

“IDA Controls” Frequently Asked Questions

April 29, 2009

Background/Basic Info

1. Q: What is the origin and objective of this review?

A: IDA stakeholders wanted to be assured that the funds they provide for development purposes under IDA replenishments are used as intended and have measurable results.

2. Q: Who carried out the review?

A: In the process agreed with the Bank’s Board, management assessed the controls, the Internal Auditing Department (IAD) reviewed the assessment, and IEG conducted an independent evaluation of both the management and IAD reports.

3. What is the difference between the Independent Evaluation Group (IEG) and the Internal Auditing Department (IAD)?

A: The Independent Evaluation Group (IEG) is an independent unit within the World Bank Group; it reports directly to the World Bank Group’s Board of Executive Directors. IEG assesses what works, and what does not; how a client plans to run and maintain a project; and the lasting contribution of the World Bank Group to a country’s overall development.

The Internal Auditing Department (IAD) provides independent and objective assurance services, and assists management by bringing a systematic, disciplined approach to evaluate and suggest improvements to the effectiveness of risk management, control and governance processes. The Auditor General reports and is accountable, to the President.

4. Q: What are internal controls?

A: Internal controls, individually or collectively, are structured means within an organization to enable it to achieve its business objectives while addressing risk. Internal control instruments include the control framework, organizational checks and balances, published policies, and required standard operating procedures, among others. Internal controls apply to areas such procurement, financial management and prevention of fraud and corruption in projects.

5. What are ‘fiduciary controls’?

A: Fiduciary controls for the purpose of this review are mainly controls relating to procurement and financial management. However, controls relating to environmental and social safeguards (i.e. specific policies for preventing and mitigating undue harm to people and their environment in the development process) and disbursements are sometimes included in the term ‘fiduciary controls’.

6. Q: What is the COSO framework system that was used?

A: COSO is the *Commission of Sponsoring Organizations* of the Treadway Commission. The COSO framework is an all-encompassing process which covers all aspects of internal control of an organization’s operation. It considers not only the evaluation of formal controls, but also

informal controls, such as ethics, trust, communication, organization behavior and leadership, and incorporates ‘top-down’ as well as ‘bottom-up’ analysis. The COSO framework is widely used in the United States and is also seen as a model in many other parts of the world.

7. Q: Why didn’t this report look at financial controls?

A: It didn’t need to because IDA has already achieved conformity with COSO standards with regard to its financial reporting – including obtaining an attestation from the external auditor on the effectiveness of its internal controls over external financial reporting.

8. Q: What is an entity-level review?

A: An entity-level review is a review of the structure, practice and culture of an organization. Entity-level controls include, for example: human resource management (hiring, job descriptions, performance evaluation and training); ethics; responsibilities of control units, such as IEG, IAD and INT; and systems and processes for performance management and results.

9. Q: What was the value of entity level questionnaire?

A: It was valuable. IEG stated that the responses “suggest that a substantial candor was present in this segment” [central control units] of the questionnaire. IEG also found that management’s use of the questionnaire was appropriate and is a common method for entity-level reviews.

10. Q: What is a 90% pass rate?

A: IEG evaluated the responses to the entity level questionnaire and found “pass rates” of above 90%, meaning that the entity level questionnaire responses supported IEG’s broad conclusion that the controls framework operated effectively overall.

11. Q: The Report addressed issues relating to ‘IDA’ controls. What about the ‘Bank’?

A: For the purposes of this review there really is no difference. Staff working on IDA (the International Development Association) and Bank (the International Bank for Reconstruction and Development – IBRD) projects are the same, and the policies and procedures applicable to lending are basically the same. IDA is the part of the World Bank Group that receives funds from donors and provides funds to the poorest countries at minimal cost, while the Bank (IBRD) borrows money on the capital markets and lends funds to slightly better off countries at higher interest rates.

12. Q: Does this report cover activities of the International Finance Corporation (IFC)?

A: No.

13. Q: The Bank has recently decided to move to relying more on ‘country systems’. Won’t this make fraud and corruption even more likely?

A: The focus of the country systems initiative is to strengthen a country’s capacities, especially in the areas of financial management and procurement, in order that the countries achieve higher standards – thus, making fraud and corruption less likely. Before a country’s systems are used, certain minimum standards must be met.

14. Q: Why did the Review take almost three years?

A: This Review is the first exercise of its kind among the international development finance institutions, and was a challenging and complex exercise. It broke new ground both in creating methodologies and in building strong factual knowledge about IDA's internal controls framework, and took a comprehensive look at internal controls from top to bottom. It also included three separate exercises: (1) a management self-assessment of the control framework; (2) review by the Internal Auditing Department (IAD); and (3) independent evaluation by the Bank Group's Independent Evaluation Group (IEG).

IEG Report and outcomes

15. Q: IEG finds there is a 'material weakness' relating to the risk of fraud and corruption. What is the Bank doing about this?

A: Management considers the issue of F&C to be a top priority, with the highest of standards to be reached as soon as possible. Management is implementing a robust and timely plan of actions to address issues identified, which IEG called "transparent, well documented, comprehensive" and that management's remedies "correspond well" to IEG's suggestions.

The IEG found one "material weakness". While this is an important concern, IEG stated that it should be considered "quite respectable" for this first of its kind, very detailed exercise for IDA, and their overall rating was "satisfactory with qualifications."

The report also said that, "with some important qualifications, IDA's internal controls framework operates to a high standard overall, giving reasonable assurances that the controls operate effectively." Further, IEG stresses that they are not referring to the extent to which fraud and corruption may have actually occurred in IDA operations -- they are pointing out the *risk* of fraud and corruption.

Management's remedial actions build upon the Bank's intensive efforts over the last 12 months in strengthening controls over fraud and corruption, and have implemented 17 of the 18 Volcker Report recommendations relating to fraud and corruption and expect to implement the last recommendation, relating to the transfer of staff misconduct cases not involving significant fraud and corruption from INT to the Office of Ethics and Business Conduct, by end June 2009. These actions include: enhancing Preventive Services Unit to help Bank staff guard against F&C; stepping up staff training; increasing review of high-risk cases; increasing INT staffing; and creating an Independent Advisory Board to protect the independence and strengthen the accountability of INT.

Management is also creating an oversight body – a special Implementation Oversight Panel (IOP) to monitor and periodically report to the President and the Audit Committee on implementation.

16. Q: A finding of a ‘material weakness’ in a financial statement is a sign of serious problems. Is it the same in this case?

A: A material weakness is a sign of concern. Management takes the issues raised extremely seriously and is addressing IEG’s findings of a “material weakness” by implementing a robust program of corrective measures which are refocusing and strengthening IDA’s internal controls relating to anti-corruption and governance. Having said that, it should be noted that in the case of *operational* as against *financial* reporting, there are no clear yardsticks by which to measure the materiality of a given weakness or set of weaknesses. Some judgment is required.

17. Q: How does this rating compare with other organizations?

A: The senior international Advisory Panel assembled by IEG has noted that the results of this review demonstrate a high level of effectiveness of IDA’s internal controls compared to results in other organizations of similar size and complexity (with a “finding of single material weakness (together with some significant deficiencies) should overall be considered a quite respectable outcome from the first (and very detailed) exercise of its kind for IDA.” Similar comprehensive reviews of the US Treasury and USAID utilizing the same COSO methodology identified 8 material weaknesses in Treasury (2004) and 4 in USAID (2007).

18. Why will this IEG Report make a difference?

A: This is a ground breaking, first of its kind review, which has allowed IDA to take an important lead in assessment of internal controls. IEG pointed out that this “exercise . . . has heightened controls consciousness among managers and the staff, and corrective actions already underway will strengthen controls and better ensure the IDA’s business objectives are being attained.” IEG called management’s assessment “transparent, well documented, comprehensive” and that management’s remedies are “correspond well” to IEG’s suggestions. IAD and IEG have endorsed Management’s actions as appropriate to remedy the issues identified. The review provides a real opportunity to improve IDA’s efficiency and effectiveness and to make IDA the best it can be.

Management is also demonstrating its commitment to change by the actions it is already taking as part of the Governance and Anti-Corruption (GAC) implementation program, and in implementing the recommendations of the Volker Report (of which all 18 recommendations are already being carried out).

19. Q: What will happen next?

A: Management is moving swiftly to implement a robust program of corrective measures which are refocusing and strengthening IDA’s internal controls relating to anti-corruption and governance, as well as to improve risk identification and risk management at both project and entity levels. Management has set out a comprehensive list of remedial actions it will take, including time frames for their completion. Management is establishing an oversight body – a special Implementation Oversight Panel (IOP) to monitor and periodically report to the President and the Audit Committee on implementation. Management’s corrective actions will be closely monitored by IEG and by management itself.

20. Q: Will we know if the proposed remedial actions are working?

A: Management's corrective actions will be closely monitored by IEG and by management itself. In addition, to ensure effective monitoring of the remedial actions, management is establishing an oversight body – a special Implementation Oversight Panel (IOP) to monitor and periodically report to the President and the Audit Committee on implementation.

21. Q: How will the Bank ensure that fraud and corruption issues remain high on its agenda?

A: Bank staff are fully committed to improving the lives of the poor. They realize that fraud and corruption and improper diversion of funds are an obstacle to sustainable development. In fact, the single largest source of complaints to Integrity Vice Presidency about possible problems in our projects is from Bank staff themselves.

Over the past 12 months, management has undertaken assertive and concrete actions in strengthening controls over fraud and corruption, including implementing all 18 Volcker Panel recommendations. These actions include: enhancing Preventive Services Unit to help Bank staff guard against F&C; stepping up staff training; increasing review of high-risk cases; increasing INT staffing; and creating an Independent Advisory Board to protect the independence and strengthen the accountability of INT.

In addition, the GAC Governance Council, chaired by a Managing Director, meets monthly with all Vice Presidents to discuss progress and issues relating to the implementation of the GAC agenda. Also, the standard review process for all operations prior to Board approval now includes a statement about how governance issues have been addressed in the project.

22. Q: Is the report consistent with the findings of the recent Detailed Implementation Reviews?

A: Yes, it is consistent. However, DIRs have been initiated in cases where problems have been identified in individual projects, and have led to implementation of strong remedial actions that help both set an example of the seriousness with which the Bank views F&C and recover misused resources. As a whole, the performance of Bank projects in delivering development results has unquestionably improved over the medium term. In the three years to end-fiscal 2007, 80% of projects were moderately satisfactory or better in delivering their targeted results (IEG's 2008 Annual Report on Development Effectiveness). Management and staff are fully committed to improving the lives of the poor, and they realize that fraud and corruption and improper diversion of funds are an obstacle to sustainable development.

23. Q: Are the conclusions of Management, IEG and IAD consistent?

A: As IEG concludes, there is "a high degree of commonality in the findings of management, IAD, and IEG as to individual weaknesses." IEG "rates IDA's controls framework as *satisfactory with qualifications*, a finding which is consistent with management's qualified assurance and also with IAD's conclusion that management's assessment is fairly stated, but qualified by a number of deficiencies described in" IAD's review.

###