Thirty-sixth session
5 June - 30 June 1989, New York
Item 9(d) of the provisional agenda

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Addendum

Attached is the Long Form Audit Report of the External Auditors of the World Bank as an Executing Agency for certain UNDP projects.
REPORT ON THE NATURE AND SCOPE OF AUDIT AND OTHER SERVICES PROVIDED FOR THE YEAR ENDED DECEMBER 31, 1987

NATURE AND SCOPE OF AUDIT SERVICES PERFORMED

Report Considerations

We have completed our examination of the financial statements for certain United Nations Development Programme (UNDP) Projects for which the International Bank for Reconstruction and Development (the World Bank) acts as Executing Agency. As a result of our examination, we are satisfied that the financial statements present fairly the status of funds and expenditures of the organization for the year ended December 31, 1987. Accordingly, we have issued our audit report dated April 15, 1988 on these financial statements.

Our audit report on the 1987 UNDP financial statements is a special report in accordance with Statement on Auditing Standards No. 14 issued by the American Institute of Certified Public Accountants for financial statements prepared on a basis of accounting prescribed by a regulatory agency solely for filing with that agency. This type of report is appropriate as the United Nations requires the World Bank to utilize accounting practices which differ from generally accepted accounting principles in the United States.

No significant differences were noted in financial statement format and there were no significant changes in accounting procedures from the prior year. In accordance with the instructions received from the UNDP, the Bank has used the delivery method to account for all transactions except those related to equipment purchases which have been accounted for under the commitment method.
Prior to issuing our report, we conducted an examination in accordance with generally accepted auditing standards. These standards require that we: (a) perform a study and evaluation of the existing internal controls to determine the extent to which we can rely on the controls to provide assurance as to the validity of the recorded transactions or balances, and (b) obtain sufficient competent evidential matter through inspection of the accounting records and underlying documentation, observation, inquiries, analytical reviews and confirmations to afford a reasonable basis for an opinion regarding the financial statements.

The World Bank utilizes many of its own personnel and accounting procedures (including automated systems) to process the accounting information for UNDP projects for which the World Bank acts as Executing Agency. Examples are the general ledger system and the bank reconciliation personnel and procedures. In light of this and the fact that these procedures and the related controls have been satisfactorily tested during our audit of the World Bank, our scope of testing is appropriately adjusted in order to minimize fees and duplication of efforts.

Review of the System of Internal Controls

As part of our examination, we make a study and evaluation of the system of internal controls to the extent we consider necessary to evaluate the adequacy of our planned audit procedures. The purpose of our study and evaluation is to determine the nature, timing and extent of other auditing procedures that we consider necessary to express an opinion on the financial statements. Since our study and evaluation is for this limited purpose, it would not necessarily address all of the financial controls or disclose all of the material weaknesses in the systems.

As a result of this study, however, we did note certain areas where improvements in internal control and operating procedures could be
made by the World Bank. We have provided a report to World Bank management summarizing our recommendations. Our report in 1987 did not include any recommendations which we believe would allow for material errors to go undetected and appear in the financial statements. One area which we would like to emphasize is our continued recommendation that World Bank management consider certain organizational and resource allocation changes to deal with the increasing workload of those personnel responsible for UNDP accounting.

A strong factor in the system of internal accounting control is the World Bank's Internal Auditing Department (IAD). Through our review of the IAD work program, audit reports and workpaper files, and other meetings and discussions with IAD personnel, we have developed a basis for reliance on the work of IAD. We continue to coordinate our work with IAD to the extent possible in order to avoid any unnecessary duplication. During the fiscal year 1987 examination, we reviewed an additional IAD audit report relating to IAD audits of UNDP related activities. Our review of IAD activity and recommendations is discussed later in this report.

Audit Approach by Audit Area

Cash

As of December 31, 1987, there were approximately 80 cash accounts that the World Bank maintained for administering UNDP projects located around the world. Our audit efforts in this area centered around confirmation and reconciliation of these accounts. Accounts were confirmed on both a stratified (14 largest accounts) and a rotational basis so that 30 of the bank accounts and between 70-90% of the total dollar balance was circularized. Year-end testing of the bank reconciliations for all accounts selected was also performed as well as limited testing of the translation of foreign currencies into U.S. dollars.
For cash drawings, we performed detail testing including the recalculation of gain or loss on exchange on remittances selected on a systematic basis. Items listed as cash-in-transit were tested by reviewing subsequent receipts.

Our testing in 1987 did not reveal any unusual cash transactions; however, we noted that cash reconciliations were not performed on a monthly basis during the year due to inadequate staff resources. We have recommended to World Bank management that procedures be established in order to ensure that such reconciliations are performed on a timely basis.

Accounts Receivable and Other Assets

Receivables and other assets have not, historically, been large in amount and controls in this area have been noted as strong in prior years.

We reviewed undrawn imprest accounts as of December 31, 1987 on a test basis and agreed them to their corresponding payment schedule in project correspondence. On an aggregate basis, receivables from the World Bank were matched to respective payables on the World Bank's books at December 31, 1987. Although not material to the financial statements taken as a whole, we continue to note certain differences in these amounts and have recommended to World Bank management that they establish procedures to reconcile such differences on a timely basis.

Other assets were reviewed for reasonableness, components identified and explained and project advances analyzed for aging with amounts outstanding over one year investigated and satisfactorily resolved.
Accounts Payable and Unliquidated Obligations

We reviewed accounts payable as of December 31, 1987 and, on a test basis, examined supporting documentation for items included. Additionally, we examined and tested the list of residual commitments payable by project. The components of payables were determined and the nature of each component explained. The unliquidated obligations were reviewed on a test basis for reasonableness and compared to anticipated payment schedules included in the project documents. We also performed a search for unrecorded liabilities, and found none.

In compliance with UNDP instructions, the bank has accounted for accounts payable and unliquidated obligations in accordance with the delivery method except for equipment purchases which have been accounted for under the commitment method. Although our 1987 audit work indicated that the Bank generally follows this method, we noted certain isolated exceptions where accruals were not fully supported by adequate documentation. These exceptions were brought to the attention of management and only those accruals which were fully supported are reflected in the financial statements as of December 31, 1987.

Allocations

Allocations are material to the financial statements. The UNDP makes contributions, or authorizes them to be made, toward the cost of projects. Allocations are recorded in the accounts on the basis of written notification from the UNDP. For all new projects with current year allocations in excess of $500,000, we reviewed the correspondence from the UNDP authorizing the allocation and the signed project document. We also reviewed, on a test basis, the
correspondence authorizing amendments during 1987 to projects begun prior to 1987. We compared disbursements to date with approved allocations for each project and noted no overruns.

Government counterpart contributions were summarized and tested as considered necessary. These contributions are made directly through the UNDP. Direct deposits were tested in our cash testing and contributions made through UNDP were tested along with the other allocations.

Disbursements

We expend a significant amount of audit effort in this area due to the complexity of the disbursement system. Disbursements are also material to the financial statements. We performed extensive testing to establish whether internal controls could be relied on for audit testing. These tests included a voucher examination where disbursements were selected randomly for testing and evaluated using statistical sampling techniques. Our testing of selected disbursements included examination for proper support, appropriate approval, and correct distribution by project and general ledger account. Our work did not provide any evidence that UNDP funds were expended for unapproved projects or for amounts in excess of allocations.

We also reviewed the IBRD's computation of agency overhead cost (which is generally based on 11% of actual disbursements) noting that only the appropriate disbursements were charged with overhead.

We also reviewed and satisfactorily tested the Summarization of Expenditures by country. This schedule appears in the financial statements and is covered by our opinion.
General

We obtained a representation letter from World Bank management and performed a subsequent events review through our opinion date. We also reviewed correspondences between the World Bank and UNDP that had financial statement significance. We also performed a variance analysis on each line item of the financial statements.

OTHER SERVICES PROVIDED

Review of Selected Projects

In addition to work performed in connection with the UNDP audit, we reviewed a selection of 6 UNDP projects administered by the World Bank in order to determine whether:

1) The World Bank's procurement procedures were properly adhered to;

2) Project progress reports were submitted to UNDP on a timely basis;

3) The World Bank's follow-up procedures in connection with problems noted in the progress reports were adequate; and

4) Project expenditures were within budgeted amounts.

The projects selected for review were chosen from Africa, one of the World Bank's six regions. Our selection was designed to ensure that different projects are evaluated from year to year. Our review included detailed discussions with the World Bank's project staff located in Washington, D.C. responsible for the UNDP projects. We also reviewed the project files including project documents and related correspondences.

/...
The projects selected for review are RAF/87/030, Regional Africa, Sub-Saharan Africa Hydrological Assessment; RAF/85/022, Regional Africa, African Project Development Facility; GAM/86/003, The Gambia, Technical Assistance for Second Highway Maintenance Project; MLW/86/010, Malawi, Energy Sector Planning and Management, NIR/85/002, Nigeria, Organization and Management Study of the Lagos State Water Corporation; and UGA/79/011, Uganda, Planning Assistance to the Ministry of Planning and Economic Development. The results of our review are summarized in the following sections.

Modification Of Planned Approach

In last year's report and in subsequent correspondence with UNDP, we indicated that this year we anticipated performing several on-site reviews of UNDP financed projects as administered by the World Bank. We had agreed to perform such site visits to evaluate managerial and operational efficiency, resulting effects on delivery, corrective actions, and additionally to provide comments of an overall nature concerning the management of UNDP projects. Accordingly, our selection of projects for review was made in anticipation of ultimately visiting the same Africa projects on-site.

Subsequently, due to the increasing coverage of UNDP activities by the Bank's Internal Auditing Department, we agreed to postpone any visits by us to project locations as selected above. Instead, we read the reports issued by the Internal Auditing Department.

Review of Procurement Procedures

All of the 6 projects reviewed included procurement of either consultants, experts/fellowships and/or equipment. In all of the projects reviewed the procurement procedures noted were in accordance with the World Bank's guidelines.
In the projects involving the procurement of consultants, these guidelines include the establishment of a selection committee, the preparation of a list of qualified consultants, the review of all proposals submitted, and the negotiation of a final contract. In projects involving the procurement of experts/fellowships, the guidelines include the selection and approval of the expert/fellowship by the country and the World Bank. In projects involving the procurement of equipment, the guidelines include the use of competitive bidding or the use of the World Bank's procurement department.

**Review of Progress Reports**

In 2 of the 6 projects reviewed it was noted that the progress reports had been submitted to UNDP on a timely basis. One project had not prepared a progress report because one had not been requested due to the short duration of the project. One project had not submitted a progress report since inception. The remaining projects were reported on a short-form schedule, developed by the Bank, rather than the standard UNDP form.

**Review of Problem Follow-up**

In the projects where problems were noted in the progress reports (4 of the 6 projects), the follow-up procedures performed by the World Bank appeared to be adequate. The World Bank had taken steps to address the problem noted in the progress report. The problem identified did not threaten the continuation of the project.

**Review of Budgets**

In all cases, actual expenditures fell within budgeted expenditures, or budgets were accordingly revised by the World Bank. All revised budgets were properly approved by UNDP and government officials.

/...
Project Findings

RAF/87/030 - Sub-Saharan Africa Hydrological Assessment

- Consultants retained through UNDP guidelines;
- Steering Committee met November 1987;
- Project is under budget;
- Ethiopia and Somalia have withdrawn from project;
- Outside agencies' original objections to implementation and scope of project have been resolved;
- Phase I is facing a cost overrun on consulting costs due to devaluation of U.S. Dollar in relation to Pound Sterling; and
- Project is progressing satisfactorily despite interference from outside organizations and withdrawal of recipient governments.

RAF/85/022 - African Project Development Facility

- Consultants retained and equipment procured within UNDP guidelines;
- Initial progress report submitted on time using UNDP format;
- Subsequent filing made on year later using World Bank Progress sheet;
- Project is under budget;
- Advisory Board and Sponsoring Agency Committee have held regular meetings;
- After a delayed start, the project has progressed satisfactorily.
GAM/86/003 - Technical Assistance for Second Highway Maintenance Project

- Consultants retained without obtaining short-list of firms due to their previous work on the first Highway Maintenance Project;
- Equipment procured within UNDP guidelines;
- Progress report submitted November 1987 on World Bank Progress Sheet;
- Project is under budget;
- Reforms approved by The Gambia's Cabinet have not been implemented;
- Shortages exist in key staff positions in Implementing Agency; and
- Ad-hoc Committee has recommended that the consultancy, other than the transport planning technical assistance, should not be continued beyond the original schedule.

MLW/86/003 - Energy Sector Planning

- One consultant, without obtaining short-list of firms, was retained based on their performance in similar project in Malawi and due to cost effectiveness based on the small size of the contract;
- Equipment procured within UNDP guidelines;
- No progress reports submitted to date;
- Project is under budget;
- Fellowships were granted in accordance with UNDP guidelines; and
- After a delayed start, the project has progressed satisfactorily.
NIR/85/002 - Organization and Management Study of the Lagos State Water Corporation (LSWC)

- Consultants retained through LSWC with immediate supervision by World Bank staff in order to prepare LSWC to retain consultants as part of the project;
- Project is under budget; however, an outstanding liability for consulting services will put the contract in an overrun position due to the devaluation of the U.S. Dollars in relation to the French Franc;
- Terminal report awaiting final payment to consultants; and
- Project has progressed satisfactorily.

UGA/79/011 - Assistance in Economic Planning

- Consultants retained without invitation to bid due to the lack of consulting firms which will work in Uganda;
- Equipment procured within UNDP guidelines;
- UNDP progress reports have been submitted on a timely basis;
- Project is under budget;
- Project has progressed satisfactorily; and
- This project will be continued under a new project document.

Review of Internal Audit Work

The World Bank's Internal Auditing Department (IAD) performed one review in the current year that related to UNDP projects. This review focused on the contract charges of certain consulting firms working on UNDP projects. We examined the final report which has been summarized in an attachment to this report.
FUTURE CONSIDERATIONS

As requested by the UNDP in prior years, our examination of the December 1988 UNDP Trust Fund will include an evaluation of project operations. This evaluation will be conducted on the basis of a coordinated effort involving the Bank's Internal Auditing Department (IAD). This coordination is aimed to avoid any inefficiencies as a result of duplicated efforts in those areas that are already covered by the IAD review process. We believe that our involvement in this work will greatly enhance the usefulness of the long form report.
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
AS EXECUTING AGENCY FOR CERTAIN  
UNITED NATIONS DEVELOPMENT PROGRAM PROJECTS  

SUMMARY OF INTERNAL AUDITING DEPARTMENT (IAD) RECOMMENDATIONS

IAD Audit Report Title: Report on an Audit of the Charges of Improved Petroleum Recovery International Limited for Consultancy Services under Second Gas Development Project in Bangladesh.

Dated: July 31, 1987

IAD Recommendations:

- Require consultants to provide documentary evidence of base salaries agreed upon during negotiations. Base salaries are relied upon in determination of overhead, social charges, allowances and fee. Consultants' first payment should be contingent upon receipt of this documentation.

- Require consultants to provide duly certified overhead and social charges during negotiations which cross-reference to supporting documentation.

- Notify consultants of distinction between man/month billing rates for consultants' staff and subcontractors.

- Enforce Bank guidelines regarding reimbursement of payments to consultants' subcontractors, i.e., subcontractors should be reimbursed for actual costs with no provision for reimbursement of overhead or social costs.
Responsibility for approval of changes in contract personnel should rest with Technical Assistant Unit (TAU) of that Region.

Require evidence of prospective replacements' salaries/level, and any new man/month billing rate should not exceed the contracted rate.

Country or Technical Department, Regional TAU, and LOATF should monitor progress to ensure adequate controls over effective use of project funds.

Evaluate LOATF staff resources to provide adequate coverage of the processing of consultants' invoices.

Review with consultants the assignment of consultants' permanent staff and short-term consultants to determine appropriate "mix" (i.e., the consultant should have adequate resources available in permanent staff; however, short-term consultants can be used as specialists).

Require consultants to provide Certificate of Incorporation during contract negotiations in order to facilitate cost-effective recovery during a dispute.