

Internal Audit Vice Presidency (IADVP)

FY10 Fourth Quarter Activity Report

April to June 2010

IAD Report No. WBG FY10-09
October 29, 2010



Executive Summary

1	During FY10 Q4, 22 engagements were completed by IAD. These engagements covered key strategic programs, global partnerships, trust funds, key operational and corporate processes and information technology areas.
2	IAD issued its report upon completion of Phase II of the IDA Internal Controls Action Plan Implementation by management. The focus of the review was on the design effectiveness of specific measures for corrective actions. Management has strengthened fiduciary controls, enhanced systems and developed tools for the risk-based approach to project preparation and implementation.
3	IAD's review of the IBRD/IDA's carbon finance activities indicated that Management is placing focus on strengthening documentation standards and guidelines for carbon finance projects, and is increasing collaboration between units to improve administration of carbon funds. The controls over IFC's administration of its carbon finance activities were operating as designed.
4	IAD's review of IBRD/IDA's crisis response initiatives and global programs and partnerships indicated that controls related to the management of select programs were operating effectively. At the same time, the need for a more systematic approach to identifying risks related to partnerships was recognized. With IFC embarking on innovative products and with the expectation of fast execution, IFC needs to ensure that guidelines, information systems and frameworks for measuring developmental impact do not lag behind.
5	In response to IAD's recommendations in the information technology area, management is in the process of developing a Software Asset Management (SAM) process, to systematically monitor compliance with license agreements. Management is also enhancing the standard data wiping methodology for future deployments and strengthening controls over portable media devices.
6	IAD completed a review of its risk assessment approach. Changes introduced include introduction of a mid-year risk assessment refresh and clear linkages with the risk taxonomies of the WBG entities.
7	IAD's FY11 Work Program was discussed at the Audit Committee in Q4. The proposed FY11 Work Program includes components of the WBG's strategic priorities and internal reforms.
8	Total expenditures at the end of FY10 were \$11.7 million, representing 98% of IAD's FY10 budget of \$11.9 million.

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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 during the quarter to Senior Management and the Audit Committee. This Quarterly Activity Report will also be publicly disclosed, under the Bank’s Access to Information Policy¹, July 1, 2010.

¹ 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.

1. Overview of FY10 Q4 Activities

During FY10 Q4, 22 engagements were completed by IAD.

The engagements spanned key strategic programs, global partnerships, trust funds, key operational and corporate processes and information technology areas.

IAD issued its second progress report covering Phase II of Management's IDA Internal Controls Remedial Action Work Program.

1. During FY10 Q4, 22 engagements were completed by IAD. These included five World Bank Group (WBG) wide engagements, 14 IBRD/IDA (Bank) engagements, two engagements for the International Financial Corporation (IFC) and one engagement for the Multilateral Investment Guarantee Agency (MIGA).
2. The engagements completed during FY10 Q4 spanned several thematic areas and covered reviews of key strategic programs, global partnerships, trust funds, operational processes, country operations, corporate and administrative processes and information technology areas.
3. IAD's reviews during FY10 Q4 also covered key areas such as carbon finance activities, and crisis response initiatives and programs. Programs covered during Q4 included the IBRD/IDA's Global Food Crisis Response Program and IFC's Global Trade Finance Program.
4. As part of the reviews of trust fund programs and global partnerships, IAD conducted reviews of the IBRD/IDA's Process for Administering the Trust Funds of International Finance Facility for Immunization (IFFIm) and the Education-for-all Fast Track Initiative Trust Funds.
5. IAD completed and issued during FY10 Q4, its second progress report covering Phase II of Management's IDA Internal Controls Remedial Action Work Program.
6. Key information technology areas covered during FY10 Q4 included reviews of the Bank's SUMMIT application system, and processes relating to WBG Software Licensing and Enterprise Desktop.
7. IAD also prepared its FY11 Work Program for discussion with Senior Management and Audit Committee in Q4.

2. Summary of Key Engagement Outcomes

Management has strengthened fiduciary controls, enhanced systems and developed tools for the risk-based approach to project preparation and implementation and improved controls to address IT system vulnerability.

1. **Review of the Implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan:**

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 Group'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". Management took the issues identified seriously and 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 has undertaken a review of the implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan. At the end of Q4, progress made by Management on all corrective actions was verified by IAD. Specifically, for each corrective action, IAD confirmed that management's implementation of 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.

Management has developed frameworks and tools to address internal control weaknesses found, 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's review provides an opinion 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.

2. Summary of Key Engagement Outcomes (cont'd)

Management is placing focus on strengthening documentation standards and guidelines for carbon finance projects, and is increasing collaboration between units to improve administration of carbon funds.

The controls over IFC's administration of its carbon finance activities were operating as designed.

2. Engagements related to Carbon Finance Activities:

- i. **Audit of IBRD/IDA's Process for Administering Carbon Funds:** The engagement covered key controls related to the establishment and management of Carbon Funds, including project preparation, supervision and delivery of emission reductions to donors. The results indicated that management still needs to focus on maintaining consistency in documentation standards and guidelines for stand-alone carbon finance projects and due diligence requirements for private sector entities. In addition, while participation between different units involved in administering carbon funds was noticed, greater benefit would be derived in increased collaboration between the units.

As a step towards enhancing its standards, the Carbon Finance Unit has introduced a new information system to automate the manual processes and improve controls relating to the emission reduction payments and contract management. This contract management system was put in place since contracts are maturing and the volume of disbursements is expected to increase. Management has also agreed to integrate carbon finance projects into the Bank Operations Portal as a first step to increased transparency and collaboration.

- ii. **Advisory Engagement on IBRD/IDA's Development of a Carbon Finance Contract Management System:** IAD reviewed the design of the Emissions Management and Payment System and provided advice in the areas relating to segregation of front office duties from those of the back office, supplemental manual controls, transaction monitoring management reports, and interface reconciliations with other Bank systems. Management has updated the business requirements documentation and has included all the relevant aspects in the functional specification documents.
- iii. **Audit of IFC's Carbon Finance Activities:** IAD's review indicated that controls over IFC's administration of its carbon finance activities were operating as designed. These activities included approval of projects, compliance with operational procedures and controls, accounting, information systems and reporting. It also covered administration of emission reduction purchase agreements.

2. Summary of Key Engagement Outcomes (cont'd)

Despite the challenges posed by the fragile security situation in Afghanistan and Sudan, management has been proactive in managing emerging risks.

IAD's review of IBRD/IDA's crisis response initiatives and global programs and partnerships indicated that controls related to the management of select programs were operating effectively. At the same time, the need for a more systematic approach to identifying risks related to partnerships was recognized.

With IFC embarking on innovative products and with the expectation of fast execution, IFC needs to ensure that guidelines, information systems and frameworks for measuring developmental impact do not lag behind.

3. **Engagements related to IBRD/IDA Activities in Afghanistan and Sudan:**
The results of these audits indicated that challenges posed by the fragile security situation in these countries, such as the absence of physical infrastructure, corruption and difficulty in attracting qualified staff, make it difficult to fully mitigate fiduciary risks. In addition, the required speed to deploy resources in crisis countries does not always allow for upfront documentation of the risks assessed during implementation and mission/back to office reports. Management is being proactive in addressing these issues, such as leveraging technology to supervise projects' physical progress, working closely with the country ministries, and finding ways to improve living conditions for staff. In addition, Management has committed to improving the documentation on results of project supervision.
4. **Engagements related to Crisis Response Initiatives and Global Programs and Partnerships:**
 - i. **Audit of the IBRD/IDA's Global Food Crisis Response Program:**
Controls related to the management of the program were adequate and effective and the IBRD/IDA's rapid response to the global food crisis was facilitated through appropriate guidance to staff.
 - ii. **Audit of Activities of the IFC's Global Trade Finance Program (GTFFP):** IFC has embarked upon developing innovative products in order to be more responsive to users' needs. Due to the speed with which products are launched, IFC needs to ensure that guidelines and protocols do not lag behind, and that controls are put in place. In response to IAD's recommendations, management has agreed to devise a development impact framework, enhance the documentation of operational procedures and strengthen information security controls.
 - iii. **Audit of the IBRD/IDA's Process for Administering the Trust Funds of International Finance Facility for Immunization (IFFIm) and GAVI Fund Affiliate (GVA):** Controls related to the administration of the IFFIm and GFA trust funds were adequate and effective. To further strengthen controls at the corporate level, management has agreed to develop an approach for progress reporting and for formulating procedures for assessment and management of reputational risks relating to partnership engagements.
 - iv. **Audit of the IBRD/IDA's Process for Administering the Education-for-All Fast Track Initiative Trust Funds:** Processes were adequate and effective to provide assurance over achievement of control objectives.

2. Summary of Key Engagement Outcomes (cont'd)

5. Engagements related to WBG Corporate and Administrative Processes:

- i. **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. Based on IAD's recommendations, Management is implementing several control enhancements in the areas relating to exception reporting, risk based evaluation for security clearance process, updates to master records and evaluation of options for diagnostic reviews.
- ii. **Audits of the Processes relating to World Bank Group Contractual Services and Travel Expenditures:** The results indicated that controls over these processes were generally adequate and effective.

6. Information Technology Areas:

- i. **Audit of Post-Implementation Review of the Security and Controls of IBRD/IDA's Summit System:** IAD's review covered the design of application-specific controls as well as system implementation processes including the design of data conversion methods, design of testing methods and end-user training. Management is implementing specific measures to address IAD's recommendations on conduct of periodic role rationalization exercises, as well as clear delineation of roles and responsibilities with regard to security accreditation, issue tracking and resolution.
- ii. **Audit of WBG Software Licensing:** The review covered controls over acquisition of software licenses, compliance with policies and safeguarding of licenses across WBG, including country offices. IAD's recommendations related to the areas of software lifecycle management, maintenance of software asset inventory and pro-active, centralized monitoring of compliance with license agreements. In response, 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.

Management is in the process of developing a Software Asset Management (SAM) process, including related tools to support the SAM process.

2. Summary of Key Engagement Outcomes (cont'd)

- iii. **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 for future deployments and is also strengthening controls over portable media devices.
- iv. **Advisory Engagement on the IBRD/IDA's Operations and Knowledge Systems Program:** Project Management practices were well controlled and were in accordance with project development standards.
- v. **Advisory Engagement over MIGA Guarantee System Replacement Project:** IAD provided advice on the software development methodology and related procedures. The recommendations are under implementation.

7. Other Areas:

- i. **Audit of the IBRD/IDA's Process for Managing Development Policy Operations:** Controls were adequate and effective. Minor opportunities for improvement existed in the areas relating to documentation of risk management and meeting decisions.
- ii. **Performance of Agreed-Upon Procedures to Support Review of Employee Benefit Programs:** IAD performed testing of selected employee benefit programs. The results indicated that the set up tables and formulae were consistent with the requirements of the underlying policy.

Controls over the IBRD/IDA process for managing development policy operations were adequate and effective.

3. Risk Assessment Approach and Proposed FY11 Work Program

Key changes in IAD's risk assessment approach include introduction of a mid-year risk assessment refresh and clear linkages with the risk taxonomies of the WBG entities.

IAD's FY11 Work Program includes components of the WBG's strategic priorities and internal reforms and covers the majority of the high-risk business and IT processes.

1. IAD completed a systematic review of its risk assessment approach during Q4. The following key methodological changes were introduced:
 - i. In order to have a consistent view of the risks facing each entity, IAD integrated and utilized the risk frameworks and taxonomies established by the IBRD/IDA, IFC and MIGA into its own risk assessment approach.
 - ii. A mid-year risk assessment refresh was also introduced as part of the methodology enhancement to ensure that the risk assessment exercise is a continuous and dynamic process that captures emerging risks and changes in risk profiles.
 - iii. Clearer linkages between the business processes and the underlying risks were established by streamlining and re-organizing the audit universe to better define an auditable area and its risk profile. The net effect was a reduction in the number of processes in the audit universe.
 - iv. Guiding principles were established for coverage of high, medium and low risks.
2. IAD prepared its FY11 Work Program for discussion with Senior Management and Audit Committee in Q4, drawing on the results of the review of its risk assessment approach.
3. IAD's FY11 Work Program includes components of the WBG's strategic priorities and internal reforms. Specific examples of key strategic initiatives and themes covered by IAD's FY11 Work Program include implementation aspects of the Access to Information Policy and the Information Management and Technology (IMT) strategy, use of trust funds in country operations, knowledge management, valuation models and credit and market risk management.
4. The proposed FY11 Work Program covers the majority of the high-risk business and IT processes. While preparing the FY11 Work Program, IAD took into consideration the activities performed by other oversight and management control units to minimize duplication of effort and to optimize risk coverage.

4. Staffing and Resource Utilization

Total expenditures at the end of FY10 were \$11.7 million, representing 98% of IAD's FY10 budget of \$11.9 million.

1. During FY10 Q4, Mr. Mouhamadou Diagne, was appointed as the new IAD Corporate Processes Manager. Mr. Diagne joined the Bank from Fannie Mae, where he had been Director of Internal Audit since 2003. Prior to that, he worked for both Ernst & Young and Deloitte & Touche in senior audit positions.
2. Manager for the Development Operations team, Ms. Yuko Keicho, was also appointed during the quarter. Ms. Keicho joined IFC in 1995 as an Investment Officer and rejoined the WBG in the internal audit function in 2002, after spending four years in the Inter-American Investment Corporation.
3. During the quarter, one staff member took up a two year external service assignment to India while another staff member accepted a development assignment in the Development Economics Unit (DEC) of the Bank.
4. As of June 30, 2010, IAD had a headcount of 51 staff, including HQ and field-based offices.
5. Total expenditures during FY10 Q4 were \$3.6 million. Total expenditures at the end of FY10 were \$11.7 million, representing 98% of IAD's FY10 budget of \$11.9 million.

Annex 1: List of Engagements Completed during FY10 Q4

WBG Engagements (covering processes across IBRD/IDA, IFC & MIGA)				
No.	Entity	Engagement Title	Report No.	Date Issued
1	WBG	Process for Managing World Bank Group Contractual Service Expenses	IBRD FY10-30	14-May-10
2	WBG	Process for Managing World Bank Group Short Term Consultants and Short Term Temporaries	IBRD FY10-35	23-Jun-10
3	WBG	Process for Managing World Bank Group Travel Expenses	IBRD FY10-37	27-Jun-10
4	WBG	WBG Software Licensing	WBG FY10-07	30-Jun-10
5	WBG	Management of WBG Enterprise Desktop	WBG FY10-08	30-Jun-10

IBRD/IDA Engagements				
No.	Entity	Engagement Title	Report No.	Date Issued
6	IBRD/IDA	Bank Activities in Sudan	IBRD FY10-26	6-Apr-10
7	IBRD/IDA	Bank Activities in Zambia	IBRD FY10-27	6-Apr-10
8	IBRD/IDA	Bank Activities in Afghanistan	IBRD FY10-28	21-Apr-10
9	IBRD/IDA	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
10	IBRD/IDA	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
11	IBRD/IDA	Review of the Implementation of Management's IDA Internal Controls Assessment 5-Point Action Plan (Phase II)	IBRD FY10-32	20-May-10
12	IBRD/IDA	Process for Administering the Trust Funds of International finance Facility for Immunization (IFFIm) and GAVI Fund Affiliate (GFA)	IBRD FY10-33	27-May-10
13	IBRD/IDA	Process for Administering Carbon Funds	IBRD FY10-34	11-Jun-10

14	IBRD/IDA	Process for Administering the Education for All-Fast Track Initiative Trust Funds	IBRD FY10-36	23-Jun-10
15	IBRD/IDA	Global Food Crisis Response Program	IBRD FY10-38	24-Jun-10
16	IBRD/IDA	Post-Implementation Review of the Security and Controls of Bank's SUMMIT System	IBRD FY10-39	28-Jun-10
17	IBRD/IDA	Advisory Engagement on the Bank's Operations and Knowledge Systems Program (OKSP) under Development	IBRD FY10-40	29-Jun-10
18	IBRD/IDA	Bank's Process for Managing Development Policy Operations	IBRD FY10-41	29-Jun-10
19	IBRD/IDA	Performance of Agreed-upon Procedures to Support HRS Management's Review of Employee Benefits Programs	IBRD FY10-42	30-Jun-10

IFC Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
20	IFC	IFC's Carbon Finance Activities	IFC FY10-08	18-Jun-10
21	IFC	IFC's Global Trade Finance Program	IFC FY10-09	29-Jun-10

MIGA Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
22	MIGA	Advisory Engagement over the MIGA Guarantee System Replacement Project	MIGA FY10-03	10-Jun-10