



WORLD BANK GROUP
Internal Audit

Annual Report

Fiscal Year 2017

Internal Audit Vice Presidency

December 6, 2017



Contents

Foreword from the Vice President and Auditor General	3
IAD at a Glance	4
Work Program Overview	7
Executive Commentary	10
Issue Follow-up	22
How We Deliver	26
<i>Annex 1: Fiscal Year 2017 Engagements Summarized</i>	34
<i>Annex 2: IAD's Coverage in Fiscal Years 2015-2017</i>	43

Cover photo © Hendri Lombard/World Bank; other photos as marked

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 institutions refers to IBRD, IDA, IFC, and MIGA.

The Bank refers to IBRD and IDA.

Foreword from the Vice President and Auditor General



Well into the implementation of transformational organizational changes, the World Bank Group (WBG) institutions continued to reshape in FY17 to become more agile and more effective. Externally, natural disasters and geopolitical conflicts brutally stripped some of the important development gains earned by our client countries, also pushing new people to the risk of poverty. As the demand for development assistance and interventions mounted in this environment, the Internal Audit Vice Presidency (IAD) focused on the areas where its assurance and advisory work could have the most impact on operations, while maintaining a strong focus on risks.

In FY17, IAD completed 24 engagements, centered around three themes: *How are the WBG institutions delivering solutions in the new global development agenda? How are they changing internal systems to increase efficiency of operations? Are they sustaining risk management approaches in the changing business environment?*

In the area of delivering solutions to clients, IAD reviewed how the WBG institutions are renewing products and introducing new approaches. The reviews of IFC's equity investment operations, MIGA's credit enhancement products, and the integrated advisory services of the World Bank and IFC addressed this point. IAD also assessed how the WBG institutions are approaching climate change operations, an example of integration of global themes in the overall development operations.

Efficiency remained an important theme in changes to internal systems. IAD assessed the alignment of financial resources and human capital with business strategy, and looked at the process for introducing technological innovation to simplify administrative processes. IAD also advised management on the application of enterprise architecture, a powerful tool to interconnect business strategy, data, applications, and technology in the implementation of strategic initiatives and process engineering.

In risk management, IAD kept a focus on cyber security to protect the institution from ever-increasing threats. Staff security was a new area of review with growing importance due to the rapid expansion of operations in areas affected by fragility, conflict, and violence. Environmental and social risks and integrity risk also remained key areas in IAD's work program.

To further strengthen its role as a trusted advisor to the Audit Committee and management, IAD took various measures to raise its own capacity. We expanded engagement with stakeholders by increasing communication with the Audit Committee, visiting country offices, and intensifying dialogue with management. We also collected feedback from stakeholders via an independent survey, increased the use of data analytics, and refined the IAD learning program to sharpen staff's knowledge of the WBG institutions' operations, as well as staff's leadership and communication skills.

In this Annual Report, I invite you to learn about key observations from our assurance and advisory work, and the various improvements to IAD in FY17. I cannot end this foreword without thanking the WBG President Jim Yong Kim, the Audit Committee and management members for their continuous support and guidance, and IAD staff for their passion for the WBG's mission and their uncompromised professionalism.

Hiroshi Naka
Vice President and Auditor General

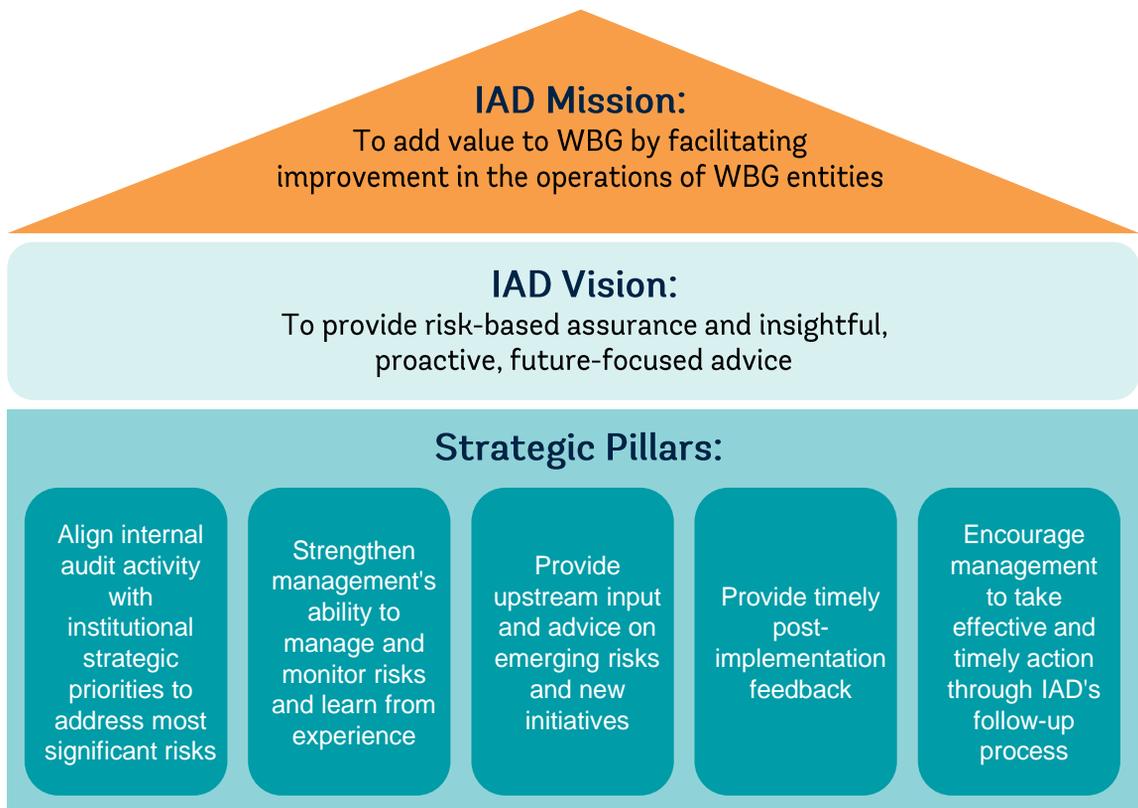
IAD at a Glance

The Internal Audit Vice Presidency (IAD) reviews the processes of the World Bank Group (WBG) institutions from an independent and objective standpoint to help improve their operations. IAD

- Conducts early reviews of emerging risks and initiatives
- Identifies gaps and weaknesses in internal controls
- Provides advice on management's risk management capability
- Works with management to develop corrective action plans
- Follows up on those corrective action plans to ensure they are implemented by the agreed date

Although IAD is an independent unit, partnerships with management, the Audit Committee, and other institutional oversight functions covering evaluation, integrity, ethics, and environmental and social accountability are essential to deliver timely and value-adding services to the organization.

To articulate IAD's value proposition, IAD developed the Vision and Strategy in FY15. In the third year under this framework in FY17, IAD has made solid progress in implementing the five Strategic Pillars, which 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-corruption measures; and IAD with respect to governance, risk management, and internal controls.

In relation to IAD, the Audit Committee reviews:

- The 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.

Standards and Core Principles

IAD's work is carried out in accordance with The Institute of Internal Auditors' International Professional Practices Framework (IPPF).

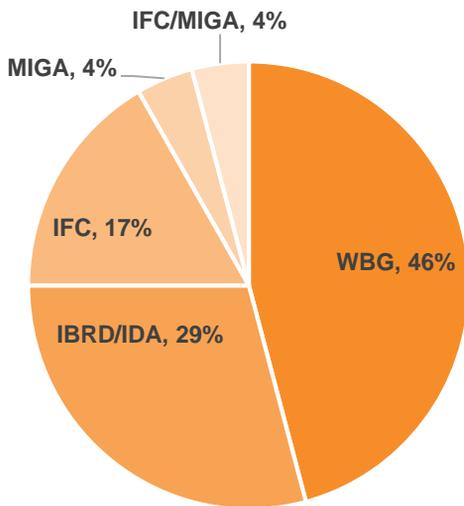
IAD's vision, strategy and mandate is in line with the Core Principles laid out in the IPPF:

- ✓ 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.

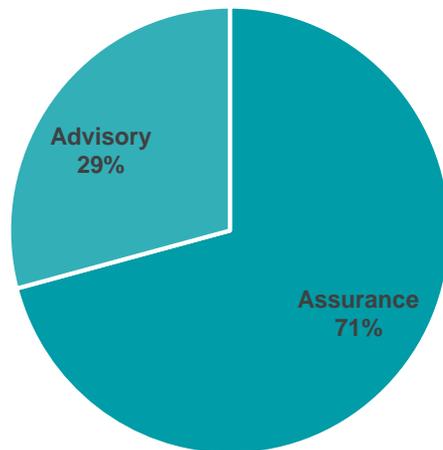


Work Program Overview

IAD's FY17 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 set by The Institute of Internal Auditors, the work program was developed using a risk-based approach. It provided coverage of core operational processes, corporate and finance areas, and information technology. During FY17, 24* engagements were completed, including WBG-wide, IBRD/IDA, IFC, and MIGA engagements. The engagements were delivered as assurance and advisory reviews.



FY17 Work Program Breakdown by Entity
(Based on number of engagements)



FY17 Work Program Distribution by Engagement Type
(Based on number of engagements)

Types of Review

ASSURANCE REVIEWS

provide management and the Audit Committee with an independent assessment of existing risk management, control, and governance processes. IAD requires action plans for issues identified and monitors the implementation of those plans by management.

ADVISORY REVIEWS

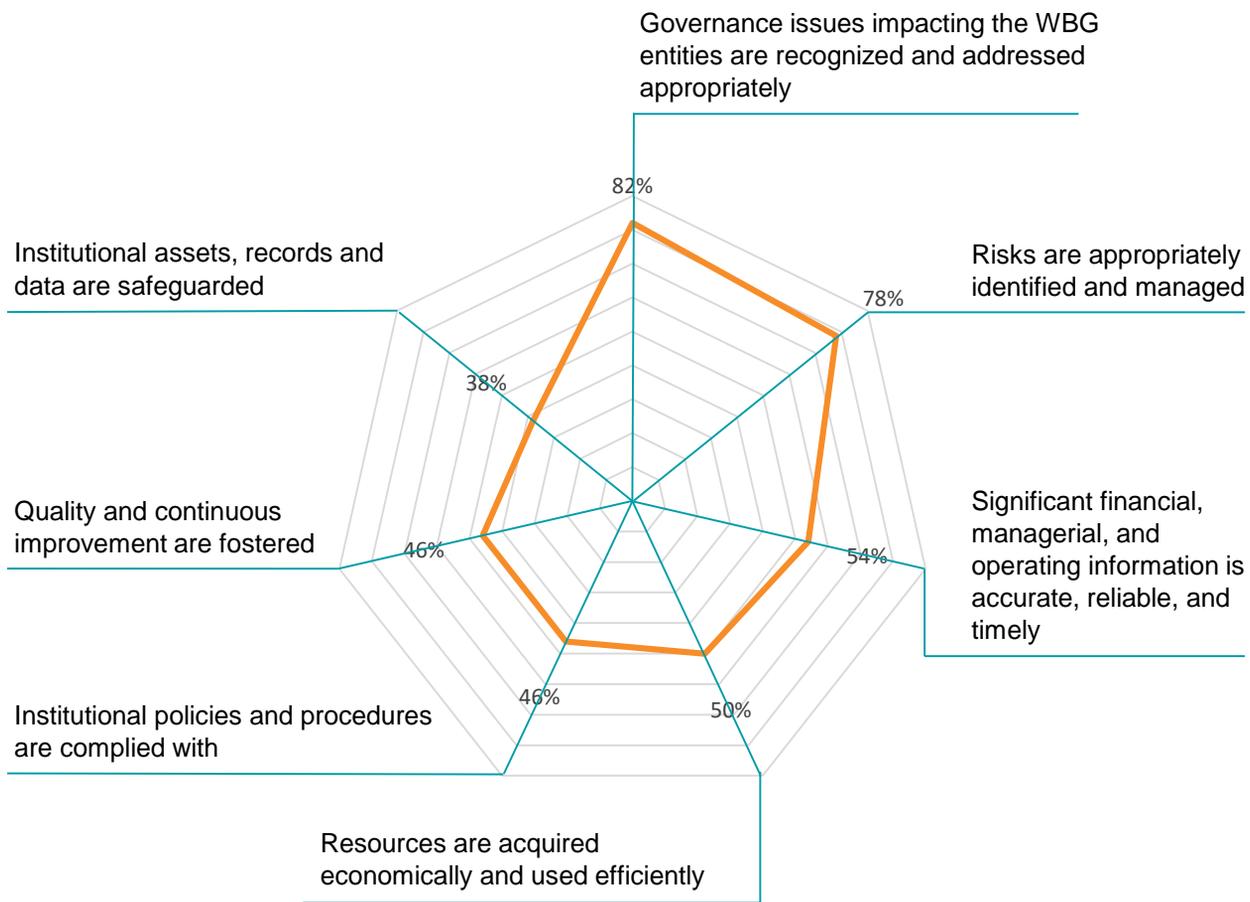
offer management advice without IAD assuming management responsibility. They are generally performed based on a request from management.

**This includes the results of the engagement on the Bank's Fiduciary Risk Management Framework in Investment Project Financing Projects, issued in a memorandum to share interim observations with management.*

Work Program Alignment with the IAD Charter

IAD’s work program aims to provide reasonable assurance in the areas outlined in its Charter. The chart below shows the level of coverage of each objective in FY17: 82% of the 24 engagements covered governance issues of the WBG entities; 78% covered risk management practices; and 54% covered quality and reliability of information for decision making.

Engagement Coverage of Areas Outlined in the IAD Charter*



* Represents the percentage of total engagements carried out in FY17 that cover these objectives. Each engagement typically covers more than one objective.

Work Program Alignment with the IAD Risk Domains

IAD's work program is aligned with the strategic priorities of the WBG institutions, paying particular attention to the most significant risks. The work program is based on IAD's risk assessment, which is informed by discussions with the Audit Committee members, management and operational staff, consultation with other oversight units, and IAD's independent and professional judgement derived from IAD's past reviews.

As IAD conducts its risk assessment, it utilizes 14 risk domains. The table below presents the 14 risk domains and the number of engagements for each in FY17, FY16 and FY15.

IAD Engagement Coverage in FY15-17

Coverage	Area	Risk Domain	Number of Engagements		
			FY17	FY16	FY15
World Bank Group Institutions	Strategic Planning and Change Management	Strategy Implementation Change Management	3	1	2
		Business Planning and Budgeting	1	2	2
	Development Operations	Delivery of Operational Products and Services	4	2	3
		Environmental and Social Risk	1	-	-
		Fiduciary Risk	1	1	-
		Integrity Risk	1	1	1
	Corporate and Administrative	Management of External Funds	1	1	2
		Stakeholder Engagement and Financial Reporting	1	4	-
		Financial Risk	1	1	-
		Human Resource Management	1	3	1
		Corporate and Administrative Areas	1	-	2
		Physical Disruptions and Business Disruptions	1	3	-
	IT and Data Management	Information Technology and Information Security	7	4	7
		Knowledge and Data Management	-	4	4

Executive Commentary

The Executive Commentary provides IAD's reflections on progress in implementing the key priorities of the World Bank Group (WBG) institutions, with a focus on governance, risk management, and internal controls. The commentary is not exhaustive in content but rather selective, 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 is designed to be forward-looking and constructive with the intention of helping to accelerate the achievement of the WBG goals.

The global economy has begun to accelerate, after some years of sluggish growth. However, investment remains weak and there are concerns about policy uncertainty and possible financial market turbulence, which could derail this fragile recovery. This would indicate that now is the time to implement the reforms that will provide protection against potential future downturns. To help countries address these challenges, the WBG institutions are working to maximize financing for development, whereby scarce official development assistance needs to be used strategically to crowd in private solutions whenever possible, limiting public debt and contingent liabilities. There is significant resultant flux and change in the market, and the ability of the WBG to adapt and respond to external developments and a changing landscape is critical.

Recognizing this imperative, the WBG institutions have undertaken various operational and strategic changes over the last few years. These have had time to settle and become operational, and FY17 provided an opportunity to reflect on the change management process as well as the outlook going forward.



Delivering Solutions in the New Global Development Agenda

A cornerstone of the new WBG strategy entails embracing the new global development agenda. The WBG's Maximizing Finance for Development initiative will require a massive mobilization effort to transform billions of dollars into trillions by scaling up private sector solutions and stepping up domestic resource collection.

The WBG institutions are devising new ways to collaborate on market diagnostics and impact measurement frameworks to create a common basis for tackling development problems. Each of the WBG institutions is also changing, with MIGA using its credit enhancement products for creating projects for impact and IFC working to scale up mobilization through the Managed Co-Lending Portfolio Program and the Asset Management Company (AMC). To maximize financing for development, the WBG's new approach builds on and expands the Multilateral Development Banks' Principles on Crowding-in Private Financing.

All these initiatives seek to usher in a new operational paradigm for the WBG institutions. IAD has been closely following these developments and is covering them through its engagements.

The audit of *IFC Equity Investments* recognized that IFC was repositioning its equity investments in companies in client countries to better align the product to the new IFC strategy that emphasizes the creation of markets. In addition, it noted that IFC has a well-defined due diligence process, an established decision-making framework and a governance mechanism. The audit also identified opportunities for improvement that included strengthening the selectivity and monitoring of investments for development impact, and better leveraging existing information systems.

The audit of *IFC's Oversight and Working Arrangements with the IFC AMC* noted that IFC processes had contributed to the success of the

AMC in undertaking investments and investment-related services. The audit also identified opportunities for IFC to improve its oversight of the AMC business relationship and to streamline and better coordinate business and operational arrangements with the AMC so as to maximize the synergy with the AMC in its efforts to bring more private-sector funds into development.

The audit of *MIGA's Management of Credit Enhancement Products* noted that MIGA has designed and implemented a robust framework for managing credit enhancement products, covering key risks throughout the life of a project, and confirmed that these products were ready to be expanded in MIGA's portfolio to support its strategy.

Promoting global themes in support of the Sustainable Development Goals

Alongside the push for growth, countries will in parallel need to build resilience against the multi-layered challenges including the effects of climate change, social inequality, natural disasters, conflict, forced displacement, famine, and disease. Crises are becoming more recurrent or protracted, and can have profound long-term impacts because they disrupt economic trajectories and social structures. Responding to these development challenges, the Bank has put in place strategies for Global Public Goods such as Fragility, Conflict and Violence (FCV), Climate, and Gender as part of its leadership to promote the Sustainable Development Goals.

IAD carried out advisory reviews of the World Bank's and IFC and MIGA's management of climate change operations. Addressing Climate Change, which is a cross cutting area, offers an opportunity for lessons that could be applied to the various other cross cutting areas such as Gender, FCV, and Public-Private Partnerships. The climate advisories highlighted the challenges of operationalizing a technically complex global development theme in a matrixed organization with multiple priorities.

The findings identified the key areas needing management focus. These included securing institution-wide buy-in; establishing goals and targets and their ownership by the operational teams; clarifying roles between the central coordinating unit and distributed implementing teams; and setting the rules for tagging, tracking and reporting on the development impact of the initiatives. Management has been taking a number of steps to strengthen and address these areas. Going forward, cross cutting development areas such as Climate will need ongoing support and management signaling to ensure continued organizational alignment.

Fostering collaboration among WBG institutions to deliver integrated solutions to clients

A common theme that has been the foundation of the change processes in the WBG has been the need to foster active collaboration among the WBG institutions and to change the operational culture to one of working in innovative, adaptive and efficient ways. The creation of Joint Global Practices between the Bank and IFC, the promotion of joint projects among WBG institutions, collaboration around the country diagnostics and partnership frameworks, the launch of new recognition and awards such as the Awards for Excellence, the emphasis on disruptive and game changing technologies, and the support for staff exchange among the WBG institutions are some of the measures that management has taken to create a new dynamic in the WBG and to incentivize staff.

Central to this vision being realized is how well the WBG manages this change. In this context IAD reviewed *Management’s Processes for Integrating Select IFC/Bank Advisory Services* in newly created joint operational units between the Bank and IFC. The institutions have taken significant steps in integrating the activities between the two institutions, in areas such strategy development and program formulation, yet these areas as well as progress management and institutional support will need continued management attention.

Considering this and other reviews that have entailed management of change, some of the key lessons on change management for the WBG to consider going forward include:

- Establish the end state and direction of the change.
- Establish a road map and milestones and track progress against them.
- Ensure continuous communication throughout the process, and in particular from Senior Management, to ensure all stakeholders are aligned.
- Implementation across the organization requires ownership at all levels and this should be continually pushed for.
- The management of change needs to move from being reactive to being pro-active, anticipating and adapting, and coordination functions need to move from a supporting role to an enabling role.
- Above all, recognize that big changes take time and require nurturing, and a sustained and dedicated change management program/office can support the organization through the change process and ensure that the change is always intentional and managed.

As the organizational culture evolves to one where there is a greater acceptance of change and uncertainty, management would need to apply the above lessons learned from the initiatives of the last few years as well as to establish appropriate incentive mechanisms, when embarking on big ideas and initiatives.



Increasing the Efficiency of Operations

Following the endorsement of the new WBG strategy, *Forward Look*, which lays out a plan to strengthen the WBG so that it can better address complex challenges, management has embarked on several key initiatives aimed at increasing the efficiency of operations and ensuring a successful shift to emerging priorities. The annual planning and budgeting process has been strengthened to ensure a more streamlined alignment of resources with business strategy. In addition, building on past efforts aimed at making the institution more financially sustainable, cost optimization initiatives, such as airline contract consolidation and changes in staff benefits, have been launched to emphasize a focus on value for money in the use of resources.

Recognizing that speed and agility are crucial to sustain the efficiency of internal processes and systems, management has also invested in innovative technologies aimed at delivering tangible improvements in the quality of the back-office functions that support client-facing functions. Continued actions are necessary to drive operational efficiencies. Particularly, management will need to continue strengthening efforts aimed at aligning resources more closely with business strategy; explore ways to demonstrate that initiatives deliver tangible benefits; and adopt a holistic approach in leveraging innovative technologies to streamline business processes.

Aligning resources with business strategy

After the Bank's reorganization into the Global Practices delivery model in FY15, the Bank moved from a unit-based incremental budget approach to a work-program driven approach aimed at promoting selectivity in country engagements and better aligning resources more directly with the WBG strategy and Twin Goals. Alongside the new budget approach, the Bank also launched the Workforce Planning exercise, which was aimed at ensuring that the organization has the right skills in the right places at the right time, in line with evolving client

demands and corporate strategic objectives. During FY17, IAD reviewed *the Bank's Country Engagement Budget Allocation under the New Operating Model*, with a focus on Country Engagement resources and their alignment with corporate strategic priorities. The review confirmed that management has made significant progress in ensuring the alignment of unit level priorities with institutional priorities, and that budget implementation results are monitored strategically through Quarterly Business and Risk Reviews presented to the Board. In addition, Corporate Scorecards are used to track progress made in addressing key priorities articulated in the Forward Look. Management will need to continually improve the feedback loop in budget management by strengthening the capture of resource alignment with business strategy. This will inform decision making in the next budget cycle. It will also boost the confidence of the Board in management's ability to direct resources to strategic priorities.

IAD also performed an assessment of the *Bank's Workforce Planning* with the aim of providing fact-based analyses and insights to inform the design of future strategic workforce planning. IAD's assessment, which included benchmarking of the Bank's strategic workforce planning process to those of other International Financial Institutions and comparable public and private sector organizations, noted that the Bank's workforce planning capability has improved significantly since its inception. The foundation of the workforce planning capability is set up with strong governance in place and a consistent corporate process defined. This has enhanced business conversations about the future talent and skills required at the Bank, based on strategic priorities. IAD advised that budget planning, strategic planning and workforce planning need to be more closely aligned. This will foster a more strategic approach to workforce planning and ensure that staff costs are managed in alignment with business plans and budgets.

Focusing on value for money in the use of resources

To drive value for money and rationalize business expenses, management launched the Expenditure Review (ER) initiative in FY15. The aim of the ER initiative is to achieve a significant reduction in the cost of WBG's operations, finance, technology and administrative functions, while maintaining its capacity to deliver services to clients. Going beyond cost cutting, new initiatives like the Administrative Process Simplification were launched to introduce fundamental changes in how the institutions operate while continuing to simplify existing processes and systems. The Administrative Process Simplification initiatives are targeted towards reducing bureaucratic processes and supporting more efficient delivery in key back-office functions like human resources, budget, accounting and information technology.

Efficiencies have also been initiated in the vendor management process. In response to IAD's FY15 audit of *WBG IT Sourcing and Vendor Management*, management developed a framework in FY17 to strengthen the governance of IT sourcing and vendor management activities by defining key drivers and the value proposition to be achieved from WBG's IT sourcing strategy. These initiatives, taken together, will enhance the efficiency of operations and enable the extraction of value that can be allocated toward client country operations, effectively maximizing the development impact of the WBG's financial resources.

Going forward, it is important that the identification, implementation and measurement of broader institutional efficiency measures are integrated into day-to-day operations in order to truly mainstream efficiencies that have been gained from implementing the ER measures. Furthermore, to effectively deliver quality business solutions and optimize capital budgets, underlying processes and technologies that support the business must be seamlessly integrated, and investment decisions must be rationalized for consistency with business strategy. Lastly, matrices to monitor the cost base of

operational delivery and analyze value-for-money will need to be deployed to support resource allocation decisions and help establish that WBG institutions are deriving maximum value from the use of their resources.

Applying innovation to improve business processes

To sustain improvements in business processes and consolidate efficiency gains, WBG must be relentless in its efforts at deploying techniques to provide greater value to our clients, and leveraging technological innovations to deliver business solutions in a timely and cost effective manner. To this end, the WBG, in FY17, launched the Agile Bank program, which aims to improve the efficiency of project design and delivery by shifting focus, effort and resources from processes and procedures to activities that increase client value and result in speed, value-add and collaboration in operations while enhancing quality. The WBG also continues to invest in information technology to improve both the efficiency and flexibility of existing processes.

In FY17, management rolled out two key initiatives aimed at modernizing country office administrative and financial processes. First, the Global Payments Provider (GPP) initiative was introduced to streamline payroll and vendor payments by automating document processing and eliminating repetitive manual transactions. Second, the Global Travel Card (GTC) initiative, aimed at simplifying the processing of travel expenses and ensuring that the WBG can capture higher rebates from its significant travel expenditure, was extended to country offices. Similarly, some legacy systems are being phased out and replaced with more intuitive systems, such as the Administrative Portal, that lend themselves to the use of self-service and increase the speed and efficiency of support functions. Pilot projects are also underway to explore the use of such innovative technologies as robotics and blockchain to drive further business process efficiencies.

Enterprise Architecture

Enterprise Architecture (EA) is a powerful tool that business leaders use to support the design and implementation of strategic initiatives and significant process re-engineering. It facilitates the integration of business strategy, data, applications and technology. As the Bank reshapes its operating model to respond to a dynamic environment, tools such as EA, that began at the Bank in FY08, can play a valuable role in streamlining and optimizing processes to improve efficiencies. However, due to its limited mandate in the WBG, its contribution to business process design or other strategic initiatives (e.g. shared services, lean methodology, agile pilot, administrative simplification) is demand-driven, and participation in these initiatives is currently not the norm. IAD conducted an advisory engagement on EA to bring this perspective to management and suggest ways in which the existing capacity in the Bank for EA can be deployed to help manage change.

In the development and delivery of these innovative solutions, it is essential that management adopts a well-controlled process that would ensure efficient delivery, such that business units get the solutions that they require in a timely manner, and maximize the return on WBG's IT investment. In this context, IAD reviewed *WBG's Business Solutions Delivery and Project Governance* and noted that the process of delivering business solutions has evolved to allow for greater flexibility and adaptability. Opportunities, however, exist to better manage the risks inherent in the solutions delivery lifecycle, so that the innovative solutions delivered to business units achieve the dual purpose of meeting the business needs and effectively driving process efficiencies.

As the WBG institutions continue efforts at leveraging technological solutions in the execution of efficiency initiatives, it is imperative that a holistic approach be adopted in the selection and deployment of such solutions. In its review of the *World Bank's Enterprise Architecture (EA)*, an emerging tool used to support the design and implementation of strategic initiatives and significant process re-engineering, IAD emphasized the importance of connecting EA to all major business process improvement initiatives to ensure that business strategy, data, applications and technology are considered holistically.

To sustain improvements in business processes and consolidate efficiency gains, WBG must be relentless in its efforts at deploying techniques to provide greater value to our clients, and leveraging technological innovations to deliver business solutions in a timely and cost effective manner



© Sarah Farhat/World Bank

Sustaining the Focus on Risk Management

Similar to other large-scale and global institutions, the WBG institutions are faced with risks that could threaten the value of their business, including cyber attacks and physical security risks, as well as risks accentuated in development operations. The WBG will be able to manage those key risks strategically and effectively if management continues to strengthen the risk monitoring and oversight mechanisms, increase the smart use of risk data for decision making, and adopt a collaborative approach to risk management.

Strengthening information security

As the WBG continues to evolve, its staff are becoming more distributed with increased reliance on diverse ways to connect, communicate, and access information across the WBG's global footprint. At the same time, in today's world, many cyber threat groups are committed to planning their operations against targeted organizations, such as the WBG, in an effort to steal data, disrupt services and maintain access to the environment. Recent ransomware attacks, such as 'WannaCry' and 'Petya', and the Equifax data breach, have affected millions of computers and individuals. This has served to heighten the awareness of security vulnerabilities and business continuity responses. There is no doubt that the frequency and severity of such attacks will only increase in the future. In that context, maintaining the confidentiality, integrity and availability of the information technology solutions, services, and critical data is of great strategic importance. At the same time, managing exposures linked with our increasing dependency on third parties is imperative in light of recent industry reports indicating that third-party entities are causing a significant portion of reported cyber breaches. To respond to these current and emerging threats, WBG has implemented layered security defenses to prevent, detect, and mitigate threats from penetrating the WBG's network and is undertaking a renewal of its Cyber Security Strategy in alignment with the overall ITS FY18-20 Strategy.

In alignment with ITS' multi-year work program approach of covering different aspects of

information technology and cyber security, IAD reviewed several areas critical to effective cyber defense, particularly in the areas of *IT Hardware and Software Asset Management*, *Network Security*, and *Remote Access Services*. Overall, our reviews indicated a marked improvement in the control environment compared to that in existence five to seven years ago when IAD reviewed these areas.

Although the WBG has made significant strides in improving its security posture, cyber threats keep evolving and becoming more sophisticated. WBG, like other organizations, will need to constantly develop new capabilities to defend itself and respond adequately when breaches occur. It should also be acknowledged that cyber security, although heavily reliant on information technology, is not only an IT issue; it is an enterprise concern that needs to be addressed as an integral part of a holistic risk management strategy.

Updating risk management in line with the current business context

The WBG institutions are continuing to evolve and adapt to the changing business environment. Given the changes in the underlying conditions of business and shifts in stakeholders' expectations, it is important to ask periodically whether existing approaches to manage key risks are still valid and fit for the purpose. In this context, management recently updated the framework for workforce safety, the Bank's environmental and social risk management, and the procurement framework for Bank-funded projects.

IAD supported management's efforts to update existing frameworks by reviewing *the Formulation of the New WBG Global Security Management Strategy* and the implementation of management's action plan to improve environmental and social risk management. IAD also reviewed *the WBG's Sanctions Process*, which is the backbone of the institutional fight against fraud and corruption in Bank financing, as it remains a key risk in Bank operations.

Workforce Safety and Security: Strategic expansion of WBG operations into FCV environments and a diffusion of security threats within and beyond those areas have increased the risks to WBG operations and consequently to staff safety and security around the globe. The acknowledgment of an evolving global risk profile, as well as an increasing number of security incidents in previously low-risk countries, has accentuated the need for an enhanced strategy to continue to proactively deliver global security services to staff.

IAD covered this critical area in its FY17 work program through a review of *the Formulation of the New WBG Global Security Management Strategy* and noted that recent efforts, as part of the strategy renewal, have focused on expanding the field security specialist program, risk analysis and training programs; improving the staff tracking and communications systems; and clarifying and codifying security-related roles and responsibilities. The steps so far have created a sound framework for improved coordination among various WBG stakeholders. IAD noted that the implementation

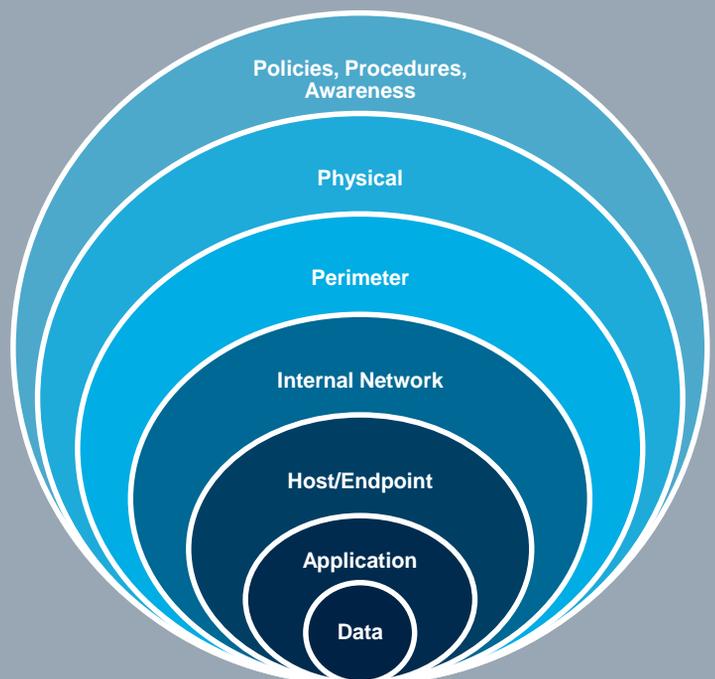
would benefit from strengthening the current security oversight structure, defining the operational decision-making authority, establishing clear triggers for escalation of issues, and setting a clear accountability framework for contingency funding through the creation of a single decision point.

Environmental and Social Risk: The Bank will replace the old safeguard policies with the new Environmental and Social Framework in 2018. The new framework is intended to boost protection for people and the environment, and drive sustainable development through capacity- and institution-building and country ownership.

Considering that the implementation of the framework is a cornerstone of the Bank's sustainable development agenda, IAD examined management's initiative for improving environmental and social risk management in a follow-up review of *the Bank's Action Plan to Improve Management of Safeguard and Resettlement Practices*. This action plan, developed in 2015, addresses shortcomings that could be detrimental to the effective and

WBG's Defense-in-Depth Approach to Information Security

- Defense-in-Depth is the coordinated use of multiple security countermeasures to protect the integrity of the information assets in an organization.
- The key principle of this approach is based on a military principle that it is more difficult for an enemy to defeat a complex multi-layered defense system than to penetrate a single barrier.
- The Defense-in-Depth strategy requires a balanced focus on three primary elements: People, Process, and Technology.
- IAD systematically reviews these layers to confirm WBG's IT defense strategy.



sustainable management of environmental and social risk. The successful resolution of the shortcomings will ensure a strong foundation for implementation of the new framework. Notable progress was observed in the systematic capture of risks, institutional monitoring and oversight arrangements, information systems supporting risk management, budgetary funding, and staff allocation. It is important that all the proposed actions are completed so as to increase the readiness for the new framework implementation.

Integrity Risk: Fraud and corruption in development projects impedes the ability of governments, donors and the WBG to achieve the goal of reducing poverty. The WBG institutions have a strong commitment to manage this risk through applying various measures. One such measure is the sanctions process. Established 10 years ago, the sanctions process is designed to identify firms and individuals that have engaged in sanctionable practices in connection with WBG-financed activities and to hold them accountable via an administrative sanction. The process therefore also acts as a deterrent. In an audit of *WBG's Sanctions Process*, IAD concluded that the sanctions process was solidly established and followed as designed. It prevented firms and individuals engaged in sanctionable practices from obtaining new WBG-financed contracts. The process also helped companies improve corporate governance and adopt anti-corruption measures through a structured compliance program. Given the importance of this area, IAD suggested periodic Senior Management reviews of the current process to confirm its continued alignment with the current business strategy.

Strengthening enterprise risk management through effective oversight of risks and leveraging data

Enterprise Risk Management (ERM): Risk monitoring and oversight by management at the corporate level showed improvement in FY17. At the Bank, the Enterprise Risk Committee and the Finance Risk Committee complemented each other

in the coverage of major risks to the institution. Both committees effectively functioned as the management forum where key risks were escalated for senior-level discussion and decision. Although IAD did not perform any specific reviews focusing on ERM, we witnessed the active involvement of Senior Management in managing risks through frequent interactions with the committees. In IFC, Corporate Committees were recently streamlined, with the Corporate Risk Committee holding the responsibility for overseeing all types of risks to the organization. The consolidation of different types of risks under one committee will enable management to understand the interlinkage of risks and make decisions from a holistic point of view. Risk reporting to the Board has progressively improved with the Quarterly Business and Risk Reviews now incorporating financial risks, operational risks, reputational risks, and risk in development operations.

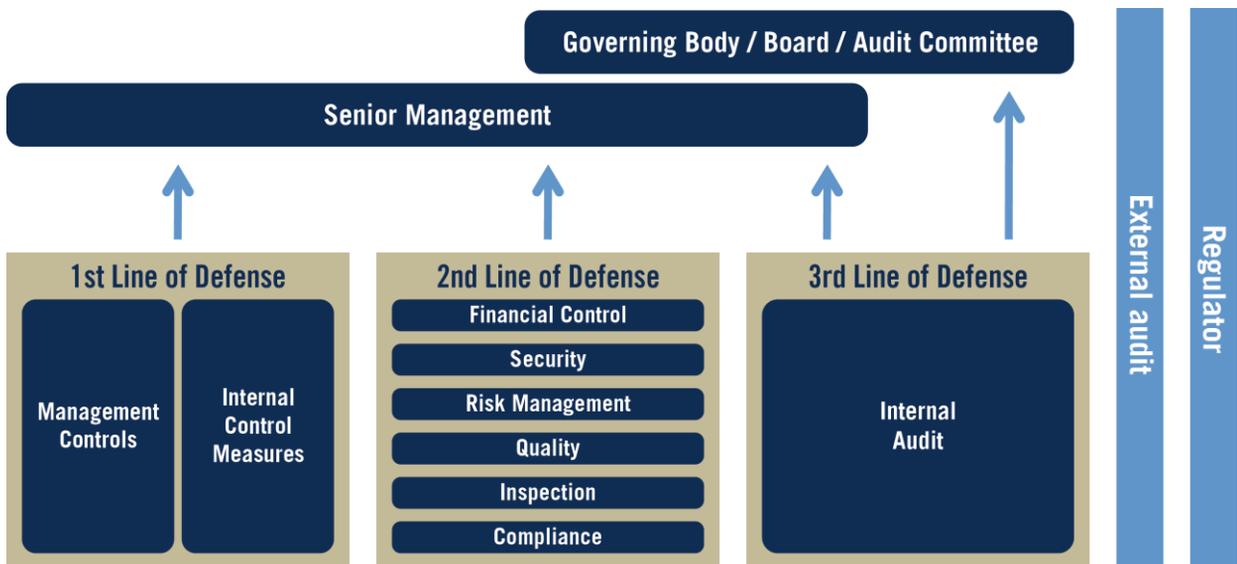
Risk oversight by Senior Management has improved, but requires continuous efforts to ensure that the current level of improvement is maintained. In addition, consolidated risk reporting to the Board is essential. An effective “second line of defense” function enhances risk management performance.

The next imperative step is to formalize and operationalize a practical ERM framework for the WBG entities, which clearly outlines a collaborative approach in managing enterprise or organizational risks, highlighting the key roles played by the “front” or “first line of defense” as the owners and primary managers of risks; the “second line” as the risk and compliance functions that provide checks and balances; and “third line” functions like internal audit that provide independent assurance in assessing first and second line risk activities. An essential part of ERM is to improve the process for articulating and documenting the risk appetite acceptable to the Board and to management. Continued formalization of an ERM framework will further strengthen risk management at the institutional level going forward.

Three Lines of Defense – A Model to Promote Effective Risk Management

As a useful framework to consider an effective risk management model for an organization, a concept called the “Three Lines of Defense” is increasingly discussed among risk management professionals. This model defines roles and responsibilities for risk management in three layers across an organization. The first line is the operational front that exercises management controls at the transaction level; the second line – also belonging to management – checks controls by the first line of defense through portfolio-level risk monitoring and compliance and quality tests; and the third line of defense is usually regarded as internal audit, which is well positioned to evaluate the overall effectiveness of governance, risk management and controls instituted by management in its assurance work. The application of the model needs to take into consideration the organization’s unique governance and oversight structure, and may vary from institution to institution.

Typical Three Lines of Defense Model Accepted in the Internal Audit Industry



Copyright © 2017 by The Institute of Internal Auditors, Inc. All rights reserved.

Risk Data: Risk data is playing an increasingly important role in risk management, partly because an analysis of risk data at the portfolio level can bring new insights and facilitate informed decision making. The quality and integrity of risk data is therefore essential, and this can be achieved through technological advancement, which makes aggregating and analyzing data much easier. Smart use of data to understand the big picture of business and risk trends allows business leaders to take proactive actions in managing their most significant risks. Sharing risk data with business partners also facilitates a shared understanding of business reality and helps develop consensus on the level of risk to take. For instance, in an advisory review of *the Bank's Risk Management in Recipient Executed Trust Funds (RETFs)*, IAD suggested that management could leverage the existing risk information of individual projects to generate trustee-level portfolio risk information. This can strengthen donor reporting and help the Bank prioritize trust fund monitoring. Data-driven portfolio-level monitoring of activities enables early

identification of problems and informed decision making, and promotes a consistent risk management approach.

Opportunities to utilize data in monitoring risks at the portfolio level were noted in various IAD reviews across business areas. These include the reviews of *IFC's Project Risk Management Using Conditions of Disbursement*, *IFC Equity Investments*, *the Bank's Workforce Planning*, *WBG's Strategic Management of Civil Society Organizations Relationships*, and *WBG Software Asset Management*. IAD will follow up on this topic through specific coverage of the Corporate Data Council and the use of risk information in Bank operations in the coming years to draw further insights.

IAD will continue to provide assurance and advice to the WBG institutions on key strategic areas and the most significant risks, with a view to helping them achieve their business goals.



IAD will continue to provide assurance and advice to the WBG institutions on key strategic areas and the most significant risks, with a view to helping them achieve their business goals

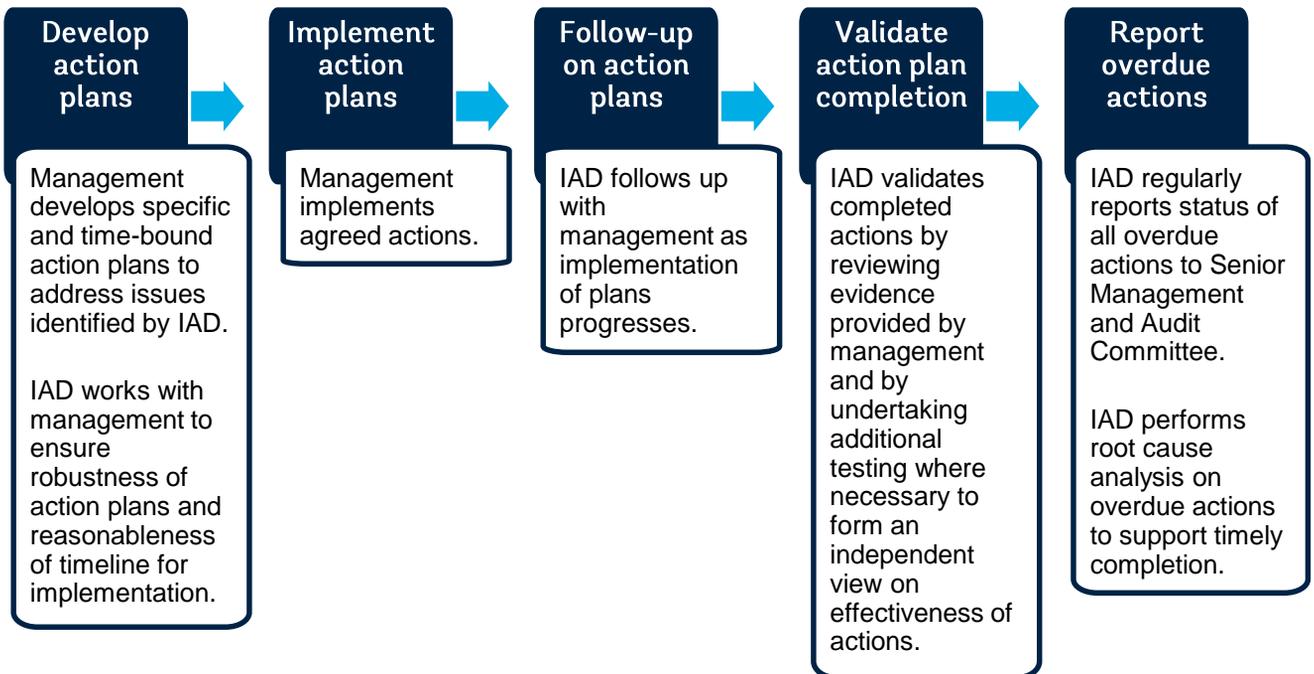


Issue Follow-up

Promoting Timely Improvements through Follow-up with Management

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 with a view to ensuring that the issue is addressed in a timely manner by:

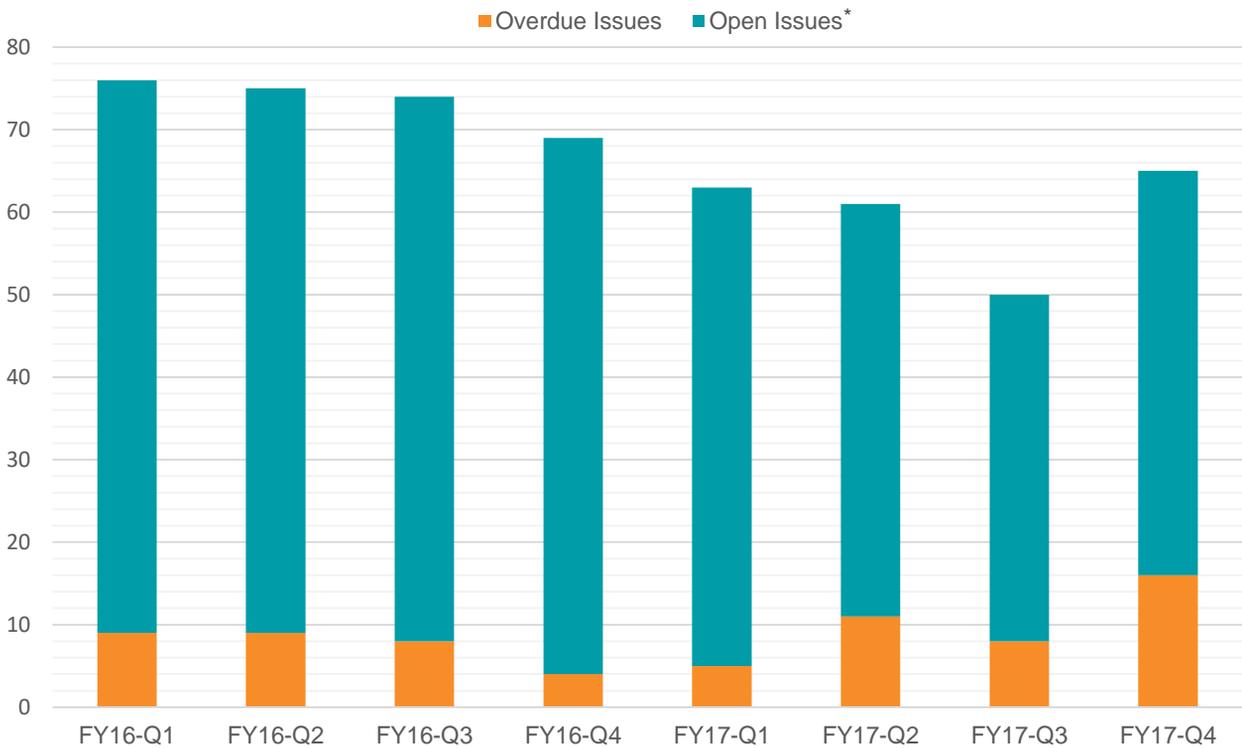
- independently validating the robustness of the action plans formulated by management to address the issues identified in IAD's reviews;
- providing an analysis to Senior Management and the Audit Committee on overdue issues including the reasons for delays and the risks involved in the revised implementation 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.



Close Monitoring of Issues with Outstanding Actions

IAD’s continuous dialogue with management during the implementation of actions encourages timely completion of the plans. In cases where the implementation of the plan is delayed, IAD flags the overdue action plans for Senior Management and Audit Committee attention, and continues to monitor the revised implementation timelines.

In FY17, IAD raised 46 new issues. There were 65 open issues including those from previous years at the end of FY17, of which 16 had overdue actions. The overdue actions were in the areas of business continuity management, capital budgeting, quality of client data, and the integration of select IFC/Bank advisory services. A root cause analysis for the overdue actions is being undertaken.



**Open issues have outstanding actions by management that are not yet due, while overdue issues have outstanding actions that management did not complete before the agreed due date.*

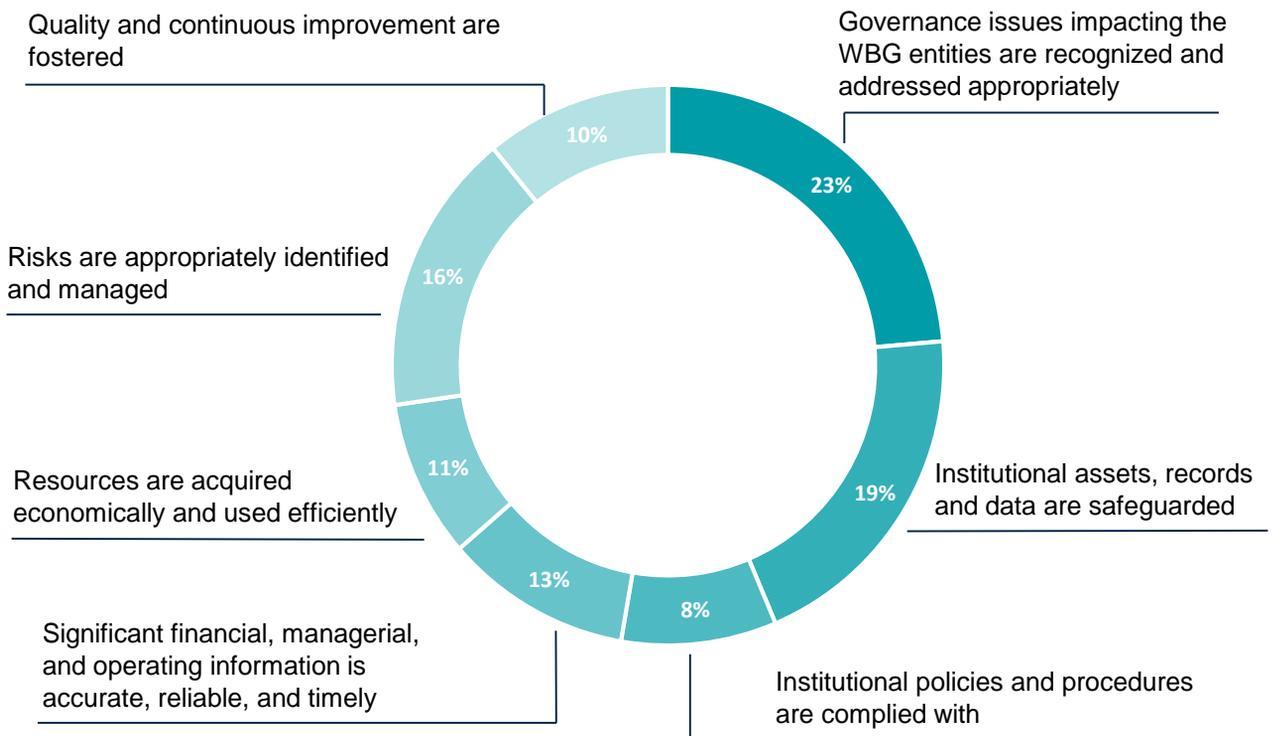
Achieving Improvements through Resolution of Issues

In FY17, IAD closed 70 issues, some of which were raised in prior years, after validating that management had satisfactorily implemented the actions. The resolution of issues means improvement in WBG institutions' governance, risk management and control processes, and demonstrates the impact of IAD's work.

A review of the closed issues showed that 23% were on improving the governance structures and monitoring mechanisms, 19% of them focused on safeguarding WBG institutions' assets, while 16% covered risk identification and management.

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

Closed Issues by IAD Charter Objectives



Examples of Issues Resolved in FY17

Stronger resilience and IT security

The FY14 audit of **WBG Cyber Threat Management and Preparedness** noted the need for enhancing the measures for prevention and detection of sensitive information leaving the WBG network. Management has taken multiple actions to develop tools and technologies to enhance the insider threat management program.

The FY16 audit of **the Bank's Business Continuity Management** noted that the Bank lacked an official governing body to oversee business continuity matters. Management has now established a formal Enterprise Risk Committee, which meets regularly to oversee business continuity including other non-financial risk matters.

Enhanced financial management

The FY12 audit of **IFC's Process for Credit Risk Management** noted the absence of a specific implementation plan for an upgraded system. Management created a plan for the implementation of the Investment Risk Platform (IRP). IRP has been implemented and is now the system of record for IFC clients' credit ratings.

Improved revenue stability

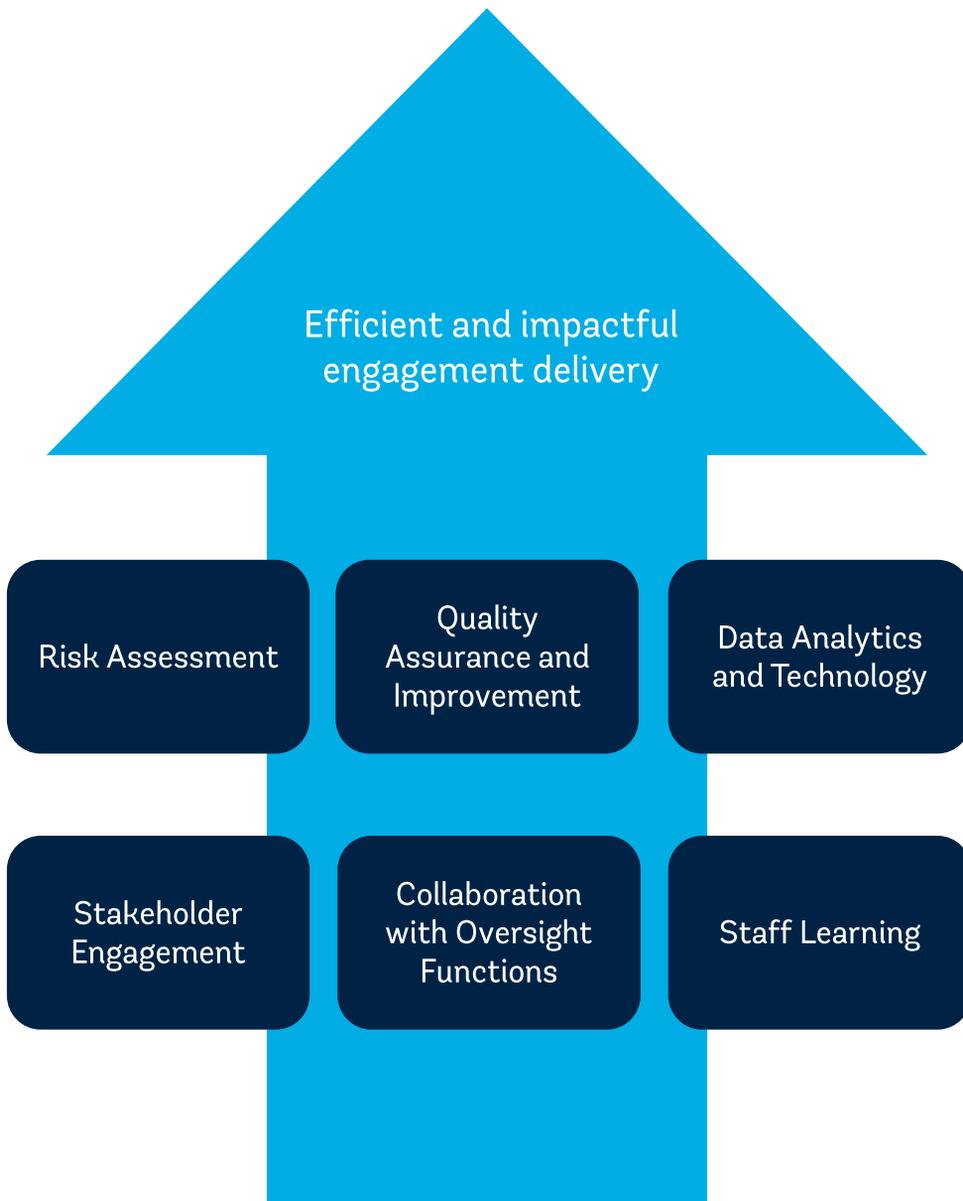
The FY16 audit of **the IBRD's Equity Management Framework** highlighted the need for periodic performance assessments of the Framework. The revised Framework was approved by the Board in April 2017. It provides objective performance measures to support periodic assessments of the progress in achievement of the Framework's stated objectives.

Better value for money

The FY15 audit of **WBG IT Sourcing and Vendor Management** noted design gaps in the governance framework over the management of WBG IT sourcing and vendor management activities. As a response, management developed a new framework for IT sourcing and vendor management that incorporates solid accountability arrangements, performance metrics, and a built-in continuous improvement process.

How We Deliver

Since IAD adopted the Vision and Strategy in FY15, it has implemented various measures to consolidate and upgrade its internal audit practices. The actions have encompassed the risk assessment approach to develop a work program, quality assurance, data analytics and technology supporting the delivery, stakeholder engagement, collaboration with other oversight units, and staff learning. The following pages highlight those improvements and other key elements that are critical to the success of IAD.



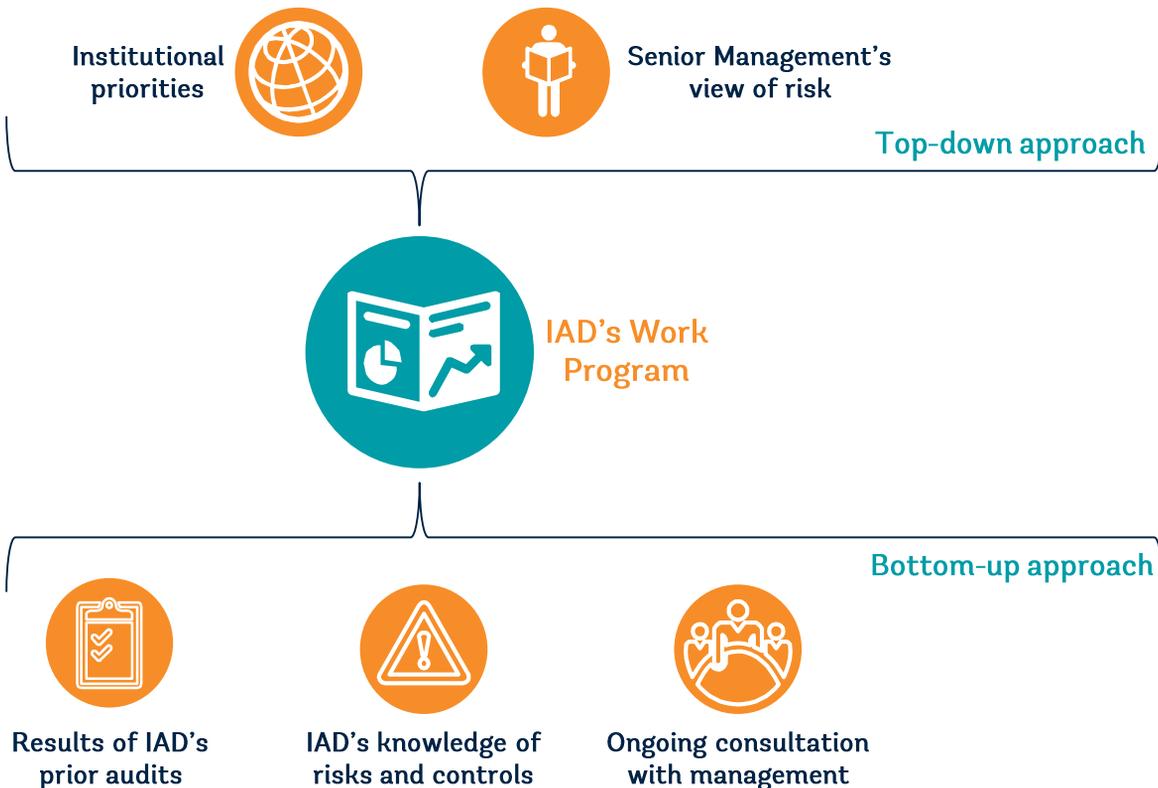
Risk Assessment

IAD's risk assessment is aligned to the WBG strategy. The objective of this process is to identify and prioritize potential audit areas that pose the most significant risk to WBG institutions and could prevent it from achieving its goals.

IAD's Work Program is developed based on IAD's continuous risk assessment of WBG institutions' operations. IAD forms its view on the institutions' risks using both top-down and bottom-up approaches. The top-down approach includes observations of Senior Management meetings and key Board meetings to understand institutional priorities and management's and the Board's views on risk. The bottom-up approach includes IAD's

ongoing structured discussions with the Chief Risk Officer, Controllers, External Auditors, and key business units, as well as the results of IAD's prior reviews.

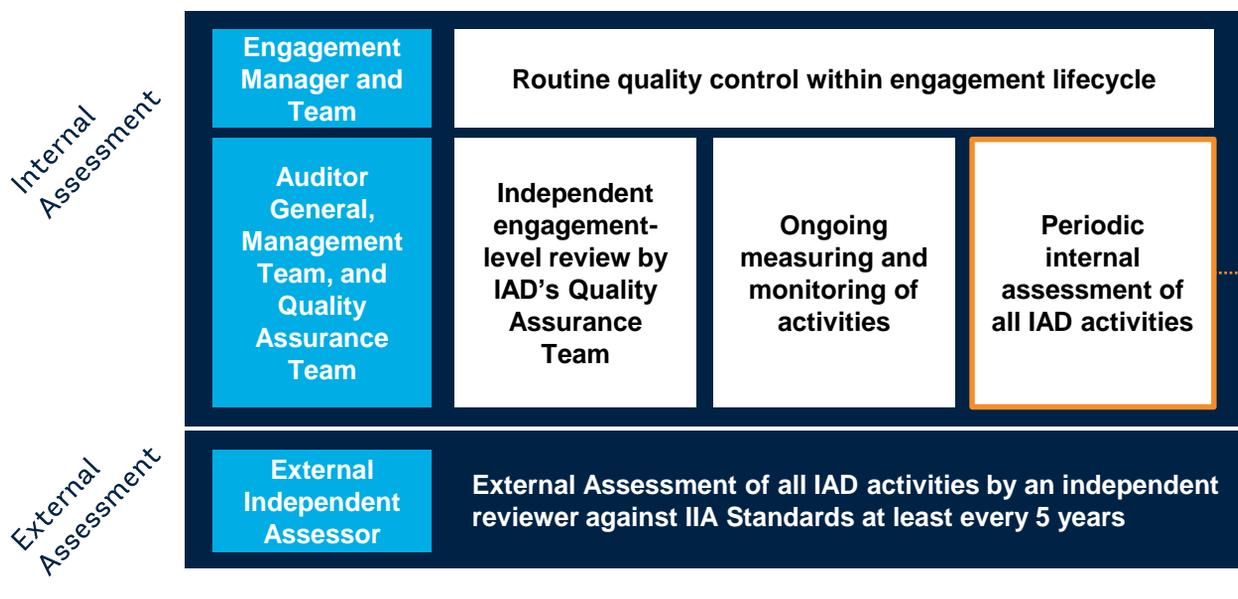
IAD also exchanges views on institutional opportunities and risks with other oversight units. Combining such information with its own knowledge of risks and controls, IAD identifies high-risk processes. They are prioritized and sequenced for review in consideration of urgency and resource availability. IAD's Work Program also includes reviews of medium-risk processes that have high inherent risk, such as treasury activities, or processes with increasing risk.



Quality Assurance and Improvement

In FY17, IAD continued to build upon its recently updated Quality Assurance and Improvement Program (QAIP) to ensure alignment with leading industry practices and sustained conformance with the quality assurance standards set by The Institute of Internal Auditors (IIA).

IAD’s QAIP consists of ongoing internal measuring and analysis combined with periodic internal and external assessments as described below. Each staff member plays a part in quality assurance, regardless of their level of seniority or role at IAD.



Strengthening Feedback from Management and Audit Committee

In addition to an external quality review of IAD by an independent expert in FY16, IAD conducted a survey with selected management and Audit Committee members in FY17 to gather candid feedback on IAD’s activities. This survey, which was based on interviews, provided useful insights on the following aspects:

- IAD’s consultative and communicative processes, such as planning, risk assessment and reporting
- Quality of IAD’s engagements
- IAD’s effectiveness

While leadership, communication and responsiveness were identified as strengths, it was recommended that IAD clarify its product and service offerings and informal stakeholder outreach. Examples of specific action plans by IAD include:

- Develop effective communication materials to explain IAD’s approach
- Offer information sessions to key stakeholders
- Increase internal quality reviews during the engagement lifecycle
- Enhance IAD’s co-sourcing approach with focus on subject matter expertise

Data Analytics and Technology

IAD utilizes data analytics and technology to enable engagement teams to effectively deliver insightful, proactive and future-focused assurance and advice.

Data Analytics

IAD's Data Analytics Strategy focuses on the integration of data analytics into IAD processes and the development of IAD's in-house data analytics capabilities. Data analytics is considered a critical success factor for IAD; it provides data-driven business insights, increased breadth and depth of audit coverage, stronger assurance and quantifiable results, and better and more visual reports to clients. In FY17, nearly half of IAD engagements applied data analytics. The need for the use of data analytics is assessed during the planning phase of each engagement.

In FY17, IAD engaged various internal and external stakeholders in the area of data analytics with a view to building sustainable collaboration and positioning IAD as a key data analytics player across the WBG institutions. While internal partnerships facilitate IAD's direct access to institutional data and promote relationships, external

collaboration allows IAD to benchmark and learn from fellow practitioners, and in exchange, showcase its work to the industry.

Informed by the previous year's skill gap analysis, IAD provided targeted data analytics training to staff in FY17, and also recruited a new staff member to supplement the available in-house skills. Besides face-to-face training, IAD introduced a Data Analytics Repository to capture, store, and promote sharing of information relating to IAD's data analytics activities.

Audit Technology

Following the adoption of the industry-leading audit management software system in FY16, IAD formed a working group in FY17 to further promote staff's effective use of the software and to fine-tune the configuration of the system. In addition, to facilitate the follow-up on Management Action Plans, the WBG's Information and Technology Solutions helped build a visual dashboard for IAD, which draws information from the audit management software.

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

Reaching Out to Colleagues

In fiscal year 2017, IAD completed several outreach missions to Bank Group offices around the world: Côte d'Ivoire, Kenya, Turkey, Indonesia, and Vietnam.

As part of the visits, IAD staff introduced IAD's work and insights, and learned about the day-to-day operations of the offices. The discussions with country office colleagues provided IAD with valuable feedback in areas such as internal processes, governance arrangements and information systems.



From left: Audit Supervisor Jane Mwebi and IT and Data Analytics Manager Honeylet Tuanda in Jakarta
© IAD Photo Archive

Stakeholder Engagement

IAD places a high priority on ensuring that its stakeholders across the WBG institutions have confidence in IAD's work and value proposition. It recognizes that robust stakeholder relations allow IAD to optimize its service to the institutions, and ultimately fulfil its role as a Trusted Advisor.

The following principles guide IAD's stakeholder engagement:

- **Significance:** Deal with issues of significance to stakeholders and to the institutions.
- **Completeness:** Seek to understand the concerns, views, needs and expectations of all of its key stakeholders and incorporate these, to the extent possible, into its engagements.
- **Responsiveness:** Respond quickly and appropriately to stakeholder needs.
- **Transparency:** Ensure that the communication and feedback process with key stakeholders is precise and mutually beneficial.
- **Integrity:** Ensure that engagements with all key stakeholders are conducted in a manner that fosters mutual respect and trust.

External Collaboration

IAD collaborates with internal auditors of other multilateral organizations and development institutions to absorb new ideas, share knowledge, and network with fellow practitioners. For instance, IAD is an active member of the Multilateral Financial Institutions—Chief Audit Executive (CAE) Group. IT Experts' meetings are traditionally organized during the CAE meetings, and IAD staff have played a significant role in driving the IT agenda.

In FY17, IAD continued its active sharing of internal audit knowledge gained from our unique experience with the WBG institutions. A wide range of organizations including United Nations agencies, multilateral and bilateral development agencies, donors, and client government audit functions, interacted with IAD and discussed new trends and common challenges.

Collaboration with Oversight Functions

In FY17, IAD continued to build upon the successful collaboration and coordination with other oversight units. The mandate of each of the functions is both distinct and complementary. Together, they form a strong oversight architecture for the WBG institutions. IAD's mandate covers risk management, governance, and internal controls of the WBG institutions. The Independent Evaluation Group (IEG) focuses on development effectiveness; the Integrity Vice Presidency (INT) investigates specific allegations of fraud and corruption in development projects financed by the WBG institutions and internal operations; and the Office of Ethics and Business Conduct (EBC) addresses allegations of staff misconduct. The Inspection Panel (IPN) and Compliance Advisor/Ombudsman (CAO) are environment and social accountability mechanisms for IBRD/IDA and IFC/MIGA, respectively. IAD recognizes the need for closer collaboration and information sharing with other oversight units in order to maximize the efficiency and effectiveness of its mandate.

IEG: In FY16, a memorandum of understanding was signed between IAD and IEG to strengthen existing arrangements for collaboration and coordination. Work programs of both functions were carefully coordinated in sequence and scope. Review teams of both functions met in relation to specific topics to exchange data and insights. In IEG's evaluation of the Systematic Country Diagnostic and Country

Partnership Framework (SCD/CPF), IAD's analysis of the costs of developing SCD/CPF was directly incorporated into IEG's report. Other topics for information exchange were *IFC Equity Investments* and *IFC's Oversight and Working Arrangements with the IFC Asset Management Company*.

INT and EBC: INT has continued to share its Investigation Reports with IAD on a regular basis so that IAD could identify systemic issues that require further analysis. In FY17, INT's input informed IAD's audit of the *WBG's Sanctions Process*. In addition, IAD and INT had joint dialogue with key donors on anti-corruption efforts. EBC also shares concerns from its internal investigations, which are used as input to IAD's risk assessment and development of the work program.

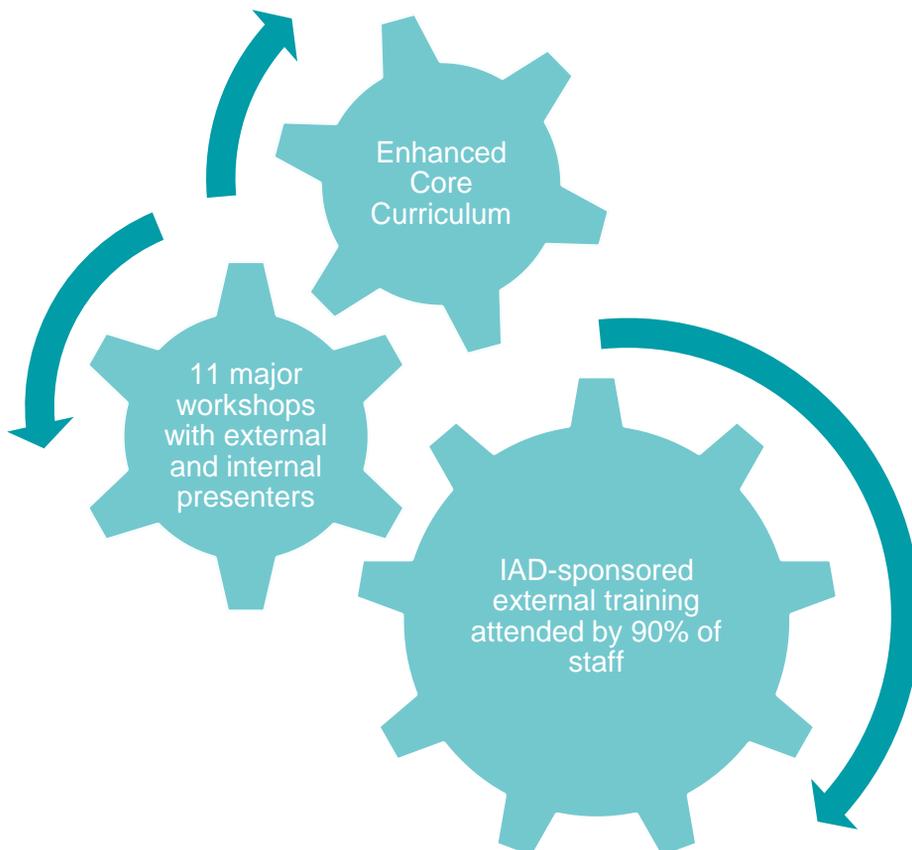
IPN and CAO: IAD has also analyzed cases examined by IPN and CAO to gain insights into WBG institutions' management of environmental and social risk. IPN's analysis of specific projects on the ground helped IAD understand the implications of institutional weaknesses on managing risk. IAD applied this knowledge in its review of *the Bank's Action Plan to Improve Management of Safeguard and Resettlement Practices*. CAO reports prompted IAD to review *IFC's Project Risk Management Using Conditions of Disbursement* as it is a key control in the institutional process.

IAD recognizes the need for closer collaboration and information sharing with other oversight units in order to maximize the efficiency and effectiveness of its mandate

Staff Learning

IAD staff are a team of about 35 professionals from more than 20 countries and 5 continents who bring with them varied professional, cultural and personal backgrounds. The staff have high professional qualifications, including Certified Internal Auditor (53% of staff), Certified Public Accountant, Chartered Accountant or similar (47%), Certified Information Systems Auditor (28%), and Certified Fraud Examiner (19%).

IAD's learning and staff development program stresses the importance of staff deepening their knowledge of the operations of the WBG institutions. It also equips them with an ability to "connect the dots" across different business functions to bring integrated advice to the organization. In FY17, IAD's Core Curriculum was further enhanced, offering a strong combination of internal and external learning opportunities for staff across all levels. Besides short-term training, staff took on assignments outside IAD to broaden their experience, and pursued additional professional certifications and degrees to strengthen their technical knowledge.



Voiced by IAD Staff: The Most Rewarding Aspect of My Job



IAD staff © Meity Prasetyani/World Bank

“Supporting business units to excel, thus helping WBG institutions to achieve their objectives”

“Knowing that it contributes to the improvement of the livelihoods of the world’s poorest people”

“Serving as the in-house trusted advisor providing forward-looking inputs”

“The diversity of people and the diversity of thought”

Volunteer Service to the Profession

As a leading internal audit function of multilateral and development agencies, IAD provides The Institute of Internal Auditors (IIA), an international professional body of internal auditors, with ongoing feedback on standard setting and global advocacy of the profession.

IAD staff serve at The IIA in multiple volunteer capacities at global and local levels. Further, IAD has been contributing to IIA’s research on the state of the internal audit profession in African countries in coordination with the Bank’s operational staff.



From left: Audit Specialist Alexandre Etocke, IT and Data Analytics Manager Honeylet Tuanda, Audit Supervisors Jane Mwebi, Suzan Sgaier and Archana Gupta Gregersen, Audit Specialist Xiaolei Zeng, and Director Yuko Keicho at the IIA International Conference in New York City © IAD Photo Archive

Annex 1: Fiscal Year 2017 Engagements Summarized

Strategic Planning and Change Management

Engagement	Type	Summary
Management's Processes for Integrating Select IFC/Bank Advisory Services	Assurance	The objective was to provide feedback on management's progress towards implementing the process changes necessary for the integration of the IFC/Bank public sector-facing advisory services within the two Joint Global Practice (Joint GP) units of Finance and Markets (F&M) and Trade and Competitiveness (T&C); and identify areas for management's attention and consideration as part of their integration efforts. IAD's review indicated that the Joint GPs have been successfully implementing key steps toward integrated service delivery, from formulating strategy to defining program delivery. However, the change journey has faced significant challenges relating to: (i) strategy and oversight; (ii) program planning; (iii) progress management; and (iv) institutional operational support.
Bank's Management of Climate Change Operations – Key Business Enablers	Advisory	The objective was to review the institutional arrangements that are in place in the climate change business, and to provide forward-looking recommendations to management on areas that would be essential to deliver on the Bank's (IBRD and IDA) climate change objectives. IAD's review indicated that the Bank has taken important steps to support the scaling-up of climate in its operations. However, management needs to: (i) strengthen Regional and Sector management buy-in on climate change priorities; (ii) increase sector-specific climate guidance to enable Sectors and Regions to better identify projects with climate co-benefits; (iii) enhance information flow and collaboration between and amongst various internal climate stakeholders; (iv) undertake a coordinated approach across the institution to engage donors on climate finance, given that concessional financial resources are dwindling; and (v) conduct portfolio level monitoring of climate related trust funds to support effective decision-making in prioritizing and optimizing the use of scarce climate resources.
IFC's and MIGA's Management of Climate Change Operations – Key Business Enablers	Advisory	The objective was to review the institutional arrangements that are in place in the climate change business, and to provide forward-looking recommendations to management on areas that would be essential to deliver on the IFC's and MIGA's climate change objectives. Recognizing the challenge of meeting the target of 28% as climate-related annual commitments by 2020, IFC and MIGA have taken concrete steps to support the scaling-up of climate in their operations. However, an increase in climate work is needed over the next three years to achieve the 28% target by 2020. The review recommended that IFC (i) strengthen Industry and Regional management buy-in on climate change priorities; (ii) cascade the climate targets down to Industries and Regions, with mechanisms to enforce accountability; (iii) increase sector-specific climate guidance supporting private sector friendly policies; and (iv) increase the availability and use of blended finance and processes to define, track and monitor private sector mobilization targets.

Engagement	Type	Summary
The Bank's Country Engagement Budget Allocation under the New Operating Model	Advisory	The objective was to evaluate the implementation experience of the budget allocation and monitoring process for the Country Engagement (CE) envelopes, and the extent to which the process is aligned with corporate strategic priorities and commitments. The review noted that (i) the budget allocation process is highly participatory; (ii) the CE envelopes are only allocated to fund programs identified in Country Partnership Frameworks (CPFs), in furtherance of the achievement of select institutional priorities; and (iii) geographical and functional priorities agreed upon during the early stages of the budget allocation process serve as the basis for allocating additional resources. IAD made the following recommendations: (i) strengthen the linkage between the CE envelope allocation process and thematic and GPG priorities; (ii) continue to strengthen the integration of External Funds early in the strategic budget planning process; and (iii) improve documentation of information around the budget process.

Development Operations

Engagement	Type	Summary
WBG's Sanctions Process	Assurance	The objective was to evaluate the design adequacy and operating effectiveness of controls for managing risks in the WBG's sanctions process. The WBG has a well-defined framework that operates as designed. There are adequate internal checks and balances, along with mechanisms for the screening of firms and individuals against the suspended and debarred lists. This framework is effective in preventing firms and individuals engaged in sanctionable practices from obtaining new WBG-financed contracts. Confidentiality is maintained by limited sharing of information until firms and individuals are formally sanctioned; after which, all sanctions decisions are made public. A respondent's compliance with conditions for release from sanctions is monitored and reviewed by an independent unit within INT. However, improvements are needed in the areas of (i) strategic oversight by a Senior Management forum; and (ii) use of sanctions-related information in the Bank's operations.

Engagement	Type	Summary
<p>Bank’s Action Plan to Improve Management of Safeguard and Resettlement Practices</p>	<p>Assurance</p>	<p>The objective was to provide independent validation of management’s implementation of the action plan to which it committed in a March 2015 press release. Management has made progress on the implementation of the action plan since its original commitment. As of June 16, 2017, IAD had validated the design of 15 (of 23) action items and was able to partially validate the 8 other items. In the case of partially validated action items, the design of management’s solutions or actions is pending the implementation of the Environmental and Social Framework (ESF). However, a number of areas will need concerted attention from management as the Bank embarks on the implementation of the ESF in the context of an evolving operating model.</p>
<p>IFC’s Project Risk Management Using Conditions of Disbursement</p>	<p>Assurance</p>	<p>The objective was to evaluate the design adequacy and the operating effectiveness of the processes for implementing and giving effect to conditions of disbursement (COD), including conditions relating to financial, legal, integrity, insurance, environmental, social, and corporate governance risks. The audit concluded that IFC’s framework for the application of COD is codified in IFC’s Investment Operations Procedures, and the processes for managing COD are adequately designed. Further, these procedures are being largely complied with at the project level. However, two gaps are adversely impacting the efficiency of the COD process: (i) manual COD recording and limited portfolio oversight; and (ii) inconsistencies in COD clearances and records.</p>
<p>IFC’s Oversight and Working Arrangements with the IFC Asset Management Company (AMC)</p>	<p>Assurance</p>	<p>The objective was to assess whether IFC’s arrangements for overseeing AMC’s activities in its various roles with AMC are adequately designed and are operating effectively. The audit also examined how IFC manages conflicts of interest arising in those roles, and reviewed IFC’s IT systems in place supporting IFC’s business arrangements with the AMC. The audit noted that IFC has well-established processes for investing in AMC’s funds, sharing equity investment opportunities with AMC, and supporting AMC with investment-related services such as project appraisal and supervision. However, IFC needs to improve its oversight and working arrangements with AMC in the areas covering: (i) IFC’s oversight of the AMC business relationship; (ii) operational arrangements with AMC; (iii) IFC-AMC information sharing and access management; and (iv) documentation of IFC’s conflicts of interest.</p>

Engagement	Type	Summary
IFC Equity Investments	Assurance	The objective was to evaluate the design and operating effectiveness of IFC's equity investment process. IFC has a well-defined due diligence process for the approval of new equity investments and an established decision-making framework and governance mechanism for such investments. After subscription, equity investments' financial performance and development impact are continuously monitored. The audit identified opportunities for improvement relating to: (i) the need for consistent development and monitoring of strategies and action plans that outline investment-specific value creation milestones; (ii) the absence of a process to identify and prioritize critical directorship positions that need to be filled; (iii) the need for Corporate Governance specialists to be more involved in the post-appraisal stages of equity investment projects; (iv) the need for sharper focus on the equity selection process; (v) the need for better valuation processes and management of valuation models; and (vi) the need to enhance the reporting and analytical capabilities of existing information systems that support the equity investment process.
MIGA's Management of Credit Enhancement Products	Assurance	The objective was to evaluate the design adequacy and operating effectiveness of controls geared towards mitigating risks in the end-to-end lifecycle of MIGA's non-honoring (NH) product category, i.e., sovereign, sub-sovereign, and state-owned enterprise products. The audit noted that MIGA has designed and implemented a robust framework for managing NH products, covering credit risk assessment, environmental and social sustainability and integrity due diligence, management review and approval, and portfolio monitoring throughout the life of a project.

Corporate and Administrative

Engagement	Type	Summary
World Bank Group's Pension Plan Administration	Assurance	The objective was to assess the governance, risk management and internal controls related to the day-to-day administration of the Pension Plan. The audit noted that the controls over WBG's Pension Plan Administration are well designed and operating effectively. The Pension Benefits Administration Committee and Pension Finance Committee exercise adequate oversight and the PeopleSoft system is leveraged for most computations and participant scenarios.

Engagement	Type	Summary
World Bank Group's Pension Plan Investments	Assurance	<p>The objective was to evaluate the design adequacy and operating effectiveness of controls geared towards mitigating risks in the end-to-end life cycle of WBG's Pension Plan Investments. The audit team concluded that the review design and implementation of controls over pension investment processes are effective. The key factors contributing to this assurance are: (i) effective oversight by the Pension Finance Committee (PFC); (ii) adequate internal controls for the management of pension investments; and (iii) satisfactory communication between the PFC/Pension and Endowment Department and WBG institutions. In addition to the general assurance to the Board on compliance with the Board-approved Plan document, IAD provided a separate assurance to the PFC on the effective management of Plan assets.</p>
The Formulation of the New WBG Global Security Management Strategy	Assurance	<p>The objective was to review the new WBG Global Security Management Strategy, and assess it for adequacy of identified risks and controls. The special review noted that the General Services Department's Corporate Security function (GSDCS) has developed a roadmap for implementation of WBG's new Global Security Management Strategy and of the specific initiatives to address strategic and operational gaps. The steps taken by GSDCS have created a sound framework for improved coordination among various WBG stakeholders. However, the WBG's ability to effectively implement the Global Security Management Strategy can be enhanced by (i) strengthening the current security oversight structure; (ii) providing a clearer definition of the operational decision-making authority and associated thresholds for security-related decisions; (iii) clarifying institutional roles and responsibilities for requisitioning and securing contingency funding; and (iv) engaging country offices in the security risk assessment.</p>
WBG's Strategic Management of Civil Society Organizations Relationships	Advisory	<p>The objective was to analyze how partner information pertaining to Civil Society Organization (CSO) bilateral relationships is identified and managed, with a view to strengthening the strategic partnership with CSOs. IFC's processes for identification and management of CSO relationship partner information are comprehensive, and partner intelligence management principles are well integrated into its business processes. However, these processes could be further strengthened in the World Bank. IAD therefore suggested a roadmap to guide External and Corporate Relations (ECR) in developing and implementing a WBG CSO relationship management strategy. IAD also shared leading industry practices on partner intelligence management principles to guide ECR in introducing the necessary improvements.</p>

Engagement	Type	Summary
The Bank's Workforce Planning	Advisory	<p>The objective was to assess the completed workforce planning exercises and provide fact-based analyses and insights to inform the design of future strategic workforce planning. Specifically, the review focused on the overall maturity of the Bank's workforce planning capability. The review found that the workforce planning capability has improved significantly since its inception in 2014. It has enhanced business conversations about the future talent and skills required at the Bank, based on strategic priorities. The workforce planning capability has been set up with strong governance in place and a consistent corporate process defined. However, there is room for improvement across many of the capability dimensions, particularly data, technology, and integration with other talent processes.</p>
Bank's Risk Management in Recipient Executed Trust Funds (RETFs)	Advisory	<p>The objective was to assess, at the trustee level, the institutional risk management processes and practices over Recipient Executed Trust Funds, and provide insights and recommendations that would help management gain further efficiencies in the execution of its fiduciary responsibilities to development partners. IAD noted that risks in RETFs can be categorized into two: (i) risks inherent at the trustee level, and (ii) risks at the project level financed by the RETFs. Under the current institutional risk management framework and practices, opportunities for management to leverage risk information at the trustee and project level in the management of risks in RETFs include: (i) the further expansion of trustee level risk management practices to encompass the entire trust fund lifecycle, and help strengthen the monitoring of the overall RETF portfolio; (ii) the systematic aggregation and analysis of project level risk information at the Trustee level, to help management better identify high-risk RETFs, appropriately calibrate their actions for managing these risks, and improve reporting of critical risks to donors; and (iii) the provision of RETF-related risk information – both at the trustee level and at the project level – to Senior Management and the Board, to facilitate their strategic consideration of the use of RETFs in operations.</p>

IT and Data Management

Engagement	Type	Summary
WBG IT Hardware Asset Management	Assurance	The objective was to assess whether WBG has established effective practices to support strategic decision-making and lifecycle management of its IT hardware assets. The WBG's Information and Technology Solutions (ITS) has defined as a strategic goal the alignment of IT investments (including IT hardware assets) with business priorities. ITS has employed a portfolio approach to determine which IT assets to grow, maintain, replace, and retire. The Capital Investment Policy is followed to manage the capital expenditures for IT hardware assets. Furthermore, the business units responsible for managing IT hardware assets have established procedures to guide activities around the acquisition, deployment, maintenance, and retirement of such assets. However, the management of the overall lifecycle of IT hardware assets and the coordination between the various stakeholders could be strengthened. In addition, the asset management policy requires updating.
WBG's Business Solutions Delivery & Project Governance (Operations & Corporate Lines of Business)	Assurance	The objective was to assess the adequacy and effectiveness of the governance, risk management, and controls over the WBG's Business Solutions Delivery & Project Governance processes within the Operations and Corporate lines of business. The audit concluded that World Bank Operations and Corporate (ITSOC) Business Solutions Center is delivering business solutions that largely meet the needs of Operations and Corporate Units, with business solution projects being delivered by experienced and knowledgeable ITS delivery teams. Over the past few years, processes have evolved from a highly prescriptive and template-based approach to introducing greater flexibility and adaptability, with the end-goal of increasing throughput and speed in delivering business solutions. However, the audit identified several areas where improvements in controls could support better management of project and portfolio risks including: (i) consistent use of the Systems Development Life Cycle methodology; (ii) enhanced monitoring of Business Solution Projects and Portfolio for value and quality; and (iii) full operationalization of the system performance monitoring processes.

Engagement	Type	Summary
WBG's Network Security (Internal and External)	Assurance	The objective was to assess WBG's internal and external network security to determine whether the existing policies, procedures, processes, and controls are adequately designed and implemented to safeguard WBG assets and provide protection against current and emerging threats. The audit concluded that the WBG's internal and external network design, architecture, governance processes, and risk management controls provide reasonable assurance that the confidentiality, integrity, and availability of the WBG's network operating environment are adequately safeguarded. While no significant control gaps were noted, IAD identified opportunities to further strengthen the network vulnerability and change management processes as well as the implementation of the Network Access Control.
WBG's Remote Access Services	Assurance	The objective was to assess the governance, risk management and control processes for WBG's Remote Access Services. The audit concluded that the design and implementation of the WBG's Remote Access Services architecture, management processes, and security controls provide reasonable assurance that remote access services are readily available to staff, appropriately hardened (secured), and accessible only by authorized individuals. ITS has implemented controls in a manner that prioritizes security requirements while promoting an end-user experience that is seamless and attempts to replicate in-office connectivity.
WBG's Software Asset Management	Assurance	The objective was to assess the governance, risk management, and controls over the management of WBG software assets maintained at HQ and Country Offices. The audit concluded that the current system of internal controls over the software asset management process provides reasonable assurance that the WBG's software assets are being managed effectively. While no significant gaps were noted in the audit, the current control environment could be further strengthened with regard to the installation and monitoring of non-standard or unapproved software applications in the WBG environment.

Engagement	Type	Summary
<p>Post-implementation Review of IFC's Advanced Commercial Banking System</p>	<p>Assurance</p>	<p>The objective was to evaluate the effectiveness of IFC's Advanced Commercial Banking System (ACBS) Upgrade project and its related components to determine whether (i) management instituted monitoring and reporting mechanisms to ensure that the ACBS system upgrade achieved its intended objective(s); (ii) project management practices were in place to effectively execute the system upgrade; (iii) system and interface controls to address financial and operational requirements were adequately designed during the upgrade and are operating effectively; (iv) users and key stakeholders were adequately trained and their system requirements and needs were met; and (v) third parties responsible for ACBS system implementation and on-going maintenance and operations are adequately managed. The review concluded that effective governance, project management, risk management, and control activities were instituted for the project. However, opportunities exist for further strengthening of the manner in which IFC monitors and oversees critical vendors.</p>
<p>The World Bank's Enterprise Architecture</p>	<p>Advisory</p>	<p>The objective was to help Bank's Senior Management understand the current approach being taken on enterprise architecture (EA) and to provide information that would be useful for deciding how to improve the implementation of EA in support of strategic initiatives and high-level end-to-end process re-engineering. Recognizing that EA is a powerful tool that business leaders use to support design and implementation of strategic initiatives and significant process (re)design, the review concluded that the Bank's unit with a mandate to enact EA (ITSEA) has the tools, capabilities, and processes to perform EA for the institution. However, these EA tools and capabilities are not consistently utilized. IAD recommended that (i) the mandate of ITSEA be strengthened; (ii) ITSEA be invited to contribute to and collaborate with key ongoing (and future) business process re-engineering initiatives; and (iii) the awareness and exposure of ITSEA's information repository be promoted across the Bank.</p>

Annex 2: IAD's Coverage in Fiscal Years 2015-2017

Risk Domain	FY15 Engagements	FY16 Engagements	FY17 Engagements
Strategy Implementation Change Management	<ul style="list-style-type: none"> Review of the Jointness Models Country Management Unit (CMU) Norming 	<ul style="list-style-type: none"> The World Bank Group's Expenditure Review (ER) Initiative 	<ul style="list-style-type: none"> Management's Processes for Integrating Select IFC/Bank Advisory Services Bank's Management of Climate Change Operations – Key Business Enablers IFC's and MIGA's Management of Climate Business Operations – Key Business Enablers
Business Planning and Budgeting	<ul style="list-style-type: none"> Bank's Enterprise Risk Management Framework Bank's Operational Risk Management (ORM) Processes 	<ul style="list-style-type: none"> IBRD's Capital Budget Process Financial Aspects of IDA17 Concessional Loans 	<ul style="list-style-type: none"> Bank's Country Engagement Budget Allocation under the New Operating Model
Delivery of Operational Products and Services	<ul style="list-style-type: none"> Monitoring of the Delivery of Analytic and Advisory Activities (AAA) to Clients Bank's Risk Management in Financial Intermediary Lending Projects Management of Public-Private Partnership (PPP) Transaction Advisory Projects 	<ul style="list-style-type: none"> IFC's Managed Co-Lending Portfolio Program MIGA's Administrative Cost Allocation Process for Pricing 	<ul style="list-style-type: none"> IFC's Project Risk Management Using Conditions of Disbursement IFC's Oversight and Working Arrangements with the IFC Asset Management Company (AMC) IFC Equity Investments MIGA's Management of Credit Enhancement Products
Environmental and Social Risk			<ul style="list-style-type: none"> Bank's Action Plan to Improve the Management of Safeguard and Resettlement Practices
Fiduciary Risk		<ul style="list-style-type: none"> Risk-Based Procurement Post Reviews (PPRs) 	<ul style="list-style-type: none"> Bank's Fiduciary Risk Management Framework in Investment Project Financing Projects

Risk Domain	FY15 Engagements	FY16 Engagements	FY17 Engagements
Integrity Risk	<ul style="list-style-type: none"> Integrity Risk Management in MIGA's Projects 	<ul style="list-style-type: none"> Management of Actual and Perceived Conflict of Interest in WBG's Operating Model 	<ul style="list-style-type: none"> WBG's Sanctions Process
Management of External Funds	<ul style="list-style-type: none"> Bank's Management of Recipient Executed Trust Funds (RETF) Grant Projects Below \$5 Million Use of Externally Financed Outputs 	<ul style="list-style-type: none"> Bank's Trust Fund Change Management Considerations 	<ul style="list-style-type: none"> Bank's Risk Management in Recipient Executed Trust Funds
Stakeholder Engagement and Financial Reporting		<ul style="list-style-type: none"> Donor Reporting on Trust Fund Operations of the WBG Implementation of the Bank's Access to Information Policy Implementation of IFC's Access to Information Policy Implementation of MIGA's Access to Information Policy 	<ul style="list-style-type: none"> WBG's Strategic Management of Civil Society Organizations Relationships
Financial Risk		<ul style="list-style-type: none"> IBRD's Equity Management Framework 	<ul style="list-style-type: none"> World Bank Group's Pension Plan Investments
Human Resource Management	<ul style="list-style-type: none"> WBG HR Processes Change Management 	<ul style="list-style-type: none"> WBG's Medical Insurance Plan WBG Human Resource Shared Services Use of Data Analytics in HR 	<ul style="list-style-type: none"> Bank's Workforce Planning
Corporate and Administrative Areas	<ul style="list-style-type: none"> WBG Administrative Expense Monitoring – Travel-Related Expense Review of Specific Aspects of IBRD's Capital Budget Process 		<ul style="list-style-type: none"> World Bank Group's Pension Plan Administration

Risk Domain	FY15 Engagements	FY16 Engagements	FY17 Engagements
Physical Disruptions and Business Disruptions		<ul style="list-style-type: none"> • WBG IT Service Continuity Management • Bank's Business Continuity Management • IFC's Business Continuity Management 	<ul style="list-style-type: none"> • Formulation of the New WBG Global Security Management Strategy
Information Technology and Information Security	<ul style="list-style-type: none"> • Post Implementation Review of PeopleSoft • IT Compliance • ITS Cloud Adoption Roadmap • IT Sourcing and Vendor Management • WBG Mobile Application Development and Security • WBG Identity Credential and Access Management (ICAM) • Cash Systems Replacement Pre-Implementation 	<ul style="list-style-type: none"> • WBG Integrated Communications Platform (ICP) • Box Post-Implementation • Office 365 Post-Implementation • Security Architecture, Certification and Accreditation Process 	<ul style="list-style-type: none"> • WBG IT Hardware Asset Management • WBG's Business Solutions Delivery & Project Governance (Operations & Corporate Lines of Business) • WBG's Software Asset Management • World Bank's Enterprise Architecture • WBG Network Security (Internal & External) • WBG's Remote Access Services • Post-Implementation Review of IFC's Advanced Commercial Banking System (ACBS)
Knowledge and Data Management	<ul style="list-style-type: none"> • WBG Data Analytics for Information Security and Risk Management • Information Quality Supporting the Bank's Portfolio Monitoring • WBG Data Privacy • Database Management 	<ul style="list-style-type: none"> • Process for the Collection of Data and Production of Indices to Report on the Twin Goals • IFC's Processes for Generating Information Supporting Portfolio Oversight • IFC Staff Learning • IFC's Management of Client and Partner Hierarchies 	



worldbank.org/internalaudit



WORLD BANK GROUP
Internal Audit