

## WORLD BANK GROUP

# Important Steps Taken on Internal Control but Additional Assessments Should Be Made

### Why GAO Did This Study

The Congress passed Public Law 106-429 because it was concerned about the sufficiency of external audits of the financial operations of the World Bank Group, a set of multilateral development banks. This law provides that GAO report on the sufficiency of such audits of each Bank Group entity. As agreed with your offices, GAO addressed (1) the extent that the external auditor was providing assurance on internal control over financial reporting, operations, and compliance with key provisions of bank charters and policies in conjunction with financial statement audits and (2) the role the Bank Group's audit committee plays in providing oversight of external financial statement audits and internal control.

### What GAO Recommends

To provide greater assurance that the Bank Group's funds are spent as intended, GAO is making recommendations for a comprehensive assessment of internal control over operations and compliance matters and annual evaluations of such controls.

The Bank Group and the U.S. Treasury Department agreed on the need for a comprehensive assessment of those controls. Treasury did not agree that annual evaluations should be done and the Bank Group, which has reforms on those controls underway, made no comment on timing. We continue to believe that such annual evaluations are necessary.

[www.gao.gov/cgi-bin/getrpt?GAO-03-366](http://www.gao.gov/cgi-bin/getrpt?GAO-03-366).

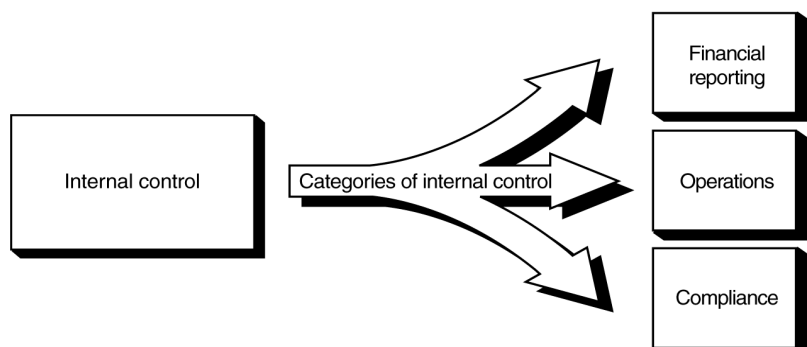
To view the full report, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel at (202) 512-9406 or [franzelj@gao.gov](mailto:franzelj@gao.gov).

### What GAO Found

The Bank Group has taken important steps in strengthening its assessment and reporting on internal control, including (1) implementing a structured internal control framework, (2) conducting the internal control assessments necessary to provide its external auditor with an assertion about the effectiveness of the Bank Group's internal control over external financial reporting, and (3) contracting with its external auditor to provide an opinion, in conjunction with the financial statement audit, on whether management's assertion on internal control over external financial reporting is fairly stated. However, Bank Group management does not include an assertion on internal control over operations and compliance matters, and it has not asked the external auditor to give an opinion on those internal controls. During our review, we were told that the Bank Group does not yet have plans to conduct a comprehensive assessment of those controls. The Bank Group's external financial statement audits do not, and are not intended to, provide specific assurance about the internal control over the Bank Group's operations and whether the funds are spent for their intended purposes. Given the inherent risks in the banks' activities, additional assurance on these other categories of internal control—operations and compliance—would provide an added level of assurance to the Bank Group and its member countries that funds were used for their intended purposes.

The Bank Group has established an audit committee that provides oversight of external financial statement audits and internal control. A major function of the committee is to nominate an external auditor and determine the scope of the auditor's work and the reports to be submitted by the auditor. The audit committee also has the external auditor give an opinion, in conjunction with the financial statement audit, on management's assertion on the Bank Group's internal control over external financial reporting. The audit committee has the authority to expand the external audits to include the auditor giving opinions on internal control over operations and compliance matters. Alternatively, the audit committee is also well-positioned to assign to an internal party or provide an external party the task of providing a thorough assessment of such controls.

#### Categories of Internal Control



Source: GAO analysis based on information from the Committee of Sponsoring Organizations of the Treadway Commission.