

# Annual Report

## Fiscal Year 2016

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Internal Audit Vice Presidency

October 28, 2016





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## About Terminology

**The World Bank Group** (WBG) comprises five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). In the context of this report, WBG refers to IBRD, IDA, IFC, and MIGA.

**The Bank** refers to the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).

For more information: [worldbank.org/internalaudit](http://worldbank.org/internalaudit)

# Foreword from the Vice President and Auditor General



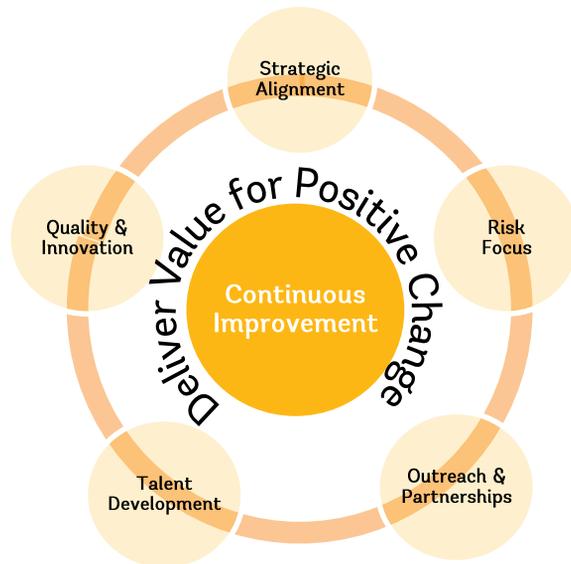
According to a recent study by the World Bank Group (WBG), for the first time in history, the number of people living in extreme poverty has fallen below 10 percent of the global population. Despite this good news, hundreds of millions of people still live in extreme poverty. A number of challenges still need to be addressed in order to meet the comprehensive vision for global development, as articulated by the Sustainable Development Goals (SDGs), the 2030 Agenda, and the WBG's own goals. Challenges in the financial markets, complex threats relating to regional conflicts and localized fragility, as well as pandemics and other health risks across regions and the effects of climate change, continue to pose concerns for the global economy.

In this new global reality, calls from our clients for WBG institutions' knowledge and financing is increasing at an unprecedented pace. In FY16, the WBG institutions were busy responding to these new demands, and at the same time, continued to implement the institutional change initiative aimed at delivering effective solutions to clients with agility.

Supporting this institutional endeavor, IAD has acted as a trusted partner of the Board and Senior Management. Our role is to provide independent, objective assurance and advice with candor to help the WBG institutions achieve their objectives. In FY16, IAD completed 18 assurance, 7 advisory and 2 special reviews that encompassed the WBG institutions' corporate areas, operations, and information technology. We also provided informal counsel, as needed, to raise the awareness of risks and help develop solutions.

## Shaping IAD for Greater Value

As the Auditor General, I have been promoting the culture of continuous improvement across the WBG institutions. I am pleased to see that there is an increasing appreciation of this principle across the WBG institutions. The same principle applies to IAD. I have implemented a systematic cycle of actions that entails Plan–Do–Check–Act to improve various aspects of the function. Indeed, the significant improvement of IAD's internal audit quality in recent years was noted in the recent external quality assessment conducted by the Institute of Internal Auditors. I am pleased to share some of the highlights of the improvements.



**Strategic Alignment:** IAD has clarified its vision and strategy in order to foster the strategic alignment of internal audit activity with WBG institutions' direction and priorities. Critical success factors have been identified, and specific actions are now under way to strengthen these factors.

**Risk Focus:** IAD has continued to sharpen its risk focus in the development of its work program through a dynamic risk assessment process that encompasses alignment to WBG strategy and a focus on high rated risks. This strategic top-down risk focus is often calibrated with a bottom-up approach based on the results of IAD's prior audits, the knowledge gained on risks and controls, and ongoing consultation with management. The risk assessment is refreshed as and when changes occur and risks shift, and the work program is adjusted accordingly. Refer to page 25 for IAD's Risk Assessment Principles.

**Quality and Innovation:** IAD has formally established a comprehensive Quality Assessment and Improvement Program, which involves all levels of IAD staff. Through this program, IAD continuously assesses the quality of services being provided to clients. We have also started using a new electronic audit platform that enables us to be more efficient. Further, a data analytics strategy and roadmap was launched as a means to deepen analysis and enable us to deliver more business insights to clients.

**Talent Development:** IAD has continued to invest in its staff to cultivate talent and promote their professional growth. Quarterly Learning Days, which we started in FY16, have sharpened staff's business acumen and expanded their perspectives. Various job enrichment opportunities have been offered to motivate staff and support their career development.

**Outreach and Partnerships:** IAD has accelerated outreach efforts to foster collaboration among oversight units and multilateral development banks (MDBs). Most notably, IAD signed a memorandum of understanding with the WBG's Independent Evaluation Group for more effective collaboration. Externally, IAD hosted the 2016 Annual MDB Internal Audit Meetings and promoted the exchange of knowledge and experience.

As we look forward to the challenges of FY17 and beyond, IAD will continue to partner with the Board and Senior Management to deliver high impact, value-added results for the World Bank Group. I would like to extend my sincere appreciation to the President and the Audit Committee for their continued support and guidance, and to management for their confidence in us. I would also like to thank all IAD staff for their exceptional dedication, professionalism, and commitment to the WBG's mission and IAD's mandate.

**Hiroshi Naka**

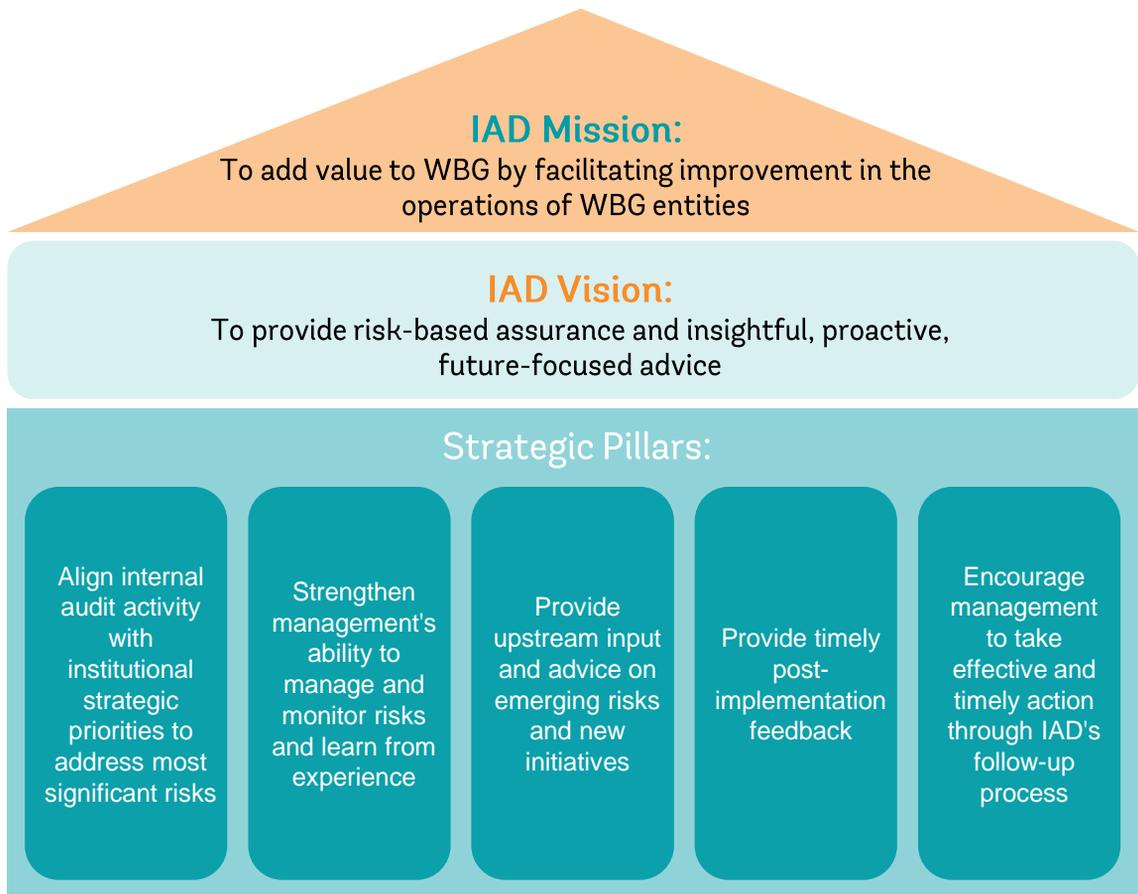
**Vice President and Auditor General**

# Internal Audit Vice Presidency's Vision, Strategy and Mandate

## About Internal Audit Vice Presidency

Internal auditing is an independent, objective assurance and consulting activity that helps improve an organization's operations. The Internal Audit Vice Presidency (IAD) assists the WBG institutions to accomplish their objectives by evaluating the effectiveness of their governance, risk management, and control processes. Furthermore, IAD advises management in developing control solutions and monitors the implementation of management's corrective actions.

IAD's new strategy, introduced in FY16, builds on five strategic pillars as presented below. These pillars enable IAD to achieve its vision of providing risk-based assurance and insightful, proactive, and future-focused advice.



## Reporting and Oversight

IAD reports to the President and is under the oversight of the Audit Committee. The Audit Committee of the Board of Executive Directors assists the Board in overseeing the WBG institutions' finances, accounting, risk management, and internal controls. It 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 governance, risk management, and internal controls.

In relation to IAD, the Audit Committee reviews:

- Selection and removal of the Auditor General
- IAD's Terms of Reference, recommending it to the Board for approval
- IAD's Annual Risk Assessment and Work Program, recommending it to the Board for approval
- The results of IAD's work covering operations and compliance with key provisions of IBRD/IDA, IFC and MIGA's charters and policies
- The overall effectiveness of IAD

On an ongoing basis, but at least quarterly, IAD briefs and updates the President and the Audit Committee on engagement outcomes and the progress of management action plans to improve the operations of WBG institutions. IAD also briefs the Audit Committee on any changes to the work program that may occur as a result of emerging risks, significant changes to the business, or requests from management for advice on governance, risk management, and internal control processes.

## Core Principles

IAD's vision, strategy and mandate is in line with the **core principles laid out in the International Professional Practices Framework (IPPF)** promulgated by The Institute of Internal Auditors:

- ✓ Demonstrates integrity.
- ✓ Demonstrates competence and due professional care.
- ✓ Is objective and free from undue influence (independent).
- ✓ Aligns with the strategies, objectives, and risks of the organization.
- ✓ Is appropriately positioned and adequately resourced.
- ✓ Demonstrates quality and continuous improvement.
- ✓ Communicates effectively.
- ✓ Provides risk-based assurance.
- ✓ Is insightful, proactive, and future-focused.
- ✓ Promotes organizational improvement.

# Executive Commentary

Over the last few years, the World Bank Group (WBG) has been working hard to implement ambitious institutional changes to become a more relevant organization to its stakeholders in a rapidly changing business environment. Aiming to respond to clients' needs more quickly with better solutions, the WBG institutions have overhauled the organizational structures and key business processes and introduced a new operating model. This Executive Commentary provides IAD's reflections on the progress in implementing this agenda, with a focus on governance, risk management, and internal controls. The commentary is not exhaustive in content but rather selective, with particular attention being given to issues of strategic importance, and emanates from the results of IAD's audits and advisory reviews, observations of corporate events, and continuous dialogue with Senior Management and the Audit Committee. The commentary, which is fact-based and designed to be forward-looking and constructive, discusses nine key themes for management to consider to facilitate the achievement of the WBG institutions' strategic objectives.

## 1. Recent changes need to be grounded in institutional culture and staff behavior, with strong executive sponsorship

As the WBG institutions enter the fourth year of change, there is an emerging sense that the period of uncertainty has passed its peak. The recent engagement survey results showed an overall improvement in staff engagement, with data showing that staff now have a better understanding of institutional and unit-level goals.

This change will become sustainable when it is deeply rooted in the institutional culture and staff behavior. Culture and behavior lie at the very heart of real transformative change. They also influence the effectiveness of governance, risk management, and controls. Now that major changes have taken place in the organizational structure and business processes, it will be important to continue to align culture and behavior within the new business model by setting the right tone at the top, role modeling desired behaviors at all levels of the organization, communicating agreed shared objectives, setting the institutional risk appetite, and supporting the change with frameworks and tools.

**Executive Sponsorship:** The WBG's reform agenda is extensive and complex, requiring coordination among business functions. A reform of this magnitude can succeed only with strong executive sponsorship, as the process of change is long and sometimes frustrating. The recent success of the business simplification initiative in the Bank and the expenditure reviews across the WBG institutions have confirmed this point. In both cases, the President and other Senior Management members repeatedly sent messages to staff about the urgency and criticality of the reform, linking it to the WBG institutions' future ability to serve its clients. Central units—the Bank's central policy and operational service department and the business planning and strategy department—assumed responsibility for driving changes with continuous corporate oversight and monitoring. Staff input on the reforms has been solicited, and progress reported using various tools including town hall meetings, in-house social media, broadcast announcements, and messages through unit managers.

However, IAD has observed that, in other corporate initiatives, executive sponsorship is not yet sufficiently strong to generate robust results. For example:

- FY16 Audit of *the Bank's Business Continuity Management*: IAD noted the absence of strong Senior Management sponsorship to coordinate and execute a business continuity plan at the institutional level.
- FY16 Advisory Review of *IFC Staff Learning*: IAD observed that learning activities were inconsistently integrated into IFC's strategy implementation due to a lack of appropriate attention by Senior Management.

**Creating a Risk-Taking Culture:** One of the strategic priorities in the institutional change agenda has been to encourage staff to take more risks in business decisions. This was based on the premise that more risk taking is necessary to provide clients with innovative solutions that go beyond the conventional framework. In our rapidly changing world, clients are searching for new wisdom that would truly meet their development needs. Where do we stand on this now?

Explicit efforts have been made by management to improve the institutional framework for risk management and supporting tools, yet one cannot find convincing evidence that staff are taking informed risks as part of their business decision-making. Risks are now assessed and recorded more systematically with oversight at the corporate level. For example, the Bank measures the risks in country strategies and lending projects using common risk parameters throughout their life cycle. Accumulated risk data helps management analyze the Bank's overall risk profile and make informed decisions. Senior Management of the Bank has established the Enterprise Risk Committee (ERC) to complement the risk monitoring by the Finance Risk Committee (FRC) and the Operational Risk Committee (ORC). In IFC, the Chief Compliance Officer has initiated an effort to clarify corporate standards for compliance and establish a risk-based compliance monitoring system. These initiatives will help management and staff see business activities through a risk lens and clarify institutional risk appetite over time.

As part of the FY17–19 work program, IAD plans to review the use of the new risk assessment tool for Bank operations (Systematic Risk-rating Tool) to assess the extent to which the tool is encouraging the institution to take more informed risk in its operations.

**One World Bank Group Approach:** As a high priority of the current WBG strategy, the One World Bank Group approach has been strongly advocated during the President's leadership. Providing a holistic, integrated package of solutions to clients was considered imperative to serve clients better. In particular, leveraging private sector potential in meeting development needs has been emphasized. Aiming to realize this vision, top management has emphasized the importance of connecting, integrating, and collaborating across the WBG institutions. Increased collaboration across the WBG institutions and, in some cases, integration of business units with shared objectives have been pursued to explore and strengthen synergies and efficiency.

IAD has been following the One WBG theme as the approach has been maturing. In the initial stage of the initiative, IAD analyzed various "jointness" models developed by management. In the FY15 advisory review of *the Jointness Models* we advised that:

- There is no “one size fits all” in terms of an optimal model or approach for WBG collaboration. The determination of an “optimal” model depends largely on the extent of jointness necessary to achieve the desired business objectives. The determination is also informed by entity-specific business models, operational needs, and WBG institutions’ legal entity considerations; and
- It is important to establish a shared understanding of the “rules of engagement” with regard to the lines of accountability, decision-making authority, reporting lines, and funding model to operationalize the “One WBG” approach.

Since then, IAD has been assessing the application of the One WBG approach in the context of specific business processes. For example,

- In FY15, IAD analyzed the collaboration between the Bank and IFC in the audit of *IFC’s Management of Public-Private Partnership Transaction Advisory Projects* and the audit of *the Bank’s Risk Management in Financial Intermediary Lending Projects*. These audits confirmed the emerging willingness for collaboration on both sides, but identified the need for defining the details of collaboration in business processes.
- In FY16, IAD evaluated the institutional arrangements for managing business conflicts of interest that could arise from information sharing and increasing joint operations across WBG institutions in the audit of *Management of Actual and Perceived Conflict of Interest in the WBG’s Operating Model*. IAD advised that timely and explicit communication from management to staff is essential to mitigate the risk of perceived and actual conflicts of interest in specific instances. In particular, management attention is needed in a situation where different WBG institutions concurrently provide public and private-sector assistance to a country in a related area. Also, an understanding of the various scenarios of inter-institutional conflict of interest and of the institutional process for managing the risk needs to be fostered at all levels including front-line staff, Senior Management, and the Board.

In FY17, IAD plans to analyze the implementation of the Group-wide joint global practices of Trade & Competitiveness and Finance & Markets to draw lessons from the experience so far.

**Technology as an Enabler of Change:** A notable trend in recent years is an ever-closer collaboration between information technology (IT) management and business management. There has been a strong push at the highest level of management to integrate IT solutions and business enhancement. The dialogue between business units and IT has become frequent and more systematic through IT Investment Advisory Committees and other avenues. The recent roll-out of a new platform for Board communications, a new learning management system, a Bank operations dashboard, a procurement tracking system for Bank projects, and significant enhancement of remote access and mobile technologies are a few good examples. These new IT tools enable staff to connect with each other, analyze business better, and respond to clients’ needs faster. Although cultures and behaviors are difficult to change, smart use of IT can influence staff’s behaviors and transform how the WBG institutions do business.

In FY17–FY19, IAD plans to review the coordination between IT and business in introducing new technology solutions and provide further insights on the IT–business integration.

## 2. Transition to new operational standards needs to be accompanied by close attention to the implementation capacity of both the Bank and its clients

The World Bank adopted new frameworks for both procurement and environment and social safeguards for Investment Project Financing to promote high standards that could guide development activities even in the next generation. The new Environmental and Social Framework (ESF) was approved by the Board of Executive Directors in August 2016 following extensive public consultations and will become effective in early 2018. The new Procurement Framework became effective in July 2016. IAD has been helping management in finalizing these frameworks by highlighting shortcomings in existing practices and providing upfront advice to facilitate their implementation.

**The Environmental and Social Framework (ESF):** The new ESF framework emphasizes risk management, and includes expanded social assessment, enhanced requirements for project monitoring and grievance mechanisms. It also brought greater clarity to the roles and responsibilities of the Bank and the borrower. The new framework also harmonized approaches between the Bank and IFC for financial intermediary projects, which was identified as an issue in IAD's FY15 audit of *the Bank's Risk Management in Financial Intermediary Lending Projects*. In FY16, IAD followed up on management's action plans to address various gaps identified in the FY14 advisory review of *the Bank's Environmental and Social Risk Management*, thus helping to prepare the institution for implementation of the new framework. The action plans address gaps in areas such as risk assessment and monitoring, accountability arrangements, information systems, funding, staff allocation and skills. So far, IAD has confirmed that management has made progress in several areas including the budgeting process, risk recording, and information systems.

**The Procurement Framework:** The new procurement framework was developed to help borrowers achieve value for money with integrity in delivering sustainable development. The new framework is also risk-based and expected to improve operational efficiency in the Bank's oversight of clients' procurement activities. In this context, IAD conducted an advisory review on *Risk-Based Procurement Post Reviews* in FY16, and recommended management's attention around (i) clarification of roles and responsibilities for

The new Environmental and Social Framework brought greater clarity of the roles and responsibilities of the World Bank and the borrower.



accountability and decision making; (ii) staffing and resource allocation for oversight of high-risk procurement activities; (iii) integrated use of procurement oversight instruments; and (iv) borrower buy-in and capacity and resource constraints in implementation of the Bank's new system for Systematic Tracking of Exchanges in Procurement.

In the discussion of these new frameworks, stakeholders including clients repeatedly reminded management of the importance of supporting and raising clients' implementation capacity. In this sense, the Bank's Advisory Services and Analytics (ASA) activities play a catalytic role for clients' capacity building. In FY16, management took a significant step to simplify internal processes to offer ASA to clients. Multiple product lines under the old model were consolidated into a single product with a single directive and procedure. The supporting information system was enhanced with greater visibility and stronger oversight. Recommendations from IAD's advisory review of *Information Quality Supporting the Bank's Portfolio Monitoring* in FY15 have been incorporated in the new model.

In FY17 and coming years, IAD will continue to monitor the implementation of the ESF, the new procurement framework, and the new ASA model, and provide timely feedback to management and the Board.

### 3. Access to information and strategic stakeholder engagements will increase citizens' participation in development activities and operational impact

**Stakeholder Engagement:** In 2013, WBG institutions charted a path to mainstream citizen engagement in their operations. Civil Society Organizations (CSOs) represent a key channel to enable stakeholder engagement, and, in recent years, WBG institutions have been scaling up their relationships as a way to efficiently reach out to stakeholders and beneficiaries. As the scope of WBG–CSO relationships is becoming more complex and varied, IAD undertook an advisory review of *WBG's Management of Risk Associated with CSO Relationships* in FY16. IAD recommended that Bank management develop a CSO relationship management strategy to effectively leverage the different types of relationships with CSOs. CSOs have been WBG institutions' partners as representatives of citizens' voice in policy and project consultations, corporate and operational vendors of the WBG institutions, project implementation partners, donors, grant recipients, etc. Different parts of WBG gain knowledge of CSOs through their respective relationships, but information is not shared among them. IAD advised management needs a focal point and an information platform to gather, evaluate, and make CSO information available to various business units so that their engagements with CSOs will be more effective with awareness of associated risks and opportunities.

**Access to Information:** Access to Information is a foundation for stakeholder engagement, and an Access to Information Policy (AI Policy) has been introduced by each of the WBG institutions, commencing with the Bank in 2010, followed by IFC in 2012 and MIGA in 2013. The new AI Policy represents a shift in the disclosure paradigm, especially for the Bank, in moving towards a principle of disclosure by default rather than exception. These policies were envisioned to open up the development process by enhancing public ownership and participation amongst all stakeholders and contribute to knowledge sharing, collaboration, and transparency of development activities.

In FY16, IAD conducted audits of *the Implementation of the AI Policy* in all three institutions: the Bank, IFC, and MIGA. The audits concluded that all three institutions have successfully implemented their AI Policy with strong commitment by management, responded to requests for information from the public, and routinely disclosed project information via public websites. To realize the full value of the policy, IAD recommended to Bank management more systematic monitoring of voluntary disclosure and acceleration of response time to requests for Board documents.

#### 4. A continued focus on data is essential to harness greater operational impact and institutional performance

Data-driven decision management is an approach to business governance that values actions that can be backed up with verifiable data. The success of the data-driven approach is heavily reliant on the quality of data gathered and the effectiveness of its analysis and interpretation. Notable progress has been made in data governance following Senior Management Team's endorsement of a new governance framework in FY15 for managing the WBG institutions' short-term and long-term data agenda. The framework consists of a WBG-wide Data Council to oversee the development and implementation of the WBG institutions' data agenda around two data pillars: the Development Data pillar and the Corporate Data pillar. The Data Council is supported by a Data Directors' Group under each pillar and a series of working groups to address thematic data initiatives. Recognizing the importance of data management in the Bank's overall agenda, IAD undertook specific engagements under each pillar, and also touched on data-related concerns in a number of engagements in FY16. The key challenges faced by the WBG institutions on the data management front relate to (i) the financing model to support the data agenda; (ii) the fragmentation of information systems; and (iii) the quality and reliability of data to support decision-making and informed risk-taking.

The audit of *the Process for the Collection of Data and Production of Indices to Report on the Twin Goals* highlighted the need for a clearly established financial model to support the Bank's Data Agenda. The current funding model is short-term in nature being primarily funded through trust funds, and is not conducive to long-term planning. Management is addressing this concern through a proposed 15-year funding model as outlined in its Strategic Actions Program (SAP). IAD will monitor management's implementation of the SAP for addressing development data gaps as part of IAD's FY17–FY19 work program.

There is fragmentation of the information systems and underlying data sources, which constrains the WBG institutions' ability to holistically use corporate data for decision-making and informed risk-taking. IAD's advisory review on *the Use of Data Analytics in HR* showed that this issue has hindered HR's ability to link various dimensions of workforce data for a broader corporate level analysis. There is often a tendency to initiate temporary fixes rather than move towards integrated solutions. Furthermore, in the trust funds (TF) area, as noted in the audit of *Donor Reporting on TF Operations of the WBG*, there is no institutional platform that provides consolidated and comprehensive TF information. Instead, multiple platforms are being used to provide for the financial and operational information needs of donors.

Data completeness and accuracy and the overall reliability and quality of data remains a key concern for stakeholders across the WBG institutions. In the advisory review of *the Bank's Trust Fund Change Management Considerations*, it was noted that information for decision-making purposes is not readily available and requires substantial time and effort by different stakeholders to generate due to the evolution of legacy trust fund systems that were disjointed from other institutional IT systems. Management needs to include trust fund data in prioritizing efforts to improve overall data management. The Bank's management is also in the process of developing a new one-stop information portal called the Development Partner Center, planned to be launched in FY17. The center will serve as the main interface for all information/data related to trust funds, which will help structure and rationalize reporting to development partners. Data quality and reliability of client information issues persist as noted in the advisory review of *IFC's Management of Client and Partner Hierarchies*, due to the varying degrees of data quality processes during the maintenance of corporate client information. Also, the audit of *the WBG Pension Plan Administration* noted that system limitations have resulted in data gaps, which hinders complete and meaningful data analysis.

IAD has also fostered institutional capacity for data management through data analytics advisory reviews where IAD provided advice and insights to improve the data analytics functions in accounting, financial reporting, and HR in order to promote better use and analysis of large data sets in their day-to-day operations, as well as strengthen their ability to provide key stakeholders with required information for planning and informed decision-making. In the advisory review of *Use of Data Analytics in HR*, IAD highlighted the need for the various corporate analytics teams to be adequately connected with the broader corporate level priorities being established by the Data Council.

From a broader institutional perspective, executive sponsorship and stewarding of the corporate data agenda will be paramount for success. As such, as part of IAD's FY17–FY19 work program, IAD will review corporate data governance for both IFC and the Bank as they continue to mature their governance and management processes and address the noted concerns.

From a broader institutional perspective, executive sponsorship and stewarding of the corporate data agenda will be paramount for success.



## 5. Management should continue to have a sharpened focus on process simplification and efficiency efforts to be able to deliver more in a resource constrained environment

During FY16, management has continued its active pursuit of eliminating or cutting duplicative processes that do not add commensurate value and thereby curtailing the “transactional churn” in both operational and corporate areas. Even as management works to fully implement the Expenditure Review measures by the end of FY18, there are broader institutional efforts to drive efficiencies and synergies across the WBG institutions. These include a systematic cycle of efficiency analyses of institutional, governance and corporate functions; “AGILE” Bank pilot, which aims to promote lean management principles, create a culture of performance, enhance collaboration and optimize workloads; maximization of the shared services and offshoring model; and various technology initiatives such as the cloud strategy implementation, as well as productivity and collaboration tools.

Additionally, the new framework for incorporation of external funds into the Strategic Planning, Budget and Performance Review process has enhanced management’s ability to better manage, monitor and forecast the use of external funds. To fully mainstream efficiencies in a sustained manner, the measurement, identification, and implementation of efficiency measures should be integrated into day-to-day operations. Additional efforts could include exploring new metrics/benchmarks for evaluating efficiency alongside expanding business growth.

With a view to complementing management’s efforts, IAD has increased its focus on efficiency considerations as part of its assurance and advisory engagements, highlighting efficiency opportunities in business processes. Some key efficiency related observations from IAD’s FY16 engagements are highlighted below:

- *Audit of Donor Reporting on Trust Fund Operations of the WBG:* IAD noted that significantly different reporting practices across TF programs exist and cause inefficiency and high transaction costs for the Bank. In addition, multiple platforms are being used to provide financial and operational information to donors. As a result, both staff and donors have to spend significant time in retrieving information from multiple platforms, and consolidating information offline. Management has initiated several initiatives that are underway to improve policy (guidance notes for donor reporting and managing trust funds for results) and reporting on both financial and operational information to donors.
- *Advisory Review of IFC’s Management of Client and Partner Hierarchies:* This review was to help IFC Management streamline processes, data governance efforts and systems related to client and partner hierarchies. IAD also shared industry leading practices for hierarchy data management and provided a roadmap to guide IFC in introducing the necessary improvements.
- *Audit of the IBRD’s Capital Budget Process:* The audit noted that cross-business function coordination in the implementation of new IT projects could be enhanced. Defining an institutional approach for benefits realization and value measurement for high-value and significant IT projects is essential for optimal use of the capital budget.

In FY17, IAD will maintain its efficiency focus in the conduct of all engagements. Specific reviews that will have a predominant efficiency emphasis include IAD’s advisory review of *the Bank’s Offshoring Model* and

the audit of *the WBG Control Framework for Administrative Expenses*. In FY18, IAD plans to review the roll-out of the Bank's AGILE pilot.

## 6. Strategic mobilization and use of external funds is a key to expanding the WBG reach and meeting significant financing needs

As resources for official development assistance are increasingly constrained, well-planned fundraising from donors, and innovative mechanisms for mobilizing private-sector and non-traditional funds are essential to support the Sustainable Development Goals. Clear rules and streamlined internal processes around external funds are important to ensure efficient use of funds. External funds have been a high priority area for IAD over the last several years.

**Donor Funds:** In recent years, external funds have become an integral part of the Bank's work program funding, accounting for nearly one-quarter of the Bank's spending on operational and knowledge support. In FY16, IAD conducted an advisory review of *the Bank's Trust Fund Change Management Considerations* and an audit of *Donor Reporting on TF Operations of the WBG*. The advisory review recognized significant progress in initiating structured discussion with development partners (donors) on shared priorities and corporate level effort for coordinating fundraising. IAD recommended further sharing of the information on pipeline conversations with development partners, the central unit's increased involvement and advice to decentralized fundraising teams, and enhanced management oversight and interventions on overall fundraising efforts. The review also emphasized the importance of a more focused institutional deliberation on the Bank's dependency on external funds and volume appetite in fundraising. The donor reporting audit identified inconsistent reporting practices across programs due to a lack of clear institutional standards, and inefficient, labor-intensive donor report preparation. Management has already taken steps to address these weaknesses.

**Innovative Mobilization of Funds:** In private sector financing, IFC has been tapping into non-traditional sources of funds through innovative mechanisms in addition to traditional loan syndication with commercial banks. This reflects IFC's priority for increasing the leverage of its own resources to maximize the impact of its investment activities for private sector growth. In FY16, IAD conducted an audit of *IFC's Managed Co-Lending Portfolio Program (MCP)*. MCP offers institutional investors the ability to participate in a part of IFC's future loan portfolio while at the same time allowing IFC to leverage its own resources to process larger deals and free up economic capital for future transactions. The review confirmed that the program was implemented effectively with management's oversight of performance. The sharing of confidential information and potential conflicts of interest with investors were well managed. Going forward, continuous attention to conflict of interest risk will be necessary as more investors with diverse profiles and motivations will join various mobilization mechanisms.

IAD will continue covering external funds and mobilization mechanisms as a priority. In FY17, IAD will review IFC's oversight of its fund management subsidiary, the Asset Management Company; WBG's use of external funds in climate change operations; and the risk management framework of Recipient Executed Trust Funds. In addition, in response to management's increased interest in expanding guarantee offering

by WBG institutions, IAD will review MIGA's credit enhancement activity in FY17 and the WBG institutions' overall guarantee product offering in subsequent years.

## 7. WBG needs to carefully manage its financial sustainability, protect against financial risks and support its growth for greater development impact

With a continued low-interest environment, shifts in exchange rates, and equity income being more volatile, the WBG institutions had to implement a combination of revenue and budget sustainability measures to bolster the institutions' financial soundness. The pricing measures as part of the "Margins for Maneuver" targeted reduction of the institutional cost base through an Expenditure Review (ER) exercise, calibration of the budget model through budget anchors, increased cost recovery from external funds, and a prudent revision of the minimum equity-to-loan ratio. These have allowed management greater flexibility in responding to increased client demand.

Likewise, in order to support the business model that can serve shareholder ambitions, WBG institutions need to make optimal use of their capital and income with prioritization in budget allocation. In particular, capital adequacy should be carefully analyzed in the context of expanding financing exposure to fragile and post-conflict states, taking higher risks. In this context, IDA has been exploring options to increase its financing capacity. IFC has also significantly increased its leverage of other organizations' balance sheets through a growing array of mobilization mechanisms. For IFC to be able to mobilize further financing, it needs to be able to commit its own capital to catalyze other flows, which will stretch IFC's financial capabilities and require careful management of its capital position and income drivers. MIGA's operational model allows for high leverage of its capital resulting in substantial mobilization. MIGA has already completed a review of its guarantee capacity and its reinsurance limits with a view to further optimizing the use of its capital.

During FY16, IAD reviewed integral components of the financial sustainability measures:

- *Special Review of the WBG's Expenditure Review Initiative*: IAD noted that an effective governance framework has been put in place and targeted savings are expected to be achieved. IAD's forward looking recommendations included: (i) providing timely and targeted communication to operating level staff and managers on progress, impact, and the use of savings; (ii) establishing institutional feedback loops; (iii) strengthening the efficiency analysis of individual functions; and (iv) sustaining executive sponsorship and momentum for institutional efficiency measures and reinforcing managerial accountability and incentive mechanisms to mainstream an organizational culture of efficiency.
- *Audit of the IBRD's Equity Management Framework (EMF)*: Operationalization of the Board-approved EMF has provided IBRD with the needed flexibility to manage its equity in response to changing market conditions. It has enabled IBRD to provide short-term income protection within set rules/risk parameters that were independently monitored by CRO. While the framework has been effectively implemented under challenging market conditions, from a forward-looking standpoint certain areas such as (i) codification of Approval and Decision-Making Protocols; (ii) the limits framework; and (iii) the performance assessment process within the framework, will require continued focus.

- *Advisory Review of MIGA's Administrative Cost Allocation Process for Pricing:* IAD noted that to enhance the administrative cost allocation process, MIGA's top-down cost allocation methodology could be informed by the bottom-up actual cost data. This will enhance cost transparency for better budget projections and cost recovery.
- *Audit of the IBRD's Capital Budget Process:* The institutional governance arrangements for technology capital spending have been significantly strengthened in recent years, designed to support the WBG strategy and change agenda through investment in transformative Information Technology. On the facilities side, while the individual projects have been managed effectively by General Services Department in the context of a globally dispersed portfolio, institutional governance arrangements for the vetting of investment proposals from a "top-down" corporate perspective are not yet in place. There is a compelling need for the establishment of an overarching governance body or peer review mechanism to systematically vet and assess priorities, choices and trade-offs for facilities projects at the institutional level, which management has agreed to implement.

**Strengthened Risk Management:** Management has continued to make progress in strengthening and streamlining risk management practices at the enterprise level. The significance of governance constructs in effectively managing risks has been clearly recognized, as evidenced in the WBG Chief Risk Officer's accountability for the oversight of financial risks, operational risks (including business continuity) and the development of an enterprise risk management framework. Risk governance at the institutional level has been further strengthened with the establishment of the New Business Committee (NBC) and the Enterprise Risk Committee (ERC). IAD's advisory report completed in 2015, provided a roadmap for developing and implementing an enterprise risk management framework. Based on the advisory review, issues relating to delineation/fragmentation of risk management roles and responsibilities were highlighted. While progress has been made, significant opportunities remain for streamlining and clarifying roles and responsibilities between risk management activities undertaken by first line business units and risk oversight performed by the second line functions. As management explores options and innovative instruments to enhance IDA's financing capacity, these changes could have significant implications on the risk profile of IDA and will, in turn, require a heightened risk management focus.

IAD plans to review IDA's financial risk management as part of its FY17–19 work program. Other areas to be covered are (i) the Bank's budget allocation mechanism under the new operating model; (ii) IBRD/IDA's external funds cost allocation model; (iii) the integration of external funds into the planning process; (iv) the broader budget ("W") process; (v) IFC's liquid assets management; and (vi) IFC's enterprise risk management framework.

Management has continued to make progress in strengthening and streamlining risk management practices at the enterprise level.



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## 8. Maximizing the Employee Value Proposition is central to preserving the relevance of the WBG as a knowledge institution

For a knowledge organization like the World Bank Group to deliver sustainable development solutions with a medium to long-term time horizon, a capable and engaged workforce with the knowledge, experience, and skills to deliver those solutions is pivotal. In this context, management has been increasingly focused on the two key questions: (i) Is our contract architecture fit for purpose? and (ii) Are we continuing to maintain our attractiveness as an employer? While these are two distinct considerations, the challenge will be to strike a balance in our contract architecture that first and foremost meets the business needs, but that also supports a compelling and attractive employment value proposition for staff. Building and sustaining knowledge are founded on WBG institutions' ability to promote and facilitate staff learning so that staff can successfully apply knowledge in identifying and solving complex client issues.

Management's concerted efforts to streamline the contract architecture—sunsetting of the Extended Term (ET) contracts, and rebalancing of the mix between term/open contracts—are indeed steps in the right direction. Another key realm of the contract architecture—the Short Term (ST) population is also being carefully vetted by management, culminating in a set of concrete proposals to improve how the WBG institutions recruit, engage, compensate, and manage ST staff. Responding to IAD's past audit of *the Selection and Use of Consultants by the WBG for Operational Purposes*, and to address some of the broader issues around usage of Short Term Consultants (STCs) on a systematic basis, a high-level task force was established by the President's Office. This task force performed “deep dives” into specific issues to address some key aspects necessary to strengthen the framework, and formulated draft recommendations, which were discussed with the Senior Management and the Board in 2016. Management is now developing an implementation plan with deliverables, lines of accountability and timelines. These measures will enhance the processes around selection, rate-setting practices and use of consultants within the WBG institutions.

An effective learning program is also an important vehicle for attracting, retaining and motivating talent. To support management's efforts around the knowledge agenda, IAD carried out an advisory review of *IFC Staff Learning* in FY16. The review noted that while IFC has made progress in coordinating and enhancing the collective impact of learning and development practices across IFC, opportunities exist to further strengthen the learning vision and articulate its value across IFC, make learning a key strategic agenda for senior leadership, develop a learning strategy that links to the overall business priorities and talent management strategies, and build an appropriate learning infrastructure.

IAD plans to review several key components of the HR core program and strategic priorities as part of its FY17–19 work program coverage, including work force planning, Bank staff learning, the Global Mobility Framework, and implementation of the Short-Term Consultants Framework, as well as recruitment and performance management processes.

## 9. The institutional ability to anticipate, prepare, and respond to emerging threats needs to be sharpened continuously

Figuring prominently in the Bank's operational risk profile are the increasing sophistication of cybersecurity incidents, third-party failures, global terrorism, and natural disasters, all of which have business disruption implications. Externally, these risks have been highlighted as top risks in 2016 through relevant studies and analysis by established research and consulting organizations. In FY16, IAD carried out the audit of *Business Continuity Management* for the Bank and IFC and the audit of *WBG IT Service Continuity Management* and noted that while efforts are underway by management to enhance the overall resiliency and recovery processes within each institution, there were common areas for improvement. Key concerns were around formalizing Senior Management oversight and reporting on business continuity matters, updating relevant business continuity policies and procedures, integrating IT service continuity into the broader business continuity governance framework, enhancing management's oversight over third-party service providers, the completion and testing of the crisis management and continuity plans, and improving communication systems for effective emergency response in country offices. In response, management has launched a number of initiatives to bolster staff security, improve crisis response, increase institutional resilience and enhance staff training. In addition, with the creation of the new office of the Managing Director and WBG Chief Administrative Officer (MDCAO) and the establishment of the new Enterprise Risk Committee (ERC), governance of non-financial risks in the Bank will be further strengthened.

Cyber incidents (cyber-crime, data breaches and IT failures) are continually on the rise as corroborated by external information and widely publicized high-profile information security incidents. Of particular prominence are cyber incidents due to internally driven threats from malicious insiders (employees and third-party contractors) or careless/unaware users. Management has adopted a Next Generation Cybersecurity Strategy and follows a defense-in-depth approach to managing information security and cybersecurity threats. In parallel, IAD has been reviewing key components of the WBG's multi-layered defense system that protects WBG information assets. In FY16, IAD noted that effective processes were in place for assessing the security vulnerabilities of IT solutions being implemented into the production environment through the audit of *the Security Architecture, Certification and Accreditation Process*. Considering that a key direction as part of WBG's IT Strategy is enabling connectedness, IAD performed the audits of (i) *the Box and Office 365 Post-Implementation*, which were implemented in alignment with the WBG Cloud-First approach, and (ii) *WBG Integrated Communications Platform (ICP)*, which was implemented to provide the WBG institutions with a modern and global enterprise telephony solution. These audits indicated the need to better control administrative (or super user) access, monitor the achievement of service-level standards by third party providers, and tighten security configurations of key infrastructure components.

Alongside cybersecurity incidents are high profile data breaches that highlight the importance of effective data privacy governance and controls. If not effectively managed, these incidents could readily result in financial loss, the disclosure of sensitive information, operational disruptions and reputational damage. It is essential that the WBG institutions' data privacy practices are enhanced; in particular, despite the implementation of some practices to manage and protect critical data in some business areas, governance over privacy remains fragmented across the WBG institutions as highlighted through the FY15 audit of *WBG Data Privacy*.

As part of the three-year plan starting FY17, IAD intends to continue its approach of reviewing critical components of the WBG institutions' cyber and information security strategy and defense-in-depth approach through the audits of (i) Internal & External Network; (ii) Enterprise Desktop and Remote Access Security; (iii) Insider Threat Mitigation Program; (iv) Privileged Identity and Access Management; and (v) Server/Operating System Security. During FY17, IAD will also assess the effectiveness of the framework for WBG Staff Safety & Security.

Culture and behavior lie at the very heart of real transformative change. They also influence the effectiveness of governance, risk management, and controls.



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# Overview and Results of Assurance and Advisory Reviews

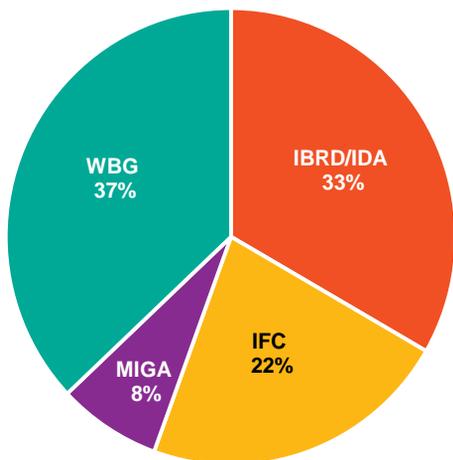
## FY16 Work Program

IAD's FY16 work program was designed to focus on the most significant risks for the WBG institutions, consistent with the International Standards for the Professional Practice of Internal Auditing (Standards) of the Institute of Internal Auditors (IIA). The Standards require the Chief Audit Executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals (Standard 2010).

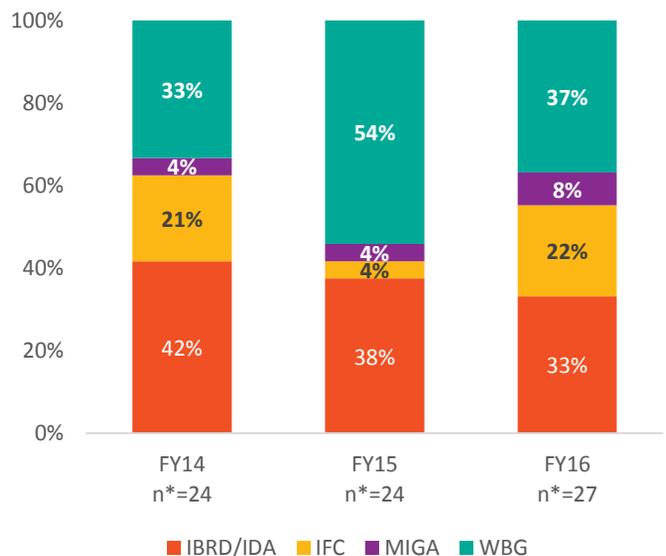
The work program provided balanced coverage of core operational processes, corporate and finance areas, and information technology.

Twenty-seven engagements were completed during FY16. These included ten WBG-wide engagements, nine IBRD/IDA engagements, six IFC engagements, and two MIGA engagements. In FY16, the proportion of IFC and MIGA engagements increased from the level of FY15, reflecting the increasing importance of private-sector operations within the WBG.

FY16 Work Program Breakdown by Entity  
(Based on number of engagements)



FY14, FY15, and FY16 Work Program Breakdown by Entity  
(Based on number of engagements)



\*n: number of engagements completed in the fiscal year

## Types of Engagements

IAD performs two primary types of internal audit engagements: assurance and advisory.

**Assurance engagements** provide WBG management and the Audit Committee with an independent assessment of existing risk management, control, and governance processes. IAD requires action plans from management for issues identified in assurance engagements and follows up as implementation progresses.

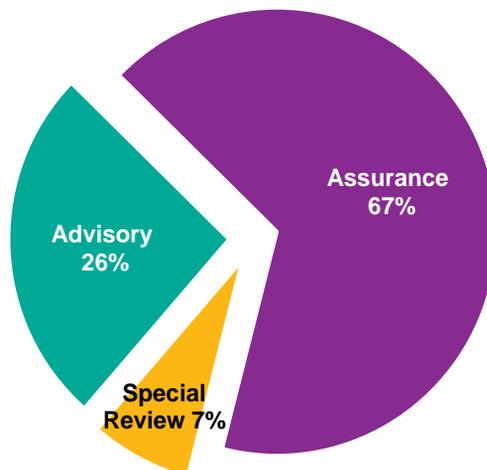
**Advisory engagements** are intended to add value to, and improve the organization’s governance, risk management, and control processes without internal audit assuming management responsibility. The types of advisory reviews include: (i) assessment of new initiatives; (ii) business process consulting; (iii) pre-implementation reviews; and (iv) other special reviews. Professional judgment is applied to determine on a case-by-case basis whether the engagement area lends itself to an advisory review. Factors considered include:

- (i) maturity of the process, controls, or system being reviewed;
- (ii) potential to add value to the organization and improve risk management, control and governance processes;
- (iii) alignment to institutional priorities;
- (iv) independence and objectivity considerations;
- (v) proficiency (availability of skills and expertise); and
- (vi) overall mix of assurance and advisory services in the work program.

In addition, IAD occasionally performs ad-hoc **special reviews** of specific topics that may not be suitable for either assurance or advisory engagements at the time of the review. All engagements are conducted in accordance with IIA’s Standards and Code of Ethics.

In FY16, assurance engagements accounted for 67%, while advisory engagements accounted for 26%. The remaining 7% were special reviews.

FY16 Work Plan Distribution by Engagement Type  
(Based on Number of Engagements)



### Work Program Alignment with IAD Charter

IAD’s work program aims to provide reasonable assurance in the areas outlined in its Charter (IAD Terms of Reference). The table below shows the level of coverage of each in FY16: 93% of the 27 engagements covered governance issues of the WBG entities; 74% covered risk management practices; and 67% covered quality assurance processes and continuous improvement.

Areas of Assurance Outlined in IAD Charter	% of Engagements Covered*
Governance issues impacting the WBG entities are recognized and addressed appropriately	93%
Risks are appropriately identified and managed	74%
Quality and continuous improvement are fostered	67%
Institutional policies and procedures are complied with	44%
Institutional assets (physical and intellectual), records and data are safeguarded	44%
Resources are acquired economically and used efficiently	37%
Significant financial, managerial, and operating information is accurate, reliable, and timely	30%

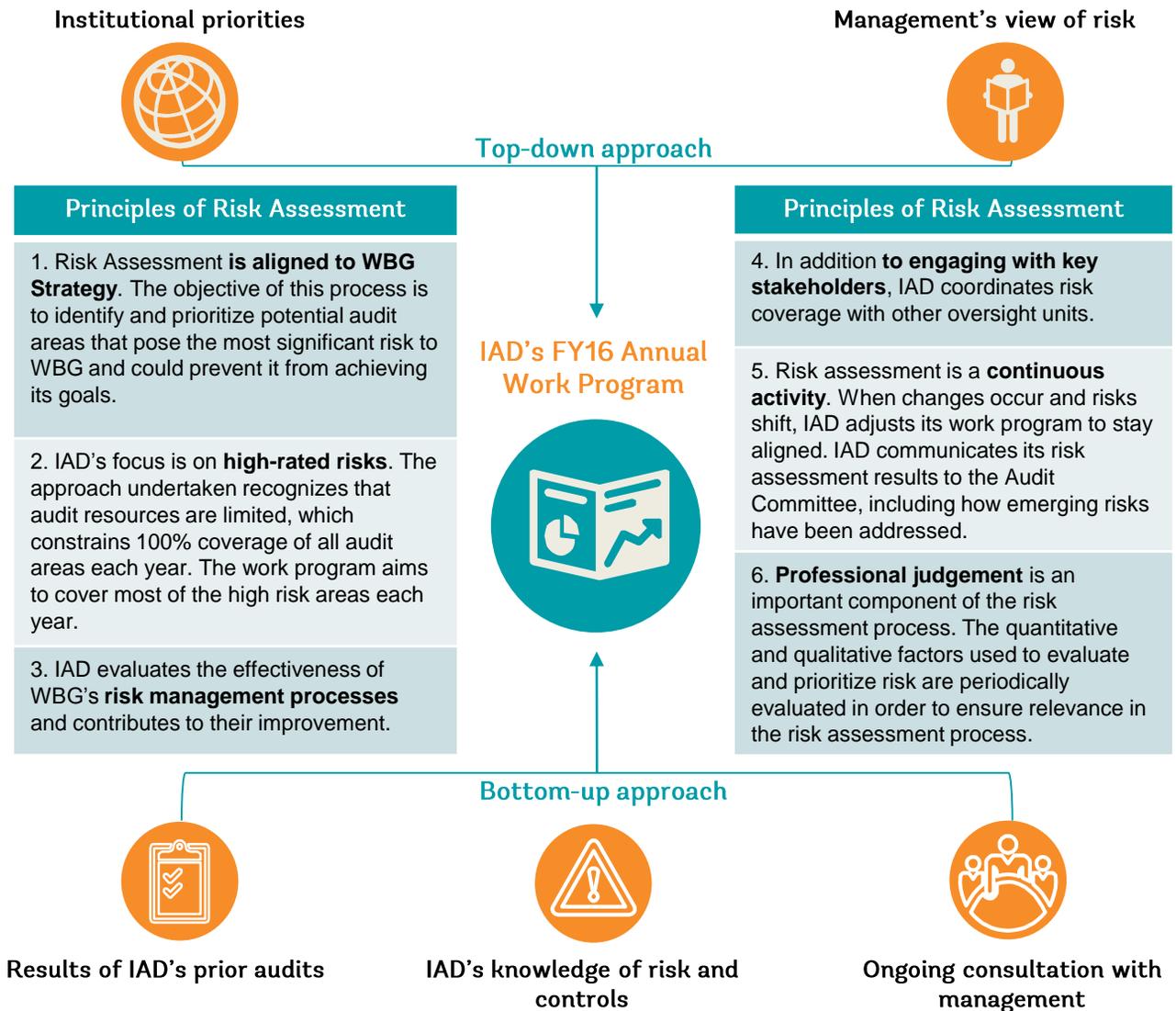
*\*Represents the % of total engagements carried out in FY16 that cover these objectives. Each engagement typically covers more than one objective.*

**IAD’s work aligns with institutional strategic priorities and most significant risks.**

## IAD's Risk Assessment Principles and Approach

The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing state that the Chief Audit Executive (CAE) should take into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization in formulating the Work Program.

IIA further requires that the internal audit activity's plan of engagements be based on a documented risk assessment, undertaken at least annually, and that the input of Senior Management and the Boards of Governors and Executive Directors ("The Board") be considered in this process. IIA Practice Advisory 2010 states that internal audit planning needs to make use of the organizational risk management process and consider the most significant risks of the organization in determining priorities for allocating internal audit resources.



## FY16 Assurance Engagements

In FY16, IAD conducted 18 assurance engagements. The results of each engagement are summarized here.

WBG	IBRD/IDA	IFC	MIGA
<ul style="list-style-type: none"> <li>• Box Post-Implementation</li> <li>• Office 365 Post-Implementation</li> <li>• Donor Reporting on Trust Fund Operations of the World Bank Group</li> <li>• Security Architecture, Certification and Accreditation Process</li> <li>• Management of Actual and Perceived Conflict of Interest in WBG's Operating Model</li> <li>• WBG Integrated Communications Platform (ICP)</li> <li>• WBG Human Resource Shared Services</li> <li>• WBG IT Service Continuity Management</li> </ul>	<ul style="list-style-type: none"> <li>• Process for the Collection of Data and Production of Indices to Report on the Twin Goals</li> <li>• Bank's Business Continuity Management</li> <li>• IBRD's Equity Management Framework</li> <li>• Implementation of the Bank's Access to Information Policy</li> <li>• IBRD's Capital Budget Process</li> </ul>	<ul style="list-style-type: none"> <li>• IFC's Processes for Generating Information Supporting Portfolio Oversight</li> <li>• IFC's Business Continuity Management</li> <li>• Implementation of IFC's Access to Information Policy</li> <li>• IFC's Managed Co-Lending Portfolio Program</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of MIGA's Access to Information Policy</li> </ul>

### WBG

The objective of the audit of **Donor Reporting on Trust Fund Operations of the World Bank Group** was to assess whether the governance and control processes over WBG's reporting to donors are effective and efficient. The audit noted that, overall, the WBG fulfills the reporting requirements, as defined in the Administration Agreements (AAs). In particular, financial reporting is supported by a robust centralized process, while the requirements for operational reporting have been substantively met. However, the audit observed that: (i) some reporting requirements in Bank trust fund AAs are granular and not fully leveraging on the Bank's fiduciary assurance framework; (ii) institutional standards pertaining to roles and responsibilities for operational reporting to donors are not clear; (iii) variation in operational reporting requirements across programs implies high transaction costs to the WBG institutions in maintaining external funds; (iv) fragmentation of information systems supporting

donor financial and operational reporting poses challenges to both donors and staff handling reporting; (v) lack of a clear process for responding to ad-hoc information requests from donors could result in submission of substandard information or a breach of confidentiality; and (vi) lack of Bank management's structured decision making and unsystematic communication with donors on the Integrity Vice Presidency's fraud and corruption investigations could make internal coordination more difficult when informing relevant donors.

**IAD provides upstream input and advice on emerging risks and new initiatives.**

## WBG's Business and IT Service Continuity Management

The objective of the audits of **the Bank and IFC's Business Continuity Management (BCM)** was to assess the effectiveness of the business continuity program to manage and mitigate the institutions' business continuity risks. The results of each audit are summarized here:

- **The Bank:** The BCM Program Office is working to enhance the overall resilience and recovery processes of the Bank and MIGA, by aligning its approach to industry standards and good BCM practices. However, weaknesses still exist in the Bank's BCM program within some of the foundational areas such as business continuity governance and executive sponsorship, policies and guidance, management of third-party and off-shoring risks, and the readiness of business units in terms of completion and testing of the crisis management and continuity plans.
- **IFC:** Foundational elements, such as an established governance structure, executive sponsorship and an approved business impact analysis (BIA), are in place to support IFC's overall recovery and resilience processes. However, the audit identified areas of improvement in (i) Country Offices' (COs) risk assessment methodology; (ii) Senior Management reporting around business continuity issues; (iii) the process for systematically capturing business process changes in BIA; (iv) the level of completion of crisis management plans across HQ and COs; (v) and the management of critical third-party vendors from a business continuity standpoint.

The audit of the **WBG IT Service Continuity (ITSC) Management** assessed the effectiveness of the ITSC program in ensuring that IT services and assets are able to support mission-critical business processes in case of disruptions. ITSC program initiatives are well established, such as the WBG-wide IT Crisis Management Plan and testing exercises, the formation of a structured Information and Technology Solutions Emergency Management Team with clearly defined roles and responsibilities, and defined incident management protocols. Furthermore, the program is supported by regular training and awareness activities, as well as the definition, recording, and monitoring of key performance indicators. However, several deficiencies were noted: (i) Governance: in the absence of a governance body to oversee the ITSC program in the context of the overall business continuity management strategy for the Bank and IFC, the ITSC program is not fully integrated with the broader BCM programs operating within the WBG; (ii) IT recovery requirements: accountability for and guidance on recovery requirements for mission critical IT systems are not clearly defined; and (iii) Management of third party continuity risks: the IT Service Continuity Unit has yet to operationalize its review of vendors' ITSC capabilities to meet WBG recovery requirements as part of the vendor selection and monitoring process. As the use of third party providers continues to rise across the WBG, their adherence to ITSC requirements will be essential.

## Implementation of Access to Information Policy across WBG

The objective of the audits of **the Implementation of the Bank, IFC, and MIGA's Access to Information Policy** (AI Policy) was to assess the governance, risk management, and internal controls over the following: (i) oversight over implementation of their AI Policy; (ii) the process for the routine disclosure of key documents following pre-defined workflows; (iii) the process for the handling of requests for access to information; (iv) the process for responding to complaints and appeals; (v) the adequacy of IT systems; and (vi) the sufficiency of training and outreach within and outside each institution. The results of each audit are summarized here:

- **The Bank:** The Bank has created a governance structure with defined roles and responsibilities, as well as several forums to review AI Policy implementation challenges and discuss improvements. Access to information requests are largely handled appropriately and in a timely manner, and functioning escalation and appeals mechanisms are in place. The IT systems and applications support implementation of the AI Policy and, upon approval, the majority of key project documents are automatically disclosed through the Operations Portal. To further enhance implementation of the AI Policy, the audit identified the following areas for attention: (i) the lack of an effective oversight mechanism to monitor the completeness and timeliness of disclosures at both the institutional and business unit levels; (ii) the low rate of voluntary disclosure of Project Audited Financial Statements, notwithstanding the new procedures and tools recently put in place; (iii) the long procedure for responding to requests for Board records, resulting in delays in responding to such requests; and (iv) the lack of uniform staff training on access to information across HQ and Country Offices.
- **IFC:** The controls over the implementation of IFC's AI Policy are adequately designed and are operating effectively. Project information is regularly updated and disclosed on the project portal; public requests for information are dealt with within the expected timeframe; client clearances are received for all information disclosed; non-routine disclosures are channeled to the Public Policy and Reputational Risk Management Unit; and all internal clearances and approvals for disclosed project information are obtained and documented. The new disclosure portal, which is expected to go live in FY17, will further enhance the effective implementation of the AI Policy with inbuilt system triggers and reminders.
- **MIGA:** The controls over the implementation of MIGA's AI Policy are adequately designed, are aligned with MIGA's size, nature of operations and the volume of public requests for information, and are operating effectively. Information to be disclosed is verified before being published on MIGA's external website. In FY15, MIGA made all the project-related mandatory AI Policy disclosures within the required timeframe. In addition, the AI Policy requirements have been incorporated into the operational manuals, the procedures have been uploaded to the intranet, and staff have been trained on the policy requirements.

IAD provides timely post-implementation feedback.

The objective of the audit of the **Management of Actual and Perceived Conflict of Interest (COI) in WBG's Operating Model** was to assess the governance, risk management and internal controls over the process for identifying and managing actual and perceived COI that could arise between or among business activities conducted by the Bank, IFC, and MIGA. The audit noted that guidelines and inter-institutional COI Offices have been established to manage inter-institutional operational COI. The COI cases brought to the COI Offices have been largely resolved in a satisfactory and timely manner. However, the audit also identified low staff awareness of the COI framework, weakness in management's communication with staff on the status of specific COI concerns, absence of COI considerations in project due diligence, and the lack of systematic monitoring and reporting of inter-institutional COI. In addition, responsibility for identifying, analyzing and deciding on any perceived and actual COI risk to the Bank arising from such financial transactions is not assigned to any particular unit. To address this, in May 2016, the Finance and Risk Committee (FRC) procedure was amended so that going forward the FRC will take responsibility for assessing the risk of and managing actual or perceived COI arising from financial transactions between WBG institutions. IFC's management of COI was considered adequate, structured, and integrated into business processes, but COI mitigation measures need to be monitored for proper implementation.

The objective of the audit of the **WBG Human Resource (HR) Shared Services** was to assess whether the governance, risk management, and internal control processes over the HR Shared Services function are adequately designed to optimize service delivery, enhance capacity and capability, and enable value creation for the WBG. The audit noted that the HR Shared Services function has established some core foundational components to support effective service delivery. The service delivery model has been strengthened through: (i) identifying process optimization

opportunities; (ii) developing/selecting the most appropriate technology solutions to enable and mainstream process efficiencies; and (iii) investing in people with the skills and capabilities required to deliver and support the overall mission of the function.

The objective of the audits of the **Box Post-Implementation and Office 365 Post-Implementation** was to assess the design, architecture and controls around the implementation of the Box and Office 365 (O365). The audits noted that effective governance, processes, and technical controls have contributed to the successful implementation of the Box and O365 solutions and achievement of the intended business objectives. In particular, the overall technical security controls are well designed to protect the WBG environment in line with the risk appetite. In addition, the operational processes in place ensure the consistency and quality of services, and cost savings have been realized through the migration of email to Microsoft O365. The successful implementation of these two enterprise-level cloud solutions supports the case for migrating additional applications and systems into the cloud in alignment with WBG's Cloud-First strategy.

The objective of the audit of **Security Architecture, Certification and Accreditation Process** was to assess the design and effectiveness of the Enterprise Security Architecture (ESA) framework and the Certification and Accreditation (C&A) process. The audit noted that the controls and governance mechanisms over the process of evaluating security threats posed by IT solutions before these are implemented into the WBG IT environment were designed and functioning effectively. The existing framework identifies the security controls to be tested (Security Architecture Review), tests the effectiveness of these security controls against WBG standards (Certification), and approves the IT solution for implementation (Accreditation). This framework is robust and

supported by an experienced team of security professionals and real-time collaboration amongst C&A and project implementation teams. The audit did not note any significant control gaps but identified an opportunity to streamline and strengthen the documentation supporting the security architecture review, certification and accreditation process.

The audit of **WBG Integrated Communications Platform (ICP)** assessed the adequacy and effectiveness of the governance, risk management, and controls over the implementation of the WBG ICP. While the WBG ICP has been successfully implemented to provide a modern platform and a global enterprise telephony solution, the audit noted the lack of clearly defined security standards for ICP configuration resulting in gaps in security configurations, excessive administrative (or super-user) access to ICP infrastructure, and the lack of effective monitoring and detection controls. As the ICP infrastructure support is being transitioned to a new service provider, management intends to strengthen and standardize the security and quality of ICP services.

### IBRD/IDA

The objective of the audit of the **Process for the Collection of Data and Production of Indices to Report on the Twin Goals** was to assess the robustness of the Bank's framework and governance mechanisms over the end-to-end process for the collection and production of relevant development data in order to support the monitoring and progress reporting of the achievement of the twin goals of ending extreme poverty and promoting shared prosperity. The audit noted that significant improvements have been made to the Bank's internal governance structure, and production processes have been formalized to support twin goal reporting. Moreover, the various stakeholders are working collaboratively to achieve reliable and high-quality results. However, management needs

to strengthen further the robustness and effectiveness of the process by establishing a medium-to-longer term financing model in relation to the data agenda, and defining and formally codifying the operational framework for data gathering and production.

The objective of the audit of the **IBRD's Equity Management Framework (EMF)** was to assess the effectiveness of the governance, risk management, and control processes as currently implemented to support the stated objective of the EMF—achieving income stability and preserving equity income, along with prudent risk management and robust oversight mechanisms. The EMF, in accordance with its original intent, has provided IBRD with the needed flexibility to manage its equity in response to changing market conditions and enabled IBRD to provide short-term income protection within set rules/risk parameters that were independently monitored by the Chief Risk Officer. While the framework has been effectively implemented under challenging market conditions, from a forward-looking standpoint certain areas need further improvement, including: (i) Codification of Approval and Decision-Making Protocols; (ii) Limits Framework; and (iii) Performance Assessment Process within the framework.

### IAD Impact: WBG's Data Agenda

IAD contributed to WBG's Data Agenda by looking at the Bank's framework and governance mechanisms over the end-to-end process for the collection of data in order to support the monitoring and progress reporting of the achievement of the Bank's twin goals. Management's proposed WBG "Strategic Actions Program for addressing Development Data Gaps" will help remediate many of the issues highlighted in the audit report. During FY17, IAD will complete a review of this Program.

The objective of the audit of **IBRD's Capital Budget Process** was to assess the adequacy and effectiveness of the governance, risk management, and internal controls over key business processes underpinning IBRD's Capital Budget life cycle (for systems, HQ and Country Office facilities, and vehicles). The audit noted that the institutional governance arrangements for technology capital spending have been significantly strengthened in recent years to support the WBG strategy and change agenda through investment in transformative IT. As the Bank continues to invest and modernize its IT infrastructure to support effective delivery of business solutions to clients within the context of a resource-constrained environment, the following improvements are key from a process standpoint: (i) Streamlining cross-functional prioritization of IT spending (across functional and business domains) and clarifying the related ADM protocols; and (ii) Defining an institutional approach for benefits realization and value measurement for high-value and significant IT projects. On the facilities side, the General Services Department has effectively managed individual projects, but institutional governance arrangements for the vetting of investment proposals from a "top-down" corporate perspective are not yet in place, indicating the need for an overarching governance body or peer review mechanism, which management is planning to implement. In addition, facilities portfolio-level monitoring is not sufficiently developed and automated.

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## IFC

The objective of this audit was to evaluate **IFC's Processes for Generating Information Supporting Portfolio Oversight** and assess the adequacy and effectiveness of: (i) portfolio information, data and metrics for effective portfolio oversight; (ii) controls supporting completeness, accuracy and validity of data and how data was aggregated and reported to Senior Management and the Board; and (iii) roles and responsibilities of systems and portfolio information management

processes. The audit noted that Senior Management is able to assess the performance and risk exposures of IFC's investment portfolio because important metrics have been identified and implemented, and multiple layers of reviews ensure data reasonableness. However, a structured data governance framework is needed to clarify roles, responsibilities and accountabilities in relation to data quality. In addition, Senior Management's assessment of portfolio performance and ability to make new business decisions could be strengthened by addressing inconsistencies across the industries regarding the reporting of portfolio level information, developing metrics to provide forward-looking insights, and streamlining the information reporting process. Management is already implementing several initiatives to address these weaknesses.

The objective of the audit of **IFC's Managed Co-Lending Portfolio Program (MCP)** was to evaluate the adequacy and effectiveness of the process for implementing the MCP against the strategic intent of the program. The audit noted that controls are adequately designed and are operating effectively, as are the oversight arrangements to monitor the performance of the program, as well as the processes for fulfilling IFC's obligations to investors, sharing confidential project information, managing conflicts of interest, managing funds flow, and accounting. In addition, IAD's data analytics exercise confirmed that the selection process for deals offered to the MCP partner is working effectively.

**IAD strengthens management's ability to manage and monitor risks and learn from experience.**

## FY16 Advisory Engagements

In FY16, IAD conducted 7 advisory engagements. The results of each engagement are summarized here.

WBG	IBRD/IDA	IFC	MIGA
<ul style="list-style-type: none"> <li>World Bank Group’s Medical Insurance Plan (MIP)</li> </ul>	<ul style="list-style-type: none"> <li>Use of Data Analytics in HR</li> <li>Risk-Based Procurement Post Reviews (PPRs)</li> <li>Bank’s Trust Fund Change Management Considerations</li> </ul>	<ul style="list-style-type: none"> <li>IFC’s Management of Client and Partner Hierarchies</li> <li>IFC Staff Learning</li> </ul>	<ul style="list-style-type: none"> <li>MIGA’s Administrative Cost Allocation Process for Pricing</li> </ul>

### WBG

The objective of the advisory review of the **World Bank Group’s Medical Insurance Plan (MIP)** was to conduct an independent assessment of the planned changes to the MIP, with a focus on assessing the extent to which such changes align with management’s stated priorities as well as prevalent market practices. The review noted that planned changes to the active employee and retiree healthcare plans are well aligned with management’s stated objectives, market practices, and the Federal Employee Health Benefit (FEHB) Program. Specifically, the planned changes will improve the choice of plans, encourage consumerism, strengthen plan quality and efficiency, and improve the health and overall well-being of the population. The review stressed the need for a population health strategy that focuses on employee/member engagement through an incentive strategy and an effective internal communications plan.

### IBRD/IDA

The objective of the advisory review of **Risk-Based Procurement Post Reviews (PPRs)** was to advise management on key considerations for developing a targeted and risk-based approach for the conduct of PPRs, with a view to informing its deliberations and decision-making. The review made a series of

recommendations on the design of PPRs and other elements of the procurement life cycle, covering (i) *Procurement Planning*: The precise form and content of the Project Procurement Strategy for Development (PPSD) should be clearly developed and communicated to borrowers along with the necessary guidance; (ii) *Procurement Risk Assessment*: Although the rigor of the procurement risk assessment has been strengthened, further implementation enhancements are needed; (iii) *Scope and Sampling of PPRs*: Careful consideration will need to be given to expanding the scope and remit of PPRs and the related trade-offs/constraints in terms of availability of staff and budgetary resources; (iv) *Use of Third Parties*: Opportunities for collaboration/synergies with the Bank’s Financial Management staff could be explored; and (v) *Monitoring and Follow-up of PPR Findings*: To maximize the value-add from PPRs, the existing institutional database needs to be redesigned to capture and track the PPR findings and remediation action plans so as to support systematic portfolio monitoring. Recommendations on broader implementation considerations covered (i) clarification of roles and responsibilities for Accountability and Decision Making (ADM); (ii) staffing and resource allocation for oversight of high risk procurement activities; (iii) integrated use of procurement oversight instruments; and (iv) borrower buy-in and capacity and resource

constraints in implementation of the Bank’s new system for Systematic Tracking of Exchanges in Procurement (STEP).

The objectives of the advisory review of the **Use of Data Analytics in HR** were to assess the maturity of the current Workforce Analytics capability within the World Bank and propose: (i) a future state visioning framework that is anchored in a current state assessment; (ii) a leading practices report tailored to the Bank’s desired future state framework; and (iii) an implementation roadmap. Concluding that HR’s data analytics capabilities are at the developing stage, the review proposed specific and actionable recommendations to enhance the maturity of the function, including: (i) clarifying the mandate of the function; (ii) integrating critical stakeholders (Regions, Global Practices, Corporate Functions) into the discussion; (iii) demonstrating “quick wins” through targeted analytics offerings; (iv) remediating the fragmentation of the underlying data systems by moving workforce data to a centralized, reliable data repository; (v) agreeing on what encompasses Workforce Analytics at the Bank; and (vi) articulating a coherent career stream for analytics professionals. The review also proposed an implementation roadmap that depicts seven phases (explore, socialize, design, communicate, implement, assess, enhance) to help the Bank synchronize and transform how talent data is used to create robust and actionable business insights.

The objective of the advisory review of the **Bank’s Trust Fund (TF) Change Management Considerations** was to provide a consolidated fact base of some key change management considerations that are crucial for effective operationalization of TF reforms, taking into account input and feedback from the various key stakeholders (Regions, OPCS, BPS, ITS, Global Practices, WBG Finance and Accounting). The review recognized that Development Finance has made significant improvements, and stressed that

### Focus on Efficiency and Simplification

IAD has increased its focus on efficiency and simplification of business activities using different approaches. These are:

Approach	Examples
Reviewing management’s efficiency efforts through targeted reviews that have a predominant efficiency focus	Special Review of the World Bank Group’s Expenditure Review Initiative (p. 35)
Fact finding of existing practices to provide management with the baseline for efficiency considerations	Advisory Review of MIGA’s Administrative Cost Allocation for Pricing (p. 34)
Identifying inefficient practices in business process analyses as part of IAD’s regular audits/advisory reviews	Audit of IFC’s Processes for Generating Information Supporting Portfolio Oversight (p. 31)
Benchmarking with industry standards on efficiency	Advisory Review of the Use of Data Analytics in HR (p. 33)

effective operationalization will require continued focus in a number of key areas, including (i) improving internal TF information availability and reliability; (ii) establishing a common understanding among stakeholders regarding end-to-end TF processes, and roles and responsibilities for TF-related activities; and (iii) strengthening training and outreach. The review also stressed the need for continued efforts in broader strategic areas, including (i) linking external fund allocation with institutional priorities; (ii) determining the dependency/sustainability appetite of management for raising and using external funds; and (iii) enhancing the institutional framework for fundraising.

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### IFC

The objective of the advisory review of **IFC's Management of Client and Partner Hierarchies** was to help IFC Management streamline processes, data governance efforts and systems related to client and partner hierarchies. Client/partner hierarchies refer to the way client data is structured and managed, and includes associations and relationships between client and partner organizations. A well-designed client data structure is essential to enable access to reliable and consistent information about clients across the organization. The IAD review provided recommendations to guide IFC in introducing key improvements to the management of client and partner hierarchies. IAD also shared industry leading practices for hierarchy data management and provided a roadmap to guide IFC in introducing the necessary improvements.

The objectives of the advisory engagement on **IFC Staff Learning** were to review IFC's current learning and development landscape, identify leading practices in learning organizations and programs, and help IFC management establish the appropriate organizational framework for implementing IFC's learning vision. The review noted that IFC's Global Knowledge and Learning

Office (GKLO) has made progress in coordinating and enhancing the collective impact of learning and development practices across IFC. In order to strengthen the learning agenda, management should consider: (i) clearly defining the learning vision and articulating its value across IFC; (ii) making learning a key strategic agenda item for IFC senior leadership; (iii) developing a learning strategy that links to the overall IFC business priorities and talent management strategies; (iv) defining and clearly communicating a learning governance model with defined roles and responsibilities; and (v) building a learning infrastructure with defined processes and accompanying technology.

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### MIGA

The objective of the advisory review of **MIGA's Administrative Cost Allocation Process for Pricing** was to provide advice on the approach to the allocation of administrative costs to projects to enable MIGA management to better allocate administrative costs to its premiums in order to fully recover such administrative costs. To enhance the administrative cost allocation process, the review suggested that MIGA's top-down cost allocation methodology could also be informed with bottom-up actual cost data. The review made recommendations to enhance the current cost management process and also provided a roadmap for implementation. The review suggested steps for MIGA management to (i) establish the right "tone from the top" to indicate management priority; (ii) establish a cost allocations governance framework; (iii) obtain a better understanding of MIGA's costs and cost drivers and define a methodology to better assign costs directly to projects; (iv) simplify and reduce the available activities for which staff can charge their time and expenses, and eliminate activities that are not useful for business decisions; (v) enhance the current tools and reporting capabilities; (vi) implement a continuous cost management process; and (vii) ensure change management mechanisms are defined, overseen, and measured throughout the process.

## FY16 Special Reviews

In FY16, IAD conducted 2 special reviews. The results of each engagement are summarized here.

WBG	IBRD/IDA
<ul style="list-style-type: none"> <li>Special Review of the World Bank Group's Expenditure Review (ER) Initiative</li> </ul>	<ul style="list-style-type: none"> <li>Special Review of the Financial Aspects of IDA17 Concessional Loans</li> </ul>

### WBG

The objective of IAD's special review of the **World Bank Group's Expenditure Review (ER) Initiative** was to assess progress made by management in achieving the ER savings and to provide an objective "fact base" thereon. The review noted that: (i) management has instituted an effective governance framework for overseeing implementation of the ER initiative; and (ii) management is currently on track to achieve the total targeted savings by FY18. The review recognized that the ER initiative has been undertaken amid a rapidly evolving business and institutional context. IAD's forward looking recommendations included: (i) providing timely and targeted communication to operating level staff and managers on progress, impact, and the use of savings; (ii) establishing institutional feedback loops; (iii) strengthening the efficiency analysis of individual functions; and (iv) sustaining executive sponsorship and momentum for institutional efficiency measures and reinforcing managerial accountability and incentive mechanisms to mainstream an organizational culture of efficiency.

### IBRD/IDA

IAD's review of the **Financial Aspects of IDA17 Concessional Partner Loans (CPLs)** was focused on providing an objective "fact base" covering: (i) concessionality; (ii) grant element calculations; (iii) financial benefits and risks; and (iv) mark-to-market calculations. IAD concluded that all five IDA17 CPLs achieved the concessionality threshold established by the CPL Framework. IDA also received a positive net present value financial benefit from all the CPLs. The IDA-IFC Note protected IDA against the rise in the coupon rate of the underlying CPL, and IFC also received a positive benefit from IDA's investment in the IFC Note. The review also emphasized the importance of preserving flexibility for IDA to respond to partner needs, while also identifying key considerations for the future.

### IAD Impact: Expenditure Review

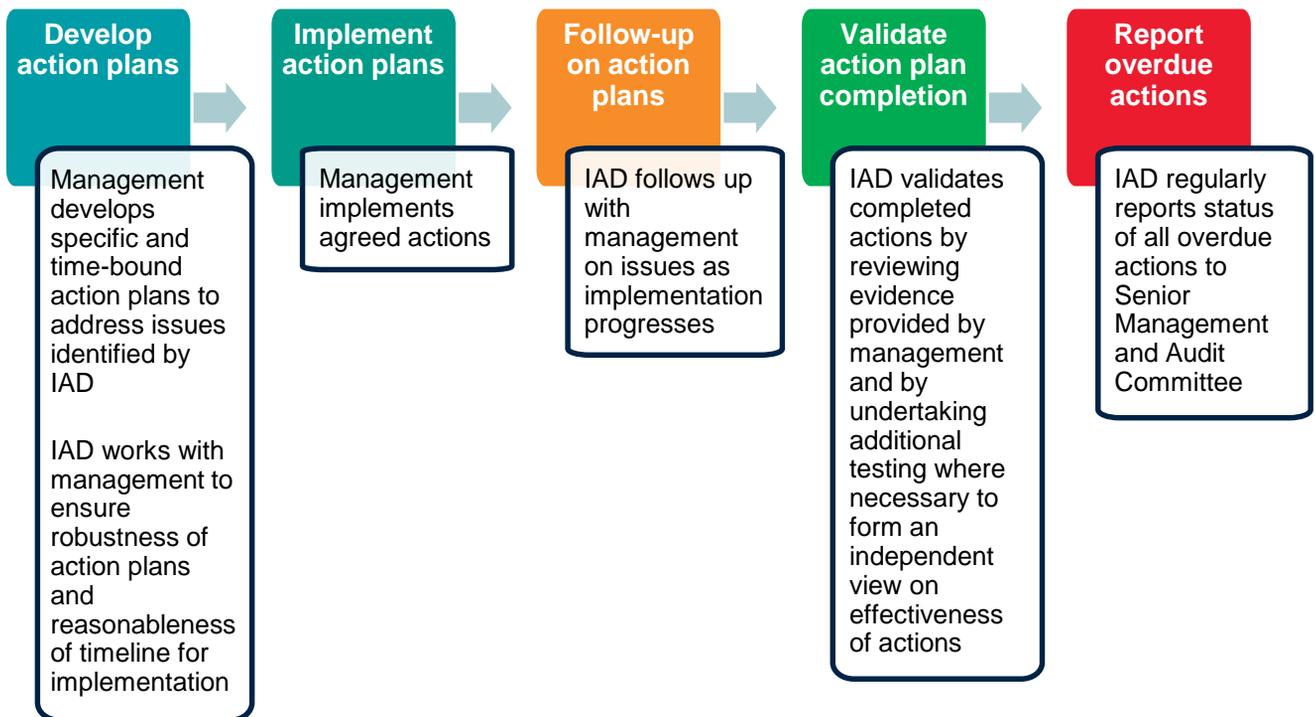
IAD conducted an independent review of the Expenditure Review Initiative and validated management's processes for embedding ER savings targets into the FY15-18 budget trajectory to meet the \$400m savings target. IAD concluded that management is on track to fully claw back the total targeted savings by FY18. IAD also provided recommendations to derive optimum value from these reviews.

# Follow-up on Management Action Plans

## IAD's Follow-up Process

The weaknesses identified by IAD during assurance engagements are addressed through a Management Action Plan (MAP) that sets out the actions to be taken to resolve the issue. The MAP also indicates a date by which implementation is expected to be completed. IAD then follows up on MAP implementation, ensuring that the issue is addressed by the agreed date by:

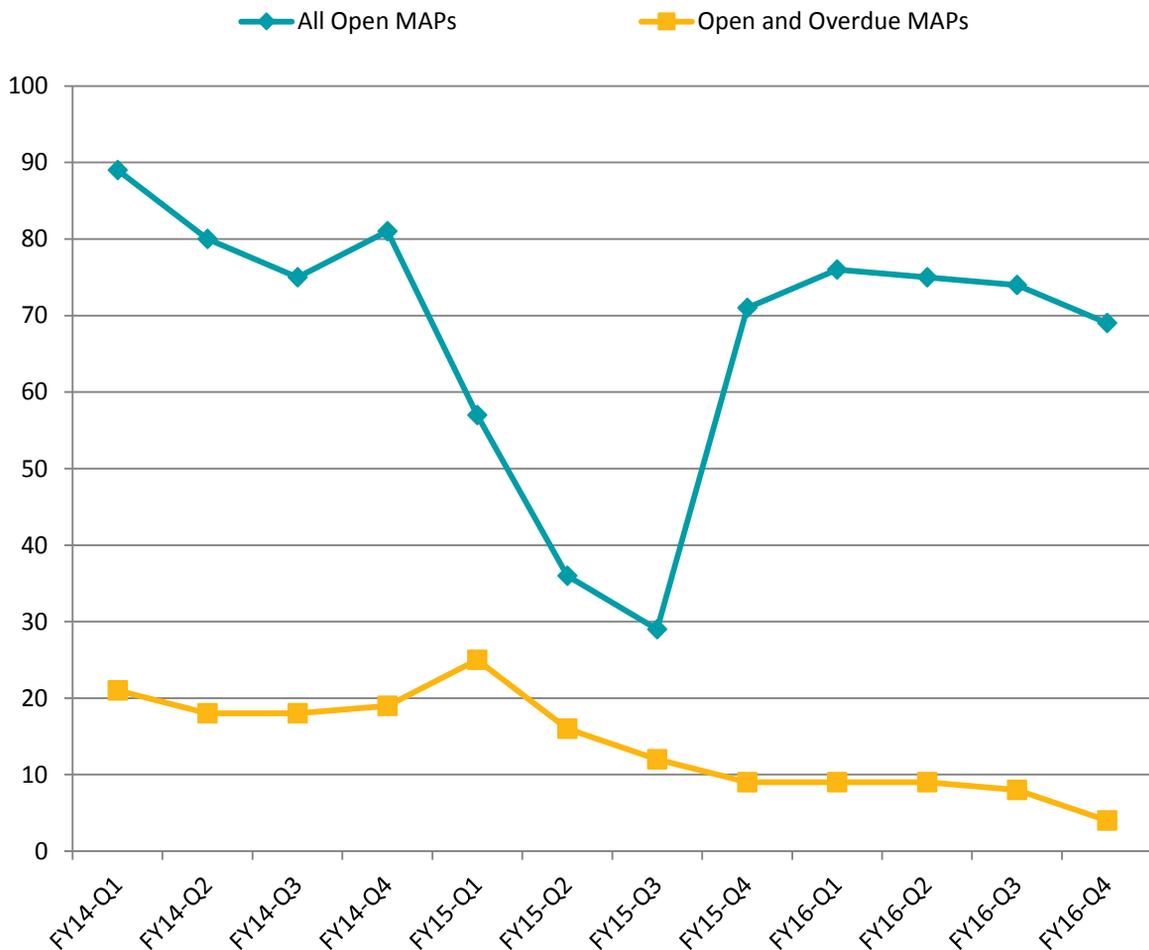
- independently validating the robustness of the action plans formulated by management to address the issues identified in IAD's reviews;
- providing an analysis to Senior Management and the Audit Committee on overdue issues including the reasons for delay and risks involved in the revised implementation timeline; and
- flagging specific issues for Senior Management and Audit Committee attention, where insufficient progress has been made with respect to implementation of agreed actions.



## Overview of Management Action Plans

**Open MAPs** are plans for which actions are outstanding, while **open and overdue MAPs** are plans that management did not complete before the agreed due date. IAD's continuous dialogue with management during the implementation of actions encourages timely completion of the plans.

In FY16, IAD raised 73 new issues. Only four MAPs were overdue at the end of FY16. They were in the areas of quality of client data, credit risk management, information security, and analysis of operational impacts of externally funded instruments.



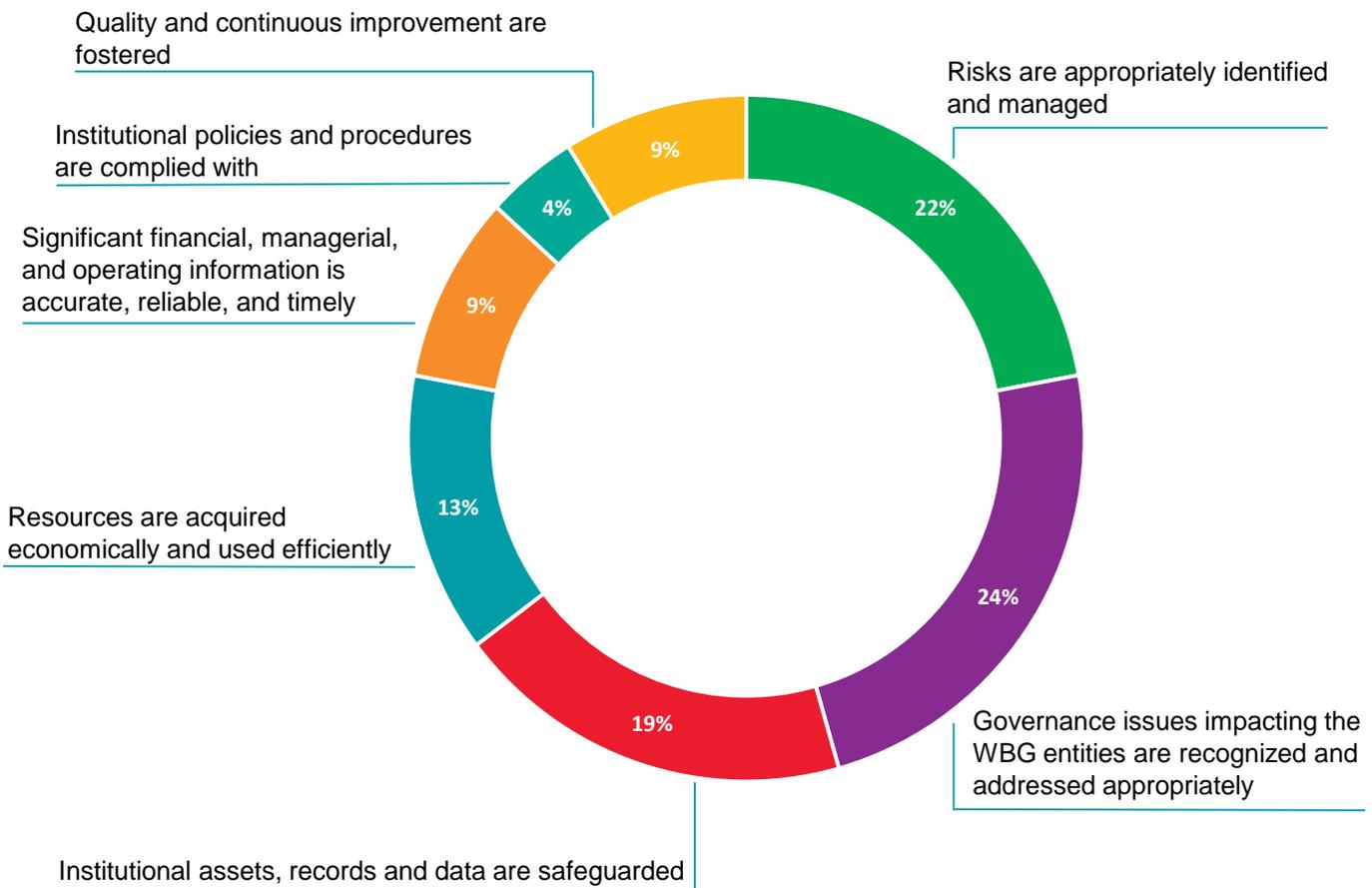
IAD's follow-up process encourages management to take effective and timely action.

### Impact of Closed Management Action Plans in FY16

In FY16, IAD closed 68 MAPs, some of which were raised in prior years, after validating that management had satisfactorily implemented the actions. The implementation of MAPs means improvement in WBG's governance, risk management and control processes, and demonstrates the impact of IAD's work.

A review of the closed MAPs showed that nearly a quarter of them focused on improving the WBG's governance structures and monitoring mechanisms, followed by WBG risk identification and management.

The below figure gives the distribution of closed MAPs in relation to the assurance objectives outlined in the IAD Charter.



## High Impact Management Action Plans Implemented and Closed in FY16

In the FY13 audit of **Integration of External Funds into the Corporate Budget Process**, IAD noted that while external funds were included in analyses and presentations supporting the budget process, allocation decisions were still limited to the administrative budget (Bank-funded) portion and did not comprehensively include all sources of funds. As a result, the external funds or trust funds were not effectively integrated into the corporate business planning and budget decision-making process. As part of the new WBG strategy implementation, management approved new principles to align external funds to the WBG strategy. The revised Corporate Budget process that management has put in place starting with the FY15-17 cycle laid out a high-level framework for incorporation of external funds into the new Strategic Planning, Budget, and Performance Review process. The actions taken have strengthened management's ability to have an overall view of the various sources of funds as well as to forecast the use of external funds.

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In an audit of the **Selection and Use of Consultants by the WBG for Operational Purposes** conducted in FY13, IAD noted that the WBG does not have a robust framework for overseeing the selection and use of consultants for operational purposes. Responding to this and to address some of the broader issues around usage of Short Term Consultants on a systematic basis, a high-level task force was established by the President's office to perform "deep dives" into specific issues to address some key aspects necessary to strengthen the framework. The task force formulated draft recommendations, which were discussed with the Senior Management and the Human Resources Committee of the Board in January 2016, following which management is now developing an implementation plan with deliverables, lines of accountability and timelines. These measures by management will enhance the processes around selection, rate-setting practices and use of consultants within the WBG institutions.

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An issue raised in the FY11 audit of **WBG Management and Administration of Staff Benefits** noted that the WBG Benefits Policy Framework is unduly complex, making it difficult to automate and administer. This led to inconsistencies in the interpretation and application of benefits. Management carried out a systematic and thorough review of the benefits program and concluded the reforms to the Staff Retirement Plan and Life Insurance, rolled out the new Global Mobility Support Framework (GMSF), and undertook a comprehensive review of the Medical Insurance Plan (MIP). These actions on the GMSF and MIP have helped to simplify and harmonize the compensation and benefits programs that support globally mobile staff and moved the MIP from a curative to a preventive approach while maximizing efficiency, cost effectiveness, and health outcomes.

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In the FY15 audit of **WBG Database Management**, IAD highlighted that some of the WBG databases had configuration weaknesses surrounding password security, administrative access, system logging and delays in the application of the latest database patches or upgrades by vendors. The audit noted that without effective database hardening, the WBG databases may create configuration weaknesses that could be exploited by unauthorized individuals. Responding to this, in FY16, management has remediated the identified weaknesses in the database security configurations as well as enhanced the patch management policies and procedures to ensure a risk-based approach for applying database patches. These measures by management have strengthened the WBG security posture of critical databases, thus helping to secure the underlying data.



# Collaboration with Other Oversight and Risk Management Units and the External Auditor

The mandates of the World Bank Group oversight functions—IAD, Independent Evaluation Group (IEG) and Integrity Vice Presidency (INT)—are both distinct and complementary to better inform and strengthen the oversight architecture of the WBG institutions. IAD's mandate covers risk management, governance and internal controls, while IEG and INT focus on evaluation of development effectiveness and integrity risks of WBG projects and operations, respectively. Inspection Panel (IPN) and Compliance Advisor/Ombudsman (CAO) are environment and social recourse mechanisms for WBG projects. Taken together, they better inform and strengthen the oversight architecture of the WBG institutions. In FY16, IAD continued to build upon the successful collaboration and coordination with other oversight units. While IAD covers the entire business processes of the WBG, the work focus of other oversight units provides important input into the IAD risk assessment and work program formulation and individual engagements.

## Collaboration with IEG

A Memorandum of Understanding (MOU) was signed between IAD and IEG on the agreed areas of collaboration and the agreed measures for coordination. IAD Vice President and IEG Director General meet quarterly to review progress in collaboration. At the working level, IAD and IEG have each appointed a Coordination Representative. At the strategic level, collaboration is further enhanced by sharing relevant information after Board meetings attended by IAD and IEG separately, and by building staff capacity through training and knowledge sharing. IAD and IEG also collaborate during work program development, and engagement planning and reporting. The audit of *the Process for the Collection of Data and Production of Indices to Report on the Twin Goals* is an example of an area of such collaboration.

## Collaboration with INT

Knowledge sharing between INT and IAD has enabled IAD to have access to fraud and corruption

risk information held by INT. IAD has been using the gained knowledge for its risk assessment, work program development, and individual engagements. For example, in FY16, INT's input informed IAD's analyses of Risk-Based Procurement Post Reviews and the reporting to donors on fraud and corruption risk. INT has continued to share its Investigation Reports with IAD on a regular basis so that IAD could distill systemic issues from individual investigation cases. In addition, IAD and INT held a joint workshop in November 2015 to identify and explore ways for further collaboration.

## Collaboration with IPN and CAO

IAD has also analyzed cases examined by IPN and CAO to gain insights into WBG institutions' management of environmental and social risk. IAD has maintained ongoing dialogue with these units and reviewed their thematic reports, such as IPN's Lessons Learned on Resettlement Practices, to understand trends in this field.

## Collaboration with Risk Management Units and the External Auditor

IAD closely engages WBG Chief Risk Officer (CRO) throughout the year to discuss emerging risks and exchange views on issues identified at the engagement level. The ongoing collaboration with the CRO is a key component of IAD's overall risk monitoring. The dialogue with the CRO is particularly critical as the CRO office serves the secretariat of two major institutional risk committees—the Finance and Risk Committee (with a sub-committee, namely the New Business Committee, which is co-chaired with Treasury) and the Enterprise Risk Committee—and oversees operational risk management. Other risk management units that IAD regularly communicates with include the risk management units of IFC and MIGA, the Bank's central unit that gathers risk information on operations, and the Controller. IAD also collaborates closely with the Bank's External Auditor throughout the year, typically through quarterly discussions, to exchange risk information from respective standpoints.

# Innovation and Improvement

IAD's commitment to continuously improve the quality of its deliveries through investments in people, processes, and tools is reflected in its innovative practices. Examples of those practices include IAD's quality assurance and improvement program, the structured learning and development program, and the integration of IAD's quality assurance process with its audit tool and data analytics capabilities.

## Quality Assurance and Improvement Program

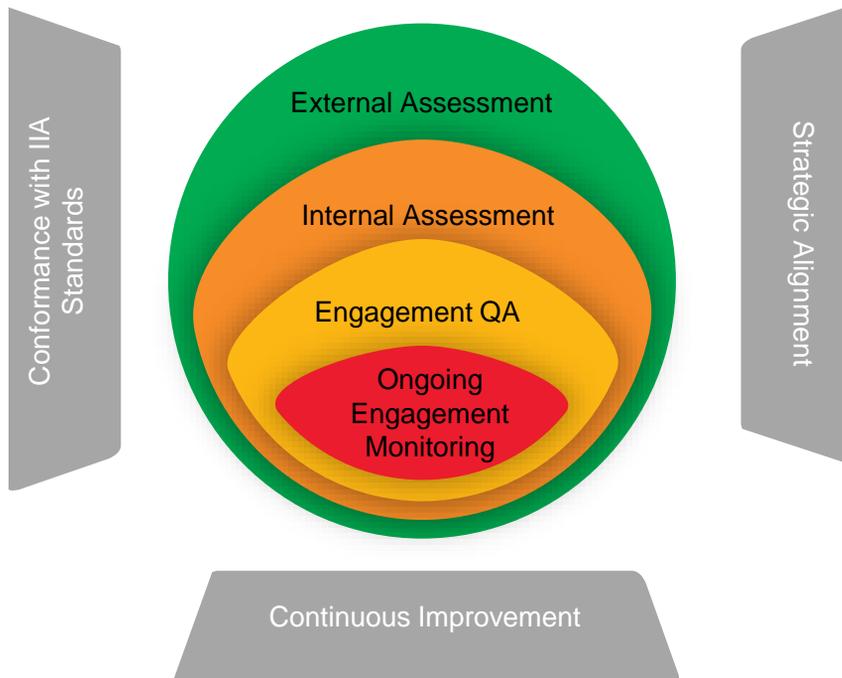
In FY16, IAD updated its Quality Assurance and Improvement Program (QAIP) to strengthen alignment with leading industry practices and ensure continued conformance with the quality assurance standards set by the Institute of Internal Auditors (IIA). The objectives of the QAIP are to ensure and demonstrate:

- technical compliance with the IIA standards
- alignment with stakeholder expectations
- continuous improvement

Through this update, IAD formalized existing quality assurance activities and defined a framework that includes, but is not limited to, the following:

- quality control activities embedded in engagements' lifecycle
- quality assessment of engagements by an independent unit within IAD and IAD management before final delivery to the client
- continuous portfolio-level monitoring using metrics, i.e. key performance indicators
- a holistic internal assessment of all IAD activities at least every three years
- an external assessment at least once every five years by an independent and qualified assessor from outside the WBG

IAD's QAIP Framework



## External Quality Assessment

The International Standards are an important component of the QAIP. They require that an external assessment be conducted at least once every five years by a qualified assessor or assessment team from outside the organization.

During FY16, under the supervision of the Audit Committee, IAD commissioned the IIA to conduct this External Quality Assessment of its internal audit activities and practices, given the IIA’s background as the world’s recognized authority on internal audit and its ability to benchmark internal audit performance against an extensive set of worldwide clients.

The report, issued during the fourth quarter of FY16, gave an overall opinion that IAD “generally conforms” to the IIA Standards, Definition of Internal Auditing, and the IIA Code of Ethics. Generally conforms is the highest of a three-scale rating and means that the structure, policies, procedures and operating practices of IAD comply with the requirements of the Standards and Code of Ethics in all material respects. While improvement opportunities were identified, none of these were of a significant nature. Even so, IAD has committed to taking actions that address the improvement opportunities. The results of the review are shared with the President and Audit Committee.

### Highlights of External Quality Assessment Feedback from the Institute of Internal Auditors

*The independent assessment team noted significant improvement in the overall quality of infrastructure and processes supporting Internal Audit since the last EQA was performed in 2011.*

*Internal Audit management and staff, together with third party resources, collectively possess the knowledge, skills, and other competencies necessary to demonstrate professional proficiency.*

*The internal quality processes IAD has in place demonstrate a strong commitment to continuous improvement and alignment with the Standards.*

*IAD’s annual risk assessment process focuses on activities in areas of highest risk and impact consistent with the strategies and objectives of The World Bank Group. Interviews with senior stakeholders support the view that Internal Audit’s role is highly valued and they are seen as an integral component of the organization’s governance mechanism.*

*Periodic reports to the Audit Committee are of a high quality and appropriately communicate Internal Audit activities.*

### Investments in Human Capital

IAD strategy recognizes that human capital is its most valuable asset and the foundation in achieving IAD’s vision.

Dedicated to the World Bank Group’s mission, a team of close to 30 seasoned professionals from 17 different countries have come together to work in IAD. More than half of IAD staff hold a master’s degree. The staff typically have relevant internal audit certifications such as Certified Internal Audit (CIA), Certified Public Accountant (CPA) or Chartered Accountant (CA) with an average experience of more than 15 years in audit, risk management, accounting, finance, and information technology. Collectively, IAD staff are proficient in nineteen languages as most are multilingual. Many IAD staff have also broadened their experience and

perspectives by studying and working outside of their home of origin prior to joining IAD.

IAD’s investments in its human capital, the staff, include emphasis on professional growth, continuous learning, and job enrichment. Following the implementation of the Core Curriculum in FY15, IAD staff spent an average of 13 days per year in formal learning activities. Moreover, staff actively engage in other IAD sponsored professional development opportunities, such as pursuing professional certifications or degrees, working outside of IAD temporarily to broaden experience, and serving the IIA in various volunteering capacities.

IAD Wheel of Learning



### Voiced by IAD Staff

In FY16, IAD built upon the Core Curriculum training program and expanded the modalities of learning into additional flexible and informal formats, as illustrated via the Wheel of Learning. For instance, small groups of staff meet periodically to discuss any pressing matters. Knowledgeable staff volunteered to host informal informational sessions on various topics, such as climate change. Group feedback sessions were also organized to share experiences and identify areas for improvement. Furthermore, IAD continued to systematically update staff's business acumen in strategically important areas and audit skills through the established format of Quarterly Learning Days.

The current direction of IAD's learning and staff development program is to stress the importance of developing a core team of audit professionals with a combination of broad breadth of knowledge across the WBG's business functions and deepened expertise in selected areas.

IAD is committed to further strengthening its human capital and making IAD an incubator of talent that will enable staff to be future leaders within IAD, WBG and the internal audit community.

*I find working in IAD rewarding because I get a balcony view of the WBG activities. I am privileged to know and understand the many business processes that work together towards the achievement of the WBG twin goals.*

*I am proud to work in IAD because it provides me with a platform to grow in my profession.*

*In this fast changing world with new players in the field of development, the WBG has to reinvent itself to stay relevant. Consequently, we as auditors also have to be able to think ahead and identify new risks, bring it to management attention and help to build mitigation measures.*



IAD staff with Dr. Jim Yong Kim, the President of the World Bank Group

## Technology and Data Analytics

Utilizing technology and data analytics capabilities to improve the efficiency and effectiveness of audit delivery is at the heart of IAD's vision and strategy.

Following the adoption of the industry-leading audit management system at the beginning of FY16, IAD continued to train its staff and increase proficiency with the tool. However, to fully realize the benefits of the automated system—consistent implementation of IAD's audit methodology and procedures, and time saving, enabling IAD staff to spend more time providing value-added services—requires not only technical knowledge of the system but also a conscious effort to change behavior. To instill delivery discipline and deliver higher quality results to clients in a more efficient manner, IAD has created detailed guidance for operationalizing the IAD audit methodology and procedures in the audit management system. Also, embedding best practices in performing the audit process and employing the system for engagement documentation help ensure consistency in quality and streamline the audit process for efficiency gains.

IAD is also taking advantage of the new platform and data analytics tools by combining the capabilities and building a key performance indicator dashboard of audit deliveries and follow-ups with automatically extracted data from the audit management system. This effort will provide opportunities to further increase efficiency and quality in both the audit process and IAD's communication with the Audit Committee and other stakeholders.

In addition to adopting a new technology platform, IAD also reached an important milestone in enhancing another critical success factor of its vision and strategy: completion of IAD's Data Analytics (DA) Strategy. The DA Strategy aims to enable audit teams to effectively deliver insightful,

proactive and future-focused assurance and advice. The DA Strategy also calls for developing in-house data analytics capabilities. A skills-gap analysis was completed in late FY16 and targeted data analytics training has been incorporated as a part of IAD's learning program for the next fiscal year. Although full implementation of the DA Strategy may take up to three years, IAD's investment in data analytics has already borne fruit, as evidenced in an increased number of engagements with data analytics support and more impactful results.

Utilizing technology and data analytics capabilities to improve efficiency and effectiveness of audit delivery is at the heart of IAD's vision and strategy.

## Outreach and Partnerships

IAD reaches out to internal auditors of other multilateral organizations, development institutions, and the Bank and IFC clients to absorb new ideas, share knowledge and network with fellow practitioners. Major activities in FY16 were:

- Hosting the 2016 Annual Multilateral Development Bank Internal Audit Meetings
- Participation in the 2015 Representative of the Internal Audit Service of the United Nations Organizations and Multilateral Financial Institutions in Manila, the Philippines
- Knowledge sharing with the Asian Development Bank internal audit, the United Nations Inspection Unit, the European Court of Auditors, and the Azerbaijan State Oil Fund
- Speaking at an IFC corporate governance seminar in Bangkok for IFC's clients on IT audits and data analytics

In addition, IAD forged its partnership with the Institute of Internal Auditors (IIA), the global standard setter for internal audit, through the Memorandum of Understanding to collaborate on research projects of mutual interest, such as internal audit advocacy in countries with emerging economies. As the first project of such collaboration, IAD is currently offering technical support to IIA for its research on the internal audit status in selected African countries. IAD is also providing a communication link between the IIA and the Bank's operations on internal audit capacity building activities in the Bank's client countries. Further, an IAD staff member has been participating in the IIA's public sector committee to contribute to promoting sound internal audit practices in the public sector.



IAD staff with Mr. Chambers, the President and CEO of the Institute of Internal Auditors

# Appendix A: IAD Reports Issued in FY16

WBG Engagements				
No.	Entity	Engagement Title	Report No.*	Date Issued
1	WBG	Audit of the Box Post-Implementation	WBG FY16-01**	January 8, 2016
2	WBG	Audit of the Office 365 Post-Implementation	WBG FY16-01**	January 8, 2016
3	WBG	Advisory Review of the World Bank Group's Medical Insurance Plan (MIP)	WBG FY16-02	January 14, 2016
4	WBG	Audit of Donor Reporting on Trust Fund Operations of the World Bank Group	WBG FY16-03	February 9, 2016
5	WBG	Audit of the Security Architecture, Certification and Accreditation Process	WBG FY16-04	April 5, 2016
6	WBG	Audit of the Management of Actual and Perceived Conflict of Interest in WBG's Operating Model	WBG FY16-05	May 16, 2016
7	WBG	Audit of WBG Integrated Communications Platform (ICP)	WBG FY16-06	June 16, 2016
8	WBG	Special Review of the World Bank Group's Expenditure Review (ER) Initiative	WBG FY16-07	June 17, 2016
9	WBG	Audit of WBG Human Resource Shared Services	WBG FY16-08	June 16, 2016
10	WBG	Audit of WBG IT Service Continuity Management	WBG FY16-09	July 8, 2016

\*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.

\*\*Results of the audits of the Box Post-Implementation and Office 365 Post-Implementation are combined in one report.

### IBRD/IDA Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	IBRD/IDA	Special Review of the Financial Aspects of IDA17 Concessional Loans	IBRD FY15-10	September 15, 2015
2	IBRD/IDA	Audit of the Process for the Collection of Data and Production of Indices to Report on the Twin Goals	IBRD FY16-01	December 1, 2015
3	IBRD/IDA	Advisory Review of the Use of Data Analytics in HR	IBRD FY16-02	January 19, 2016
4	IBRD/IDA	Advisory Review on Risk-Based Procurement Post Reviews (PPRs)	IBRD FY16-03	February 5, 2016
5	IBRD/IDA	Advisory Review of the Bank's Trust Fund Change Management Considerations	IBRD FY16-04	February 11, 2016
6	IBRD/IDA	Audit of the Bank's Business Continuity Management	IBRD FY16-05	March 31, 2016
7	IBRD/IDA	Audit of the IBRD's Equity Management Framework	IBRD FY16-06	May 17, 2016
8	IBRD/IDA	Audit of the Implementation of the Bank's Access to Information Policy	IBRD FY16-07	May 31, 2016
9	IBRD/IDA	Audit of IBRD's Capital Budget Process	IBRD FY16-08	July 12, 2016

### IFC Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	IFC	Audit of IFC's Processes for Generating Information Supporting Portfolio Oversight	IFC FY16-01	October 1, 2015
2	IFC	Advisory Review of IFC's Management of Client and Partner Hierarchies	IFC FY16-02	March 23, 2016
3	IFC	Audit of IFC's Business Continuity Management	IFC FY16-03	April 13, 2016
4	IFC	Advisory Review of IFC Staff Learning	IFC FY16-04	June 22, 2016
5	IFC	Audit of the Implementation of IFC's Access to Information Policy	IFC FY16-05	July 5, 2016
6	IFC	Audit of IFC's Managed Co-Lending Portfolio Program	IFC FY16-06	July 15, 2016

### MIGA Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	MIGA	Advisory Review of MIGA's Administrative Cost Allocation Process for Pricing	MIGA FY16-01	March 31, 2016
2	MIGA	Audit of the Implementation of MIGA's Access to Information Policy	MIGA FY16-02	July 6, 2016

# Appendix B: IAD's Coverage in FY14-16

IAD's Coverage in FY14-16*				
No.	Risk Domains	FY16 Engagements	FY15 Engagements	FY14 Engagements
1	<b>Strategy Setting Planning and Budgeting</b>	<ul style="list-style-type: none"> <li>Audit of IBRD's Capital Budget Process</li> <li>Special Review of the Financial Aspects of IDA17 Concessional Loans</li> </ul>	<ul style="list-style-type: none"> <li>Advisory Review of the Bank's Enterprise Risk Management Framework</li> <li>Advisory Review of the Bank's Operational Risk Management (ORM) Processes within Finance and Technology Partners</li> </ul>	<ul style="list-style-type: none"> <li>Audit of IFC's Corporate Scorecard</li> </ul>
2	<b>Strategy Implementation and Change Management</b>	<ul style="list-style-type: none"> <li>Special Review of the World Bank Group's Expenditure Review (ER) Initiative</li> </ul>	<ul style="list-style-type: none"> <li>Advisory Review of the Jointness Models</li> <li>Advisory Review of Country Management Unit Norming</li> </ul>	<ul style="list-style-type: none"> <li>Review of Operational Risk Assessment Framework (ORAF)</li> </ul>
3	<b>Delivery of Operational Products and Services</b>	<ul style="list-style-type: none"> <li>Audit of IFC's Managed Co-Lending Portfolio Program</li> <li>Audit of IFC's Processes for Generating Information Supporting Portfolio Oversight</li> <li>Advisory Review of MIGA's Administrative Cost Allocation Process for Pricing</li> </ul>	<ul style="list-style-type: none"> <li>Audit of Monitoring of the Delivery of Analytic and Advisory Activities (AAA) to Clients</li> <li>Audit of Bank's Risk Management in Financial Intermediary Lending Projects</li> <li>Audit of IFC's Management of Public-Private Partnership (PPP) Transaction Advisory Projects</li> </ul>	<ul style="list-style-type: none"> <li>Audit of the Bank's Management of Fees for Reimbursable Advisory Services (RAS)</li> <li>Audit of MIGA Process for Pricing Guarantees</li> <li>Audit of IFC's Nominee Directorship and Fund Committee Membership</li> <li>Memo on Overview of the Bank's Resource Allocation Process for Project Implementation Support</li> </ul>
4	<b>Environmental and Social Risk</b>	<ul style="list-style-type: none"> <li>Bank's Action Plan to Improve the Management of Safeguards and Resettlement Practices</li> </ul>		<ul style="list-style-type: none"> <li>Review of the Bank's Environment and Social Risk Management</li> <li>Audit of Environmental and Social Risk Management in IFC Projects</li> </ul>
5	<b>Fiduciary Risk</b>	<ul style="list-style-type: none"> <li>Advisory Review on Risk-Based Procurement Post Reviews (PPRs)</li> </ul>		<ul style="list-style-type: none"> <li>Review of Disbursement Assurance Framework (DAF)</li> <li>Audit of Management of Ineligible Expenditures of Investment Project Financing</li> </ul>
6	<b>Integrity Risk</b>	<ul style="list-style-type: none"> <li>Audit of the Management of Actual and Perceived Conflict of Interest in WBG's Operating Model</li> </ul>	<ul style="list-style-type: none"> <li>Audit of Integrity Risk Management in MIGA's Projects</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Integrity Vice Presidency INT Independent Advisory Board (IAB)</li> </ul>

\*Engagements have been allocated to the most relevant risk domains.

## IAD's Coverage in FY14-16 (Continued)

No.	Risk Domains	FY16 Engagements	FY15 Engagements	FY14 Engagements
7	<b>Management of External Funds</b>	<ul style="list-style-type: none"> <li>Advisory Review of the Bank's Trust Fund Change Management Considerations</li> </ul>	<ul style="list-style-type: none"> <li>Audit of Bank's Management of Recipient Executed Trust Funds (RETF) Grant Projects Below \$5 Million</li> <li>Audit of Use of Externally Financed Outputs</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Bank's Oversight of the Costs and Expenditures of Partnership Program Management and Administration</li> </ul>
8	<b>Stakeholder Engagement and Financial Reporting</b>	<ul style="list-style-type: none"> <li>Audit of Donor Reporting on Trust Fund Operations of the World Bank Group</li> <li>Audit of Implementation of the Bank's Access to Information Policy</li> <li>Audit of Implementation of IFC's Access to Information Policy</li> <li>Audit of Implementation of MIGA's Access to Information Policy</li> </ul>		
9	<b>Financial Risk</b>	<ul style="list-style-type: none"> <li>Audit of IBRD Equity Management Framework</li> </ul>		<ul style="list-style-type: none"> <li>Audit of IBRD's Net Income Projection Process</li> <li>Memo on IFC's Management of Market Risks in Equity Portfolio</li> <li>Audit of IFC's Management of Funding Operations</li> </ul>
10	<b>Human Resources Management</b>	<ul style="list-style-type: none"> <li>Advisory Review of the World Bank Group's Medical Insurance Plan (MIP)</li> <li>Audit of WBG Human Resource Shared Services</li> <li>Advisory Review of the Use of Data Analytics in HR</li> </ul>	<ul style="list-style-type: none"> <li>Audit of WBG HR Processes Change Management</li> </ul>	
11	<b>Corporate Administrative Areas</b>		<ul style="list-style-type: none"> <li>Advisory Review of the WBG Administrative Expense Monitoring – Travel-Related Expense</li> <li>Review of Specific Aspects of IBRD's Capital Budget Process</li> </ul>	<ul style="list-style-type: none"> <li>Audit of the Bank's Management of Legal Risks</li> </ul>

## IAD's Coverage in FY14-16 (Continued)

No.	Risk Domains	FY16 Engagements	FY15 Engagements	FY14 Engagements
12	<b>Physical Security and Business Disruptions</b>	<ul style="list-style-type: none"> <li>Audit of the Bank's Business Continuity Management</li> <li>Audit of IFC Business Continuity Management</li> <li>Audit of WBG IT Service Continuity</li> </ul>		
13	<b>Information Technology and Information Security</b>	<ul style="list-style-type: none"> <li>Audit of WBG Integrated Communications Platform (ICP)</li> <li>Audit of the Box Post-Implementation</li> <li>Audit of the Office 365 Post-Implementation</li> <li>Audit of the Security Architecture, Certification and Accreditation Process</li> </ul>	<ul style="list-style-type: none"> <li>Post Implementation Review of PeopleSoft</li> <li>Advisory Review of WBG IT Compliance</li> <li>Advisory Review of ITS Cloud Adoption Roadmap</li> <li>Audit of WBG IT Sourcing and Vendor Management</li> <li>Audit of WBG Mobile Application Development and Security</li> <li>Audit of WBG Identity Credential and Access Management (ICAM)</li> <li>Advisory Review of WBG Cash Systems Replacement Pre-Implementation</li> </ul>	<ul style="list-style-type: none"> <li>Audit of WBG UNIX Server Platform</li> <li>Audit of WBG Country Office IT Operations</li> <li>Review of WBG Cloud Computing</li> <li>Audit of Cyber Threat Management and Preparedness</li> <li>Review of WBG Information and Technology Solutions Integration –Risk Management</li> <li>Audit of WBG Internal Network Security</li> </ul>
14	<b>Knowledge and Data Management</b>	<ul style="list-style-type: none"> <li>Advisory Review of IFC's Management of Client and Partner Hierarchies</li> <li>Audit of the Process for the Collection of Data and Production of Indices to Report on the Twin Goals</li> <li>Advisory Review of IFC Staff Learning</li> </ul>	<ul style="list-style-type: none"> <li>Advisory Review of WBG Data Analytics for Information Security and Risk Management</li> <li>Advisory Review of the Information Quality Supporting the Bank's Portfolio Monitoring</li> <li>Audit of WBG Data Privacy</li> <li>Audit of WBG Database Management</li> </ul>	<ul style="list-style-type: none"> <li>Audit of the WBG Open Data Initiative</li> <li>Audit of the WBG Records Management</li> </ul>