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## Internal Audit Vice Presidency (IADVP)

### FY12 Fourth Quarter Activity Report

August 27, 2012



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The Internal Audit Vice Presidency (IAD) is an independent and objective assurance and advisory function designed to add value to the World Bank Group (WBG) by improving the operations of the WBG organizations. It assists WBG in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes.

The purpose of this report is to provide a high level overview of IAD activities in the quarter to Senior Management and the Audit Committee. This Quarterly Activity Report is also publicly disclosed, under the Bank's Access to Information Policy.

# 1. Summary of Key Engagement Outcomes

Management has self-identified key areas of improvement, and launched an initiative to strengthen procurement processes.

Effective governance, staffing, processes, and technologies contributed to successful implementation of the external web and social media program.

Fifteen engagements relating to the FY12 Work Program were finalized during FY12 Q4. In addition, two reports which were issued as draft in the previous quarter were also finalized. These included: three World Bank Group (WBG) audits, six International Bank for Reconstruction and Development/International Development Association (IBRD/IDA) audits, six International Financial Corporation (IFC) audits, one Multilateral Investment Guarantee Agency (MIGA) audit, and one review pertaining to the International Centre for Settlement of Investment Disputes (ICSID).

1. IAD's audit of **WBG Vendor Management** covered the adequacy of risk management, control, and governance processes of the management of WBG's vendors to support service excellence, control costs, and mitigate risks throughout the contract lifecycle. Following a recent change in leadership, management has self-identified key areas of enhancement and launched an initiative to strengthen procurement processes. Efforts underway include a "Vendor Management Project" to clean up the vendor master file and to develop tools and processes in SAP for managing vendors through the procurement lifecycle. IAD recommended a more strategic approach to managing the overall vendor portfolio, to complement management's focus on transactional controls.
2. The audit of **WBG Pension Plan Administration** covered the adequacy and effectiveness of the current governance structure for pension plan administration, related roles and responsibilities, controls of key transactional processes in the pension cycle, and support operations. The results indicated that controls are in place for all key pension processes including enrollments, contributions, benefit calculations and payments, terminations, retiree management, and support operations.
3. IAD's audit of **WBG External Web and Social Media** covered key risks and controls across the WBG in the areas of external web governance, content management, and publishing, and the management of public social media channels such as blogs, Facebook, Twitter, Flickr, and YouTube. The audit results indicated that effective governance, staffing, processes, and technologies are contributing factors to the successful implementation of the external web and social media program.

# 1. Summary of Key Engagement Outcomes (contd.)

The Bank's server virtualization approach is aligned with IMT's strategy of capacity building.

IAD recommended that management clearly define quality assurance, as distinct from quality controls, for Bank Investment Lending operations.

Management has recognized the distinctive operational challenges of RI projects and has developed an operations framework to meet the needs of RI projects.

4. IAD's audit of **Bank's Server Virtualization** reviewed the process of managing, securing and configuring virtualized servers. The audit noted that the Bank's server virtualization approach is aligned with IMT's strategy of capacity building with a focus on the quality and efficiency of service delivery through institutional standards to improve speed, flexibility, security and cost effectiveness. However, weaknesses exist in the areas of hypervisor security hardening and monitoring, and the server provisioning process. Management will develop the server hardening procedure in line with the WBG Virtualization Security Standards, implement risk based monitoring of the hypervisor layer, and has taken steps to rectify the server provisioning process.
5. IAD's audit of the **Quality Assurance Process for Investment Lending Operations in IBRD/IDA** focused on the effectiveness of the Bank's processes (i) to provide project task teams timely feedback on quality throughout the project lifecycle, and (ii) to produce timely and reliable information on operational quality to report to senior management. The audit results indicated that the Bank has a system to provide project task teams with timely feedback on the quality of Investment Lending projects, especially during the preparation stage. However, it lacks (i) a clear definition of quality assurance, (ii) a clear process for involving the Networks in the management of quality, (iii) robust institutional guidelines for selecting peer reviewers for technical reviews, and (iv) consistent arrangements for checking the candor and realism of the task teams' assessment of project implementation by clients. IAD recommended that management clearly define quality assurance, as distinct from quality controls and develop a corporate methodology for capturing and aggregating information on operational quality.
6. IAD's objective in performing a follow-up review of the **Bank's Regional Integration (RI) Projects in the Africa Region** was to determine whether management has taken the necessary corrective actions to address control weaknesses identified in management's past reviews. The main areas analyzed included the strategic alignment of RI projects with Country Assistance Strategies (CASSs); accountability arrangements, fiduciary and safeguard risk management; and management information of RI projects. The audit results indicated that management recognized the distinctive operational challenges of RI projects and had developed an operations framework to meet the needs of RI projects.  
(contd.)

# 1. Summary of Key Engagement Outcomes (contd.)

More consistent and complete usage of institutional control tools is needed in the management of procurement risk for Bank-Funded projects.

There is a need for an enterprise-wide governance program to address the structured data needs across Bank VPUs.

The control improvements instituted included (i) better integration of RI projects into the CASs, (ii) definition of an accountability framework for managing these projects, (iii) better fiduciary arrangements, and (iv) closer monitoring of disbursements.

7. The audit of the **Management of Procurement Risk for Bank-Funded Projects** focused on (i) assessment of procurement risks and the development of related action plans at the project level, and (ii) reviews of the borrowers' procurement performance through "prior" and "post" procurement reviews and other supervision activities. The audit concluded that prior and post reviews of contracts for individual projects were carried out by properly accredited staff, according to project supervision plans, with close monitoring of delivery by the Regions. Issues identified in post reviews were also promptly followed up by project teams within a reasonable time frame. However, the implementation rate of the new institutional control tools, Procurement Risk Assessment and Management System (P-RAMS) and the Post Procurement Review System, has been low. Procurement-related information systems remained fragmented despite management's plans to integrate them for better risk monitoring and decision making. Management has agreed to achieve full compliance with P-RAMS and deploy an integrated procurement dashboard as a pilot to provide project task teams with full procurement information.
8. IAD's audit of **World Bank Data Management** covered key data management risks and controls of structured and unstructured data across the Bank. The audit noted that the Bank has focused substantial effort on instituting policies and practices to manage documents and records (unstructured data). In contrast, the Bank does not have an enterprise-wide governance program to address the structured data needs across VPUs. The Bank currently relies heavily on manual processes to gather and consolidate data from disparate systems to meet business reporting needs. IAD recommended the development of an enterprise-wide governance program to address structured data needs across VPUs. IAD also recommended the formulation of a robust quality management program to drive data consistency and reliability as well as to monitor data integration and reporting activities. Management has initiated a Business Intelligence initiative to facilitate the integration of commonly used data elements that are required across all VPUs.

# 1. Summary of Key Engagement Outcomes (contd.)

The implementation of the Federated Operating Model is a significant achievement of the IMT Strategy.

IFC follows a conservative risk management approach in its asset and liability management.

The IFC AMC's fund management operations are aligned with leading industry practices.

9. IAD's audit of the **Information Management and Technology Network (IMT) Strategy Implementation** concluded that IMT efforts and investments are aligned with the principles and objectives of the IMT Strategy, and recognized the implementation of the Federated Operating Model, as one of its most significant accomplishments. Previously decentralized IT organizations within the Vice Presidential Units (VPUs) have been consolidated into Line of Business Centers of Excellence to better realize opportunities of scale and efficiency. A new governance model has also been established to provide direct line-of business management accountability for IMT investment priorities. However, overarching milestones have not been developed to objectively measure progress and achievement of benefits of the operationalizing the Strategy.
10. IAD's audit of the **IFC's Asset and Liability Management Framework** covered the effectiveness, design and implementation of controls for asset and liability management in IFC. The audit results indicated that IFC follows a conservative risk management approach protecting the Corporation against interest rate and currency risk. In addition, the Corporation monitored aggregated risk on a daily basis, instituted operational triggers for residual risk tolerance, and defined clear roles and responsibilities for asset and liability management.
11. IAD's audit of **IFC's Treasury Valuation Process** covered the design and implementation of controls within IFC's treasury valuation process. While the audit noted no control gaps in the liquid assets portfolio, it recommended that key governance elements such as a valuation oversight committee, reporting processes and approved valuation directives be instituted in a formal manner.
12. IAD's audit of the **Fund Management Operations of IFC Asset Management Company (AMC)**, reviewed the AMC's key controls related to governance and risk management practices, conflicts of interest management, client relations and fund raising, the investment process and compliance with fund investment criteria, monitoring of outsourced services, and IT services and applications. The audit noted that controls are aligned with leading industry practices. The AMC has a sound governance and oversight structure, experienced staff and managers, and monitored investment criteria in accordance with established legal agreements.

# 1. Summary of Key Engagement Outcomes (contd.)

IFC's server virtualization approach is aligned with management's mission to provide flexible, robust, and secure IT capabilities.

IFC's profitability measurement framework is driven by a consistent measurement methodology.

There is a need for greater coordination between business and IT in IFC's governance of structured data.

13. IAD's audit of **IFC's Server Virtualization** reviewed the process of managing, securing and configuring virtualized servers. IFC's server virtualization approach is aligned with management's mission to provide flexible, robust, and secure IT capabilities. The audit identified findings in the areas of (i) trust zones within the virtual data center environment, (ii) sharing of the administrative account on the Hardware Management Console, (iii) hypervisor security hardening and monitoring, and (iv) the server provisioning process. Management has a network segmentation project in progress, and will add specific security hardening procedures to its policies and procedures repository, to address the issues identified.
14. IAD's audit of **IFC's Profitability Measurement** evaluated IFC's profitability measurement framework and assessed the adequacy and effectiveness of the measurement methodology adopted by management, and the process used for calculating and monitoring profitability. The audit concluded that the successful implementation of the framework was driven by (i) a consistent profitability measurement methodology, (ii) reliability of data feeds, (iii) monitoring of data inputs, and (iv) central coordination at the corporate level to provide consistent guidance and resources to Industry Departments. The audit also noted that the improvement of profitability measurement is an evolutionary process, and there will be a need for greater accountability and ownership of the profitability measures as the framework is developed.
15. IAD's audit of **IFC's Data Management** covered key data management risks and controls of structured and unstructured data across IFC. The audit noted that though IFC has made a significant effort to institute policies and practices to manage structured data, there is a need for greater coordination between the business and IT on data related initiatives. Management has agreed to create a Memorandum of Understanding (MoU) to document governance and data management coordination activities. For unstructured data, IFC follows the policies and procedures defined by the Bank, and has implemented a document management repository to centrally store and manage the data. IAD recommended the development of an enterprise-wide governance and monitoring program to manage unstructured data.

# 1. Summary of Key Engagement Outcomes (contd.)

MIGA has continued to enhance its risk management framework consistent with the dynamic nature of its portfolio.

IAD's advisory review of ICSID's case management process focused on the design of controls in managing cases for arbitration.

16. IAD's audit of **MIGA's Portfolio Risk Monitoring and Reinsurance Processes** reviewed the effectiveness and implementation of the controls within MIGA's portfolio risk monitoring and reinsurance process. The audit noted that MIGA continues to enhance its risk management framework consistent with the dynamic nature of its portfolio and evolving market environment. The key elements of the control framework include management oversight, effective risk measurement, regular reporting and monitoring, and adequate segregation of roles and responsibilities.
17. IAD's advisory review of **ICSID's Case Management Process** covered the design and management of the business process improvement project from a risk perspective, and the design of key controls in the new process of managing cases for arbitration. IAD recommended that management identify specific goals of its business process improvement project, implement measures to improve controls of its case management process, and also recommended closer coordination between the business process improvement project and the implementation of the case management system.

## 2. Budget Update

Total expenditures during FY12 Q4 were \$3.8 million for a twelve month total of \$11.7 million representing approximately 96% of the FY12 budget of \$12.2 million.

# Annex 1: List of Engagements in the FY12 Q4\* Activity Report

WBG Engagements				
No.	Entity	Engagement Title	Report No.	Date Issued
1	WBG	Audit of the Management of WBG Vendors	WBG-FY12-07	11-Jul-12
2	WBG	Audit of the WBG Pension Plan Administration	WBG FY12-08	26-Jun-12
3	WBG	Audit of WBG External Web and Social Media	WBG FY12-09	13-Jul-12

IBRD/IDA Engagements				
No.	Entity	Engagement Title	Report No.	Date Issued
1	IBRD/IDA	Audit of the Bank's Server Virtualization	IBRD FY12-08	08-Jun-12
2	IBRD/IDA	Audit of the Quality Assurance Process for Investment Lending Operations in IBRD/IDA	IBRD FY12-09	02-Jul-12
3	IBRD/IDA	Follow-up Review of the Bank's Regional Integration Projects in the Africa Region	IBRD FY12-10	12-Jul-12
4	IBRD/IDA	Audit of the Management of Procurement Risks for Bank-Funded Projects	IBRD FY12-11	16-Jul-12
5	IBRD/IDA	Audit of World Bank Data Management	IBRD FY12-12	13-Jul-12
6	IBRD/IDA	Audit of Information Management and Technology (IMT) Strategy Implementation	IBRD FY12-13	13-Jul-12

\*As per paragraph 16 (d) of the Bank's Access to Information Policy, July 1, 2010, audit reports prepared by IAD shall not be publicly disclosed, except its finalized Annual and Quarterly Activity Reports.

# Annex 1: List of Engagements in the FY12 Q4\* Activity Report

## IFC Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	IFC	Audit of IFC's Asset and Liability Management Framework	IFC FY12-05	23-Apr-12
2	IFC	Audit of IFC's Treasury Valuation Process	IFC FY12-06	30-Apr-12
3	IFC	Audit of the Fund Management Operations of IFC Asset Management Company, LLC	IFC FY12-07	11-Jun-12
4	IFC	Audit of IFC's Server Virtualization	IFC FY12-08	25-Jun-12
5	IFC	Audit of IFC's Profitability Measurement	IFC FY12-09	11-Jul-12
6	IFC	Audit of IFC Data Management	IFC FY12-10	13-Jul-12

## MIGA Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	MIGA	Audit of MIGA's Portfolio Risk Monitoring and Reinsurance Processes	MIGA FY12-02	11-Jul-12

## ICSID Engagements

No.	Entity	Engagement Title	Report No.	Date Issued
1	IBRD/IDA	Advisory Review of ICSID's Case Management Process	IBRD FY12-07	19-Apr-12

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