



WORLD BANK GROUP

Group Internal Audit | Assurance • Advice • Insight



Group Internal Audit

FY19 Annual Report

The World Bank Group 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, “World Bank Group institutions” refers to IBRD, IDA, IFC, MIGA, and ICSID. “The Bank” refers to IBRD and IDA.

The World Bank Group has two goals: To end extreme poverty and promote shared prosperity in a sustainable way.

Cover Photo © World Bank / Stephan Gladieu

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FOREWORD BY THE AUDITOR GENERAL

FY19 marked an exciting and significant transition period for Group Internal Audit (GIA), formerly known as the Internal Audit Vice Presidency (IAD). Within a rapidly changing external and internal environment, as the Bank Group implements commitments made in 2016 in the 'Forward Look'¹, GIA plays a key role in helping the institution be as effective as possible at reducing poverty and promoting shared prosperity across the world. In this dynamic environment, October 2019 marked the completion of my first year as GIA's Vice President and Auditor General at the World Bank Group, as well as the publication of this GIA Annual Report.

To ensure GIA is best positioned to fulfill our mandate and protect and enhance the value of the Bank Group we have reviewed our strategy and how we operate. While GIA's core mandate has not changed, there is a need to enhance GIA's impact, performance, and flexibility to support the Bank Group in achieving its strategic objectives. As part of our review we refreshed our vision and mission to fully align GIA's activities with the Bank Group's goals and priorities. In addition, we launched a number of internal initiatives to take GIA to the next level, by

- Further developing our relationship with management and the Board of the Bank Group by being more proactive;
- Strengthening our risk assessment process and dialogue, in particular with other risk functions and colleagues across the Bank Group;
- Increasing efficiencies in our engagement planning and monitoring process; and
- Revising our audit methodology and communications material, and rebranding the Internal Audit function to clarify our role and value to the Bank Group.



GIA provides an independent view on whether the risk management, control, and governance processes of Bank Group entities are adequately designed by management and functioning effectively.

¹ "Forward Look – A Vision for the World Bank Group in 2030 – Progress and Challenges" – Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries).

These initiatives will help position GIA to effectively meet the heightened assurance and flexibility expectations from Senior Management and the Board.

Internal and external demands on the Bank Group are increasing regarding efficiency, transparency, and alignment with regulations. In addition, the Bank Group is scaling up investment, knowledge, and advisory services for fragile and conflict-affected countries. Hence, a clear, accurate, and comprehensive picture of the most significant risks to the organization is critically important. Various functions within the Bank Group perform different risk management, compliance, and assurance activities independently of one another. Efforts are under way to develop more effective and systematic coordination and reporting between these groups so that risk management and assurance work is not duplicated, or key risks missed or misjudged, which could lead to unnecessary costs and exposure.

GIA is in a privileged position as one of the few functions with a mandate that spans across the World Bank Group, giving us the ability to compare and contrast practices among the Bank Group institutions. We can therefore offer a holistic view of its risk management, controls, and governance, and are able to promote good control practices. Hence one of my ongoing focus areas will be on closer collaboration with the risk management functions, to improve real-time risk visibility, develop an assurance map across the entire organization, and provide strategic insights that deliver high value.

In addition to sharpening the risk focus, I am putting emphasis on the following:

- **Developing talent.** Continually developing skills within GIA to meet the needs of the future.
- **Building and sustaining partnerships across the Bank Group.** Strengthening GIA's role in providing advice and anticipating issues, by working together.
- **Embracing new technologies and ways of working.** Leveraging new tools to perform better analysis, update processes, improve communications, and provide insights.
- **Viewing reporting through a new lens.** Shifting reporting from a retrospective focus to a forward-looking view.
- **Communicating about GIA.** Raising awareness of the value of GIA's role and mandate, to increase effectiveness of its services and work.

This Annual Report describes GIA's activities, engagement outcomes, and thematic observations for FY19. It highlights areas where we have made the most impact in terms of our activities and engagement with our stakeholders.

I would like to extend my sincere appreciation to the World Bank Group's President and the Audit Committee for their continued guidance and support of GIA. I also thank management and staff for collaborating closely with our team during engagements, and GIA staff for their efforts in and commitment to delivering our mandate and serving our stakeholders.

Anke D'Angelo

WORK PROGRAM OVERVIEW

OUR PRODUCTS

GIA provides two services (assurance and advisory) and delivers three engagement products (audits, assurance reviews, and advisory reviews). The selection of product for each engagement is primarily determined by the maturity of the process to be reviewed and the needs of the client.

Assurance

These provide the Audit Committee and management with independent assurance on the risk management, control, and governance processes of the organization:

- **Audit:** Provides an overall report rating and individual ratings on all issues, and are for mature processes. Issues identified require management action plans that are monitored by GIA through to implementation, and their progress reported to the Audit Committee.
- **Assurance Review:** Provides assurance on early implementation of new processes, and input for course corrections before processes are fully established. While no overall report rating is provided, identified issues are rated and require management action plans that are monitored by GIA and reported to the Audit Committee.

Advisory

Typically for processes in design or early implementation, GIA provides management non-binding advice relating to risk management, control, and governance processes. Advisory reviews provide management with recommendations (rather than issues), and only a summary is reported to the Audit Committee.



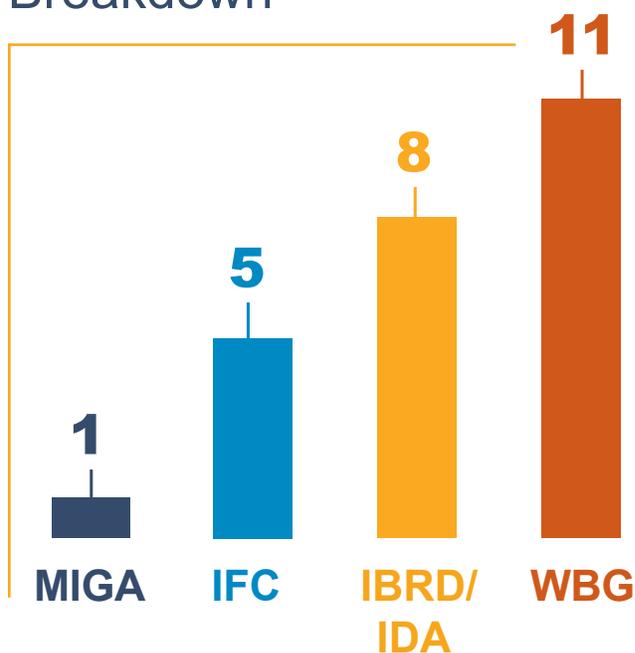
OUR WORK PROGRAM

GIA's FY19 work program delivered 25 assurance and advisory engagements, which focused on the most significant risks for the Bank Group institutions. The work program covered core development operations, corporate and administrative areas, and information technology. The list of engagements is provided in the appendix "GIA's Coverage in FY19".

Given the maturity of business processes across the institution, the GIA FY19 work program provided an adequate mix of audits (60%), assurance reviews (20%), and advisory reviews (20%) that balance GIA's primary role as a provider of assurance with the delivery of additional consulting services. A breakdown of these engagements by entity and risk category is presented below.



Entity Breakdown



EXECUTIVE COMMENTARY



This section provides key observations and trends in the Bank Group’s overall risk management, control, and governance environment. These are based on GIA’s work in FY19 through assurance and advisory engagements of business processes and initiatives, monitoring of risks to the Bank Group, and ongoing dialogue with management and the Board.

1. Effective risk management is critical to the Bank Group’s ability to achieve its strategic objectives

The global risk landscape is continuously changing due to rapid technological innovation, geopolitical tensions, natural disasters, and evolving global standards and norms. In this environment, exposure to cyber security risk, business disruption, and regulatory and legal risks, among others, are becoming more difficult to identify and

manage. Additionally, growth in the Bank Group’s operations in low-income and fragile states that have difficult operating environments has increased operational risks, such as threats to staff safety in the field as well as risks to achieving intended development outcomes. Managing these risks requires the Bank Group to be well prepared with the right frameworks and procedures in place, and able to adapt rapidly to changes.

Central to effective risk management is the establishment of a systematic risk information framework that facilitates reporting on established risk appetites and tolerances, and better flow and sharing of risk information.

Risk Management Frameworks: Informed risk-taking in an increasingly complex and unpredictable global environment calls for robust frameworks that enable the identification, measurement, prioritization, mitigation, monitoring, and reporting of existing and emerging risks. Having systematic frameworks to identify, assess, monitor, and respond to potential threats to the Bank Group is important to understand their potential impact on the organization. Equally important is to aggregate and analyze risks to identify trends and the cross-cutting impact of these risks to the organization. These approaches will help management make informed decisions by determining the desired level of risk and mitigating identified risks to an acceptable level. Given the harm that these risks can cause, should they materialize, GIA undertook a number of assurance and advisory engagements across the Bank Group's risk landscape. While risk frameworks for managing individual risk categories for the various institutions exist, including operational, financial, and development outcome risks,

opportunities remain to further align, aggregate, and analyze risk information at the organization level to provide reasonable assurance regarding the achievement of the Bank Group's objectives within an acceptable risk appetite.

Efforts should continue to further align and improve the management of risk at the organization level, including determining how different risks interact with each other and evaluating their cumulative impact on the Bank Group.

Managing Operational Risks²: Through audits of the *Bank's Management of Operational Risks* and *IFC's Management of Operational Risks*, GIA confirmed that the World Bank³ has a well-developed framework to effectively manage operational risks. However, the International Finance Corporation (IFC) needs clearer delineation of roles and responsibilities and a systematic approach to capture, analyze, and report on organization-wide operational risk information.

World Bank Group institutions should continue strengthening their operational risk management frameworks by embedding approved risk appetites into business activities and improving the quality of reporting residual risks to Senior Management and the Board.

² The World Bank's Operational Risk Management Directive defines operational risk as risks resulting from inadequate or failed internal processes, as well as risks from people and systems, or from external events that may result in financial loss or damage to the Bank's reputation.

³ World Bank refers to the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).

Managing Financial Risks: Effective financial risk management is critical to the ability of the World Bank Group institutions to preserve their credit quality and long-term financial viability. GIA's audits of the *Implementation of IBRD's Asset Liability Management (ALM) Framework* and *IFC's Asset Liability Management Framework* confirmed that ALM risks are managed conservatively in line with existing policies of both institutions. However, IFC's policies should be updated to reflect current industry best practices in currency and interest rate risk management.

Sound management of financial risks is a key element of innovations that have financial implications. The International Development Association (IDA) made a significant change to its financing model by blending its traditional sources of funding with capital market-funded debt. While this transformation significantly expands IDA's ability to achieve development outcomes in poor countries, it also increases the financial risks that IDA faces in the execution of its operations. In its *Audit of IDA's Financial Risk Management Framework*, GIA concluded that management has established an effective governance and operational framework to support the implementation of IDA's new financing model.

As the World Bank Group institutions continue introducing innovations to strengthen their financial capability and sustainability, new financial risks associated with such innovations should be assessed in advance and continuously monitored.

Managing Development Outcome Risk: As a development organization, the Bank Group needs to pay special attention to managing risks that could affect development outcomes in projects implemented by client countries and private sector entities. Establishing a framework for this, referred to as Development Outcome Risk (DOR), is complex as these risks are not easily quantifiable. It requires identifying risk indicators that can be meaningfully aggregated, are suitable for capturing the complex and diverse nature of development operations, and can be embedded in operational processes. The push to scale up the Bank's operations in countries experiencing fragility, conflict, or violence (FCV countries) has led to a recognition that management should invest more attention and resources to mitigating risks in FCV countries and to differentiate associated risk appetites across the portfolio to meet varying development needs of clients. This has increased institutional efforts to effectively capture and report on DOR to enable the review of risk information not only for each project but also at the portfolio level. The portfolio-level view provides the overall view of the institution's activities, considering risk, development impact, performance, and other parameters, as distinct from the individual project-level view of the same parameters.

Following GIA's FY18 *Audit of the Bank's Implementation of Systematic Operations Risk-Rating Tool (SORT) in Supporting Operational Decision-Making*, management has made significant progress in reporting

DOR to the Board. Management has also started producing a dedicated chapter in the Quarterly Business and Risk Report (QBRR) on risk, which provides an overview of key risk drivers and various approaches being adopted to address and manage these risks. The analyses in this QBRR chapter provide additional insights to improve the application of risk mitigation tools, quality enhancement, and resource allocation. In addition, responding to the Board's request, management has been working to define risk appetite and risk tolerance for DOR for Bank operations. GIA supported this initiative by participating in the sponsoring and steering committees of the Development Outcome Risk initiative. Management is expected to start the implementation of the new risk appetite framework in FY20.

Similarly, IFC is enhancing its approach to portfolio decision-making by methodically applying analytics to its portfolio risk data. IFC's 'Portfolio Approach' uses project risk data and development impact indicators to

map the performance of projects in IFC's portfolio, considering both risk-adjusted return and development outcomes. This mapping is intended to facilitate more intentional portfolio decision-making, which differentiates the performance of the portfolio across geographies, sectors, and products. This approach requires a more harmonized assessment of the development outcomes and risks across IFC's portfolio. In its *Advisory Review of IFC's Portfolio Approach*, GIA confirmed that IFC's proposed portfolio approach methodologies are aligned with emerging practices in the development community, including Multilateral Development Banks and investors who focus on making a positive impact on society and the environment beyond financial returns. GIA recommended that IFC's management further clarify and communicate the purpose and application of the Portfolio Approach and establish a clear roadmap for implementation, with strong governance.



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With the growing expectation of increased informed risk-taking for greater development impact, the World Bank Group institutions need an aggregated portfolio view of risks that is combined with development impact indicators. This will be valuable in deciding on trade-offs among different options to support clients to maximize the results of operations.

Fiduciary, Environmental, and Social Risk Management⁴:

The Bank Group's push to do more in FCV countries requires increased attention to fiduciary, environmental, and social risks in implementing projects in these countries. Limited client and market capacity for managing these risks adds to the challenge. Hence, strengthening the implementation capacity of clients, deploying adequate supporting IT systems, and an enhanced focus on risks during project implementation will be necessary. GIA conducted three engagements in FY19 focusing on these risks.

In its *Audit of the Bank's Grievance Redress Service (GRS)*, which is designed to facilitate the Bank's response to environmental and social grievances under Bank projects, GIA identified that the implementation of the GRS had not been fully consistent with its intended purpose. In response to this conclusion, management is improving the process as a high priority.

In the *Audit of IFC's Monitoring of Environmental and Social (E&S) Conditions during Project Supervision and the Audit of the Bank's Management of Financial Management Risk in Investment Project Financing (IPF) Projects in Countries Experiencing Fragility, Conflict or Violence (FCV)*, GIA observed that staff were closely monitoring project implementation. However, key controls could be better integrated into the formal system workflow in IFC, and in the World Bank the risk ratings of projects could be updated more consistently during project implementation. These enhancements would facilitate better portfolio-level risk monitoring and risk-based resource allocation.

Management should pay close attention to effective risk management during project implementation, especially in FCV countries, to drive effectiveness and transparency in the use of project resources as well as successful development outcomes.

⁴ Fiduciary risks relate to the risk of the Bank Group and donor funds not being used for the intended purposes. Environmental and Social (E&S) risks relate to the risk of environmental and social externalities associated with development projects.



2. Efficiency demands call for cost-benefit analysis for all major initiatives

With the endorsement of the capital package⁵ in 2018, the World Bank Group intensified efforts to build a “better and stronger”⁶ institution that is more agile, effective, and responsive. This resulted in the introduction of a range of new efficiency measures aimed at managing salary and workforce growth, and achieving savings from corporate procurement and real estate, as well as from administrative simplification through technology and other approaches.

Developing Bank Group-wide guiding principles on efficiency, establishing a nimble approach to operations, and adopting the latest technology are key to becoming a “better and stronger World Bank Group.”

Identifying efficiency gains: To effectively contain the cost of doing business while supporting a significant scale-up in lending, the Bank Group has further strengthened its efficiency agenda. As agreed in the capital package, management has committed to the implementation of additional efficiency measures over the period FY19-30. In its *Advisory Review of WBG Institutions’ Framework to Support the Implementation of the Efficiency Agenda*, GIA recommended that management increase the use of incentives to support the successful implementation of the efficiency agenda, and continue developing mechanisms to monitor and measure the efficiency gains from the implementation of measures committed to as part of the capital package. These would help sustain efficiency gains that the institution has achieved so far through implementing various initiatives aimed at enhancing its financial sustainability.

⁵ The Capital Package for IBRD and IFC is a management commitment to the shareholders to implement internal reforms and policy measures to support a capital increase of US\$13.5 billion.

⁶ “Forward Look – A Vision for the World Bank Group in 2030 – Progress and Challenges” – Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries)

Efficiency is also pursued in the context of expanding the Multilateral Investment Guarantee Agency's (MIGA) business capacity. By increasing the reinsurance limit, MIGA generated additional capacity to provide political insurance and credit enhancement to promote cross-border investment in developing economies. GIA's *Audit of MIGA's Net Retention and Reinsurance Framework* concluded that the risks in reinsurance practices are being adequately managed.

Further, Bank management has implemented an ongoing program of business reviews to evaluate spending in each business unit and identify opportunities for greater efficiencies and closer strategic alignment. Under the umbrella of the 'Administrative Process Simplification', the Bank is pursuing a range of efficiency initiatives aimed at simplifying approval processes, implementing a shared services strategy, streamlining administration of external funds, and leveraging technology (such as robotic process automation) to foster process efficiencies. The *Audit of the Bank's Implementation of the Cost Recovery Framework for Trust Funds* confirmed that the Bank effectively implemented the framework to increase recovery of the costs of activities funded by trust funds.

In keeping with the Bank Group's objectives of agility and efficiency, the Information and Technology Solutions (ITS) strategy focuses on delivering IT solutions better, faster, and more efficiently. An important business solutions delivery mechanism for the Bank

Group is the Rapid Application Development (RAD) function. Through agile techniques that provide faster turnaround times, RAD offers small and medium-sized IT business solutions to business requirements not addressed by enterprise solutions. While recognizing the value of RAD, GIA's *Audit of the World Bank Group's Rapid Application Development* highlighted that the RAD function could be more proactive in identifying IT-related business needs that can be easily addressed through RAD.

The effective automation of manual processes is essential to gain greater efficiency. In the *Audit of the Implementation of IBRD's Asset Liability Management (ALM) Framework*, GIA stressed that the development of an integrated ALM central system will enable more robust analytics to support key management decisions. In its *Assurance Review of the Use of the Bank's Corporate Scorecard*, GIA highlighted that the scorecard indicators can be produced more efficiently through an automated data entry, approval, and aggregation process. Similarly, in the *Advisory Review of the World Bank Group's IT Change and Release Management Process*, which enables the planning, modification, and rollout of technology solutions in response to business needs, GIA highlighted that simplification and standardization of such core processes can improve the effectiveness of controls as well as overall efficiency.

To measure the delivery of cost savings commitments made in the capital package, management should develop a framework to measure, monitor, and report on the progress of efficiency savings. Management should also continue to identify time-consuming manual tasks that can be automated, to increase productivity and free up staff time for more value-added activities.

Assessing Cost-Benefit: In the *Assurance Review of the Bank's Core Capital Markets Systems Renewal (CCMSR) Program*, GIA reviewed a large system implementation project supporting the capital markets platform, market standard valuation models, and liquidity management solutions. GIA stressed the importance of continuously measuring the realized benefits of the program, and recognized the need to enhance the capital budgeting process for large system implementation or business transformational projects. Likewise, in its *Audit of IFC's Capital Budget Process*, GIA emphasized that capital investment decisions should be underpinned by robust upfront cost-benefit analyses and post-completion benefits reviews to ensure that capital resources are channeled toward investments that yield the highest value to the Bank Group.



Management should perform cost-benefit assessments for major capital investments, and assess the realization of benefits to help ensure that resources are used wisely.



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3. Strengthening the business model is imperative to delivering development results

Given limited public resources and increasing development needs, the World Bank Group institutions must continually improve their business models, while also forging effective external partnerships.

Continually refining and updating their business models to adapt to the changing environment and client expectations is key to the success of the World Bank Group institutions in driving internal effectiveness and fostering external partnerships to achieve development goals.

Improving the Business Processes:

Continually refining and improving the business processes of the World Bank Group institutions is vital to enable better and faster responses to rapidly changing client needs.

The Bank initiated an ‘Agile Bank Program’ as an institutional initiative in 2016 to apply a bottom-up, staff-driven approach to improve the ways in which the Bank carries out its operations. Following GIA’s advisory review on the initial implementation in FY18, the Bank has since adopted GIA’s recommendations that the Agile Bank Program be expanded beyond the pilot phase and has rolled it out across the Bank.

The Bank Group is working on various new innovative approaches to improve operational effectiveness and efficiency. These new approaches, which are currently being tested, are a key focus area for GIA. For example, the ‘smart fiduciary’ initiative, which aims to build simplified and efficient

processes in fiduciary risk management in the Bank's operations, was covered in the *Audit of the Bank's Management of Financial Management Risk in Investment Project Financing (IPF) Projects in Countries Experiencing Fragility, Conflict or Violence (FCV)*. The Bank's Grievance Redress Service (GRS) is another mechanism to enhance the Bank's ability to swiftly address environmental and social concerns from communities affected by Bank-funded projects.

Management should continue to innovate and develop new approaches to meet Bank Group commitments and future demands.

World Bank Group Inter-Institutional Collaboration: The Bank Group's strategy has prioritized the role of the private sector in development, through the Group-wide "Maximizing Finance for Development" (MfD) and "Cascade" initiatives. Success of these initiatives is predicated on significant improvement in operational collaboration between the World Bank Group institutions, particularly on activities that support creating markets for private sector development.

Through the *Assurance Review of the Management of IDA18 IFC-MIGA Private Sector Window (PSW)*⁷, which is a new financing model for development, GIA

confirmed that the assigned roles and responsibilities across business units, as well as the project selection criteria, have consistently been followed as designed. However, GIA identified further opportunities for Bank-IFC collaboration during the project preparation. Different organizational cultures and project lifecycle timelines across the World Bank Group institutions can make collaboration challenging. Therefore, management will need to further encourage and incentivize accordingly to achieve the desired collaboration between the different institutions. Strengthening collaboration in developing country and sector strategies, identifying and influencing policy changes, and preparing collaborative projects will be important to fully realize the synergies of the World Bank Group institutions. This review was conducted in the midway of the implementation of the Private Sector Window to provide stakeholders early input.

The World Bank Group institutions should revise incentives and clarify roles and responsibilities to foster closer collaboration for the successful implementation of the Group's strategic priorities related to capital mobilization and private sector involvement in development.

⁷ As part of the IDA18 replenishment US\$2.5 billion (SDR 1.8 billion) was designated for mobilizing private sector investments, with a particular focus on IDA-eligible FCV-affected countries. The PSW makes strategic use of IDA's financial resources to catalyze private investments in challenging markets, by leveraging IFC's and MIGA's business models and client relationships.

Management of External Funds: The external funds managed by the Bank Group, including trust funds and Financial Intermediary Funds (FIFs), are key pillars of the Bank Group's development finance as they facilitate responses to emerging global needs and provide flexible and customized solutions to help clients achieve their development goals. Considering the growing importance of external funds in the implementation of the Bank Group's development agenda, management has embarked on a series of reform initiatives aimed at strengthening the alignment of trust funds with institutional strategic priorities. The Bank Group has developed an updated FIF Management Framework, building on earlier initiatives and experience. This new framework aims to enhance the Bank Group's role in the selection, design, and oversight of FIFs for closer alignment with its strategies and operations, as well as better risk management and consolidation of externally-funded operations. GIA reviewed this framework through its *Assurance Review of Management's Reform Activities for Financial Intermediary Funds* and concluded that the updated Framework provides a solid basis for more effective and efficient management of FIFs. However, timely and consistent implementation across the FIF portfolio will be critical to achieve sustainable improvements.



Management should continue to look for opportunities to strengthen its oversight of external funds and achieve closer alignment with the Bank Group's strategic priorities.

4. People and data are key Bank Group assets

In view of the continued decentralization of the World Bank Group institutions, operational risks have increased as staff are more distributed across the globe, with increased reliance on diverse ways to effectively connect, communicate, and access information. Staff exposure has increased to security risks such as natural disasters, medical emergencies, political unrest, disease outbreaks, and crime. Meanwhile, threats to confidentiality, integrity, and availability of critical data continue to grow in the face of risks posed by cyber threat groups. As the IT service delivery model evolves with an increasing reliance on third parties, the strategic importance of IT solutions and services must remain a primary focus.

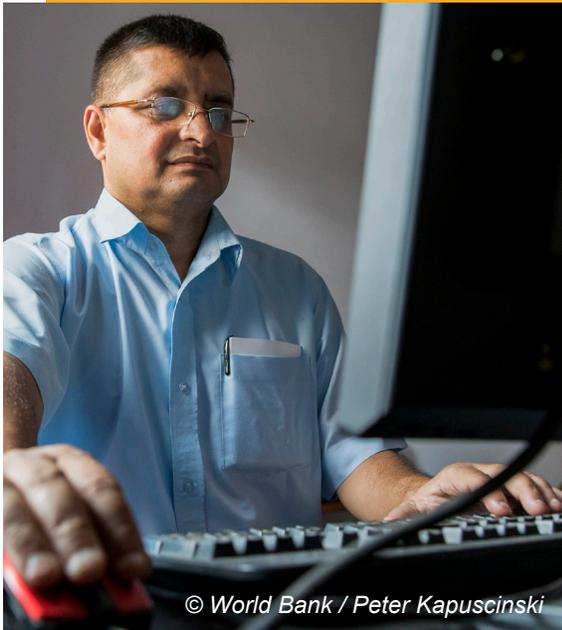
The expansion of Bank Group operations into FCV environments, and changing geopolitical conditions have increased risks to staff safety and security around the globe.

Confidentiality, integrity, and availability of critical data, and the quality of supporting IT solutions and services continue to be of strategic importance.

Staff Safety: The safety of Bank Group staff is a priority for management. An evolving global risk profile, as well as an increasing number of security incidents in previously low-risk countries, has accentuated the need for implementation of a global security strategy that proactively delivers effective security services to staff across the globe. Following GIA's review of the initial design of global security in FY17, GIA continued its coverage of this important area with *WBG's Staff Travel Safety Arrangements* in FY19 and validated that risks to the safety of staff on official travel are largely identified and managed. However, GIA stressed the importance of setting even higher travel safety and health standards, enforcing management and staff compliance with essential travel safety measures, and reporting and analyzing travel safety and health events to further reduce occurrence of safety and security related incidents.

To maintain workforce safety and security, management should continue to implement strong security oversight, clear accountability, and defined security incident escalation mechanisms.

Cybersecurity and IT Controls: With increasing importance of data and interconnectivity for the Bank Group, its ability to withstand the disruptive consequences of a large-scale cyberattack becomes more crucial. Cyber threats with a broad range of attacks and social engineering evolve



rapidly as attackers become more inventive. Protecting the data and integrity of computing assets connecting to networks necessitates a strategic approach to information security. In FY19, management finalized the refresh of its cybersecurity or information security strategy, which defines how the information security program will protect and secure the Bank Group's critical data, counter new and evolving threats, and support the integration of cybersecurity in everyday business operations.

Facing a dynamic cyber-risk environment, management needs to remain focused on areas such as cybersecurity threats (not only from outside, but also from insider threats – people within the organization), security awareness and training, and vulnerability and

threat assessments. Applying a multiyear audit program approach, GIA validates different aspects of IT and cybersecurity every year.

Several positive cybersecurity practices exist in the Bank Group's IT environment. For example, access to highly valuable privileged accounts (such as system and database administrators) is adequately restricted, secured, and monitored. Similarly, GIA confirmed through the *Audit of the World Bank Group's Global IT Network* that the Bank Group's global IT network security risks are well managed, and the network objectives of availability and cost effectiveness are being met. Nonetheless, the *Audit of the World Bank Group's Privileged Identity and Access Management (PIAM)* highlighted that the overall management of all privileged accounts would benefit from comprehensive governance, improved security monitoring, and consistent authentication mechanisms. Because privileged accounts are powerful system accounts that provide elevated, often unrestricted access to systems and data, these are often targeted in cyberattacks. Hence, it is critical that all such accounts are known, comprehensively secured, and consistently monitored.

With evolving and more sophisticated cyber threats, the Bank Group needs to constantly develop new capabilities to defend itself and respond adequately when breaches occur.

Prioritization of Data Management: The sound management and monitoring of the Bank Group's operations depends on reliable and high-quality data. Data is also critical to track and accurately report the Bank's business results, as well as progress toward achieving key commitments made to constituents and stakeholders in areas such as FCV operations, climate change, and gender. To provide strategic direction to the institution's data agenda, management established the Corporate Data Council and the Development Data Council to govern the Bank's two distinct pillars of data (that is, Corporate Data and Development Data).

The *Advisory Review of the Bank's Management of Corporate Data Used in Operations* highlighted improvement opportunities in four dimensions of data management: Data Governance, Data Integration and Interoperability, Data Definitions, and Data Quality. The identified improvements in the Bank's data management capabilities can enhance the ability of Bank staff to analyze or respond to management requests for information, resulting in increased efficiencies, improved agility and scalability, and greater data reliability. Given its increasing importance, organizations need to continuously invest in data and the underlying technologies. At the Bank Group, increasing senior management support would help to make such investment a priority.

Senior Management should signal the prioritization of data through clear sponsorship and ownership of the corporate data agenda, the establishment of enabling mechanisms, and a focus on data quality and reliability.

Management is already working on addressing the areas for improvement identified by GIA. In support of this, GIA will maintain a focus on the themes discussed above – Risk Management, Efficiency, the Business Model, and People and Data. Through timely and relevant assurance and advisory engagements, GIA is committed to helping management and the Board identify and manage the risks to achieving the Bank Group's goals, and to strengthening the institutions' development outcomes.

WHO WE ARE

OUR MANDATE

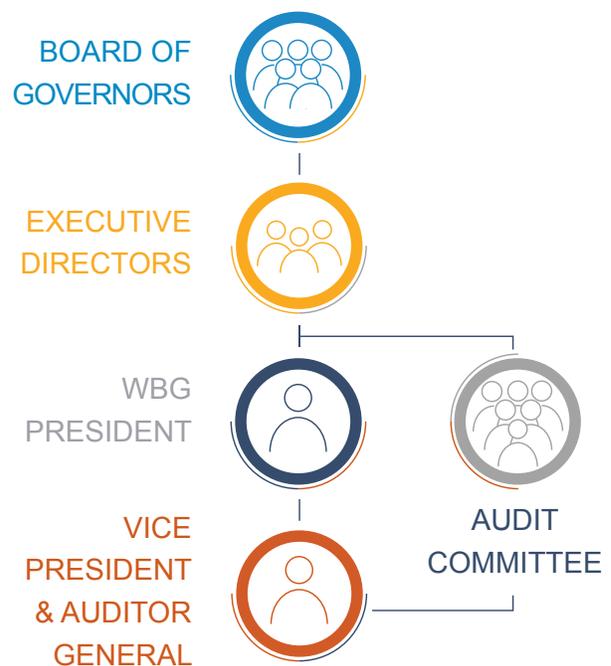
GIA is an independent and objective assurance and advisory function that adds value to and improves the operations of the World Bank Group. The objective of GIA's work is to assess whether the risk management, control, and governance processes of Bank Group entities are adequately designed by management and functioning effectively.

Specifically, GIA applies a systematic and disciplined approach to its assessments to provide reasonable assurance that:

- Risks are appropriately identified and managed
- Governance issues impacting the Bank Group are recognized and addressed appropriately
- Significant financial, managerial, and operating information is accurate, reliable, and timely
- Institutional policies and procedures are complied with
- Resources are acquired economically and used efficiently
- Quality and continuous improvement are fostered
- Institutional assets (physical and intellectual), records, and data are safeguarded

OUR REPORTING LINES

The Auditor General reports to the President of the World Bank Group, and is under the oversight of the Audit Committee.



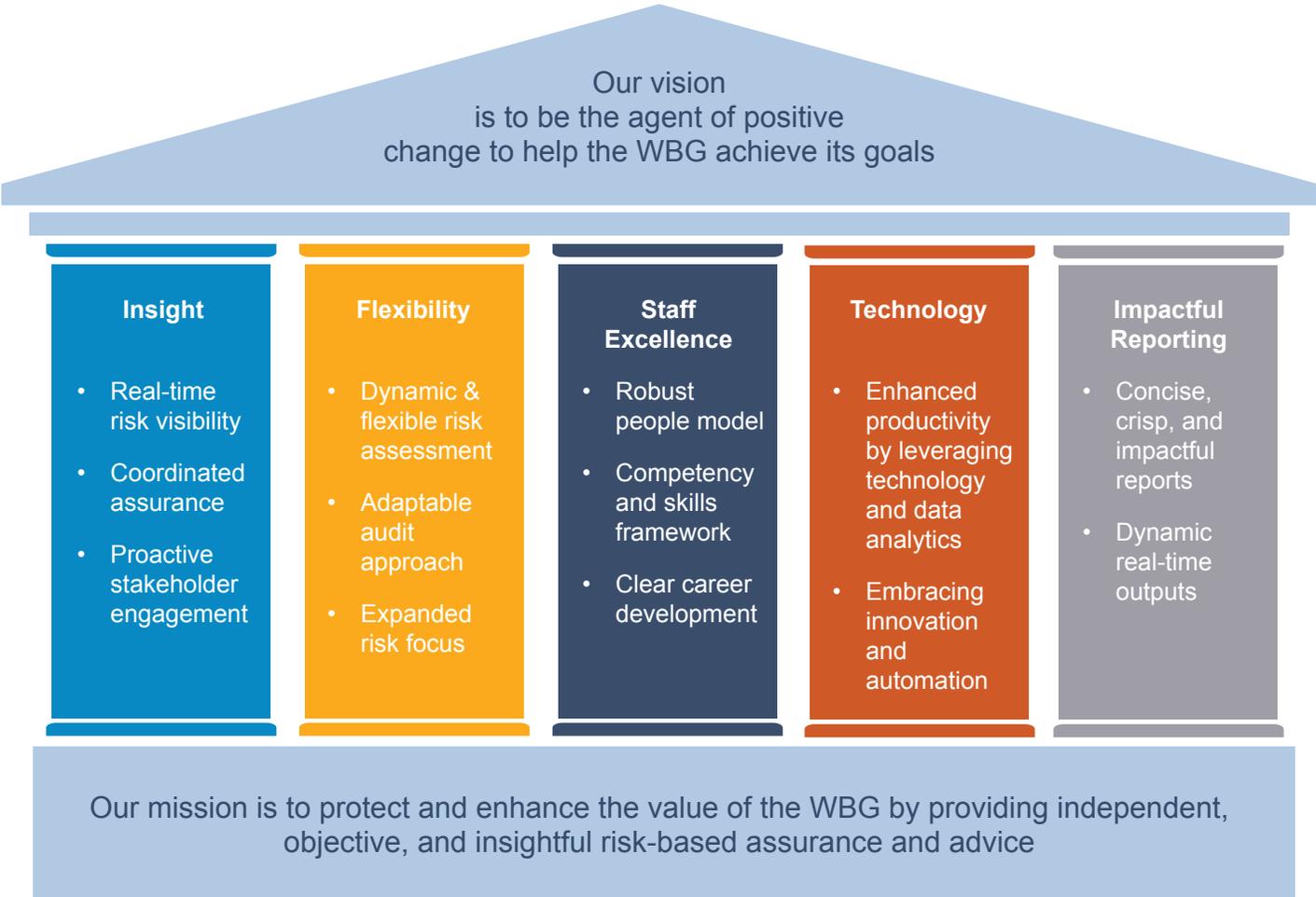
OUR VISION, MISSION, AND STRATEGIC PRIORITIES

Our vision is to be the agent of positive change to help the World Bank Group achieve its goals.

Our mission is to protect and enhance the value of the World Bank Group by providing independent, objective, and insightful risk-based assurance and advice.

To support the achievement of our vision and mission, GIA has identified five strategic priorities that will allow us to focus our resources on the critical success factors. These are: **Insight, Flexibility, Staff Excellence, Technology, and Impactful Reporting.**

GIA plans to implement these strategic priorities by better use of technology and analytics, combined with a dynamic risk assessment approach supported by a robust people model.





OUR TEAM

Diversity

GIA delivers its mandate and work program by drawing on the rich and diverse expertise of its staff. We strive to embed diversity and inclusion in everything GIA does. GIA respects and values the uniqueness that each of our team member brings, and is committed to empowering each staff member to fully participate in our mission.



Diversity: the art of thinking independently together.

- Malcolm Forbes

We are a small and diverse team:

36 STAFF

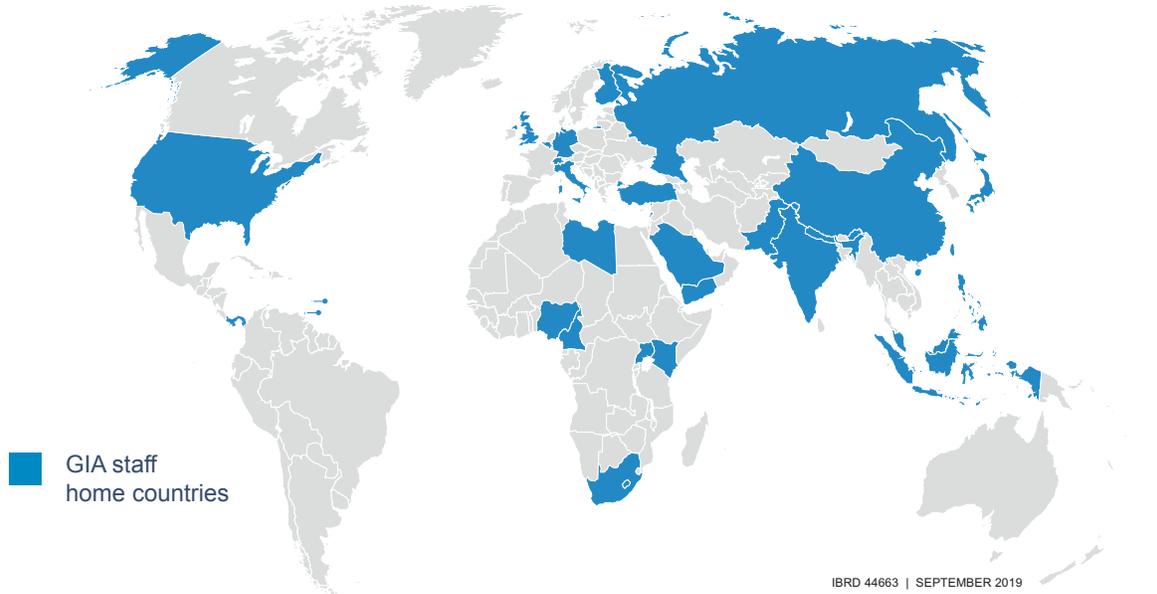
25 DIFFERENT COUNTRIES

SPEAKING A TOTAL OF
35
LANGUAGES

WITH
58%
SPEAKING 3 OR MORE

57% FEMALE

43% MALE



Qualifications

GIA staff are highly skilled, combining internal audit experience, knowledge of the Bank Group, and experience from external organizations to deliver value to clients and stakeholders. As essential partners to our clients, GIA staff bring a passion for learning, technical expertise in critical processes, and a commitment to the Bank Group’s mission.

GIA staff have a range of professional qualifications to enable GIA to fulfill its role, including Certified Internal Auditor (62% of staff); Certified Public Accountant, Chartered Accountant, or similar (50%); Certified Information Systems Auditor (24%); and Certified Fraud Examiner (18%).



Skill and confidence are an unconquered army.

- *George Herbert*

A significant portion of GIA staff (71%) have worked in other parts of the Bank Group, and almost all staff worked in the private sector before joining the organization.

To complement the strength of the GIA team, we also engage subject matter experts from our co-sourcing partners that currently come from the Big-Four⁸ consulting firms, as and when needed.

⁸ The Big-Four refers to the four largest accounting firms in the world.

HOW WE DELIVER

GIA’s work is focused on the most significant risks facing the Bank Group, with continuous reviews to align with the Group’s strategic priorities. Our engagements are carried out in accordance with the ‘International Professional Practices Framework’ of the Institute of Internal Auditors (IIA).



GIA delivers on its mandate as an independent function by providing objective, reasonable assurance that key controls over the business activities of the Bank Group organizations are well designed and operating effectively. GIA also leverages its group-wide remit and broad institutional exposure to provide advice and business insights that add value to and support the achievement of the Bank Group’s strategic priorities. GIA’s position in the organization enables it to connect the dots in a unique way and provide insights to management and the Audit Committee. We strive to continuously enhance our value proposition through systematic engagement with stakeholders, as well as continuous risk assessment and work program updates to cater to the changing needs of the organization. We also aim for excellence through agility, innovation, learning, and knowledge sharing.



STAKEHOLDER ENGAGEMENT



GIA places a high priority on ensuring that its stakeholders across the World Bank Group institutions are familiar with GIA's mandate and have confidence in GIA's value proposition. Robust relations with the Audit Committee and management are essential for GIA's effectiveness as this helps GIA deepen its understanding of institutional strategies and knowledge of the business, and enables GIA to promptly identify and respond to stakeholder concerns and emerging risks.

As part of our initiative to strengthen stakeholder engagement, GIA is developing a *Stakeholder Engagement Framework* to adopt a more systematic approach to client relationship management. Our new *Client Relationship Management (CRM)* database helps record, track, analyze, and manage stakeholder interactions.

As Bank Group operations are in the field, GIA proactively engages with staff in our country offices. In the past two years, GIA increased its visits to country offices to support our outreach efforts and gain valuable inputs and insight from colleagues for our risk assessment and work program development. In FY19 GIA staff visited six country offices, and plan to continue these useful dialogues with management and staff in the field.



GIA Visit to Chennai Office – April 2019

DYNAMIC RISK ASSESSMENT AND WORK PROGRAM DEVELOPMENT



GIA’s work program is developed based on a dynamic risk assessment process throughout the year, which also considers the institution’s strategic priorities and emerging risks.

GIA has improved its use of data analytics and automation to support its risk-based work program development. The GIA CRM database, along with a newly developed risk assessment tool, enables GIA staff to capture key risk information and trends obtained during the year and visualize results to better select engagements for GIA’s three-year work program. Considering the nature and data needs of GIA’s FY19 engagements, 42% of these engagements were supported by data analytics.



COORDINATION AND COLLABORATION WITH OTHER WORLD BANK GROUP OVERSIGHT FUNCTIONS



GIA collaborates with other institutional oversight and accountability functions to deliver timely and value-added services to the organization. This collaboration, which is accompanied by clear communication with stakeholders on the roles of each function, is critical to avoid gaps in coverage and prevent duplication of work. While complementary in some areas, the work of GIA and these other functions is distinct in focus, objectives, and approach, with GIA assessing internal processes and controls that are key to the achievement of the Bank Group's objectives. In FY19 GIA strengthened collaboration with various risk management functions by introducing quarterly exchange meetings with colleagues.

In the context of the three lines of defense model,⁹ GIA has closely aligned its work program with the Bank Group's second line of defense and other independent oversight and accountability functions such as the Independent Evaluation Group (IEG) and the Integrity Vice Presidency (INT). GIA engages the Bank Group 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 GIA's overall risk monitoring. GIA also discusses its work program with the Inspection Panel and the Compliance Advisor Ombudsman and obtains engagement level inputs that help in scoping the engagements.

GIA and IEG closely collaborated throughout the year at the work program level and in individual projects in the area of development operations. For the FY20 work program preparation in FY19, GIA and IEG held a joint consultation with management. The work program presentation for each function at the Board made cross-references to each other's programs, to help the stakeholders understand the synergies and complementarity of services each function provides to the World Bank Group.

⁹ The Three Lines of Defense model distinguishes among three groups (or lines) involved in effective risk management: 1) Functions that own and manage risks; 2) Functions that oversee risks; and 3) Functions that provide independent assurance. – The Institute of Internal Auditors

Members of GIA’s management team participated as panelists in the 2019 World Bank Chief Risk Officer (CRO) Risk Forum. The forum covered various topics ranging from “The Outlook for Risk in 2019 and Beyond” to how risk management is changing, and what’s new on the operational risk front.



The work of GIA and the World Bank Group CRO complement each other to strengthen the WBG’s risk governance and to ultimately enhance the WBG’s capacity to pursue its mission.

- Lakshmi Shyam-Sunder – Vice President and World Bank Group Chief Risk Officer

LEARNING, INNOVATION, AND KNOWLEDGE SHARING



GIA's learning program aims to broaden our knowledge of the organization's business and enhance our subject matter expertise, contributing both to the quality of GIA's services and to the professional development of staff. The program includes internal and external training, to keep up to date with industry changes and best practices as well as developments within the Bank Group.

Since GIA increasingly integrates data analytics and technology in its activities to enhance engagement delivery, this has become an essential element of staff training. Not only does this enable our staff to develop stronger evidence in support of engagements, but it also facilitates the monitoring and adjustment of work program delivery as necessary.

In the spirit of learning, GIA contributes to knowledge-sharing events with clients and other development partner organizations. We also network with internal auditors of other multilateral development organizations and international financial institutions to benchmark against, evaluate, and absorb fresh perspectives, and to adopt innovative ideas as well as share our knowledge and experience.

Data analytics training for GIA staff has steadily increased, resulting in improved proficiencies with data analytics platforms such as Tableau, and increased use of intelligent tools for analysis. A data literacy assessment is underway to develop individual training plans to further improve the data analytics capabilities of GIA staff.

In FY19, GIA was actively involved in the first global internal audit workshop hosted by the Bank Group's Treasury for its Reserves Advisory and Management Program (RAMP) clients. The five-day workshop was attended by the internal audit and risk and control functions of 38 central banks. At the workshop, GIA's Vice President and Auditor General delivered the keynote address on "The Changing Role of Internal Audit", and three GIA Audit Supervisors presented and led participant discussions on specific topics on internal audit, including "Assessing and Auditing: Cybersecurity and Business Continuity Risks", "The Role of Internal Audit in Enterprise-Wide and Operational Risk Management", and "Strategic and Risk-Based Auditing".

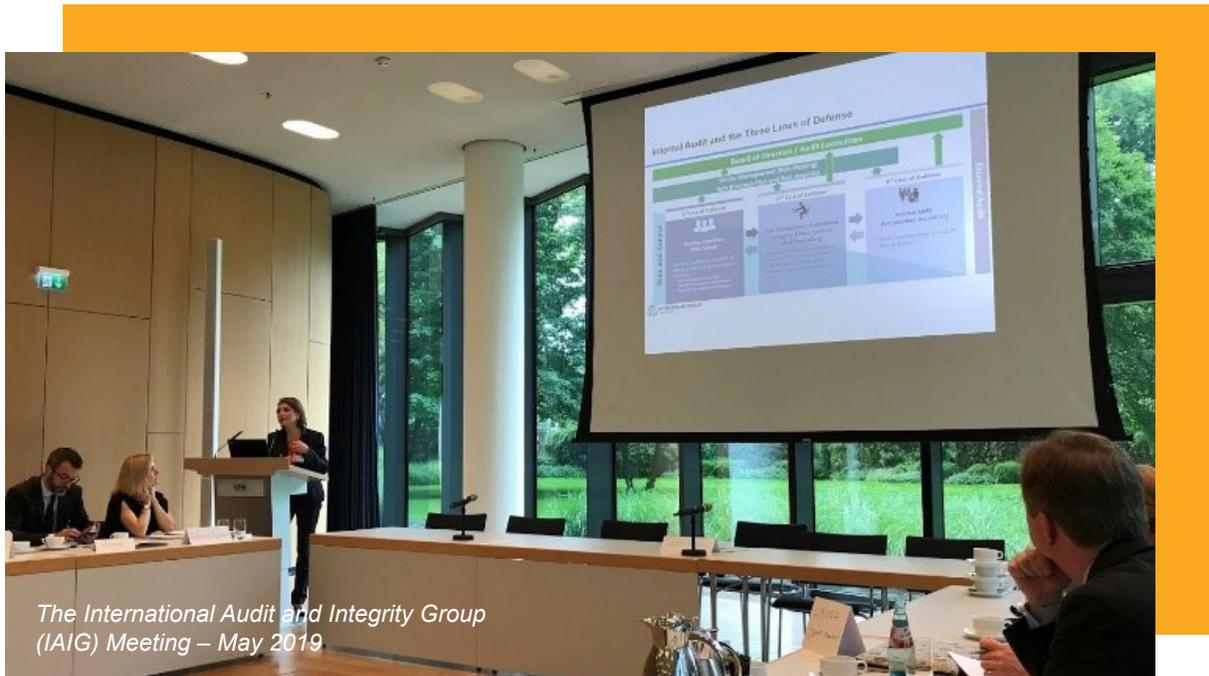
GIA participated in a number of international conferences, discussing with peer organizations the common challenges facing internal audit functions, and sharing experiences and insights on audit practices and collaboration with other assurance providers.

- GIA co-hosted the Annual Meeting of the International Audit and Integrity Group (IAIG) with the World Bank Group's Integrity Vice Presidency (INT) and the German Kreditanstalt für Wiederaufbau (KfW) in Frankfurt. IAIG is a forum comprising of the investigation and internal audit functions of selected bilateral aid agencies and United Nations organizations. GIA delivered the keynote speech on "Coordinated Assurance" and led the discussion on collaboration across development organizations to maximize assurance on use of funds in projects.
- GIA took an active role in the Annual Meeting of the Representatives to Internal Audit Services (RIAS) in Addis Ababa, Ethiopia, where GIA led three discussions on client engagement, auditing cultural elements, and risk assessment. RIAS is a forum to promote the development and exchange of internal audit and oversight-related practices and experience among UN organizations and multilateral financial institutions and other associated intergovernmental organizations.
- GIA took part of organizing the Annual Meeting of the Multilateral Financial Institutions (MFI) Chief Executive Auditor Group in Washington DC, which was hosted by the International Monetary Fund. During the meeting GIA presented on the topics of "Building Influence & Presence: How Can Internal Audit Functions Enhance Their Brand?" and "Internal Audit Products: Expanding Our Reporting Tool-Kit".
- GIA participated in the second Annual Auditors Alliance meeting hosted by the Organization for Economic Co-operation and Development (OECD) in Paris, after which GIA visited the European Bank for Reconstruction and Development's (EBRD) Internal Audit Department to exchange knowledge and experience.

“

Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young.

- Henry Ford



DELIVERING RESULTS TO INFLUENCE POSITIVE CHANGE



Engagement Impact: GIA helps the Bank Group achieve its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The value of GIA's assurance and advisory engagements is reflected in improvements in management of key risks that the Bank Group faces, and the development and maintenance of related key internal controls, which reduce those risks to acceptable levels.

In FY19 GIA was recognized for its positive impact by receiving the 'President's Award for Excellence'. GIA carried out an *Advisory Review of the Management of Shared Service Agreements among the World Bank Group Institutions* in FY18 to support efforts to foster better services and cost efficiencies in the administration of Shared Service Agreements across the Group. The team developed a model solution that management used to launch a revamp of existing processes around the delivery and management of shared services. GIA's review helped promote a culture of continuous improvement and efficiency, and enhance the quality of services provided by one Bank Group entity to another.



President's Award Recipients – March 2019

Follow-up on Management Action Plans: As part of GIA's assurance engagements (audits and assurance reviews), management develops specific and time-bound action plans to address identified issues. GIA works with management to review the robustness of action plans and appropriateness of the timeline for implementation, and engages in continuous dialogue and follow-up with management until implementation of the actions. Once an action plan has been implemented, GIA validates the implementation by reviewing evidence provided by management. When implementation is delayed, GIA flags – in its quarterly reports – overdue action plans for Senior Management and Audit Committee attention. GIA performs a root cause analysis of overdue actions on a regular basis.

In FY19, GIA closed 58 issues raised in its audits, compared to 43 issues in FY18. A few examples of the issues closed by GIA, based on the actions taken by management and the resultant impact on the risk management, controls, and governance, are highlighted below.

INCREASED EFFICIENCY



In FY16, GIA audited *IBRD's Capital Budget Process* and identified several processes that could be automated to make the process more efficient. The Budget, Performance Review, and Strategic Planning function has now completed a system revamp that resulted in the automation of many capital budget management processes in FY19.

ENHANCED DATA MANAGEMENT



In FY18, GIA's audit of *IBRD's Management of Liquid Asset Portfolio* highlighted the need to establish processes to finalize data ownership, agree on common business terms and definitions, and capture and maintain technical metadata and data lineage to ensure improved data quality, data re-use, and effective change management. During the last two years, the Bank Group's Treasury developed a data governance framework and implemented a Treasury Data Governance Center – an online platform comprised of a Business Glossary, Technical Data Dictionary, and Reports Catalog, using the leading data governance practices.

IMPROVED GOVERNANCE



In an FY18 audit of the ***IFC's Use of Blended Finance in Operations***, GIA noted the absence of a systematic feedback loop to key stakeholders on the strategic direction of the Blended Finance program. Management has now established an annual mechanism to prepare and share with the Board the development impact and financial performance of blended finance investments.

Similarly, GIA's FY18 review of the ***Bank's Process for Managing Advisory Services and Analytics Activities (ASA)***, noted the absence of a monitoring and reporting mechanism to enable better governance. Addressing this issue, management launched a standard report analyzing dropped ASA activities, which is available to all Bank staff as part of an ASA dashboard.

BETTER RISK MANAGEMENT



The FY18 audit of ***IFC's Management of Liquid Asset Portfolio*** highlighted the need for an approved risk appetite statement that also clarified the expected reasonable return from the liquid asset portfolio. In FY19, the Corporate Risk Committee reviewed and approved a risk appetite statement for treasury activities, with a requirement to monitor implementation, periodic reporting, and annual reviews.

Also, in FY18, GIA's audit of ***MIGA's Management of Reinsurance Counterparty Risk*** indicated that, while MIGA has Integrity Review Procedures that cover Integrity Due Diligence risks in MIGA projects, they do not specifically cover reinsurance counterparties. In FY19, MIGA established a methodology to ensure proper analysis and monitoring of reinsurers. In addition, a Reinsurer Credit Risk committee was created for periodic review and decision-making.

APPENDIX: GIA'S COVERAGE IN FY19

FY19 Work Program	Type
Strategic Risk	
1. World Bank Group Institutions' Framework to Support the Implementation of the Efficiency Agenda	Advisory
2. IFC's Portfolio Approach	Advisory
3. Use of the Bank's Corporate Scorecard	Assurance Review
4. Review of the Management of IDA18 IFC-MIGA Private Sector Window	Assurance Review
5. Review of Management's Reform Activities for Financial Intermediary Funds (FIFs)	Assurance Review
Development Outcome Risk/Business Risk	
6. IFC's Monitoring of the Environmental and Social (E&S) Conditions During Project Supervision	Audit
7. World Bank's Internal Processes for Disaster Risk Management in Operations	Audit
8. World Bank's Management of Financial Management Risk in Investment Project Financing	Audit
Operational Risk	
9. World Bank Group's Rapid Application Development (RAD)	Audit
10. World Bank Group's Global IT Network	Audit
11. World Bank Group's Staff Travel Safety Arrangements	Audit
12. IFC's Capital Budget Process	Audit
13. World Bank's Implementation of the Cost Recovery Framework for Trust Funds	Audit
14. World Bank's Grievance Redress Service (GRS)	Audit
15. MIGA's Net Retention and Reinsurance Framework	Audit
16. IFC's Management of Operational Risks	Audit
17. World Bank's Management of Operational Risks	Audit
18. World Bank's Management of Corporate Data Used in Operations	Advisory
19. World Bank Group's IT Change and Release Management Process	Advisory
20. World Bank Group's Process to Manage United Nations Laissez-Passer (UNLPs)	Advisory
21. World Bank Group's Privileged Identity and Access Management	Audit
22. World Bank's Core Capital Markets Systems Replacement (CCMSR) Program	Assurance Review
Financial Risk	
23. IFC's Asset and Liability Management Framework	Audit
24. IDA's Financial Risk Management Framework	Assurance Review
25. Implementation of IBRD's Asset Liability Management Framework	Audit

The summary of individual audits and reviews is available in GIA's Quarterly Activity Reports on the GIA website.



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