Trade Finance Program review lead to the planned review of IFC’s Global Liquidity Program; and recurring themes in trust-fund related engagements prioritized the review of Integration of Trust Funds in Country Operations. The FY11 planned coverage focuses on end-to-end processes that are either directly linked with WBG initiatives or high-risk rated processes. While performing these more impactful end-to-end process reviews, IAD will continually strive to address the main concerns of the institution.

FY10 Work Program Summary (continued)

The assurance reviews were rated in accordance with IAD’s standard rating criteria which took into account the significance of results, including reportable deficiencies. The following ratings were in effect during FY10:

- ❑ **Satisfactory** – Risk management, control and governance processes are adequate and effective to provide reasonable assurance regarding the achievement of control and/or business objectives under review. Minor opportunities for improvement may exist.
- ❑ **Needs improvement** – Deficiencies exist in risk management, control or governance processes, such that reasonable assurance regarding the achievement of control and/or business objectives under review may be at risk.
- ❑ **Unsatisfactory** – Significant or pervasive deficiencies exist in risk management, control or governance processes such that reasonable assurance regarding the achievement of control and/or business objectives under review cannot be provided.

Advisory reviews were not rated. They typically covered systems or processes under development for which audit feedback became valuable in order for management to actively incorporate appropriate controls during the design stage. Advisory reviews were either identified during the risk assessment process, or were driven by requests from Management or the Audit Committee.

Summaries of completed audit engagements were included in quarterly reports provided to the President and to the Audit Committee. Full audit reports for assurance engagements rated “Needs Improvement” were circulated to the President, while full reports for reviews rated “Unsatisfactory” were circulated to the President and to the Audit Committee. The Audit Committee called for a discussion of Unsatisfactory reports with management in attendance.

Table 2: Reports issued for FY10

IBRD/IDA	34
▶ Satisfactory	14
▶ Needs Improvement	8
▶ Unsatisfactory	1
▶ Unrated (Advisory)	11
IFC	9
▶ Satisfactory	3
▶ Needs Improvement	6
▶ Unsatisfactory	-
▶ Unrated (Advisory)	-
MIGA	3
▶ Satisfactory	1
▶ Needs Improvement	-
▶ Unsatisfactory	-
▶ Unrated (Advisory)	2
WBG	6
▶ Satisfactory	2
▶ Needs Improvement	2
▶ Unsatisfactory	1
▶ Unrated (Advisory)	1
	52

In developing the FY11 Work Program, IAD streamlined its audit universe and adopted the American Productivity and Quality Center’s (“APQC”) best practice model in using organizational processes as IAD’s auditable areas. One of the benefits of having a standardized universe is the ability to build comparable information over time, which IAD will use to perform better trending and analysis on internal controls at WBG.

Executive Summary

In this section, IAD provides collective insights on WBG's control environment based not only on empirical outcomes from audit reviews, but also on observation of control practices, ongoing dialogue with Management, the Audit Committee and other stakeholders, knowledge of historical issues, general control awareness and Management's focus on establishing good internal controls. In this summary, IAD consolidates and summarizes into key messages our view of risks and internal controls in selected key areas.

Operations and Corporate Processes

Sustainability of reforms is an ongoing effort - With its role as a key player in the new multipolar global economy, WBG has demonstrated the ability to respond swiftly to changing business landscapes and transform itself to be a more efficient and accountable institution. Management has concentrated a significant amount of effort in advancing reforms such as investment lending reform and this focus has been instrumental in strengthening the control environment of WBG. However, continued effort will be needed to successfully transition from the implementation phase to 'business-as usual':

- Embedding reforms in day to day operations and ensuring sustainability will be an ongoing challenge. Establishing effective governance and adequate control infrastructure on a timely basis to support these reforms is important, since any delay can undermine their effectiveness. In the absence of updated guidance and operational procedures, there is a risk that legacy practices could weaken the impact of the reform. Continued focus should be given to the fragmentation and in some cases, obsolescence of the existing WBG Operational Policies and Procedures and to monitoring at the operational level.

- Defining and monitoring appropriate key performance indicators is increasingly important. In order to determine the effectiveness of implemented processes and controls, and ensure business objectives are being met, the right measurement mechanism should be established. In the course of its work, IAD has made several observations on performance indicators that are not always appropriate, quality data that is not always readily available and consistent monitoring that is not always present. Management is in the process of establishing a corporate scorecard, which will identify key risk and performance indicators to highlight performance against organizational goals.

IAD will continue to monitor the progress of these initiatives, and support Management by performing reviews of the design and effectiveness of planned and implemented control systems.

Institutional accountability needs focused attention - IAD recognizes the matrix structure as an appropriate model to deliver the best quality in lending and advisory activities to IBRD/IDA's clients; however, it does present an inherent risk that accountability may be unclear, and thereby affect operational quality assurance. With further decentralization and continuous change in personnel and processes due to a variety of reform initiatives, the ability to monitor accountability and control systems will become more complex. IBRD/IDA is addressing this concern by clearly defining the distribution of accountability and the consistency of application across the Bank. It established the Matrix Leadership Team ("MLT") whose work program for FY11, includes mapping responsibilities in the matrix organizational structure and developing accountability frameworks for regions and networks.

IAD supports this initiative and recommends that the mapping exercise be completed as early as practicable, as local arrangements may be created in the absence of clear accountabilities.

Executive Summary (continued)

Mainstreaming trust funds and establishing formal operating models for partnerships - In the past few years, trust funds have become a sizable funding source for the institution, and there is a continued endeavor to mainstream these trust funds into existing operating models. WBG has shown progress in mainstreaming, with the budget process being redesigned to take a more integrated approach and to consider the impact of trust funds; and with operational practices for trust-funded projects being aligned with existing Bank practices.

For partnerships, the lack of a defined institutional framework for the management of these relationships has been recognized as an issue. Since partners increasingly play significant roles in WBG operations, clear and consistent guidelines on the management of partnerships and holistic risk assessments of partnership engagements are necessary.

Focus on Integrated Risk Management is heightened -

WBG has made significant strides over time towards strengthening its risk management practices; however, there is still a fragmented approach to its risk management process. Risks are largely defined, managed, and reported in silos within each entity. As a result, challenges remain in overall accountability for risk oversight and governance, consistency of risk language and taxonomies across the institution, risk aggregation and reporting, and in some cases, connectivity between business and risk functions. Management has taken steps to address these issues, including the creation of a Group Chief Risk Officer (“CRO”) function that will supplement current risk management activities conducted at the entity level. IAD will continue to be involved in this area, providing advice on the design of governance and risk management frameworks, and in the future, validate the effectiveness of established frameworks.

Control issues highlighted by the external auditors –

There were a number of control issues raised by KPMG in their recent management letter that IAD would like to reiterate:

- ❑ WBG’s compensation and benefits program has grown through the years with fragmented systems and infrastructure, and is overly complex. A comprehensive analysis of the infrastructure and controls would be beneficial.
- ❑ The limited documentation of key assumptions used by investment officers in valuing investment portfolio financial instruments was highlighted by KPMG in its FY09 management letter. While progress has been made in this area, Management should maintain its focus on improving formal documentation that support the valuations of investment officers.
- ❑ The extensive use of spreadsheets within the IFC financial reporting process was also noted in KPMG’s FY09 management letter. While spreadsheets offer flexibility in dealing with unique and complex valuation issues and data accumulation, the likelihood of error is higher and additional controls are necessary. While IFC has made progress in reducing its reliance on spreadsheets, continued effort is required.

Executive Summary (continued)

Information Technology

Engagement of the Business Leaders in IT Governance is required – WBG Information Technology (IT) organization and strategy has improved in recent years. The move from a distributed and silo IT management model towards a federated structure, with a common set of operating principles, is a significant positive step. However, while business units are aware of the importance of IT in meeting their business objectives, business leaders still need to be sufficiently engaged in IT strategy and organization (long term), investment planning (annual), and business solution acquisition and delivery (ongoing).

Prior to the introduction of the IMT 3-Year Strategy in FY10, IAD observed constant modifications to the IT governance structure, policies, and programs throughout WBG, which translated to inefficiencies, unclear accountability, and inability to monitor and measure IT performance. This was partly due to the wavering focus of the business in IT strategies, thereby requiring IT to frequently shift its governance and operational structure. The IMT 3-Year Strategy is a vehicle that aligns the IT goals with the organizational goals, however, it is important that appropriate engagement between the business and IT is maintained.

Consistency in the use of IT standards can be improved – Due to its process-driven nature, IT lends itself to standardization. Many frameworks for IT Governance, risk management, service delivery, project management, information security and architecture, and solution delivery have been created and adopted in the industry over the last several years. WBG IT Management has prioritized and implemented several standards within the Information Solutions Group (ISG), however, further consideration should be given to the adoption of consistent standards across the remaining ISG areas and other IT groups. Systematic implementation of standards could further prevent the proliferation of disparate technologies, processes and procedures. In addition to providing best practice guidance for IT services, standards and frameworks can assist in building a continuous improvement culture in the Group.

Management support in streamlining the IT organization must be sustained – IT units have historically been fragmented across the WBG. While the Information Solutions Group manages and delivers enterprise IT solutions such as SAP and PeopleSoft, other units manage a varying amount of IT services in their areas. This situation can increase the risk of inadequate IT security and controls and makes reporting IT performance across WBG challenging. Recent attempts to improve this situation through the federated operating model are progressing in the right direction and support shown by Management must be sustained. Ideally, in the federated model, the WBG Chief Information Officer would have primary responsibility for architecture, common infrastructure and services, IT budget oversight, and policy and standards decisions; while IT departments for each business line would have primary responsibility for business-specific IT investments. An optimal federated model provides good balance between enterprise and local innovation, and better aligns IT with the needs of the business by reducing fragmentation, miscommunication, and inefficiency. Operational challenges to be addressed in the implementation of the federated model include potential resource and funding issues and differing treatment of depreciation and chargebacks between the WBG entities. Potential risks of the federated model include the complexities of coordinating many units and ensuring sustainability after the transition period. The success of this model requires strong central IT coordination and sustained commitment amongst different lines of business to deliver on shared responsibilities.

Integrated information security still requires focused attention – Historically, information security has lagged technology growth and innovation. Management should direct attention and required resources to reduce fragmented information security practices. The establishment and growth of the Office of Information Security (OIS) with a mandate to manage WBG's security risk is an appropriate initial response to strategically address this issue. Further coordination and communication between OIS, TRE Information Security (TREIS) and CBI Information Security (CBIIS) is needed to ensure the information security capacity and expertise built by OIS is leveraged more effectively.

Executive Summary (continued)

IT Risk Management Practices need to be improved –

WBG is continuing to improve its control consciousness and enhance its risk management practices; however, consistency in risk management practices amongst ISG, Bank Treasury (TRE), and IFC still need to be established. Specific potential risk areas include:

- ❑ **Management of Third-Party IT Services –** To reduce costs, WBG has outsourced and off-shored commodity IT services such as infrastructure support and software development. WBG needs to further strengthen its oversight over third-party IT services in order to ensure proper vendor succession planning, knowledge transfer and retention.
- ❑ **Business Continuity Planning –** Improvements have been made in the area of Business Continuity governance and IT disaster recovery management at the WBG in the past couple of years. While tests of disaster recovery capabilities for critical systems and applications have been carried out previously, it was performed in a limited capacity and the ability of WBG data centers to function on a stand-alone basis and to keep mission critical systems running remains to be tested.
- ❑ **Innovation –** While the WBG continues to decentralize processes, a significant challenge for IT is to deliver enhanced service in the country offices. Technologies such as remote access, cloud computing and mobile computing will be relied upon to support the move into the field. IT Management should actively identify associated risks and risk mitigation strategies during the planning stage of implementing such technologies in order to ensure reliability and sufficiency of IT services provided to the country offices in a decentralized environment.

Engagement Outcomes

WBG Reviews

The Group-wide reviews targeted end-to-end processes, and/or shared services that have an impact on the institution as whole. The following initial WBG reviews were selected since these areas represented core services used by the entire Group:

Audit of WBG Software Licensing: The review covered controls over acquisition of software licenses, compliance with policies and safeguarding of licenses across WBG. Issues were raised on software lifecycle management, maintenance of software asset inventory and pro-active, centralized monitoring of compliance with license agreements. Management is in the process of developing a Software Asset Management (SAM) process, including programs to monitor compliance with license agreements and developing related tools to support the SAM process.

Audit of the Management of the WBG Enterprise Desktop: Planning, development, incident and problem management of the Enterprise Desktop were well controlled. Management is enhancing the standard data wiping methodology and is also strengthening controls over portable media devices.

Audit of the Process for Management of Short Term Consultants and Temporaries: IAD's review covered key controls related to the hiring process, maintenance of master records, and related management monitoring and reporting arrangements. Management is implementing several control enhancements in the areas of exception reporting, risk based evaluation for security clearance process and updates to master records.

Audits of the Processes relating to WBG Contractual Services and Travel Expenditures: The results indicated that controls over these processes were generally adequate and effective. Management has implemented front-end system application controls and enterprise-wide exception reporting for travel, which allows for more stringent monitoring. Improvement opportunities were noted in the areas of contract maintenance, and the implementation of a tracking system for traveling staff.

IBRD/IDA

The most extensive engagement for the **IDA operation** in FY10 was the review of Management's implementation of remedial actions for IDA internal control deficiencies identified during the review concluded in 2008. In this review, IAD assessed the corrective action plans and verified implementation. Operational processes largely overlap between IDA credits and **IBRD** loans, and thus, this review was useful in also understanding the controls in IBRD's operation. The scope of the review included: new anti-fraud and corruption controls at the entity and transaction levels; Investment Lending Reform, which introduced a new risk-based operational approach and tools; fiduciary controls; integrated risk management practices; IT controls; and process and controls governing Analytical and Advisory Services (AAA).

IAD concluded that Management has substantially implemented the corrective actions; and the design of new tools and frameworks introduced was robust and satisfactorily addressed the control weaknesses. More specific information regarding the IDA operations review is provided on the next page.

IAD also reviewed governance, risk assessment, and control processes over Developmental Policy Operations, which focuses on policy reform of borrowing countries. The operations were found to be compliant with relevant internal policies and procedures, and minor improvement opportunities were identified with respect to documenting risk management processes; consultation in borrowing countries; and key decisions.

Engagement Outcomes

IDA Internal Controls Assessment Results

During the negotiations of IDA's 14th replenishment in 2005, Management committed to carrying out an independent comprehensive assessment of the control framework, including controls over IDA operations and compliance with its charter and policies. The review took almost three years to complete and encompassed three levels: 1) management's self-assessment of the control framework; 2) review by Internal Audit; and 3) independent evaluation by the Bank's Independent Evaluation Group (IEG). IEG stated, as a result of the review, that "with some important qualifications, IDA's internal controls framework operates to a high standard overall, giving reasonable assurance that the controls operate effectively". In response to the results, Management formulated a 5-Point Action Plan, with 22 specific corrective actions, to address the issues. The "5-Point Action Plan" was described in IEG's "Review of IDA Internal Controls: An Evaluation of Management's Assessment and IAD Review" dated April 2009.

As part of its FY10 program, IAD undertook a review of the implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan. At the end of FY10, progress made by Management on all corrective actions was verified by IAD. Specifically, for each corrective action, IAD confirmed that management's implementation of corrective measures adequately addressed the issues identified; or if not yet implemented, that the progress was on track and that Management would be able to complete the implementation by the due dates.

The 5-Point Action Plan addressed the following objectives:

- Improve efficiency, effectiveness and controls for investment lending;
- Strengthen risk management capacity, incentives, and accountability at the project and institutional levels;
- Better integrate fraud and corruption prevention into operations;
- Tighten fiduciary controls; and
- Strengthen role of IT in risk management and improve AAA processes.

Management has developed frameworks and tools to address the internal control weaknesses identified, sharpened the focus on fraud and corruption risks, strengthened fiduciary controls, enhanced systems and tools for the risk-based approach to project preparation and implementation, enhanced institutional risk assessment and improved controls to address IT system vulnerability.

IAD concluded that for the corrective actions implemented, related control deficiencies brought to the attention of Management were addressed and the control framework supporting the activities of IDA was strengthened. IAD's conclusion is based mainly on the adequacy of the design of the control measures. IAD intends to perform tests of operating effectiveness once these control measures have been in operation for a reasonable period of time. The FY11 Work Program includes planned coverage of some of the corrective measures implemented under the 5-Point Action Plan, with the rest to be covered in FY12 and beyond.

Engagement Outcomes (continued)

IBRD/IDA (cont'd)

An advisory review of the Bank's Operations and Knowledge Systems Program (OKSP) highlighted the need for continued focus on business users needs and resource commitment for key stakeholders.

For **crisis response** activities, IAD reviewed the Global Food Crisis Response Program. The review confirmed that the processes related to the use of funds were well controlled. At the corporate level, the review highlighted the need to replace the current monetary threshold approach with a risk-based application of simplified procedures to recipient-executed trust funds (RETF).

Nineteen reviews for IBRD involved **trust funds**, with varying degrees of coverage, depending on the scope of the review. Five reviews were specific to trust fund programs. These were carbon funds, International Finance Facility for Immunisation (IFFIm), Education for All – Fast Track Initiative (EFA-FTI), Financial Sector Reform, Strengthening Initiative (FIRST) and the Global Food Crisis Response Program. The reviews were focused on internal controls over the use of funds for intended purposes at the transaction level, and the Bank's governance and risk management processes at the program level.

The recurring issues which emerged in trust fund-related engagements included non-compliance with the Bank's operational policies and procedures in fiduciary processes and document retention. In programs involving external partner entities, a more systematic and coordinated approach to understanding risks, establishing governance arrangements, and clarifying roles and responsibilities for partnerships is needed. In the administration of carbon funds, clearer supervision guidelines and closer coordination between the central unit and regional units were recommended.

IAD reviewed the SAP infrastructure, Bank Data Center Operations, and the Management of the Bank Group's Demilitarized Zones¹. IAD noted marked improvement in controls in the underlying **technology platforms, networks, and infrastructure**, partly as a result of Management's implementation of improved controls in response to issues raised in previous years' audit reviews.

IAD also performed a post implementation review of one of the critical Treasury systems, SUMMIT, and identified control enhancements in the areas of user access, security and issue tracking.

¹ **Demilitarized Zone (DMZ):** A network segment or segments located between protected and unprotected networks. As an extra security measure, networks may be designed such that protected and unprotected segments are never directly connected. Instead, firewalls (and possibly public resources such as HTTP or FTP servers) reside on a so-called DMZ network. DMZ networks are sometimes called perimeter networks.

Engagement Outcomes (continued)

IBRD/IDA (cont'd)

Part of IAD's program in FY10 included a review of selected **country operations**. Many of the country offices that IAD reviewed were relatively well-managed, but had improvement opportunities in areas such as consistency of supervision, application of policies and procedures, and documentation. Work in conflict/fragile countries still proves to be a challenge as on-the-ground supervision is inhibited. Innovative solutions are continually being deployed such as enhanced escalation procedures and improved information systems for recording activities and monitoring results. IAD will focus on supervision at the institutional level as the operational model continues to evolve.

IAD reviewed select **core corporate processes** that support WBG's operations. Consistent with the WBG's continued emphasis on effective management of its administrative budget and overall operational discipline, IAD's primary focus was on planning and use of administrative resources. Significant processes reviewed include:

- ❑ The Bank's Planning, Budgeting and Performance Management - The audit results indicated that the accountability framework for managing the institution's resources, including external funds, could be improved.
- ❑ The Bank's Disbursement process – the audit results indicated that the design and monitoring of disbursement arrangements were effective.

IAD also tested key Internal Controls over Financial Reporting ("**ICFR**"). This engagement was an agreed-upon review, whereby Management provided IAD with the key controls to be tested, and results of testing were used by Management to support the Bank's assertions as to the reliability of its financial statements. IAD noted issues in operating effectiveness and documentation that were subsequently addressed by Management. The Bank's external auditors also expressed an unqualified opinion on management's assertions regarding the effectiveness of ICFR.

Engagement Outcomes (continued)

IFC

As IFC rolled out its decentralization plan, IAD reviewed two regional departments whose activities were decentralized early as part of the pilot. IAD concluded that the operations of these regions, which included **investment, advisory services**, and administrative arrangements, were well controlled with effective governance structures.

IAD reviewed IFC's Global Trade Finance Program, which is one of the trade finance-related programs in IFC that relates to **crisis response**. The review found that the program was well run, but there was a need for enhancing existing controls to deal with the growing volume of transactions. Also, IAD noted that the development of a framework for measuring the development impact of trade finance should be accelerated.

In **advisory services**, IAD reviewed two large regional facilities – the South Asia Enterprise Development Facility and the China Private Enterprise Partnership. While the funds of the facilities were being utilized for the purpose intended, IAD found opportunities for improving controls over grants, project supervision, and related information systems.

Complementing the review of Bank's carbon **trust funds**, IAD also reviewed IFC's carbon finance activities. It determined that controls over two types of carbon finance activities - carbon delivery guarantees and the administration of closed carbon funds - were effective.

On **corporate processes**, IAD performed a review of the management of IFC's human resources and corporate facilities. The results show that performance measurements need to be consistently monitored; and policies and procedures need to be updated.

One of the key reviews for FY10 was a **technology** review of the Corporate Business Informatics Department (CBI). The results of the audit indicated the need to establish an information architecture model to reduce data redundancy, further support effective information management and assign data ownership; and to establish a formalized service level management with its business users. A review of the IFC Email system was performed, and efforts are now underway to improve security and documentation.

MIGA

IAD did not review MIGA's operational activities in FY10 as MIGA's guarantee process, which is their core operational process, was found to be satisfactorily controlled in FY09. However, IAD was involved in an advisory **technology** engagement covering the MIGA Guarantee System Replacement Project. IAD provided advice on the software development methodology and related procedures, which are currently being implemented.

IAD reviewed MIGA's Committee of Sponsoring Organizations Internal Control Framework ("COSO") processes and noted that the implementation and oversight were carried out properly. IAD also validated the design and operating effectiveness of key Internal Controls over Financial Reporting (**ICFR**) in FY09. IAD noted issues in operating effectiveness and documentation that were subsequently remediated by Management. An unqualified opinion on management's assertions regarding the effectiveness of ICFR was also provided by the external auditors.

Management Action Plans and IAD’s Follow Up Process

Management Action Plans

Management Action Plans (“MAPs”) are prepared by Management to address reported issues from completed audit reviews. MAPs include target dates, and are set depending on the nature of the issue, the resources required, and the extent to which processes or systems require change. Target dates typically do not extend for more than a year, unless major changes are required. For longer-term target dates, Management usually introduces mitigating controls to reduce the risk exposure while completing their action plans.

Figure 4 below depicts the number of MAPs for issues raised in FY08, FY09 and FY10. Over 85% of these MAPs had been implemented by June 30, 2010. Of the 94 “Open” MAPs, 27 MAPs were overdue at the end of FY10 – approximately 29%.

Figure 4: Number of MAPs from FY08 - FY10 (Implemented and Open as of June 30, 2010)

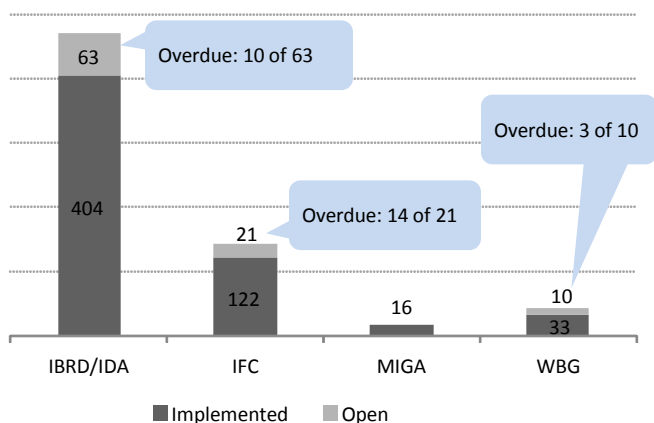


Table 3 presents the overdue action plans in absolute numbers by entity, grouped in different aging intervals.

Table 3: Breakdown of overdue action plans

No. of days overdue	IBRD/IDA	IFC	WBG
Less than 30 days	1	-	-
Between one and six months	3	10	-
Between six months and one year	6	3	3
More than one year	-	1	-

Out of the 27 overdue items at the end of FY10, 21 were closed by the end of the first quarter of FY11. For the remaining overdue items, Management continue to make progress. However, there are certain instances where further delay is expected.

- ❑ One IBRD/IDA MAP, related to the incorporation of Institutional Development Funds grants in post procurement reviews, will be completed upon the presentation of the annual procurement report to the Audit Committee in February 2011.
- ❑ IFC’s overdue MAP, related to simple authentication, is experiencing further delay since the related systems are currently undergoing major upgrades or replacement. The review of security controls, which includes two factor authentication, is being performed as part of the upgrade.
- ❑ Other overdue MAPs are being aligned with operational reforms that are part of the WBG agenda.

It is important that Management considers mitigating controls to ensure risks are adequately controlled while new systems and processes are being implemented.

Management Action Plans and IAD’s Follow Up Process

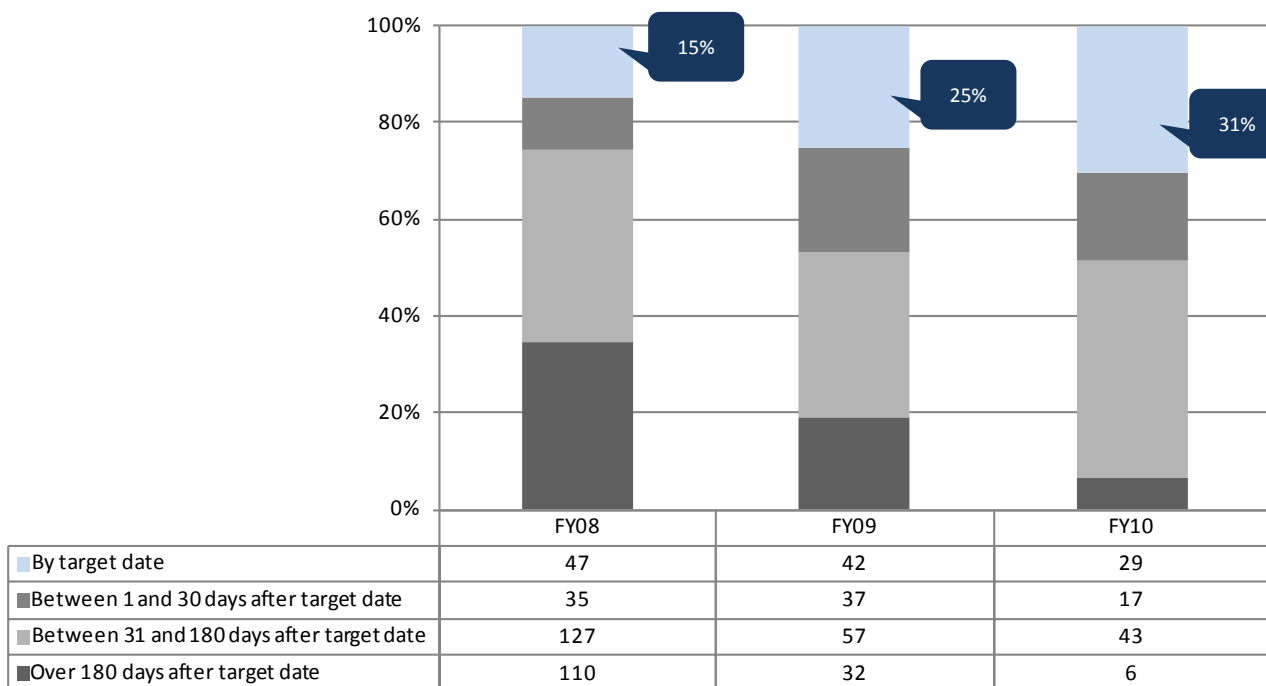
IAD’s Follow Up Process

As part of its audit activity, it is the responsibility of IAD to verify that appropriate actions have been taken by Management to address the issues noted from IAD audit engagements. In previous years, the follow up process was performed only for engagements that were rated Needs Improvement and Unsatisfactory. However, IAD observed that there were instances where recommendations made for Satisfactory audits were not being implemented adequately or on time, or actions implemented were stop-gap measures that did not address the root causes of the issues. IAD therefore revisited its follow up process and now follows up all recommendations as they become due, and performs validation procedures to ensure the root cause of issues have been fully addressed.

Figure 5 below shows the distribution of the implementation timelines for the past three fiscal years, broken down by the elapsed time between the original target date and the implementation date.

Marked improvement has been noticed in Management’s efforts to meet the original implementation target dates. In many cases where there was delay, Management had made a strategic decision to incorporate existing action plans into larger initiatives and programs to ensure alignment to business objectives and process sustainability. Partly as a result of the increased attention IAD is giving to the follow-up process, the percentage of recommendations completed by their target date has increased. The graph below shows the positive increment of 16% from FY08 to FY10.

Figure 5: Elapsed time between the MAP target date and its implementation



Management Response

The World Bank Group's Management Team welcomes the FY10 Annual Report of the Internal Audit Vice Presidency and we appreciate IAD's insights on the institution's control environment. The Management Team is aware of the potential risks amidst strategic changes – whether they relate to the fundamental business model or the infrastructure that supports it – and is actively managing these risks. We also recognize IAD's role in identifying potential red flags where there may be unmanaged or unmitigated risks. As we continue to operate in a flat budget environment, we will work with IAD to prioritize the remediation of high risk issues.

The WBG Management Team is committed to implementing robust and timely management action plans to maintain strong and effective governance, risk management and control processes.



Other IAD Activities

Methodology Improvements

The Vice President and Auditor General launched an audit methodology improvement initiative, with the objective of enabling IAD to be more responsive and adaptive to client needs through more efficient and risk focused internal processes and methodologies. In addition, the initiative aims to align IAD practices with leading internal audit methodologies and benchmark IAD against its peer organizations and large, regulated financial services companies. This initiative, commenced in the third quarter of FY10, benchmarked IAD's processes with global leading practices in internal auditing. At the end of FY10, the following key methodology improvements were underway:

Defining the Audit Universe and Enhancing the Risk Assessment Approach

In order to be more effective in carrying out the risk-based audit approach, IAD streamlined the audit universe during its planning for FY11. In doing so, IAD addressed client feedback on duplicative audit efforts and audit fatigue as a result of the audit universe construct. It was determined that coverage of the Headquarter Units at the VPU level and the Country Units could be more efficiently addressed by focusing on end-to-end business and IT processes. To this effect, the VPU and Country Management Units have been re-aligned to existing business and IT processes.

In order to take a consistent view of the risks facing each entity, IAD utilized the risk frameworks and taxonomies established by IBRD/IDA, IFC and MIGA. In addition, IAD enhanced its risk assessment process by incorporating the results as indicated in IBRD/IDA's integrated risk management report, which provided Management's view on high risk areas impacting IBRD/IDA. In addition, IAD took into account WBG's strategic priorities and emerging risks in its annual planning.

Upgrading IAD Reporting at the Issue and Engagement Levels

During FY10, IAD reviewed the merits of introducing issue level ratings*. Issue level ratings will allow:

- Differentiation between key issues with an institutional impact and lower level operational issues.

- Prioritization of remediation efforts by management based on the severity of the issue.
- Direct linkage of the individual issues found to the integrated risk framework, and better articulation of the issues and their impact.
- More transparency in the rationale for engagement level ratings.

Prior to its launch, the Vice President and Auditor General obtained feedback from Management on the proposed issue level ratings to determine whether this system would add value to the audit product. Management supported the change on the basis that it will bring better focus to key issues.

The implementation of issue level ratings will be monitored to ensure effectiveness and consistency in application. IAD will review the results of the rating system over the first two quarters of FY11 to determine if recalibration of the ratings is necessary.

Enhancing the Follow up Approach for Management Action Plans

As previously noted, IAD has improved its follow up process so that it tracks, follows up, and reports on all MAPs based on their target dates, regardless of engagement level ratings. The following areas of improvement will be addressed during FY11:

- Process for extensions of due dates for action plans;
- Adequacy of reporting tools for effective monitoring of target dates and overdue items; and
- Validation of effectiveness of the follow up process through IAD's quality assurance and improvement program.

*Rating definitions found on the next page

Methodology Improvement

Issue and Engagement Level Rating Definitions

Issue Level Ratings Definitions	
Low	The issue requires management attention to maintain a satisfactory control environment.
Medium	A control design and/or operating effectiveness issue that, if not addressed, may cause loss or reputational damage. The issue has a significant impact on the business or IT process under review.
High	A serious weakness in control design and/or operating effectiveness that, if not addressed, is likely to impact the entity's ability to achieve its business objectives, comply with key policies and/or maintain control over mission-critical systems. The issue has a significant impact at the entity level.

Engagement Level Ratings Definitions	
Satisfactory	Internal audit identified no significant issues related to the design of controls or to the proper functioning of controls as designed. If issues were noted, they were considered minor in nature.
Needs Improvement	Internal audit identified issues related to the design of the controls and/or in the functioning of controls. Although none of these issues, either individually or in the aggregate, indicate significant weaknesses, management should address these issues in a timely manner to further strengthen the system of controls.
Unsatisfactory	Internal audit identified issues that indicate significant weaknesses in the design and/or operating effectiveness of controls. Management should take immediate action to establish a satisfactory system of controls.

Other IAD Activities

In order to effectively implement its mandate, it is important for IAD to coordinate with other oversight and accountability units to ensure the collective breadth and depth of coverage by the oversight units results in 'optimum oversight' for WBG.

IAD's Facilitation of the Oversight Review

As a part of WBG's reform agenda, an institutional review of the oversight units was undertaken based on a self-assessment by the 5 "I"s with a subsequent external evaluation to be commissioned by WBG's Board. This self assessment was facilitated by IAD.

The 5 "I"s – Independent Evaluation Group (IEG), Inspection Panel (IPN), Integrity Vice Presidency (INT), Internal Audit Vice Presidency (IAD) and Compliance Advisor/Ombudsman (CAO) – are dedicated oversight and accountability units that report directly to the Board and/or to the President and support the Board's oversight by providing independent evaluations of operational performance, policy compliance, and development effectiveness to help WBG achieve its mission and maintain its reputation.

The 5 "I"s have different, but complementary mandates in supporting governance and accountability systems of WBG.

The self assessment focused on the following key objectives:

- Assessment of oversight and accountability units' mandates to ensure that the division of labor between the units was rational and efficient and that important areas of accountability were not left out.
- An examination of whether the units' current lines of reporting were appropriate.
- An assessment of the units' governance, paying attention to whether the necessary safeguards were in place to protect their independence.

The self assessment identified several opportunities for improvement, and the oversight units are working in collaboration to implement these improvements.

Coordination with the External Auditors

During FY10, the Vice President and Auditor General forged a stronger relationship with the external auditors, KPMG. Several benefits have already been achieved as a result of enhanced coordination with the external auditors:

- Better understanding of risk exposures and more valuable input into the risk assessment process;
- Open discussion on re-shaping the efforts for ICFR and an active discussion on an appropriate structure for ownership and controls;

- Active dialogue on key risk areas, which resulted in more emphasis on capital markets in the IAD FY11 Work Program; and
- Improved communication on areas of reliance.

IAD will continue to strengthen its relationship with the external auditors to fully leverage the different areas of expertise and knowledge.

Other IAD Activities

Access to Information

On July 1, 2010, the World Bank's new *Access to information Policy* took effect. This new policy aims to improve transparency, and is part of the internal reform agenda that is transforming WBG into a more transparent and accountable institution.

IAD's contribution to the transparency agenda is a commitment to provide more relevant public reporting on WBG's governance, risk management and control processes. In February 2010, IAD reviewed its disclosure processes in light of the Bank's new policy and through discussions with the President and the Audit Committee, agreed that in addition to the publicly disclosed Annual Report, IAD's Quarterly Activity Reports will also be made publicly available.

The Quarterly Activity Report provides a high level overview of IAD's Work Program delivery, engagement outcomes and VPU-wide initiatives.

IAD's approach to public disclosure was approved by the Board in February 2010.

Quality Assurance and Improvement Program

Towards the end of FY10, IAD started an initiative to establish a formal Quality Assurance and Improvement Program (QAIP) within IAD. The QAIP aims to instill consistent quality and discipline in carrying out IAD activities, and to further demonstrate IAD's continued compliance with the Institute of Internal Auditors ("IIA") Standards. The QAIP will be fully developed by FY11, and will be based upon three pillars:

- Ongoing monitoring
- Periodic internal assessment
- External quality assessment

While building the QAIP, the "ongoing monitoring" pillar was pilot-tested. An engagement was selected for the pilot review, and results were internally deliberated, with a view to improving the approach and the tools to be used for subsequent quality reviews.

At the time of the issuance of this report, the QAIP was being finalized and additional engagement reviews were being performed. The results of ongoing monitoring reviews will highlight the following:

- Instances of non-compliance with IAD policies and procedures and best practices;
- Improvement actions that will feed into the ongoing quality and improvement program;
- Monitoring of the improvement actions and how they are being incorporated in the execution of audit reviews.

The QAIP and the results from the reviews of selected engagements will be shared with the Audit Committee.

IAD's Budget and Staffing

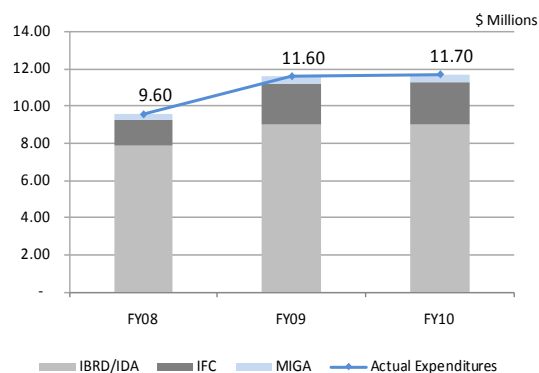
Budget

In FY10, IAD had a budget of \$11.9 million, and total expenditures of \$11.7 million, representing 98% of the budget.

IAD has continually managed to stay within the overall IAD budget, as shown in **Figure 6**. This is a result of maintaining a tight budget discipline and consciously designing IAD activities that are cost effective, yet provide the most value to WBG.

With a flat budget for FY11, IAD will need to be more focused on fiscal responsibility and be strategic in delivering the annual Work Program.

Figure 6: Historical Budget Allocation and Actual Expenditures



Staffing

At the end of FY10, IAD had 51 full time staff, 92% of whom are certified or accredited by relevant professional organizations. Diversity continues to be a priority focus in recruitment and staff development decisions. IAD continues to be the leader in diversity, with professionals from Sub-Saharan African and Caribbean nationalities at 20% and female managers at 40%, compared with the WBG average of 8.9% and 33%, respectively. The number of managers from Part II countries remained at 40%, which was in line with the WBG average of 40.2%.

IAD continued to celebrate diversity at staff events and organize multicultural activities, providing opportunities for staff to share customs and traditions with colleagues.

Figure 7: Diversity Diamond

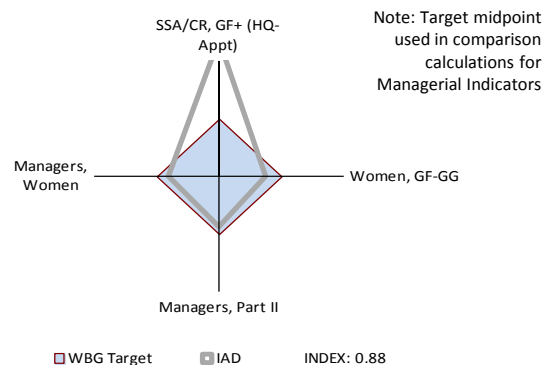
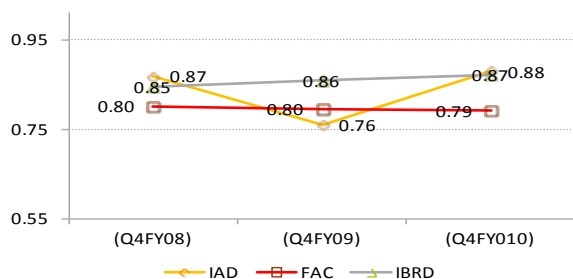


Figure 8: Diversity Index



Diversity Index: trend line

Professionals from Sub-Saharan African and Caribbean nationalities are at 20% and female managers at 40%, making IAD a high performer when measured against the Bank's index.

Appendix A: FY10 Audit Reports

IBRD/IDA

#	Engagements	Report Number	Date Issued
01	Audit of Bank Activities in Iran	IBRD FY10-01	28-Jul-09
02	Report on a Special Review of the Activities of the Project Management Unit of the Financial Sector Reform and Strengthening Initiative	IBRD FY10-02	27-Jul-09
03	Report on Compliance Testing to Support Management's FY09 IBRD Assertion on Disclosures Controls and Procedures over External Financial Reporting	IBRD FY10-03	28-Jul-09
04	Audit of Bank Activities in Nicaragua	IBRD FY10-04	29-Jul-09
05	Report on an Audit of the Bank's Planning, Budgeting and Performance Management Process	IBRD FY10-05	31-Aug-09
06	Report on an Audit of the Bank's Disbursement Process	IBRD FY10-07	23-Sep-09
07	Compliance Testing to Support IBRD/IDA Management's FY09 Assertion on Internal Control Over Financial Reporting	IBRD FY10-08	8-Oct-09
08	Audit of the Management of Bank Group Demilitarized Zones	IBRD FY10-09	30-Sep-09
09	Audit of Bank Activities in Angola	IBRD FY10-11	17-Nov-09
10	Audit of the Financial and Administrative Functions of the Bank's Office in Belarus	IBRD FY10-13	24-Nov-09
11	Audit of Bank Activities in Ukraine	IBRD FY10-14	7-Dec-09
12	Audit of Bank Activities in the Republic of Congo	IBRD FY10-15	9-Dec-09
13	Audit of SAP Infrastructure Security	IBRD FY10-17	17-Dec-09
14	Audit of Bank Data Center Operations	IBRD FY10-18	18-Dec-09
15	Audit of Bank Activities in Mozambique	IBRD FY10-20	25-Jan-10
16	Audit of Bank Activities in Zimbabwe	IBRD FY10-21	25-Jan-10
17	Review of the Implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan (Phase I)	IBRD FY10-23	17-Feb-10

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.

Appendix A: FY10 Audit Reports

IBRD/IDA (continued)

#	Engagements	Report Number	Date Issued
18	Advisory Engagement Related to the World Bank Community Connections Fund	IBRD FY10-24	10-Mar-10
19	Audit of the Bank's Electronic Mail (email) System	IBRD FY10-25	31-Mar-10
20	Audit of Bank Activities in Sudan	IBRD FY10-26	6-Apr-10
21	Audit of Bank Activities in Zambia	IBRD FY10-27	6-Apr-10
22	Audit of Bank Activities in Afghanistan	IBRD FY10-28	21-Apr-10
23	Advisory Engagement Related to the Cross Support and Trust Fund Administration Arrangements in the Development Communications Unit of the External Affairs Vice Presidency	IBRD FY10-29	12-May-10
24	Advisory Engagement on the Bank's Development of a Carbon Finance Contract Management System from the Business Process Perspective	IBRD FY10-31	18-May-10
25	Review of the Implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan (Phase II)	IBRD FY10-32	20-May-10
26	Audit of the Bank's Process for Administering the Trust Funds of International finance Facility for Immunization (IFFIm) and GAVI Fund Affiliate (GFA)	IBRD FY10-33	27-May-10
27	Report on an Audit of the Bank's Process for Administering Carbon Funds	IBRD FY10-34	11-Jun-10
28	Report on an Audit of the Bank's Process for Administering the Education for All-Fast Track Initiative Trust Funds	IBRD FY10-36	23-Jun-10
29	Report on an Audit of the Bank's Global Food Crisis Response Program	IBRD FY10-38	24-Jun-10
30	Report on an Audit of Post-Implementation Review of the Security and Controls of Bank's SUMMIT System	IBRD FY10-39	28-Jun-10
31	Advisory Engagement on the Bank's Operations and Knowledge Systems Program (OKSP) under Development	IBRD FY10-40	29-Jun-10
32	Audit of the Bank's Processes for Managing Development Policy Operations	IBRD FY10-41	29-Jun-10

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.

Appendix A: FY10 Audit Reports

IBRD/IDA (continued)

#	Engagements	Report Number	Date Issued
33	Report on the Performance of Agreed-upon Procedures to Support HRS Management's Review of Employee Benefits Programs	IBRD FY10-42	1-Jul-10
34	Summary of Thematic Issues in Country Operations Audits	WBG FY10-03	12-Jan-10

IFC

#	Engagements	Report Number	Date Issued
35	Audit of the Activities of the Corporate Business Informatics Department	IFC FY10-01	22-Jul-09
36	Audit of the Activities of the IFC Human Resources and Facilities Department	IFC FY10-02	3-Aug-09
37	Audit of IFC's South Asia Enterprise Development Facility	IFC FY10-03	11-Aug-09
38	Audit of IFC's China Private Enterprise Partnership	IFC FY10-04	16-Sep-09
39	Audit of IFC Email System	IFC FY10-05	18-Dec-09
40	Audit of the Activities of the IFC South Asia Department	IFC FY10-06	29-Dec-09
41	Audit of the Activities of the IFC East Asia and Pacific Department	IFC FY10-07	16-Feb-10
42	Report on the Audit of IFC's Carbon Finance Activities	IFC FY10-08	18-Jun-10
43	Report on the Activities of the IFC's Global Trade Finance Program (GTFP)	IFC FY10-09	29-Jun-10

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.

Appendix A: FY10 Audit Reports

MIGA

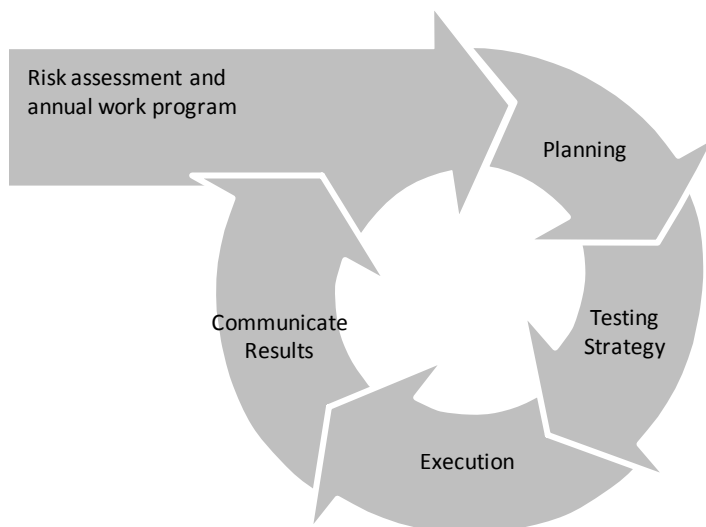
#	Engagements	Report Number	Date Issued
44	Compliance Testing to Support MIGA Management's FY09 Assertion on Internal Control Over Financial Reporting	MIGA FY10-01	14-Oct-09
45	Audit of MIGA's COSO Process	MIGA FY10-02	3-Mar-10
46	Advisory Engagement over the MIGA Guarantee System Replacement Project	MIGA FY10-03	10-Jun-10

WBG

#	Engagements	Report Number	Date Issued
47	Audit of the Process for Managing World Bank Group Contractual Service Expenses	IBRD FY10-30	14-May-10
48	Report on Audit of the Process for Managing World Bank Group Short Term Consultants and Short Term Temporaries	IBRD FY10-35	23-Jun-10
49	Report on an Audit of the Process for Managing World Bank Group Travel Expenses	IBRD FY10-37	23-Jun-10
50	Summary of Key Information Technology Issues Reported by IAD	WBG FY10-02	12-Jan-10
51	Audit of WBG Software Licensing	WBG FY10-07	30-Jun-10
52	Audit of the Management of WBG Enterprise Desktop	WBG FY10-08	2-Jul-10

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.

Appendix B: The Audit Lifecycle



The audit process is designed to be an iterative process whereby audit results continue to build IAD's understanding of governance, risk management and control processes within the institution. This allows IAD to focus on key areas where WBG needs to further strengthen its control environment.

	Inputs	Outputs
Risk Assessment and Annual Work Program	<ul style="list-style-type: none"> ▶ Business plan ▶ Strategic initiatives ▶ Views of Board ▶ View of management ▶ Auditor's institutional knowledge ▶ Results of Integrated Risk Management Reviews 	<ul style="list-style-type: none"> ▶ Risk and process prioritization ▶ Annual Work Program
Planning	<ul style="list-style-type: none"> ▶ Initial risk assessment results ▶ Discussion with line management 	<ul style="list-style-type: none"> ▶ Audit scope ▶ Terms of reference ▶ Risk and control matrices
Testing Strategy	<ul style="list-style-type: none"> ▶ Walkthroughs ▶ Risk and controls ▶ Sampling methodology 	<ul style="list-style-type: none"> ▶ Prioritization of risks and controls ▶ Nature, extent and timing of procedures ▶ Risk and control matrices
Execution	<ul style="list-style-type: none"> ▶ Risk and control matrices ▶ Supporting documentation for controls 	<ul style="list-style-type: none"> ▶ Audit reports
Communicate Results	<ul style="list-style-type: none"> ▶ Audit reports ▶ Management action plans to issues raised and follow up 	<ul style="list-style-type: none"> ▶ High risk issues and overdue management action plans reported to the Audit Committee ▶ Thematic issues ▶ Updates to the risk assessment

Internal Audit 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.



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