



World Bank Group

Internal Auditing Department FY08 Annual Report

**Including Overall Opinions on
Governance, Risk Management, and Controls
for IBRD/IDA, IFC, and MIGA**

IAD Report No. IBRD FY09-19

January 13, 2009

ABBREVIATIONS

AAA	Analytic and Advisory Activities
COSO	Committee of Sponsoring Organizations of the Treadway Commission
HQ	Headquarters
IAD	Internal Auditing Department
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IIA	Institute of Internal Auditors
INT	Department of Institutional Integrity
ISG	Information Solutions Group
IT	Information Technology
MIGA	Multilateral Investment Guarantee Agency
QAG	Quality Assurance Group
WBG	World Bank Group



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Introduction

1. This document provides the overall opinions of the Auditor General of the World Bank Group (WBG) on governance, risk management and control processes in the World Bank (the Bank), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) for the year ended June 30, 2008, together with a description of the process followed to arrive at the opinions¹. It describes the mandate, organizational structure, and resources of the WBG Internal Auditing Department; it outlines the risk-based planning process employed in developing the IAD Work Program, upon the results of which the opinion is based; it describes the process for reporting and following up on the results of individual audit engagements; and for each of the three institutions, it outlines any limitation of audit coverage affecting the opinion and summarizes significant results of audit engagements carried out during the period.

Internal Auditing Mandate

2. The Internal Auditing Department (IAD) helps the World Bank Group achieve its mission by providing objective assurance and advice that add value, influencing changes that enhance management practices, and improving accountability for results. IAD conducts its work in all organizational activities (including trust funded operations) in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* promulgated by the Institute of Internal Auditors. IAD's work focuses on assessing whether governance, risk management and control processes provide reasonable assurance that:

- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently;
- assets are safeguarded;
- actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and,
- significant programs, plans, and business objectives will be achieved.

3. The terms of reference for IAD formally define its purpose, authority and responsibility. IAD reports directly to the President and to the Board through the Audit Committee to ensure the independence required to carry out its work objectively. Certain revisions to IAD's terms of reference (last updated in 2002) were approved in principle by the President in March 2008, and will be considered by the Audit Committee prior to submission for Board approval as required by the *Standards*.

¹ No results are included for ICSID which has an independent reporting structure.

IAD Organizational Structure and Resources

4. IAD comprises a diverse group of professionals providing assurance and advisory services across all operations of the World Bank Group. IAD is organized into five dedicated work teams, each headed by a manager or lead specialist: four of the teams carry out audit work in assigned areas (Corporate Processes, Development Operations, Information Technology, and Country Operations), while the fifth (Audit Quality and Strategy) supports the Auditor General in managing audit processes and resources.

5. IAD receives a budget on an annual basis. Table 1 shows the total actual expenditures by IAD from FY06 to FY08, as well as the budget and plan for FY09 and FY10 respectively. IAD considers its allocated budget to be sufficient to carry out planned audit work.

Table 1: IAD Resources FY06-FY10

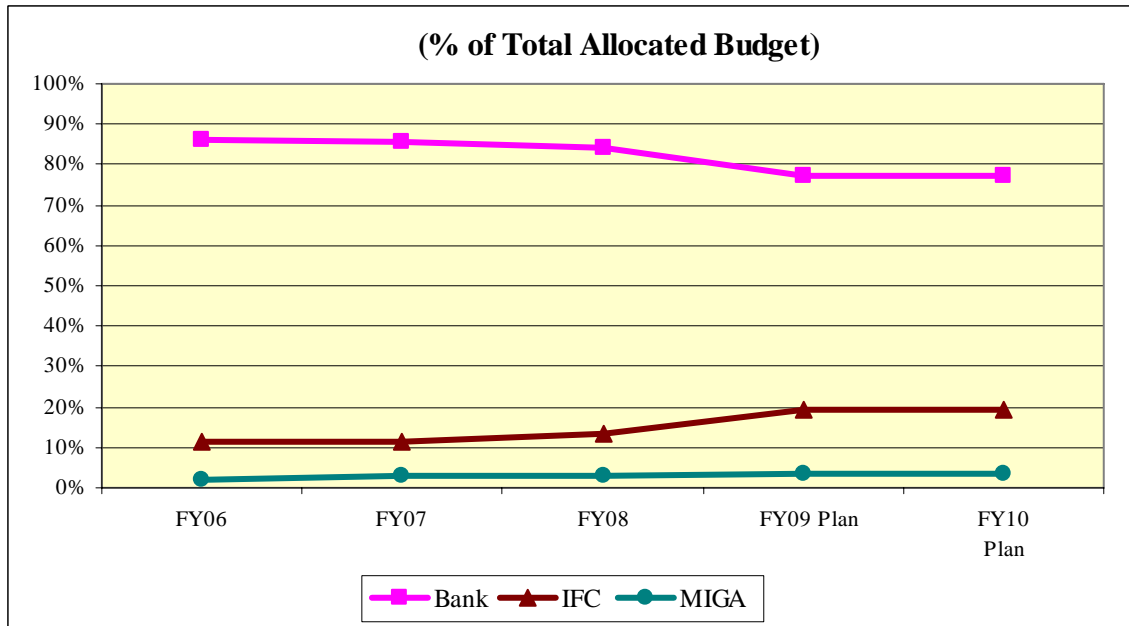
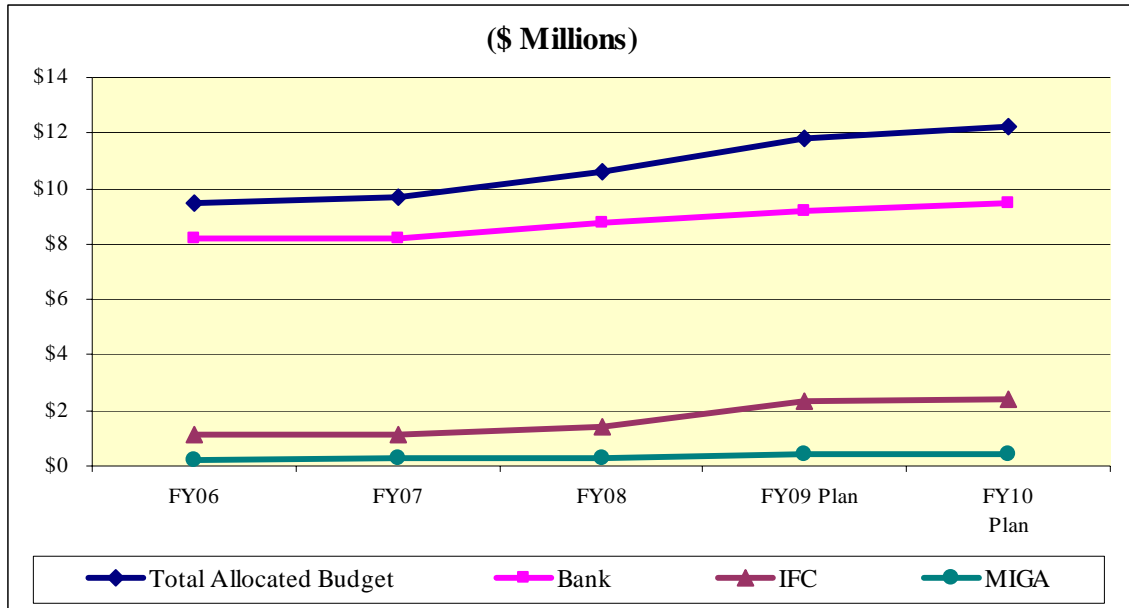
	(\$Millions)				
	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Budget	FY10 Plan
Total Budget Allocated	\$9.5	\$9.7	\$10.6	\$11.8	\$12.2*
Actual Expenditures	9.1	9.6	9.6		
<i>Of which</i>					
Bank	7.8	8.2	7.9	9.2	9.4
IFC	1.1	1.1	1.4	2.2	2.4
MIGA	0.2	0.3	0.3	0.4	0.4
Growth Rate of Budget (Actual)	-	2% (5%)	9% (0%)	11%	3%*
Share of Resources Provided by:					
Bank	86%	86%	82%	78%	77%
IFC	12%	11%	15%	19%	20%
MIGA	2%	3%	3%	3%	3%

* Flat Budget assumed for FY10 with nominal 3% increase

6. IAD under spent its FY08 budget by 9% or USD1.0 million due to delays in recruitments and consequential deferrals of a number of audits.

7. In FY08, resource allocations were increased to partially offset the cost of additional work IAD had taken on in the Bank for testing internal controls over financial reporting on behalf of management, and for conducting readiness assessments of similar plans for IFC and MIGA. Internal Audit's conduct of this testing allows greater reliance by external auditors while informing IAD's comprehension of key financial reporting risks and controls. Increases for FY09 will cover the cost of additional internal audit work related to decentralization of IFC operations, and testing of internal controls over financial reporting in both IFC and MIGA.

Figure 1: IAD Budgeted Resources - Trend FY06-FY10



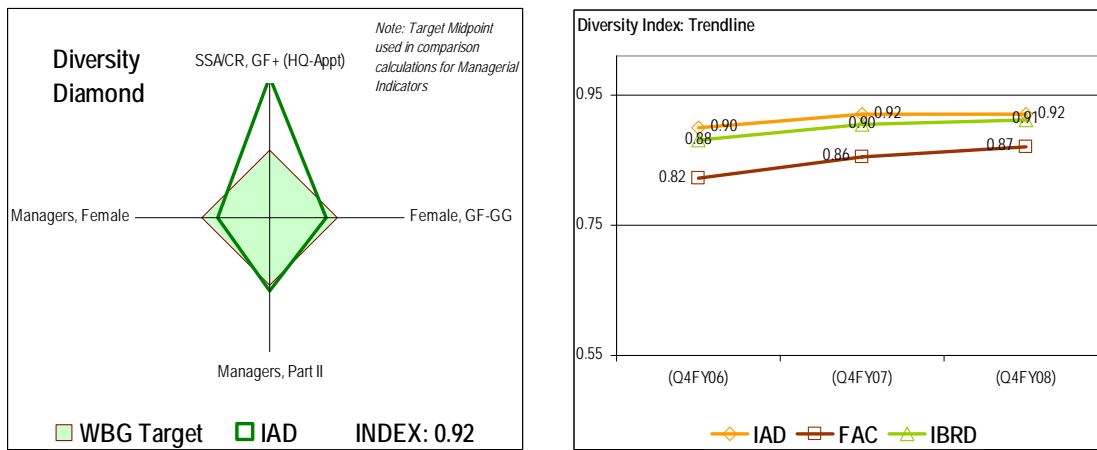
8. In FY08, IAD planned to staff 55 positions, 47 based in headquarters and 8 in Chennai and Cairo. However, ten positions remained vacant at the end of the year (which have since been filled), the result of recruitment delays, unanticipated turnover, and developmental assignments. The growth in staffing in IAD since FY06 is shown in Table 2.

Table 2: IAD Staffing Levels FY06-FY10

	FY06	FY07	FY08	FY09 Plan	FY10 Plan
Year End Staff Complement	52	49	47	58	58
<i>HQ- based:</i>	43	41	42	48	48
<i>Field- based:</i>	9	8	5	10	10

9. Diversity continues to be a priority focus in recruitment and staff development decisions. The Q4 FY08 corporate diversity indicators and trends over the last two years are portrayed in Figure 2. Professionals from Sub-Saharan African and Caribbean nationalities have increased to 21.1% from 14.7%, and managers from Part II countries increased to 50% from one-third during that period. Conscious efforts will continue to attract female candidates and under-represented nationalities, and targeted development program opportunities are being explored with Human Resources to use IAD to attract and develop a pool of qualified candidates from these groups to feed other functions' future needs.

Figure 2: Diversity Diamond & Diversity Index Trend End of FY08



10. Currently IAD field-based teams are located in Chennai and Cairo. As the Bank and IFC continue to decentralize, IAD plans to closely follow the developments to consider additional field locations. This would allow IAD to be more responsive to client developments and emerging issues through proximity, as well as leverage and develop local technical, operational, and language skills.

11. At the end of the year, 95 percent of professional audit staff held audit-related qualifications with 72 percent holding the Certified Internal Auditor (CIA) designation.

Risk Assessment and Work Program Preparation Process

12. IAD’s risk assessment and work program preparation process consists of the six steps briefly described below.

Step 1: Updating the Audit Universe

13. The universe of auditable “entities” consists of (i) key business processes within each World Bank Group institution; (ii) Headquarters, Sector, and Regional Units at the Vice President level; (iii) Country Units at the Director level, most of which comprise multiple countries; and (iv) Information Technology areas of focus. These entities form the basis for selecting audits within a given period. The current organization structure and existing business process inventories are used as the starting point for updating IAD’s audit universe. The number and types of entities in the audit universe for each World Bank organization are listed in Table 3.

Table 3: IAD Audit Universe

Entity Type	TOTAL	IBRD/IDA	IFC	MIGA	ICSID
Business Processes	139	55	55	29	
Headquarters Units	50	34	13	2	1
Country Directional Units	50	43	7		
IT Areas	8	4	4		
Total	247	136	79	31	1

Step 2: Assessing Impact and Likelihood of Significant or Pervasive Deficiencies

14. Using information gained from audit and client relationship management work, as well as relevant institutional strategies, business plans and reports, each entity is reviewed and a rating assigned for:

- the *impact* that significant or pervasive deficiencies within each business process, unit, or IT area would have on the ability of the concerned WBG institution to achieve its objectives; and,
- the *likelihood* that significant or pervasive deficiencies actually exist within each business process, unit, or IT area, taking into account the quality of existing governance, risk management, and control or mitigation mechanisms.

15. The ratings are based on information gathered from various sources, including:

- institutional strategies, business plans, budget documents, trust funds reports, and relevant reports or studies conducted by others;
- INT, QAG, and IEG reports and work programs;

- IAD knowledge gleaned from relationship management efforts;
- results of internal auditing activities and reports during the previous 2 years;
- Bank Risk Scans, and Bank, IFC, and MIGA annual COSO reports; and,
- external auditor management letters.

16. *Impact* and *Likelihood* are quantified based on the Risk Rating Scale Descriptions used for the Bank’s Risk Scan exercises (tailored slightly for audit purposes - Table 4).

Table 4: Risk Rating Scale Descriptions

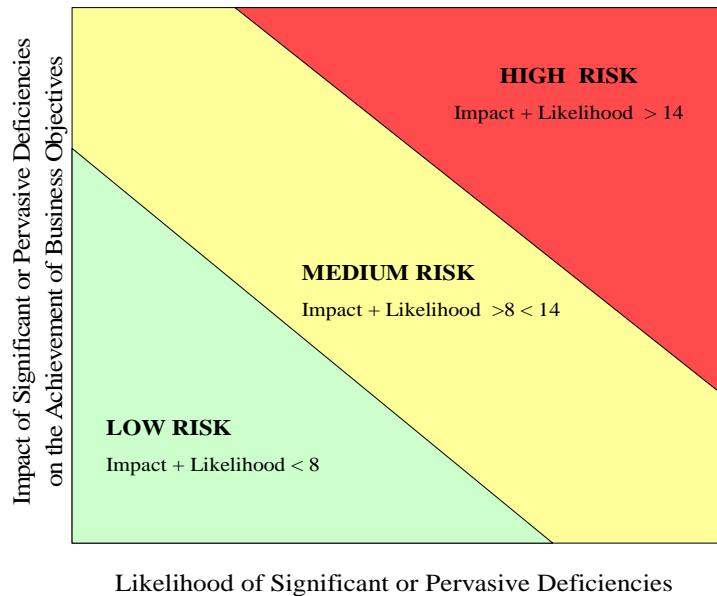
IMPACT		LIKELIHOOD	
Rating	Description	Rating	Description
10	<i>Catastrophic</i> impact	10	<i>Virtually certain</i> existence
9	<i>Crisis</i> requiring urgent, extensive action by management—including Board involvement.	9	<i>Very likely</i> to exist; extensive precedents
8	<i>Major disruption</i> , requiring urgent action by senior management and close involvement by MDs/EVPs and/or the President.	8	<i>Likely</i> to exist; many precedents
7	<i>Disruption</i> requiring close involvement at least at the VP level with costly remedies.	7	<i>Likely</i> to exist; some precedents
6	<i>Significant impact</i> , requiring costly remedial action but only minor involvement by VP-level management.	6	<i>More likely than not</i> to exist
5	<i>Moderate impact</i> , requiring remedial action as soon as possible, but not senior (e.g., VP-level) management involvement.	5	<i>Likelihood Unknown</i> ; unaware of precedents, or no direct audit coverage in previous two fiscal years
4	<i>Modest impact</i> requiring remedial action soon, with a clear cost.	4	<i>Unlikely</i> to exist but not unprecedented
3	<i>Low impact</i> , requiring some remedial action and minor costs.	3	<i>Unlikely</i> to exist and without precedent
2	<i>Very low impact</i> , with only minor corrective/preventive action.	2	<i>Very unlikely</i> to exist; would require highly unusual circumstances
1	<i>Negligible impact</i> , with no interference with any other activities and no financial cost.	1	<i>Virtually impossible</i> existence

Step 3: Identifying Entities with High Risk Ratings

17. The sum of *Impact* and *Likelihood* ratings represents the overall risk rating for each entity. Entities are considered high risk if their ratings sum to 14 points or above; medium risk if their ratings sum to between 8 and 14 points; and low risk if their ratings sum to 8 points or below, as shown on the Risk Map (see Figure 3). It is important to note that certain areas are deemed to be high risk due to their inherent importance to the organization or the impact that significant deficiencies would have, even though the judged likelihood of the existence of such deficiencies is relatively low.

18. Generally, all high risk entities are subject to audit; however, audits of high-risk business units also provide indirect audit coverage of medium- and low-risk business processes and IT areas, while audits of high-risk business processes also provide indirect audit coverage of medium- and low-risk units involved.

Figure 3: Risk Map



Step 4: Obtaining Input and Feedback from Stakeholders

19. Input on risk ratings and entities to be included in IAD’s work program is obtained from the following risk, control, monitoring, and evaluation units during group discussions: Controllers, Strategy and Resource Management, Independent Evaluation Group, Institutional Integrity, Quality Assurance Group, Trust Fund Quality Assurance and Compliance Unit, and IFC’s Risk Management and Business Risk Units. Thereafter, feedback on the risk ratings and on the audits to be included in the work program is requested from the Bank’s Managing Directors; the Bank Group’s Chief Financial

Officer; all Bank Group Vice Presidents; and the heads of risk, control, monitoring, and evaluation units. Discussions are held with key stakeholders, including the following:

- President and Bank Managing Directors
- Audit Committee Chairman & Vice Chairman
- Bank Group Chief Financial Officer & Bank Vice President and Controller
- IFC Executive Vice President & Management Team
- MIGA Executive Vice President & Management Team
- Bank Vice President for Operations Policy & Country Services
- Bank Vice President and Chief Information Officer
- External Auditors

20. All feedback is considered and accommodated to the extent possible.

Step 5: Estimating Level of Effort to Deliver the Proposed Work Program

21. An *Initial Internal Audit Project Concept Note* is prepared using a common template for each entity to be included in the work program. Concept notes summarize key information, including relevant systems, types of assignments to be undertaken, and indicative objectives, scopes, and resource requirements. These summaries are used to estimate overall resource requirements to deliver the work program, and are adjusted in some instances to achieve the desired coverage across audit entities.

Step 6: Approval of the Work Program

22. A draft work program is submitted to the President for discussion and approval, and to the Audit Committee for review and recommendation to the Board for approval on an absence of objection basis.

Reporting and Following Up the Results of Individual Engagements

23. Individual engagements are carried out based on objectives and scopes unique to each engagement, and may be categorized as *assurance* or *advisory* engagements, as determined by IAD. The overall results of assurance engagements are rated in accordance with IAD's judgment of the significance of results, including reportable deficiencies, as applicable to the objectives and scope of each engagement, defined as follows:

- **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.

24. Advisory engagements are not rated, as they typically cover systems or processes under development for which audit feedback on control design is required in a timely manner. In addition, IAD performs compliance testing on behalf of management to support and annual assertion on the adequacy of internal controls over external financial reporting for IBRD and IDA. This work is also categorized as an advisory engagement since the scope and extent of testing are determined by management.

25. A summary description of each audit engagement completed is included in a quarterly activity report provided to the President and the Audit Committee. Full audit reports for assurance engagements rated *Needs Improvement* are routinely circulated to the President, while full reports for engagements rated *Unsatisfactory* are routinely circulated to both the President and the Audit Committee. The Audit Committee usually calls for discussion of *Unsatisfactory* reports with responsible management in attendance. In addition, members of the Audit Committee may request full reports and/or discussion of any engagement completed. Management action plans to correct reported deficiencies are followed up quarterly by IAD for *Unsatisfactory* engagements, and annually for those rated *Needs Improvement*, with status of overdue action plans provided in IAD's quarterly activity reports.

26. While advisory engagement results are not rated, recommendations and action plans are nevertheless gathered and followed up on a frequency commensurate with IAD's assessments of the significance of results.

27. In IAD's judgment, these reporting processes ensure timely responses and accountability for corrective measures deemed appropriate as a result of internal audit activities.

Management Accountability

28. Responsibility and accountability for effective governance, risk management and control processes over reporting, operations, and compliance rest with management. Internal auditing performs an independent review of these processes to obtain sufficient evidence to express an opinion on whether they are effective in providing reasonable assurance that institutional objectives will be achieved.

Overall Opinions

29. IAD structures its activities with the objective of supporting an annual overall opinion on governance, risk management, and control processes for each of the three institutions (IBRD/IDA, IFC, MIGA) at the end of the year. IAD bases its opinions on work conducted during the two fiscal years immediately prior to the year-end to which the opinion pertains. Follow-up is conducted to assess the extent to which deficiencies identified in audits have been or are in the process of being remediated up to the date of issue of the report.

30. IAD's overall opinions are intended to provide *reasonable assurance* regarding the existence of significant deficiencies at the *institutional* level, as distinct from the individual engagement level. It should be noted that significant deficiencies at the engagement level may not, and often do not rise to the level of significance at the institutional level.

31. For the purposes of overall opinions, *significant deficiencies* are defined as deficiencies in governance, risk management or control processes that, in IAD's opinion, are so significant or pervasive that they are likely to interfere with effective or efficient achievement of institutional level control and/or business objectives.

32. *Reasonable assurance* is not absolute assurance; in other words, while due diligence is exercised to plan and carry out risk-based audit work that will assess the adequacy and effectiveness of governance, risk management, and control processes, the possibility remains that significant deficiencies may nevertheless not be detected during audits. In particular, the presence of inherent limitations in controls such as faulty judgments, unintentional errors, and circumvention by collusion and management overrides, may not always be detected due to the nature of audit work. Also, projection of assessment results to future periods is not feasible due to changing conditions and circumstances.

33. *Scope limitations* arise from IAD's inability to carry out all planned audit as a consequence of unfilled vacancies, ongoing but uncompleted audit work in known high-risk areas, or emerging high-risk areas that have yet to be addressed at the time of the opinion. Such limitations are indicated within each overall opinion below, and in IAD's judgment do not preclude expression of the opinion.

34. It is worth noting that no inappropriate scope limitation has been imposed by management during the period covered by this report.

IBRD/IDA

35. **Scope Limitations:** The following IBRD/IDA audit entities, deemed to be high risk or emerging risk areas for audit purposes, limit the scope of IAD's overall

opinion as audit work was incomplete, had been completed longer than two years prior, or had been deferred to and will be completed in FY09, as at June 30, 2008:

- i. Compensation Process
- ii. Process for Managing Third Party Provided IT Services
- iii. Budget and Resource Management Process
- iv. Concessional Finance and Global Partnerships Unit
- v. Disbursement Process
- vi. Staff Organization and Personnel Management Process
- vii. Management of Legal Institutional Services
- viii. Loan Client and Financial Services Process
- ix. Trust Funds Accounting and Financial Reporting
- x. Bank Activities in Democratic Republic of Congo

36. **Basis of the Opinion:** IAD is basing its overall opinion on a risk-based audit plan for the 136 entities in the IBRD/IDA Audit Universe that resulted in 55 engagements concluded in FY07 (see Annex 2), and 41 engagements concluded and 7 engagements substantially completed in FY08 (see Annex 1), and on IAD's follow-up of management action plans to correct identified deficiencies to date. This includes testing of internal controls over external financial reporting conducted on behalf of management for both fiscal years; while this work is considered advisory in nature, it nevertheless facilitates IAD's understanding of key financial reporting risks and controls and informs other work conducted by IAD, including the overall opinion. It also includes IAD's extensive involvement in the IDA 14 Internal Controls Review, a comprehensive exercise led by management over a multi-year period that has significantly contributed to understanding of the controls impacting not only IDA operations, but also those of IBRD, since most operational processes are common and applicable to both institutions.

37. **Overall Opinion for IBRD/IDA:** Subject to the scope limitations identified above, except for the significant deficiencies identified below and not yet fully remediated, in our opinion, governance, risk management, and control processes in IBRD/IDA are adequate as at June 30, 2008, to provide reasonable assurance that:

- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently;
- assets are safeguarded;
- actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and,
- significant programs, plans, and business objectives will be achieved;

Significant Deficiencies for IBRD/IDA

38. **Adequacy and Effectiveness of Key Fiduciary Controls:** The results of compliance testing in the IDA 14 Internal Controls Review indicated that approximately

21% of the key fiduciary controls did not operate effectively; that inconsistencies exist in regional quality arrangements for procurement and financial management, especially during project supervision; and there is a need to strengthen overall monitoring of quality.

39. IAD concurs with management's conclusion that these deficiencies collectively constitute a *significant deficiency* in IDA's system of internal control, but disagrees with management's overall conclusion that key controls are nevertheless adequate to ensure compliance with IDA's policies and procedures to ensure that funds are used for the purposes intended. This second conclusion is inconsistent with results of management's own assessments and with IAD's independent audit results, and is in our view premature until remediation plans have been implemented and verified to be effective.

40. Management acknowledges that the appropriateness of regional variances should be assessed over time based on evaluations of the actual quality of fiduciary work. In addition, management is implementing comprehensive action plans to remediate deficiencies in these areas, many of which impact the design and/or operating effectiveness of key controls that apply likewise to IBRD operations.

41. **Entity-level Controls:** Management has concluded, and IAD agrees, as a result of the IDA Internal Controls Review, that there are *significant deficiencies* in IDA's (and by extension IBRD's) entity-level controls, specifically:

- the outdated policy and procedural framework for investment lending;
- the need for better integration of fraud and corruption issues into daily operations;
- inadequate mechanisms for risk aggregation and timeliness and consistency in monitoring, identifying and formulating an appropriate response to systemic risks;
- inadequate processes for Analytical and Advisory Activities (AAA); and,
- inadequate controls over information systems relating to password sharing, privileged access, and infrastructure change management.

42. Management has initiated a comprehensive review to update the policy and procedural framework for investment and other types of lending and AAA activities, and address other entity-level control deficiencies identified above. In particular, it will move towards an annual Integrated Risk Report by the end of FY09, that (i) describes the overall risks facing the organization; (ii) identifies units responsible for management and oversight of organizational risks; (iii) identifies potential gaps and overlaps; (iv) develops a dashboard of results from various risk assessments; and (v) assesses the quality and consistency of the risk-related processes in place.

43. **Reporting of Project Performance:** Quality and reliability of information in Implementation Status Reports on projects remain an issue. Management has acknowledged that lack of candor in reporting project risks diminishes the effectiveness

of the current system of indicators in tracking portfolio performance, and reduces the likelihood that management will initiate timely corrective actions. Independent IAD reports have also concluded that significant deficiencies exist in the reliability of ratings on project performance.

44. Management, as part of the first phase of Investment Lending Reform, intends to comprehensively address the issues relating to supervision reporting including more precise, candid, and timely reporting of risks and progress towards results.

45. **Information Technology Controls:** Significant deficiencies in this area are currently being addressed by management, including issues relating to IT governance and strategy, business continuity management, information security management, change management, access management, and wireless security controls, including the following:

- Executive-level management and the Board, until recently, have not been adequately involved in providing direction and support to IT strategy.
- IT oversight committees, including the IT Governance Group, do not adequately monitor projects under development as required in terms of reference.
- IT governance and oversight have been fragmented between IFC and IBRD, and within IBRD between Treasury and the Information Solutions Group, resulting in inadequate coordination to ensure business continuity and security standards are aligned and appropriate.
- Implementation of wireless networks and inadequate monitoring of access controls and Web sites have resulted in an environment that puts the quality, accuracy, security, and reliability of information at risk.

46. **Fraud and Corruption Controls:** Management has identified specific key controls designed to prevent/detect fraud and corruption. However, significant deficiencies in these controls create vulnerabilities to fraud and corruption in countries where systemic corruption is not adequately addressed during program and project design.

47. In our opinion, these deficiencies are now being adequately addressed through the Bank-wide roll out of the procurement risk assessment tool, ongoing work on the Governance and Anti-Corruption (GAC) agenda, and management's responses to the India Detailed Implementation Review (DIR) and the Volcker Panel Review of the Bank's Institutional Integrity Department.

IFC

48. **Scope Limitations:** The following audit entities, deemed to be high risk or emerging risk areas for audit purposes, limit the scope of IAD's overall opinion for IFC as audit work was incomplete, had been completed longer than two years prior, or had been deferred to and will be completed in FY09, as at June 30, 2008:

- i. CBI Business Informatics Unit
- ii. Treasury Funding Operations
- iii. Management of Third Party IT Services
- iv. Human Resources and Administration Unit

In addition the area of internal controls over financial reporting has not been reviewed comprehensively pending the re-introduction of external auditor attestation of management's assertion in this area, expected in FY10.

49. **Basis of the Opinion:** IAD is basing its opinion on a risk-based audit plan for the 79 entities in the IFC Audit Universe that resulted in 16 engagements concluded in IFC in FY07 (see Annex 2) and 12 engagements concluded in FY08 (see Annex 1), and on IAD's follow-up of management action plans to correct identified deficiencies.

50. **Overall Opinion for IFC:** Subject to the scope limitations identified above, except for the significant deficiencies identified below which are not yet fully remediated, in our opinion governance, risk management, and control processes in IFC are adequate as at June 30, 2008, to provide reasonable assurance that:

- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently;
- assets are safeguarded;
- actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and,
- significant programs, plans, and business objectives will be achieved;

Significant Deficiencies for IFC

51. **Information Technology Controls:** Significant deficiencies in this area currently being addressed by management include issues relating to IT governance and strategy, business continuity management, information security management, identity and access management, and Web hosting, including the following:

- Executive-level management and the Board, until recently, have not been adequately involved in providing direction and support to IT strategy;
- IT governance and oversight have been fragmented between IFC and IBRD, resulting in inadequate coordination to ensure business continuity and security standards are aligned and appropriate; and,
- Implementation of wireless networks and inadequate monitoring of access controls and Web sites have created vulnerabilities in the IT environment that put the quality, accuracy, security, and reliability of information at risk.

52. **Operations Policies for Advisory Services:** Inadequate policies and procedures exist for managing funding for advisory services activities, including the use

of grants. Management is currently addressing this issue with a focus on providing clear direction, monitoring and accountability for these activities.

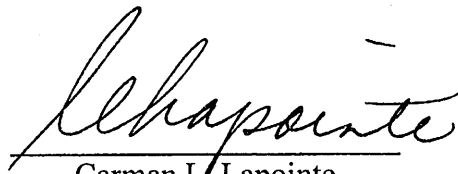
MIGA

53. **Scope Limitations:** There was no audit entity deemed to be a high risk or emerging risk area with respect to MIGA that would limit the scope of IAD's overall opinion as at June 30, 2008.

54. **Basis of the Opinion:** IAD's opinion is based on a risk-based audit plan for the 31 entities in the MIGA Audit Universe that resulted in two engagements concluded in FY07 (see Annex 2) and four engagements concluded and one engagement substantially completed in FY08 (see Annex 1), and on IAD's follow-up of management action plans to correct identified deficiencies.

55. **Overall Opinion for MIGA:** In IAD's opinion, governance, risk management, and control processes in MIGA are adequate as at June 30, 2008, to provide reasonable assurance that:

- significant financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically and used efficiently;
- assets are safeguarded;
- actions of the organization are in compliance with policies, procedures, contracts, and applicable laws and regulations; and,
- significant programs, plans, and business objectives will be achieved.



Carman L. Lapointe
Auditor General
Internal Auditing Department

Management Response

Management welcomes this first Annual Report of the Internal Audit Department (IAD). The internal audit function is fully recognized as a key pillar in the governance and oversight of the World Bank Group institutions. The program of work undertaken by IAD as set out in the report is impressive, as is the analytical rigor with which it has been developed. Management is committed to timely implementation of audit recommendations to ensure that the benefits of internal audits are realized and welcomes the attention paid by IAD to the monitoring and reporting of implementation status.

For IBRD and IDA, the specific findings to which IAD has drawn attention in this report have also been described in the Independent Evaluation Group's (IEG) "*Review of IDA Internal Controls: An Evaluation of Management's Assessment and the IAD Review*". Management places a high priority on a focused and effective response to these findings and the proposed management actions in this regard are fully described in its response to the IEG evaluation.

Annex 1: FY08 Audit Reports
World Bank (IBRD/IDA)

Engagements	Report Number	Date Issued
Audit of Bank IT Change Management	IBRD FY08-01	16-Jul-07
Audit of the WBG Pension Administration Process	IBRD FY08-02	17-Jul-07
Vulnerability Assessment of the Financial and Private Sector Development's (FPD) External Web	IBRD FY08-03	26-Jul-07
Audit of Bank Activities in Mexico	IBRD FY08-04	16-Aug-07
Audit of Bank Activities in Cameroon	IBRD FY08-06	13-Sep-07
Advisory Report on the Compliance Testing to Support Management's FY07 Assertion on Internal Control Over Financial Reporting	IBRD FY08-07	20-Sep-07
IAD review of Selected Bank-financed Contracts in Nicaragua	IBRD FY08-08	28-Sep-07
Advisory Engagement related to the Activities of the Carbon Finance Unit	IBRD FY08-09	28-Sep-07
Audit of the Process for Managing Fiscal Agency Trust Funds	IBRD FY08-10	31-Oct-07
Audit of the Process for Managing the Use of Funds from the Development Grant Facility	IBRD FY08-12	17-Dec-07
Audit of Bank Activities in Vietnam	IBRD FY08-13	19-Dec-07
Audit of Unused Airline Tickets	IBRD FY08-14	19-Dec-07
Audit of Bank Activities in Kenya	IBRD FY08-15	27-Dec-07
Audit of the Activities of the Global Environment Facility's Secretariat	IBRD FY08-16	28-Jan-08
Audit of the Activities of the Global Environment Facility's Evaluation Office	IBRD FY08-17	28-Jan-08
Mapping of Internal Controls over Trust Funds Processes Opportunities for Improvement	IBRD FY08-18	20-Mar-08
Audit of the Use of Bank Budget in Sierra Leone	IBRD FY08-20	20-Mar-08
Audit of Bank Activities in Bangladesh	IBRD FY08-21	24-Mar-08
Audit of the Bank's Acquisition and Implementation of Information Technology	IBRD FY08-22	25-Mar-08
Advisory Engagement Related to the Bank's Anti-Money Laundering/Combating the Financing of Terrorism Program	IBRD FY08-23	31-Mar-08
Advisory Engagement Related to the Activities of the Debt Reduction Facility	IBRD FY08-24	28-Mar-08
Audit of Bank Activities in Colombia	IBRD FY08-25	28-Mar-08
Audit of WBG Business Continuity Management	IBRD FY08-26	11-Apr-08
Audit of Human Development Network Vice Presidential Unit	IBRD FY08-27	31-Mar-08



Engagements	Report Number	Date Issued
Audit of Bank Activities in Ghana	IBRD FY08-28	21-Apr-08
Audit on the Use of Bank Budget in Liberia	IBRD FY08-29	28-Apr-08
Audit of Department of Institutional Integrity	IBRD FY08-30	29-Apr-08
Audit of Security and Controls Over the Bank Wireless Network	IBRD FY08-31	12-May-08
Summary of Key Information Technology Issues Reported by IAD during FY06-08	IBRD FY08-33	15-May-08
Follow-up Review of the Audit of External Affairs Department	IBRD FY08-34	28-May-08
Audit of Bank Activities in India	IBRD FY08-35	05-Jun-08
Audit of Bank Activities in Paraguay	IBRD FY08-36	17-Jun-08
Audit of Bank Activities in Uruguay	IBRD FY08-37	17-Jun-08
Audit of Bank Treasury's Fixed Income Asset Management Monitoring Activities	IBRD FY08-38	18-Jun-08
Audit of Bank Activities in Mongolia	IBRD FY08-39	25-Jun-08
Audit of Bank Activities in Iraq	IBRD FY08-40	25-Jun-08
Audit of Bank Activities in Argentina	IBRD FY08-41	26-Jun-08
Audit of Bank Activities in Turkey	IBRD FY08-42	27-Jun-08
Audit of the Bank's COSO Process	IBRD FY08-43	30-Jun-08
Audit of the Integrated Loan Administration Platform (iLAP)	IBRD FY08-44	30-Jun-08
Audit of the Management of World Bank Group Benefits	IBRD FY08-45	30-Jun-08

Engagements – IBRD/IDA Draft Reports Issued	Report Number	Date Issued (Draft)
Advisory Engagement Related to Management's Assessment of WBG Information Security Organization and Governance	IBRD FY09-01	07-Jul-08 (10-Jun-08)
Audit of the Quality Assurance Group (QAG)	IBRD FY09-02	17-Sep-08 (16-Jun-08)
Audit of the Process for Managing the Use of Recipient-Executed Trust Funds	IBRD FY09-04	22-Sep-08 (30-Jun-08)
Audit of the Bank's Integrated Risk Management Process (IRM)	IBRD FY09-07	22-Sep-08 (23-Jun-08)
IAD's FY08 Summary of Key Issues relating to the Bank's Entity-Level Controls	IBRD FY09-09	30-Sep-08 (30-Jun-08)
Audit of the Process for Managing the Bank's Economic and Sector Work and Non-Lending Technical Assistance	IBRD FY09-11	11-Nov-08 (30-Jun-08)
Audit of Bank Activities in China	IBRD FY09-15	10-Dec-08 (27-Jun-08)

International Finance Corporation (IFC)

Engagements	Report Number	Date Issued
Audit of IFC's Project Supervision Process	IFC FY08-01	12-Jul-07
Follow-up Review of Selected IFC Administrative Expenses	IFC FY08-02	23-Jul-07
Audit of IFC Identity and Access Management	IFC FY08-03	25-Jul-07
Audit of IFC's Financial Operations Processes	IFC FY08-04	17-Aug-07
Audit of IFC IT Change Management	IFC FY08-05	26-Jul-07
Audit of IFC External Legal Services	IFC FY08-06	19-Dec-07
Audit of the IFC External Web	IFC FY08-07	31-Mar-08
Audit of Security and Controls Over the IFC Wireless Network	IFC FY08-08	31-Mar-08
Audit of IFC's Budgeting and Resource Management Process	IFC FY08-09	23-Jun-08
Audit of the Process for Managing the Use of Funds from the Funding Mechanism for Technical Assistance and Advisory Services	IFC FY08-10	30-Jun-08
IAD's FY08 Summary Assessment of IFC's Entity-Level Controls	IFC FY08-11	30-Jun-08
Audit of the IFC MPLS Network	IFC FY08-12	30-Jun-08

Multilateral Investment Guarantee Agency (MIGA)

Engagements	Report Number	Date Issued
Audit of MIGA's Internal Control over Financial Reporting Readiness Assessment	MIGA FY08-01	02-Apr-08
Audit of MIGA's Budgeting and Resource Management Process	MIGA FY08-02	02-Apr-08
Advisory Engagement related to MIGA's Anti-Money Laundering and Combating the Financing of Terrorism Program	MIGA FY08-03	29-Apr-08
IAD's FY08 Summary Assessment of MIGA's Entity-Level Controls	MIGA FY08-04	30-Jun-08

Engagements - MIGA Draft Report Issued	Report Number	Date Issued (Draft)
Advisory Review of the MIGA Enterprise Risk Management Process	MIGA FY09-01	17-Sep-08 (30-Jun-08)

**Annex 2: FY07 Audit Reports
World Bank (IBRD/IDA)**

Engagements	Report Number	Date Issued
Follow-up Review of the Audit of Security Operations in GSDSO	IBRD FY07-01	24-Jul-06
Follow-up Review of Travel Management Audit	IBRD FY07-02	24-Jul-06
Audit of the Information Solutions Group (ISG)	IBRD FY07-03	27-Jul-06
Audit of Construction Projects in World Bank Country Offices	IBRD FY07-04	28-Jul-06
Audit of Bank Activities in the Philippines	IBRD FY07-05	01-Aug-06
Advisory Report on the Results of IAD's Compliance Testing in Support of the Bank's Assertion on ICFR in FY06	IBRD FY07-06	02-Aug-06
Audit of the World Bank Group's Delivery and Support of Information Technology	IBRD FY07-07	09-Aug-06
Audit the The World Bank Group's Governance of Information Technology	IBRD FY07-08	09-Aug-06
Audit of the Bank's Liaison Office in Guinea-Bissau	IBRD FY07-09	10-Aug-06
Follow-Up Review of the Audit of the Selection and Use of Short Term Consultants	IBRD FY07-10	16-Aug-06
Audit of Accounting Department Quality Assurance and Compliance Unit (ACTQC)	IBRD FY07-11	21-Aug-06
Advisory Engagement Related to the Internal Financial Controls of the G-24 Secretariat	IBRD FY07-12	22-Aug-06
Audit of Bank Activities in Benin	IBRD FY07-14	31-Aug-06
Audit of IBRD Treasury Liquid Assets Management	IBRD FY07-15	24-Aug-06
Audit of World Bank Group's Conflicts of Interest Management Business Process	IBRD FY07-16	01-Sep-06
Audit of the World Bank Group's Data Management Practices	IBRD FY07-17	12-Sep-06
Audit of the Bank's Liaison Office in the Gambia	IBRD FY07-18	13-Sep-06
Audit of STC/STTs in World Bank Group Country Offices	IBRD FY07-19	18-Sep-06
Audit of the Loan Disbursement Process	IBRD FY07-20	05-Oct-06
Review of Management's Assessment of the Design Effectiveness of Internal Controls over IDA Operations and Compliance with its Charter and Policies	IBRD FY07-21	13-Oct-06
Audit of Bank Activities in Lesotho	IBRD FY07-22	01-Nov-06
Audit of Bank Activities in Senegal	IBRD FY07-23	30-Oct-06
Audit of Bank Activities in South Africa	IBRD FY07-24	01-Nov-06

Engagements	Report Number	Date Issued
Audit of the Africa Region	IBRD FY07-26	01-Dec-06
Post-Implementation Audit of myJobworld	IBRD FY07-27	28-Dec-06
Audit of Bank Remote Access Services	IBRD FY07-28	18-Jan-07
Advisory Review of The World Bank Group's Funding of Information Technology	IBRD FY07-29	18-Jan-07
Audit of the Activities of the International Centre for the Settlement of Investment Disputes	IBRD FY07-31	05-Feb-07
Audit of the Use of Bank Budget in Mozambique	IBRD FY07-32	26-Feb-07
Advisory Engagement Related to the Bank's Trust Fund Risk Management Framework	IBRD FY07-33	09-Mar-07
Audit of Bank Activities in Brazil	IBRD FY07-34	09-Mar-07
Audit of MNA's Mediterranean Environmental Technical Assistance Programme (METAP)	IBRD FY07-35	20-Mar-07
Advisory Review of the e-Trust Funds System Development Project	IBRD FY07-36	20-Mar-07
Audit of the Management of the American Express Travel Contract	IBRD FY07-37	29-Mar-07
Audit of Bank Activities in Pakistan	IBRD FY07-38	29-Mar-07
Audit of the Department of Institutional Integrity	IBRD FY07-39	30-Mar-07
Audit of the Process for Reporting Project Implementation Progress	IBRD FY07-40	11-Apr-07
Audit of Bank Activities in West Bank and Gaza	IBRD FY07-41	09-Apr-07
Audit of the Management of the World Bank Group Pension Investment Portfolio	IBRD FY07-42	17-Apr-07
Follow up Review of IAD's FY06 Audit of the World Bank's Partnership with the African Virtual University	IBRD FY07-44	11-May-07
Advisory Engagement related to the Proposed Methodology for Attribution of Administrative Expenses to IBRD/IDA	IBRD FY07-45	15-May-07
Audit of Banks Activities in Cambodia	IBRD FY07-46	29-May-07
Audit of the Financial and Administrative Management in the External Affairs Tokyo Office	IBRD FY07-47	06-Jun-07
Audit of the Use of Bank-Administered Trust Funds on the Pilot Program to Conserve the Brazil Rain Forest	IBRD FY07-48	31-May-07
Review of Management's Assessment of the Operating Effectiveness of Internal Controls over IDA Operations and Compliance with its Charter and Policies (Part IB)	IBRD FY07-49	07-Jun-07
Audit of Bank Activities in Poland	IBRD FY07-50	11-Jun-07
Audit of Bank Activities in Indonesia	IBRD FY07-51	13-Jun-07



Engagements	Report Number	Date Issued
Audit of Bank Activities in Yemen	IBRD FY07-52	25-Jun-07
Trust Funds-Summary of Key Audit Issues Reported from July 2004 to April 2007	IBRD FY07-53	29-Jun-07
Audit of Bank Identity and Access Management	IBRD FY07-54	28-Jun-07
Advisory Review of SDN's Global Programs and Partnerships' IT Systems	IBRD FY07-55	29-Jun-07
Phase Two of an Advisory Review of the e-Trust Funds System Development Project	IBRD FY07-56	29-Jun-07
Audit of the Bank's External Web, Extranets, and the Internet Services Platform (ISP)	IBRD FY07-57	29-Jun-07
Memorandum on the Mandiant Internal IT Security Assessment Report Follow-up Working Group	IBRD FY07-58	29-Jun-07
Audit of Bank Activities in the Kyrgyz Republic	IBRD FY07-59	29-Jun-07

International Finance Corporation (IFC)

Engagements	Report Number	Date Issued
Audit of the IFC Liquid Asset Management	IFC FY07-01	01-Sep-06
Audit of IFC's Global Manufacturing and Services Department	IFC FY07-02	09-Jan-07
Audit of IFC Remote Access Services	IFC FY07-03	18-Jan-07
Audit of IFC Country Offices in Pakistan	IFC FY07-04	05-Apr-07
Audit of IFC's Equity Portfolio Management Process	IFC FY07-05	31-May-07
Advisory Engagement related to IFC's Anti-Money Laundering and Combating the Financing of Terrorism Program	IFC FY07-06	03-May-07
IAD's Comments on the April 30, 2007 Final Draft of IFC's Business Process Review Report	IFC FY07-07	12-Jun-07
IAD's Comments on CCB's March 5, 2007, Recommendation on Strengthening Procurement in IFC's Advisory Services Operations to the IFC Management Group.	IFC FY07-08	15-Jun-07
Audit of IFC Staff Recruitment	IFC FY07-09	27-Jun-07
Advisory Engagement related to IFC's Internal Control Initiative	IFC FY07-10	29-Jun-07
Advisory Engagements related to IFC's International Financial Reporting Standards (IFRS) Project	IFC FY07-11	29-Jun-07
Audit of the Use of IFC Budget in Brazil	IFC FY07-12	29-Jun-07
Audit of IFC's Environment and Social Review Process	IFC FY07-13	29-Jun-07
Audit of the IFC's Grassroots Business Initiative	IFC FY07-14	29-Jun-07



Engagements	Report Number	Date Issued
Audit of the Process for Managing IFC's Donor Funded Investment Activities	IFC FY07-15	29-Jun-07
Advisory Engagement related to IFC's Board Delegated Authorities	IFC FY07-16	29-Jun-07

Multilateral Investment Guarantee Agency (MIGA)

Engagements	Report Number	Date Issued
Audit of MIGA's Operations Group	MIGA FY07-01	21-Mar-07
Audit of Administrative Expenditures of the Multilateral Investment Guarantee Agency (MIGA)	MIGA FY07-02	17-Apr-07

INTERNAL AUDITING...

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- *Providing objective assurance and advice that add value;*
- *Influencing change that enhances risk management, control, and governance; and*
- *Improving accountability for results.*



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