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**Folder ID:** 1737829

**Series:** Files of the Directors-General, Operations Evaluation, Documenting the Early History of OED

**Dates:** 01/01/1969 - 12/31/1974

**Fonds:** Records of the Office of Operations Evaluation

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Washington, D.C.

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The World Bank  
1818 H Street NW  
Washington DC 20433  
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Reports 01



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R2001-297 Other #: 19 187157B

Operations Evaluation History - Reports 01

390-4-S

JOINT AUDIT CTEE  
REPORT TO EDJ



# Record Removal Notice



<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b>  1737829		
<b>Document Date</b> 17 October, 1974	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> R74-203 Joint Audit Committee Annual Report to Executive Directors				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Sherrine M. Thompson</td> <td><b>Date</b> 21-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12			

DOCUMENT OF  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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FOR  
EXECUTIVE  
DIRECTORS'  
MEETING

For consideration on  
October 15, 1974

22

R74-197

September 27, 1974

FROM: The Secretary

OPERATIONS EVALUATION

Attached is a copy of a memorandum entitled "Operations Evaluation Work in the Bank Group", dated September 27, 1974 from the President.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Director, Operations Evaluation Department



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U. S. A.

OFFICE OF THE PRESIDENT

September 27, 1974

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Operations Evaluation Work in the Bank Group

Over the past months we have had some discussions with the Executive Director for the United States, relating to legislation enacted by the U.S. Congress in December 1973, about our operations evaluation work and its place in the Bank Group.

The Executive Directors will recall that this activity, to which I have attributed very high priority ever since launching it in September 1970, has undergone a rapid evolution - in formerly uncharted areas of work - to the point that we now have emerging a tested instrument for objective reporting on the results of the Bank Group's activities, especially their impact on development, and for critical analysis of their efficiency and effectiveness to see where improvements can be made. In essence we have expanded the Bank Group's traditional 'project cycle' by addition of three significant steps - preparation of a project performance audit report for each and every project assisted by the Bank and IDA within about a year of completion of loan/credit disbursements, deeper evaluation and review on a more selective basis of particular policies and activities of the Bank Group, and systematic follow-up of Bank Group action in response to recommendations and suggestions emerging from such audit, evaluation and review work. We are attaching top priority at present to completing the establishment of systems for producing thorough project performance audits on all completed projects, so that, with this solid and comprehensive basis, a greater share of effort can again be devoted, starting next fiscal year, to evaluation and review studies.

The unit responsible for this work has always had a high degree of independence from management, and as it has grown in stature and experience its independence has been increasingly formalized, most recently by making it a separate Department in July 1973 under a Vice President without other direct operating responsibilities and by giving it a formal link with the Joint Audit Committee of the Executive Directors in November 1973.<sup>1/</sup> The Committee reviews its annual work program and budget, its procedures and standards, samples of its reports and the progress of its work, and reports to the Executive Directors on the results of its review. Several components

---

<sup>1/</sup> Report of the Joint Audit Committee for 1973, October 25, 1973, Document R73-243/1; and Terms of Reference of Joint Audit Committee, November 21, 1973, Document SecM73-704.

and emphases in the current work program result directly from the Committee's suggestions. Standards applied in audit and evaluation work, which are basically those generally accepted worldwide for this type of work, have been given special attention by the Committee and their actual use examined in review of sample reports, as discussed in the Committee's forthcoming annual report for 1974.

I think that the time has now come for the growing link between the Executive Directors and the Operations Evaluation unit to be recognized formally by drawing lines on our Organization Chart directly linking the unit, and the Vice President in charge of it, to the Executive Directors as well as to the President. I also propose that, following the retirement in 1975 of the Vice President presently responsible, and in any case not later than December 31, 1975, a title of Director-General, more indicative of independence from the normal operations of the Bank, should be instituted for the manager of this function. Appointees to this post, which would have rank equivalent to that of a Vice President, would be selected by the Executive Directors from one or more names put forward by the President of the Bank, after informal consultations with the Executive Directors, from among persons then working inside or outside the Bank Group, but normally drawn from the senior staff of the Bank Group so as to ensure familiarity with the problems of development and the operations of the Group. Appointees would hold office for renewable terms of five years, be removable only by the Executive Directors and be ineligible for subsequent appointment or reappointment to the Bank Group staff except in unusual circumstances.

The basic work program of the unit would be reviewed and approved periodically by the Executive Directors and all the reports of the Operations Evaluation unit would be sent simultaneously to the Executive Directors and to the President, without any interference by the latter with their content. However, I do believe that the head of the Bank Group should continue to play a role in ensuring the excellence of the staff and shaping the work program, in the light of other on-going work and plans of the institution. It is for this reason that I would make the unit responsible ~~both~~ <sup>with direct managerial control to</sup> to the Executive Directors, ~~and to the President of the Bank Group.~~ Appointment, termination, promotion and compensation decisions for the staff of the unit, to be drawn from inside or outside the Bank Group, should be at the discretion of the Director-General within the normal policies and procedures governing all Bank Group personnel, and the staff of the unit would be considered as regular employees of the Bank Group.

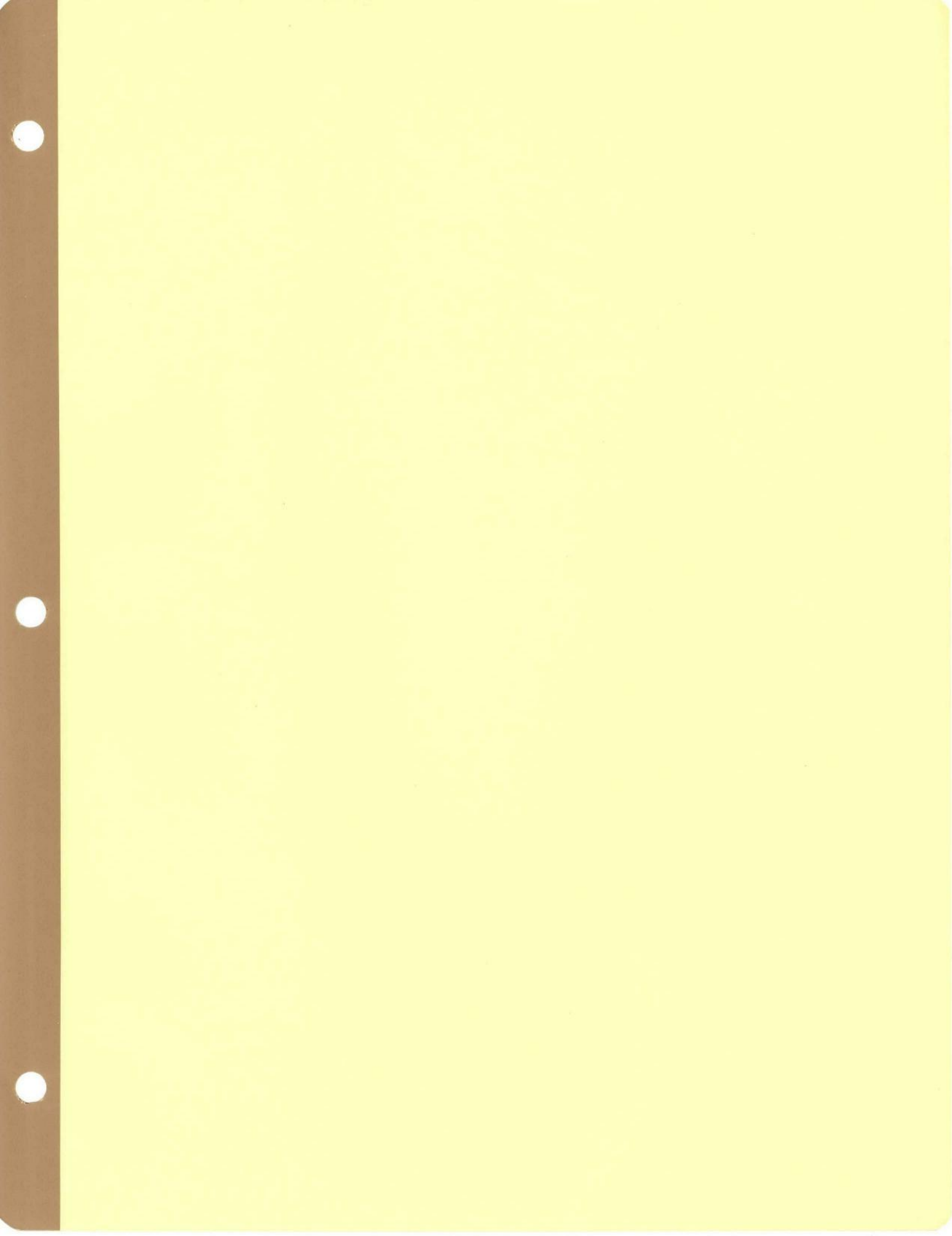
At present the Internal Auditing Department also reports to the Vice President responsible for Operations Evaluation. This Department, which has also grown significantly since 1970, is carrying out independent, systematic and objective audits and appraisals of the Bank Group's financial, administrative, accounting and other activities, with particular emphasis

on internal controls and related systems and procedures. I believe that the essentially management-oriented functions of this department make it desirable, as a matter of principle in connection with the proposed changes, to separate it by December 31, 1975 from the rather special operations evaluation responsibilities by leaving it under the supervision of one of the Vice Presidents. While the existing relationship between the Joint Audit Committee and the Internal Auditing Department would in any case be maintained, it will then be a question for consideration by the Executive Directors whether a separate standing Committee should be established as liaison between them and the Director-General's unit.

Adoption of the specific changes outlined above will, I believe, help to assure us a fully effective independent review and evaluation system, an objective to which I attach the greatest importance.

*Robert S. M. Naman*





## OFFICE MEMORANDUM

*History*

Mr. Robert S. McNamara

DATE: October 30, 1973

Mohamed Shoaib

*Shoaib*Provision from Budget Contingency for Bank Efficiency Studies

Further to our recent conversation, I have now developed a small plan for starting to fill the major gap that exists in our internal audit/evaluation coverage of the Bank, namely in the area of efficiency and economy of Bank operations - by contrast with their broader economic effectiveness, covered by the Operations Evaluation Department, and their adherence to acceptable accounting and financial standards, which has hitherto been the focus of the Internal Audit Department. We have discussed this gap before, and you will recall, for instance, that it was referred to in the GAO report on the Bank earlier this year; most recently, the 1973 report of the Joint Audit Committee (Board Document R73-243, dated October 24, 1973) suggests that this area should get more attention by our audit and evaluation group (para. 20).

Running the Bank as efficiently and economically as possible is clearly the responsibility of management. But I believe Management, Board and Member Countries will agree that it is the responsibility of the audit/evaluation group to carry out test checks as to whether policies and procedures are producing the results desired - in these areas of efficiency and economy, as in the areas of impact and of financial controls already covered by my departments.

Rather than plunge into a wide range of questions and issues that arise under this head, I propose to make a cautious start by focussing initial effort on two (related) subjects which seem to be both of particular interest to some Executive Directors and of considerable current importance to the Bank:

i. Delays in Loan/Credit Effectiveness: What are the causes of the rising trend of delays in loan effectiveness, should it be reversed and, if so, how?

ii. Delays in Project Processing: Why do some projects take many years to move from initial conception to actual loan disbursement, how much do these delays contribute to improve the projects, and are there measures that the Bank could and should take to reduce them?

Existing budgets of my departments are fully committed to approved work programs which are under execution, but I believe that we could still make a significant effort on the above two topics with a small supplementary budget provision. This would constitute a pilot phase for a possible new

President has seen

NOV 8 1973

evaluation unit, concentrating in the efficiency and economy area, and the experience gained would teach us lessons about how to go about this work, how long it takes, how much of it to attempt and, eventually, whether or not it is desirable to have a separate unit for the purpose.

On the basis of the draft study designs and budgets outlined in Annexes I and II, and with a small allowance for work in one or two other efficiency areas (such as on international competitive bidding for major projects), I estimate that the proposed start could be accommodated in the Bank's FY 1974 budget with a provision from contingency as follows:-

<u>Staff:</u>	1/2-year B level professional	\$11,000	
	1/2-year C level professional	9,500	
	1/2-year F level R.A.	5,000	
	1/2-year Secretary	<u>3,600</u>	
		\$29,100	
	30% for taxes, retirement, etc.	8,700	
<u>Travel Budget:</u>		\$20,000	
<u>Consultants:</u>		<u>\$15,000</u>	
	Total	\$72,800	say \$75,000

This assumes recruitment and commencement of full-scale work on January 1, 1974. Full-year costs of the operation would be about \$150,000. Initial products would be a draft report on Delays in Loan Effectiveness, about June 30, 1974, and a draft report on Delays in Project Processing, about October 31, 1974.

Because of the importance, novelty and difficulty of this work I would plan to direct it personally in the initial stages, but I would use Mr. Willoughby as a channel and, for administrative purposes, I would locate the new staff in Mr. Willoughby's department for the present.

May I please have your approval for the proposed plan and for the requisite provision out of the Bank's overall budget contingency for FY 1974? It is within the limits you accepted orally before we went to Nairobi.

Attachments

cc: Mr. John Adler

11/1  
Approved  
[Signature]

To Mr Willoughby  
Nairobi  
10/31

## OFFICE MEMORANDUM

TO: Mr. Shoaib

DATE: October 24, 1975

FROM: P. N. Damry

→ OED His Copy

SUBJECT: Evolution of Operations Evaluation

1. For ready reference please see the top page below, the chronology of principal developments. Supporting excerpts from Board discussions follow, as well as

- a) The circular setting up the OE unit,
- b) Willoughby's statement at Board Meeting February 1971 on the first phase of his work,
- c) President's memorandum July 1972 on the work program,
- d) President's memorandum April 1973 on the introduction of PPA,
- e) President's memorandum September 1974 on establishment of DG's position and links with Executive Directors and President, and
- f) Mr. Sethness' memorandum of October 9 on the independence of OED (you will recollect that a change was made at the Board Meeting of October 1974 regarding the responsibilities of the OE Department to the Board with an administrative link with the President).

2. Mr. McNamara mentioned a law of Congress. The appended statement of the Comptroller General of the U.S. refers to it. The 1961 foreign assistance act was amended by Public Law 93-189 in December 1973 to provide that in the case of the IBRD and ADB the President of the U.S. should, acting through the U.S. Executive Director, "propose and actively seek the establishment by the governing authorities" of the two Banks, groups of professionals for providing an independent and continuous program "of selective examination, review and evaluation of the programs and activities of such organizations". The same amendment also provided that the terms of reference should be prescribed by the governing authorities and the reports of such groups should be submitted directly to such governing authorities for transmittal to the member countries. The same law also provided that the U.S. Executive Director should have the groups' report transmitted to the U.S. Government for onward transmittal to Congress and the Comptroller General, who would eventually report simultaneously to the Congress and the President. Any suggestion he might deem appropriate concerning auditing and reporting standards followed by such groups and its recommendation, and the action taken thereon.

## EVOLUTION OF OPERATIONS EVALUATION DEPARTMENT

### A. Chronology of Principal Developments

#### (a) Antecedent Operations

##### Before 1969

- (i) Bank auditing (i.e. financial controls) comprised a three-man internal auditing unit and work carried out by external auditors.
- (ii) End-use supervision (which was continuously strengthened) provided information on project execution through disbursement stages.

##### 1969

Internal audit became independent office reporting to Vice President, Finance (it became a full department in 1973): work gradually expanded and staff increased to broaden scope of audit, including adequacy of accounting, financial and other management controls.

##### 1970

JAC established to discuss, inter alia, scope and results of Internal Audit and its relations to External Auditors. JAC was intended to "strengthen the assurance of the integrity of the financial statements as a realistic reflection of the Bank Group's operations" (Mr. McNamara: Executive Directors' meeting, November 5, 1974).

Committee discussed with Internal and External Auditors both financial and operational audits (1970/71 Annual Report).

#### (b) Operations Evaluation

##### 1970

Operations Evaluation Division of Programming and Budgeting established.

Initial surveys of Bank/IDA assistance to Colombia and power lending, plus four audits of individual highway and electric power loans and two of highway and DFC loans.

JAC began discussion of Division's work (1971/72 Annual Report).

1973

Operations Evaluation Department established and, with Internal Audit, supervised by Mr. Shoaib, Vice President independent of operations; placed under review of the Joint Audit Committee.

Projects Performance Audits begun on all projects one year after completion of disbursements.

In-depth studies of selected portions of operations begun - e.g. DFCs study.

1974

Announced that Management Policy Reviews would commence.

October 9 - Sethness Memorandum to Executive Directors on independence of OED, referring to US Public Law 93-189 and recommending that relationship of OED with Executive Directors "should not be divided".

Decided that OED will report directly to Executive Directors (and through them to Governors) with administrative link to President. (Executive Directors' meeting, Executive Session, October 22, 1974).

1975

Appointment of Director-General to oversee work of OED.

B. Statements on Operations Evaluation in the Board

The following statements have been made at Board meetings concerning the evolution of operations evaluation in the Bank Group.



# Record Removal Notice



<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b>  1737829		
<b>Document Date</b> 05 November, 1974	<b>Document Type</b> Verbatim transcript			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> IBRD/IDA Director's Meeting Remarks on Origins of Operations Evaluation During Discussion of Loan to PDGP (Philippines)				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Sherrine M. Thompson</td><td><b>Date</b> 21-Aug-12</td></tr></table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12
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FOR  
EXECUTIVE  
DIRECTORS'  
MEETING

For consideration on  
October 18, 1974  
22

FROM: The Secretary

R74-197

September 27, 1974

OPERATIONS EVALUATION

Attached is a copy of a memorandum entitled "Operations Evaluation Work in the Bank Group", dated September 27, 1974 from the President.

Distribution:

- Executive Directors and Alternates
- President
- Senior Vice President, Operations
- Executive Vice President and Vice President, IFC
- President's Council
- Director, Operations Evaluation Department





INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

September 27, 1974

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Operations Evaluation Work in the Bank Group

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I think that the time has now come for the growing link between the Executive Directors and the Operations Evaluation unit to be recognized formally by drawing lines on our Organization Chart directly linking the unit, and the Vice President in charge of it, to the Executive Directors as well as to the President. I also propose that, following the retirement in 1975 of the Vice President presently responsible, and in any case not later than December 31, 1975, a title of Director-General, more indicative of independence from the normal operations of the Bank, should be instituted for the manager of this function. Appointees to this post, which would have rank equivalent to that of a Vice President, would be selected by the Executive Directors from one or more names put forward by the President of the Bank, after informal consultations with the Executive Directors, from among persons then working inside or outside the Bank Group, but normally drawn from the senior staff of the Bank Group so as to ensure familiarity with the problems of development and the operations of the Group. Appointees would hold office for renewable terms of five years, be removable only by the Executive Directors and be ineligible for subsequent appointment or reappointment to the Bank Group staff except in unusual circumstances.

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on internal controls and related systems and procedures. I believe that the essentially management-oriented functions of this department make it desirable, as a matter of principle in connection with the proposed changes, to separate it by December 31, 1975 from the rather special operations evaluation responsibilities by leaving it under the supervision of one of the Vice Presidents. [While the existing relationship between the Joint Audit Committee and the Internal Auditing Department would in any case be maintained, it will then be a question for consideration by the Executive Directors whether a separate standing Committee should be established as liaison between them and the Director-General's unit.]

Adoption of the specific changes outlined above will, I believe, help to assure us a fully effective independent review and evaluation system, an objective to which I attach the greatest importance.

*Robert S. McNamee*

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SecM74--698

FROM: The Secretary

October 9, 1974

OPERATIONS EVALUATION


At the request of Mr. Sethness in his memorandum of October 4 (copy attached) the President has agreed to distribute the memorandum together with its enclosures for information.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Directors, Operations Evaluation Department

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Charles O. Sethness 

SUBJECT: Your Proposals for Operations Evaluation Work  
in the Bank Group

DATE: October 4, 1974

I would appreciate it if you would arrange early distribution of copies of this memorandum to the other Executive Directors and Alternates in advance of the Board Meeting at which your timely and welcome paper on this subject will be discussed.

1. Issue of Independence

My authorities and I appreciate the excellent work done to date by the Operations Evaluation unit, and are very pleased to note the direction indicated in your proposals to formalize the unit's position. We feel it important, however, to urge some revision of your proposals. I believe that we share with you in principle the goal of creating a performance audit and appraisal mechanism that both is, and is recognized to be, effectively independent.

The primary point which we feel should be changed is that by the end of 1975, the responsibility relationship of the unit should be to the Board of Executive Directors rather than divided. With this change, your very commendable proposals would adequately reflect the necessary independence from operating management. (This would not interfere with the proposal in your memorandum to continue the present practice of sending the unit's reports simultaneously to the Executive Directors and the President.) In addition, the staffing and shaping of the work program should be the responsibility of the Director-General, subject to the review and approval of the Board, on which, as Chairman, you have a very significant role. There is no question that in this process your views would be given full weight.

The reasoning behind this amendment to your proposal is, I think, fairly clear and persuasive. It would be very difficult to argue that effective, much less "optical", independence of management (an essential prerequisite for independent evaluation) is adequately represented by a unit which is responsible to the President of the Bank (as well as the Board), whose work program is in part shaped by the President, who also is playing a role in staffing the unit -- and whose head is, in any event, a man proposed by the President, normally from among senior Bank Group staff.

October 4, 1974

2. Auditing and Reporting Standards

We are very interested in and appreciative of the work and special attention already given by the Joint Audit Committee on the terms of reference and auditing and reporting standards of the Operations Evaluation unit. I understand that thought and work has been directed to further codification and formalization of both of these items. To assist in the Committee's work, I am attaching a statement of auditing and reporting standards prepared by the Comptroller General of the United States, who has long experience in my country in these matters. We propose the incorporation or full reflection of the attached standards in the materials prepared, so that they may become an integral part of the guidance for the independent Operations Evaluation unit.

Attachment



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-161470  
B-175281

JUN 24 1974

The Honorable  
The Secretary of the Treasury

Dear Mr. Secretary:

Pursuant to the provisions of Public Law 93-189, approved December 17, 1973, we have prepared the enclosed statement of auditing and reporting standards for use by the U.S. Executive Director of the World Bank Group in proposing the establishment of an independent review and evaluation system for the Bank Group and for consideration by the Boards of Directors in formulating the terms of reference for an independent review system.

We are also enclosing a copy of GAO's Standards for Audit of Governmental Organizations, Programs, Activities & Functions, which describes the scope and standards for evaluation reviews which our office considers appropriate for all U.S. Government programs. This booklet contains additional details on the standards included in our statement and should assist the U.S. Executive Director in pursuing the establishment of an independent review system in the Bank Group.

Subsequent to the establishment of the independent review organization, our office will be making periodic reviews of the reports issued by the organization in accordance with the above cited legislation. During these reviews, we plan to consider the adequacy of the auditing and reporting standards being followed and to make appropriate recommendations for any revisions considered necessary.

B-161470  
B-175281

We appreciate the excellent cooperation and assistance of your staff during discussions on this matter prior to preparation of the enclosed statement of auditing and reporting standards.

Sincerely yours,

Comptroller General  
of the United States

Enclosures - 2



STATEMENT BY THE  
COMPTROLLER GENERAL OF THE UNITED STATES  
OF AUDITING AND REPORTING STANDARDS  
FOR USE BY THE U.S. EXECUTIVE DIRECTOR OF  
THE WORLD BANK GROUP  
IN PROPOSING THE ESTABLISHMENT OF AN INDEPENDENT  
REVIEW AND EVALUATION SYSTEM FOR THE BANK GROUP

Public Law 93-189 (see p. 10) required that the President, acting through the U.S. representative to the International Bank for Reconstruction and Development, propose and actively seek the establishment of an independent review and evaluation system for the Bank by its governing body. The law also required that a statement of auditing and reporting standards be prepared by the Comptroller General of the United States and presented for the consideration of the governing body to assist in formulating terms of reference for this independent review system.

This statement sets forth the auditing and reporting standards prepared by the Comptroller General for use by the U.S. representative to the World Bank Group in proposing the establishment of an independent review and evaluation system. For purposes of this statement, the World Bank Group includes the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation.

In considering these standards, the term "audit" may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (1) compliance with the articles of agreement and applicable rules and regulations of the Bank Group, (2) efficiency and economy of operations, and (3) effectiveness in achieving program results.

The work contemplated by the proposed independent review and evaluation system is beyond the scope and standards

applicable in the expression of an opinion by an independent public accountant on financial statements. However, the independent public accountant's work should be given full consideration but not duplicated in performing the management-type reviews envisioned in this statement.

Although it is recognized that, to a degree, similar standards may be applicable to both, distinct differences exist between financial auditing and management or operational auditing. The latter focuses on the auditors' role in analyzing situations and developing recommendations for operational, managerial, and administrative performance. Hence such management reviews concern identifying opportunities for increased efficiency, economy, and effectiveness in achieving Bank Group objectives for its programs and activities. The management auditor, therefore, contributes more input into the management decisionmaking process than traditionally has been done in the past.

## AUDITING STANDARDS

Auditing standards are general measures of the quality and adequacy of the work performed. Auditing procedures, on the other hand, represent the specific procedures followed in achieving the objectives of an audit.

The distinction drawn is not always a sharp one. General measures of quality and adequacy of work performed should not vary, whereas specific audit procedures will vary between assignments. At the same time, however, some procedures are so basic to the performance of a satisfactory audit that they may be considered as standards relating to adequacy of work performed.

### SCOPE OF REVIEW SYSTEM

The review system should provide the Boards of Executive Directors and, ultimately, the Boards of Governors with an independent and continuous program of selective reviews of all major programs and activities of the Bank Group, including the administration and implementation of loans to both public and private borrowers and the granting of technical assistance. The review should be directed generally to examining whether Bank Group activities attain the intended financial and economic development objectives in an economical, efficient, and effective way. Within this general aim, the effectiveness of loan implementation and administration and the technical assistance activities of the Bank Group should be evaluated in the light of its articles of agreement and bylaws and the policies and directives of the Boards of Governors and Executive Directors. Recommendations should be made concerning ways those programs and activities can be improved, bearing in mind the international character of the institutions and their assigned roles in financing world development.

In reviewing Bank Group assistance to developing countries, determining its contribution to social and economic progress in the project area should be emphasized in order to help evaluate its effectiveness as a development institution.

These audit standards provide criteria for conducting reviews for efficiency, economy, and effectiveness. The review should also examine policies, procedures, practices, and internal controls applicable to any aspect of the activities

for which the auditor attempts to make judgements regarding whether existing practices can be made more efficient or economical. In determining effectiveness, the auditor should review those policies, procedures, practices, and controls having specific bearings on the attainment of the goals and objectives established for the program, activity, or function under review.

Internal review is an important part of internal control and consideration should be given to such work. The auditor should consider the extent of the internal review work and the extent to which that work can be relied on to insure that other aspects of internal control are functioning properly. The auditor should take full advantage of the products of the internal review in making his own review. Independent public accountants' work, performed at the request of the Boards of Governors for the purpose of expressing an opinion on Bank Group financial statements, should also be considered but not duplicated.

The effective discharge of these responsibilities requires the prompt reporting of the findings and related recommendations to the Boards of Executive Directors together with comments of the Bank Group management.

The procedures established should provide for systematic followup on the actions taken by Bank Group management to implement the recommendations. Periodic reports of such actions should be made available to the Boards of Executive Directors and, through them, to the Boards of Governors.

The provisions for a program of continuing reviews should not require that all Bank Group activities be examined in a single year. To provide systematically for the required coverage over a reasonable period of time and for the assignment of priorities in conducting the work, a time-phased audit plan should be prepared, and revised periodically, and given to the Boards of Executive Directors to consider and approve. These independent reviews should be coordinated with the internal reviews and the financial audits by the independent public accountants.

## GENERAL STANDARDS AND PERSONAL QUALIFICATIONS

One of the primary considerations in establishing an effective review and evaluation system is to ensure that it is independent of the Bank Group's president and other management officials.

The organization should be headed by a highly qualified individual in the financial and administrative management area, and his staff should be built around a nucleus of seasoned accountants, economists, management analysts, and others experienced in international financial and/or developmental assistance programs and other appropriate areas.

The following standards should apply to all work.

1. Each review should be directed by persons having adequate technical training and proficiency.
2. An independent and objective attitude should be maintained.
3. Due professional care should be exercised.
4. The work should be adequately planned.
5. Assistants should be properly supervised.
6. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for expressing opinions, judgements, conclusions, and recommendations.

The organization established under these standards should be responsible to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors, which represent the member governments. Therefore, the staff should preserve an independent viewpoint in all its work so that the value of the examinations will not be impaired. Such independence requires objective consideration of facts and unbiased judgements in performing reviews and formulating conclusions.

Objectivity is an extremely important and basic requirement for the auditor. His goal in each case is to determine

the actual situation and to convey the most accurate knowledge possible to his report readers. He should develop all significant and pertinent information, pro and con, and give genuine consideration to all such information in reaching conclusions. Convincingness in reporting his findings and recommendations must be based primarily on portraying the situation that exists. Complete honesty and integrity are essential in carrying out his work and reporting on it.

In the exercise of due professional care the auditor must use good judgement in choosing and applying audit procedures and in preparing reports. All confidential information in Bank Group records should be appropriately protected.

The following basic audit procedures can be considered standards in the sense that they are standard requirements that should be observed and satisfied in making an audit.

1. The auditors should become fully familiar with the history of the Bank Group, its articles of agreement and bylaws, and with the policies adopted by the Boards with respect to the
  - a. purpose, scope, and objectives of the activities or functions being examined,
  - b. manner in which activities are to be conducted and financed, and
  - c. general nature and extent of Bank Group authority and responsibility.
2. The Bank Group's actual operating and administrative procedures and practices, reporting, internal review, and other elements of the system of internal management control should be reviewed and tested for effectiveness in achieving the aims and objectives outlined in the scope of review section of this statement.
3. Pertinent and significant information available to the Bank Group which is necessary to properly consider, support, and present any findings, conclusions, and recommendations should be fully explored and developed.

## REPORTING STANDARDS

The effective discharge of review responsibilities requires the prompt reporting of findings and related recommendations to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors. Comments of Bank Group management on the findings and recommendations normally would be obtained and made available to the Boards at the time they consider the reports.

To insure complete and appropriate reports, the following standards should govern.

1. Written reports should be submitted to the Boards of Executive Directors and through them to the Boards of Governors and Bank Group management.

2. Reports should be issued on or before the dates specified by regulation or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management, the Boards, and member governments.

3. Each report should:

- a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
- b. Present factual matter accurately, completely, and fairly.
- c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
- d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.
- k. Be issued without restriction. When there is a need to report confidential information, consideration should be given to preparing the confidential portion as a supplement so that the usefulness of the basic portion of the report is



not limited. When significant pertinent information is omitted because it is deemed privileged or confidential the nature of such information should be described and the authority under which it is withheld should be stated.

4. Followup reporting should be made to the Boards of Executive Directors and through them to the Boards of Governors on corrective actions taken by Bank Group management on all report recommendations.



Public Law 93-189  
93rd Congress, S. 1443  
December 17, 1973

An Act

87 STAT. 714

To amend the Foreign Assistance Act of 1961, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Assistance Act of 1973".

Foreign Assistance Act of 1973.

87 STAT. 718

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 9. Chapter 3 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) At the end of section 301 add the following new subsection:

75 Stat. 433;  
81 Stat. 453.  
22 USC 2221.

(c) (1) In the case of the United Nations and its affiliated organizations, including the International Atomic Energy Agency, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations a single professionally qualified group of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such group shall be established in accordance with such terms of reference as such governing authority may prescribe and that the reports of such group on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation group.

(2) In the case of the International Bank for Reconstruction and Development and the Asian Development Bank, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations professionally qualified groups of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such groups shall be established in accordance with such terms of reference as such governing authorities may prescribe, and that the reports of such groups on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation groups.

(3) Reports received by the United States representatives to these international organizations under this subsection and related information on actions taken as a result of recommendations made therein shall

Reports to President, transmittal to Congress.

87 STAT. 719

be submitted promptly to the President for transmittal to the Congress and to the Comptroller General. The Comptroller General shall periodically review such reports and related information and shall report simultaneously to the Congress and to the President any suggestions the Comptroller General may deem appropriate concerning auditing and reporting standards followed by such groups, the recommendations made and actions taken as a result of such recommendations."

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Sec 73-203

FROM: The Secretary

April 13, 1973

OPERATIONS EVALUATION AND PROJECT PERFORMANCE AUDITS

Attached is a memorandum dated April 13, 1973 from the President on the introduction of Project Performance Audits and the future work program in Operations Evaluation.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Vice Presidents, Bank, and Officers of IFC  
Directors and Department Heads, Bank and IFC



OFFICE OF THE PRESIDENT

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A.

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April 13, 1973

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Operations Evaluation and Project Performance Audits

1. Evaluation reports on past Bank operations in Colombia and in the electric power sector were distributed to the Executive Directors and discussed in the middle of last year. In a memorandum of July 20, 1972 (Sec M72-388) I outlined to you an operational evaluation and audit program for FY1973, dealing mainly with projects for which loan/credit disbursements were completed some five years ago. The Operations Evaluation Division has been carrying out this program, and audit reports on a number of projects have been distributed in the last few months; further audit and evaluation reports are due for completion in the next five months.

2. With the exception of these reports, the Executive Directors have not been receiving an independent accounting, on a systematic and comprehensive basis, of the extent to which projects supported by the Bank and IDA have fulfilled the objectives on the basis of which loans and credits were approved. This is a gap which needs to be filled to give us a more complete and timely idea of our own performance as an institution trying to assist development. I therefore propose to introduce a system of Project Performance Audits, covering all projects financed with Bank/IDA assistance, and to add responsibility for their preparation to the existing functions of the Operations Evaluation Division.

3. Project Performance Audits will be prepared on all projects in developing countries about one year after completion of loan/credit disbursement (i.e. typically 4 to 8 years after approval by the Board of Directors). Their purpose will be to analyze the extent to which objectives stated in loan documents have been, or show promise of being, achieved and the reasons for deviations. The feasible sophistication of

this enquiry, one year after completion of Bank/IDA disbursements, will vary considerably among projects, depending on the nature of the objectives sought, the sector to which the project belongs and the duration of disbursements. But the aim will be to match the scope of the appraisal report, on the basis of which Bank/IDA support was approved, and to cover economic and institutional objectives to the extent possible as well as physical and financial ones. We believe that even at this stage it should usually be possible to identify the pattern of incipient benefits — which of course weigh heavily in investment analysis.

4. In the preparation of the reports maximum use will be made, as in any audit, of existing information, without, however, in any way violating the crucial principle of independence.

5. Preparation of Project Performance Audits will fit well with the other, more evaluative work of the Operations Evaluation Division, assisting it to identify topics of greatest relevance to the ongoing operations of the Bank. In some cases an important conclusion of a Project Performance Audit will likely be that the project should be subjected to a deeper evaluation a certain number of years later when results are more fully visible.

6. The new scheme will be introduced for all projects on which loan/credit disbursements ended after July 1, 1972. A major part of the work program of the Operations Evaluation Division for FY1974 will consist of steps to get the system underway and preparation of Performance Audits on each of the 25 projects for which loan/credit disbursements were completed in the first half of FY1973. The other part of the work program for that year will consist of a major evaluation study on past Bank lending for agricultural credit and the first phase of a study investigating, on the basis of an appropriate sample of past projects, the spread of administrative, managerial and technical innovations from Bank-assisted projects, and designed to establish the efficacy of this frequently expected phenomenon and how it could usefully be strengthened.

*Robert S. M. Newman*

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FROM: The Secretary

July 20, 1972

OPERATIONS EVALUATION FOLLOW-UP AND WORK PROGRAM

Attached is a memorandum dated July 20, 1972 from the President on the future work program in Operations Evaluation. It outlines, for your information, (a) the planned FY 1973 Work Program of the Operations Evaluation Division and (b) the procedures we propose to adopt in follow-up of evaluation reports.

Distribution:

Executive Directors and Alternates  
President  
President's Council  
Executive Vice President, IFC  
Vice President, IFC  
Department Heads, Bank and IFC



OFFICE OF THE PRESIDENT

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A.

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July 20, 1972

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Future Work Program in Operations Evaluation

1. The Operations Evaluation Unit was established in the Programming & Budgeting Department late in 1970 and converted into a Division of that Department in the middle of 1971. In view of the novelty of the work to be undertaken, it started with a pilot phase. The main results of this pilot phase were distributed to the Executive Directors earlier this year: "Operations Evaluation Report: Electric Power" (IBRD Report No. Z-17, dated March 10, 1972) and "Bank Operations in Colombia - An Evaluation" (IBRD Report No. Z-18, dated May 25, 1972)\*. These reports were discussed at meetings of the Executive Directors on April 4 and July 11, respectively.
2. As could be expected, the pilot phase of the Operations Evaluation Division's work has not produced sound procedures for evaluating the Bank's operations which now need only to be applied on a standardized basis. In some respects the reports have raised more questions than they have been able to answer. Nonetheless experience has been gained in the difficult methodological problems of evaluation, and the time has come to move into a second phase of work, still experimental, but initiating more systematic coverage of Bank projects. The second phase must also include the introduction of procedures for follow-up to the recommendations and suggestions which emerged in the studies undertaken in the first phase.
3. A distinction may usefully be drawn between 'Audit' and 'Evaluation'. In the work of the Operations Evaluation Division 'Audit' has come to mean comparison between the targets and projections contained in the project appraisal reports on the one hand and actual developments on the other, in order to see whether or not appraisal objectives were attained; if not, why not and if so, was it due to the project? 'Evaluation', on the other hand, has come to mean a deeper analysis of the contribution to development made by the project and by the Bank in its support of the project, with a view to seeing not only whether the project met its assigned objectives but also whether these objectives were themselves correct in retrospect and whether they might have been improved

\* R72-55 and R72-131 respectively

in any way. Of the studies undertaken to date, the review of past power projects was mainly in the nature of an Audit, although it ran over to some extent into an Evaluation, while the review of Bank operations in Colombia was mainly an Evaluation. It can be argued that all Bank projects should be audited, but since even audit is quite costly it may be preferable to cover a sample in this way, while other projects, selected for the potential lessons they may yield, are subjected to evaluation.

4. The intended work program of the Operations Evaluation Division for FY73, to be carried out by a professional staff of eight professionals together with consultants, includes audits, evaluations and follow-up studies. It is summarized in Annex I. It is envisaged that roughly 65% of total effort will be devoted to evaluations, 25% to audits and 10% to follow-up work.

5. As regards audits, a start is being made toward systematic coverage of all Bank projects. Two trial principles have been established for selecting projects for audit: (a) projects will be audited approximately five years after completion of loan disbursements and (b) where projects so selected belong to series of projects financed by the Bank (e.g. a third loan to a power company, port authority or Government highway department) then the opportunity will be taken at the same time to audit earlier projects in the series and, in some cases, later ones too; hence, the distinction drawn in Annex I between Audits of Individual Projects and Audits of Series of Projects. The further distinction between Summary and Detailed Audits rests on the fact that some projects are simpler and raise less problems than others. Projects have been selected for audit in FY73, from among those for which loans were fully disbursed in 1968, considering feasibility of undertaking brief studies, availability of technically qualified staff in the Operations Evaluation Division, and the need for increased emphasis on transportation projects in view of the large amount of time devoted last year to electric power, the other main traditional field of Bank activity. It has not yet been decided whether it will be worth distributing small (2-5 page) reports summarizing the conclusions and recommendations, if any, emerging from each of these audit studies, estimated to take between two and three professional man-months, or whether it would be preferable to distribute all these brief reports in a package once or twice during the year.

6. In the area of evaluation, two major studies and one minor one are being planned. Completed highway projects in four different countries, located in different continents, have been selected for evaluation in a study which will focus particularly on the developmental impact of highway improvements on the region traversed, the degree to which this impact was affected by the competitive structure of the transport industry in the area, and other factors constraining or increasing positive developmental impact; the purpose is to identify possible ways of maximizing such impact. The second major study would be a review of the Bank's work with Development Finance Companies around the world, based mainly on study of selected companies with which the Bank began working at different periods and designed to identify suggestions for possible improvement in Bank policies, practices and procedures in this important



field of lending. Thirdly, in order to make a start in the field of education lending, a thorough evaluation would be made of one of the three secondary school projects for which loan disbursements were completed before the end of 1971; this study would include a survey of students' education achievements and of graduates' contribution to meeting manpower needs. Reports on these three studies, which would be considerably shorter than the evaluation reports so far distributed and would confine themselves mainly to presentations of conclusions and recommendations with supporting analysis, are targeted for completion during the next 12-14 months.

7. The last part of the program consists of follow-up work on the recommendations and suggestions put forward for examination in evaluation reports. A few of the recommendations emerging from the studies may raise issues of such character as to require the preparation of Policy Papers for consideration by the Executive Directors. Most of the recommendations however will relate to the application of policies already in existence and to the Bank's day-to-day practices and procedures in selection, preparation, appraisal and supervision of projects and in the preparation of reports. These recommendations will be referred to the various operating departments responsible for considering them and the Operations Evaluation Division will monitor the progress being made in their implementation.



Attachment

OPERATIONS EVALUATION DIVISION: WORK PROGRAM FY73

<u>Loan/Cr. No.</u> <sup>a/</sup>	<u>Name of Project</u>	<u>Disbursement Period</u>	<u>Amount (\$m)</u> <sup>b/</sup>
<u>I. Audits of Individual Projects Against Appraisal Objectives</u>			
<u>(a) Summary</u>			
299/Cr. 4	Costa Rica Highways	1961-69	11.0
293	Trinidad & Tobago Power	1961-68	23.5
<u>(b) Detailed</u>			
306	Venezuela Expressway	1961-68	45.0
Cr. 63	Botswana Highways	1964-68	3.6
<u>II. Audits of Series of Projects Against Appraisal Objectives</u>			
276/346	Costa Rica Power/Telecom.	1961-68	30.8
198/294	India - Calcutta Port	1958-68	50.0
<u>III. Evaluation of the Developmental Contribution of Projects</u>			
<u>(a) Education</u>			
Cr. 93	Kenya - Education I	1966-70	7.0
<u>(b) Selected Highways (Developmental Impact &amp; Transport Industry Structure)</u>			
166	Ethiopia - Highways II	1957-63	15.0
135/195/Cr. 1	Honduras - Highways	1955-67	18.7
341	Thailand - Highways I	1963-69	35.0
344	Yugoslavia - Highways I	1963-66	35.0
<u>(c) Development Finance Companies</u>			
A broad review of Bank activity in support of Development Finance Companies, with special emphasis on:			
240/422/459	Iran - IMDBI	1959-69	40.2
-	Korea - KDFC	1968-	-
449	Tunisia - SNI	1966-71	5.0

a/ Shows only loans and credits already fully disbursed.

b/ Original amount of loans already fully disbursed.



# Record Removal Notice



<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b>  1737829		
<b>Document Date</b> 04 April, 1972	<b>Document Type</b> Statement			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> IBRD/IDA Director's Meeting Statement of Mr. McNamara at Close of Discussion on Operations Evaluation Division Report on Electric Power				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Sherrine M. Thompson</td> <td><b>Date</b> 21-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12			



# Record Removal Notice



<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b>  1737829		
<b>Document Date</b> 11 February, 1971	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> SecM71-85 Operations Evaluation Unit Statement by Christopher Willoughby at the meeting of the Executive Directors on February 9. 1971				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Sherrine M. Thompson</td> <td><b>Date</b> 21-Aug-12</td> </tr> </table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12			

# ADMINISTRATIVE CIRCULAR

September 2, 1970

## ESTABLISHMENT OF AN OPERATIONS EVALUATION UNIT

Effective audit and control procedures have always been matters of major concern to the World Bank Group. Two of the most important innovations introduced by the World Bank in its early years were the procedures developed for supervision of loan disbursements and of the execution of the projects (end-use supervision). Over the years these procedures have been continuously strengthened and adjusted in the light of changing circumstances.

This process continues. In addition, in the last two years, budgetary controls have been strengthened by the creation of the Programming and Budgeting Department. Financial controls have been improved by the establishment of the Audit Committee of the Executive Directors and by the strengthening of the Office of the Internal Auditor.

I feel that, with the growth of the Bank Group, the time has come to carry our systematic auditing procedures a stage further - to cover the contribution of our operations to development. Some review of our operations from this point of view has of course always been carried out in the course of Economic and Sector Missions, but these have other overriding responsibilities. As regards projects which we have helped to finance, end-use supervision generally stops with the completion of construction, but the results of many of them have been reviewed by the Projects Departments in the course of appraising further loans or credits to the same entity or sector. Here again, however, the review of past operations is only a subsidiary issue and time seldom suffices to carry it very far. A number of thorough reviews have been carried out by the Sector and Projects Division of the Economics Department in connection with their responsibility for helping to improve the methodology of project appraisal, but the number of projects covered in depth is small and the focus is generally more on methodological improvements than on re-evaluation of costs and benefits as such. Evaluation of the impact on development of our operations is thus at present limited. I believe that the growth in the funds that we are responsible for channelling into development and in the number of countries with which we are actively involved makes it important for us to develop a more systematic approach.

I have therefore decided to establish, in the Programming and Budgeting Department, a unit whose sole responsibility will be to evaluate the contribution of our operations to the development of member countries. The principal task of the unit will be to review past lending operations with the central objective of establishing whether the actual benefits of the completed projects are in accordance with those expected at the time of appraisal and, in case

of divergence, the reasons. Our methods of project appraisal have developed and improved over the years. Our quantification is sounder now than in the past, our view of development more comprehensive and our analyses of projects and sectors deeper. Naturally, our current techniques and methods will be used in evaluation of past operations, but in comparing results achieved with original forecasts due attention will be paid to the cost and benefit concepts prevailing at the time these operations were appraised.

Since this type of work has not been carried out to any extent before in the Bank I envisage the new unit starting with a modest staff complement of three and a workload of some five projects in several different sectors. Especially in the beginning, the staff of the unit will need to draw heavily on the advice and knowledge of those in other Departments of the Bank Group who have been concerned with the projects selected.

I believe that this initiative will have two principal benefits. It will contribute to the formulation of policy and procedures by enabling us to learn more from our past experience. And it will give us a degree of conviction about the impact of what we are doing which we could obtain in no other way.



Robert S. McNamara  
President



# Record Removal Notice



<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b>  1737829		
<b>Document Date</b> 09 June, 1970	<b>Document Type</b> Board Record - Transcript			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> IBRD/IDA Director's Meeting Remarks Concerning Operation Evaluation (FY1971 IBRD/IDA Budget Discussion) Excerpts from transcript of proceedings				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"><tr><td><b>Withdrawn by</b> Sherrine M. Thompson</td><td><b>Date</b> 21-Aug-12</td></tr></table>	<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12
<b>Withdrawn by</b> Sherrine M. Thompson	<b>Date</b> 21-Aug-12			

Mr. SETHERS  
JMO



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*For discussion  
with Mr. Callaghan  
on 14th. Pl. arrange  
a time ✓*

*11 a.m.*

SecM74-698

FROM: The Secretary

October 9, 1974

OPERATIONS EVALUATION

At the request of Mr. Sethness in his memorandum of October 4 (copy attached) the President has agreed to distribute the memorandum together with its enclosures for information.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Directors, Operations Evaluation Department

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 4, 1974

FROM: Charles O. Sethness SUBJECT: Your Proposals for Operations Evaluation Work  
in the Bank Group

I would appreciate it if you would arrange early distribution of copies of this memorandum to the other Executive Directors and Alternates in advance of the Board Meeting at which your timely and welcome paper on this subject will be discussed.

1. Issue of Independence

My authorities and I appreciate the excellent work done to date by the Operations Evaluation unit, and are very pleased to note the direction indicated in your proposals to formalize the unit's position. We feel it important, however, to urge some revision of your proposals. I believe that we share with you in principle the goal of creating a performance audit and appraisal mechanism that both is, and is recognized to be, effectively independent.

The primary point which we feel should be changed is that by the end of 1975, the responsibility relationship of the unit should be to the Board of Executive Directors rather than divided. With this change, your very commendable proposals would adequately reflect the necessary independence from operating management. (This would not interfere with the proposal in your memorandum to continue the present practice of sending the unit's reports simultaneously to the Executive Directors and the President.) In addition, the staffing and shaping of the work program should be the responsibility of the Director-General, subject to the review and approval of the Board, on which, as Chairman, you have a very significant role. There is no question that in this process your views would be given full weight.

The reasoning behind this amendment to your proposal is, I think, fairly clear and persuasive. It would be very difficult to argue that effective, much less "optical", independence of management (an essential prerequisite for independent evaluation) is adequately represented by a unit which is responsible to the President of the Bank (as well as the Board), whose work program is in part shaped by the President, who also is playing a role in staffing the unit -- and whose head is, in any event, a man proposed by the President, normally from among senior Bank Group staff.

2. Auditing and Reporting Standards

We are very interested in and appreciative of the work and special attention already given by the Joint Audit Committee on the terms of reference and auditing and reporting standards of the Operations Evaluation unit. I understand that thought and work has been directed to further codification and formalization of both of these items. To assist in the Committee's work, I am attaching a statement of auditing and reporting standards prepared by the Comptroller General of the United States, who has long experience in my country in these matters. We propose the incorporation or full reflection of the attached standards in the materials prepared, so that they may become an integral part of the guidance for the independent Operations Evaluation unit.

Attachment



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-161470

B-175281

JUN 24 1974

The Honorable  
The Secretary of the Treasury

Dear Mr. Secretary:

Pursuant to the provisions of Public Law 93-189, approved December 17, 1973, we have prepared the enclosed statement of auditing and reporting standards for use by the U.S. Executive Director of the World Bank Group in proposing the establishment of an independent review and evaluation system for the Bank Group and for consideration by the Boards of Directors in formulating the terms of reference for an independent review system.

We are also enclosing a copy of GAO's Standards for Audit of Governmental Organizations, Programs, Activities & Functions, which describes the scope and standards for evaluation reviews which our office considers appropriate for all U.S. Government programs. This booklet contains additional details on the standards included in our statement and should assist the U.S. Executive Director in pursuing the establishment of an independent review system in the Bank Group.

Subsequent to the establishment of the independent review organization, our office will be making periodic reviews of the reports issued by the organization in accordance with the above cited legislation. During these reviews, we plan to consider the adequacy of the auditing and reporting standards being followed and to make appropriate recommendations for any revisions considered necessary.

B-161470  
B-175281

We appreciate the excellent cooperation and assistance of your staff during discussions on this matter prior to preparation of the enclosed statement of auditing and reporting standards.

Sincerely yours,

Comptroller General  
of the United States

Enclosures - 2

STATEMENT BY THE  
COMPTROLLER GENERAL OF THE UNITED STATES  
OF AUDITING AND REPORTING STANDARDS  
FOR USE BY THE U.S. EXECUTIVE DIRECTOR OF  
THE WORLD BANK GROUP  
IN PROPOSING THE ESTABLISHMENT OF AN INDEPENDENT  
REVIEW AND EVALUATION SYSTEM FOR THE BANK GROUP

Public Law 93-189 (see p. 10) required that the President, acting through the U.S. representative to the International Bank for Reconstruction and Development, propose and actively seek the establishment of an independent review and evaluation system for the Bank by its governing body. The law also required that a statement of auditing and reporting standards be prepared by the Comptroller General of the United States and presented for the consideration of the governing body to assist in formulating terms of reference for this independent review system.

This statement sets forth the auditing and reporting standards prepared by the Comptroller General for use by the U.S. representative to the World Bank Group in proposing the establishment of an independent review and evaluation system. For purposes of this statement, the World Bank Group includes the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation.

In considering these standards, the term "audit" may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (1) compliance with the articles of agreement and applicable rules and regulations of the Bank Group, (2) efficiency and economy of operations, and (3) effectiveness in achieving program results.

The work contemplated by the proposed independent review and evaluation system is beyond the scope and standards

applicable in the expression of an opinion by an independent public accountant on financial statements. However, the independent public accountant's work should be given full consideration but not duplicated in performing the management-type reviews envisioned in this statement.

Although it is recognized that, to a degree, similar standards may be applicable to both, distinct differences exist between financial auditing and management or operational auditing. The latter focuses on the auditors' role in analyzing situations and developing recommendations for operational, managerial, and administrative performance. Hence such management reviews concern identifying opportunities for increased efficiency, economy, and effectiveness in achieving Bank Group objectives for its programs and activities. The management auditor, therefore, contributes more input into the management decisionmaking process than traditionally has been done in the past.

## AUDITING STANDARDS

Auditing standards are general measures of the quality and adequacy of the work performed. Auditing procedures, on the other hand, represent the specific procedures followed in achieving the objectives of an audit.

The distinction drawn is not always a sharp one. General measures of quality and adequacy of work performed should not vary, whereas specific audit procedures will vary between assignments. At the same time, however, some procedures are so basic to the performance of a satisfactory audit that they may be considered as standards relating to adequacy of work performed.

### SCOPE OF REVIEW SYSTEM

The review system should provide the Boards of Executive Directors and, ultimately, the Boards of Governors with an independent and continuous program of selective reviews of all major programs and activities of the Bank Group, including the administration and implementation of loans to both public and private borrowers and the granting of technical assistance. The review should be directed generally to examining whether Bank Group activities attain the intended financial and economic development objectives in an economical, efficient, and effective way. Within this general aim, the effectiveness of loan implementation and administration and the technical assistance activities of the Bank Group should be evaluated in the light of its articles of agreement and bylaws and the policies and directives of the Boards of Governors and Executive Directors. Recommendations should be made concerning ways those programs and activities can be improved, bearing in mind the international character of the institutions and their assigned roles in financing world development.

In reviewing Bank Group assistance to developing countries, determining its contribution to social and economic progress in the project area should be emphasized in order to help evaluate its effectiveness as a development institution.

These audit standards provide criteria for conducting reviews for efficiency, economy, and effectiveness. The review should also examine policies, procedures, practices, and internal controls applicable to any aspect of the activities



for which the auditor attempts to make judgements regarding whether existing practices can be made more efficient or economical. In determining effectiveness, the auditor should review those policies, procedures, practices, and controls having specific bearings on the attainment of the goals and objectives established for the program, activity, or function under review.

Internal review is an important part of internal control and consideration should be given to such work. The auditor should consider the extent of the internal review work and the extent to which that work can be relied on to insure that other aspects of internal control are functioning properly. The auditor should take full advantage of the products of the internal review in making his own review. Independent public accountants' work, performed at the request of the Boards of Governors for the purpose of expressing an opinion on Bank Group financial statements, should also be considered but not duplicated.

The effective discharge of these responsibilities requires the prompt reporting of the findings and related recommendations to the Boards of Executive Directors together with comments of the Bank Group management.

The procedures established should provide for systematic followup on the actions taken by Bank Group management to implement the recommendations. Periodic reports of such actions should be made available to the Boards of Executive Directors and, through them, to the Boards of Governors.

The provisions for a program of continuing reviews should not require that all Bank Group activities be examined in a single year. To provide systematically for the required coverage over a reasonable period of time and for the assignment of priorities in conducting the work, a time-phased audit plan should be prepared, and revised periodically, and given to the Boards of Executive Directors to consider and approve. These independent reviews should be coordinated with the internal reviews and the financial audits by the independent public accountants.

## GENERAL STANDARDS AND PERSONAL QUALIFICATIONS

One of the primary considerations in establishing an effective review and evaluation system is to ensure that it is independent of the Bank Group's president and other management officials.

The organization should be headed by a highly qualified individual in the financial and administrative management area, and his staff should be built around a nucleus of seasoned accountants, economists, management analysts, and others experienced in international financial and/or developmental assistance programs and other appropriate areas.

The following standards should apply to all work.

1. Each review should be directed by persons having adequate technical training and proficiency.
2. An independent and objective attitude should be maintained.
3. Due professional care should be exercised.
4. The work should be adequately planned.
5. Assistants should be properly supervised.
6. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for expressing opinions, judgements, conclusions, and recommendations.

The organization established under these standards should be responsible to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors, which represent the member governments. Therefore, the staff should preserve an independent viewpoint in all its work so that the value of the examinations will not be impaired. Such independence requires objective consideration of facts and unbiased judgements in performing reviews and formulating conclusions.

Objectivity is an extremely important and basic requirement for the auditor. His goal in each case is to determine

the actual situation and to convey the most accurate knowledge possible to his report readers. He should develop all significant and pertinent information, pro and con, and give genuine consideration to all such information in reaching conclusions. Convincingness in reporting his findings and recommendations must be based primarily on portraying the situation that exists. Complete honesty and integrity are essential in carrying out his work and reporting on it.

In the exercise of due professional care the auditor must use good judgement in choosing and applying audit procedures and in preparing reports. All confidential information in Bank Group records should be appropriately protected.

The following basic audit procedures can be considered standards in the sense that they are standard requirements that should be observed and satisfied in making an audit.

1. The auditors should become fully familiar with the history of the Bank Group, its articles of agreement and bylaws, and with the policies adopted by the Boards with respect to the
  - a. purpose, scope, and objectives of the activities or functions being examined,
  - b. manner in which activities are to be conducted and financed, and
  - c. general nature and extent of Bank Group authority and responsibility.
2. The Bank Group's actual operating and administrative procedures and practices, reporting, internal review, and other elements of the system of internal management control should be reviewed and tested for effectiveness in achieving the aims and objectives outlined in the scope of review section of this statement.
3. Pertinent and significant information available to the Bank Group which is necessary to properly consider, support, and present any findings, conclusions, and recommendations should be fully explored and developed.

## REPORTING STANDARDS

The effective discharge of review responsibilities requires the prompt reporting of findings and related recommendations to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors. Comments of Bank Group management on the findings and recommendations normally would be obtained and made available to the Boards at the time they consider the reports.

To insure complete and appropriate reports, the following standards should govern.

1. Written reports should be submitted to the Boards of Executive Directors and through them to the Boards of Governors and Bank Group management.

2. Reports should be issued on or before the dates specified by regulation or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management, the Boards, and member governments.

3. Each report should:

- a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
- b. Present factual matter accurately, completely, and fairly.
- c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
- d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.
- k. Be issued without restriction. When there is a need to report confidential information, consideration should be given to preparing the confidential portion as a supplement so that the usefulness of the basic portion of the report is

not limited. When significant pertinent information is omitted because it is deemed privileged or confidential the nature of such information should be described and the authority under which it is withheld should be stated.

4. Followup reporting should be made to the Boards of Executive Directors and through them to the Boards of Governors on corrective actions taken by Bank Group management on all report recommendations.



Public Law 93-189  
93rd Congress, S. 1443  
December 17, 1973

**An Act**

87 STAT. 714

To amend the Foreign Assistance Act of 1961, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Assistance Act of 1973".*

Foreign Assis-  
tance Act of  
1973.

87 STAT. 718

**INTERNATIONAL ORGANIZATIONS AND PROGRAMS**

**SEC. 9.** Chapter 3 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) At the end of section 301 add the following new subsection:

75 Stat. 433;  
81 Stat. 453.  
22 USC 2221.

"(e) (1) In the case of the United Nations and its affiliated organizations, including the International Atomic Energy Agency, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations a single professionally qualified group of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such group shall be established in accordance with such terms of reference as such governing authority may prescribe and that the reports of such group on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation group.

"(2) In the case of the International Bank for Reconstruction and Development and the Asian Development Bank, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations professionally qualified groups of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such groups shall be established in accordance with such terms of reference as such governing authorities may prescribe, and that the reports of such groups on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation groups.

"(3) Reports received by the United States representatives to these international organizations under this subsection and related information on actions taken as a result of recommendations made therein shall

Reports to  
President,  
transmittal  
to Congress.

87 STAT. 719

be submitted promptly to the President for transmittal to the Congress and to the Comptroller General. The Comptroller General shall periodically review such reports and related information and shall report simultaneously to the Congress and to the President any suggestions the Comptroller General may deem appropriate concerning auditing and reporting standards followed by such groups, the recommendations made and actions taken as a result of such recommendations."

DOCUMENT OF  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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**DECLASSIFIED**

DEC 15 2022

**WBG ARCHIVES**

R74-197/1

FROM: The Secretary

October 8, 1974

OPERATIONS EVALUATION

The President's memorandum dated September 27, 1974 will be scheduled for consideration at the meeting of the Executive Directors to be held on October 22, 1974 and not on October 15 as previously announced (R74-197).

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice President, IFC  
President's Council  
Director, Operations Evaluation Department



# OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

DATE: October 7, 1974

FROM: Warren C. Baum Warren C. Baum

SUBJECT: Operations Evaluation

As you requested, I am putting in writing some of the points which I made at today's meeting of the Operational Vice Presidents.

I start from the proposition that the work of the Operations Evaluation Department is both necessary and desirable and that we in the Bank have much to gain from it. I also believe that on the whole it is well done. My concern is with several aspects of the work which I believe need to be thought through and discussed more fully within the Bank.

One issue is how the Bank staff can record its dissent from the OED's conclusions. At present there is extensive discussion between OED and the appropriate parts of the Bank on drafts of the audit, as a result of which changes are frequently made in the audit. At the same time, differences, usually of opinion or judgment, often remain and on these the final audit reflects only OED's views. If this process is to have its intended effect on the improvement of Bank operations, it is desirable that the contrary views also be recorded, as is now done for example with GAO audits. This would enhance the credibility of the exercise as a whole in the eyes of the staff, and avoid a significant morale problem which arises when the staff, which take the audits seriously and devote a good deal of time to them, believe that their views are being disregarded and unjustified criticisms levied.

Another issue concerns OED's mandate of "systematic follow-up of Bank Group action in response to recommendations and suggestions emerging from such audit, evaluation and review work." (R74-197 of September 27, 1974) I appreciate why follow-up may appear to be necessary from OED's point of view. However, this shifts OED's responsibility from the audit of past performance to the evaluation of the present performance of the management of the Bank. In the draft follow-up of the Colombia study, for example, OED makes wide-ranging comments on the extent to which current Bank policies in a variety of fields (e.g. agricultural credit, land reform, pricing of public utility services) have or have not been changed in the light of the study's recommendations. I seriously question whether the OED is in a position to make such an evaluation. For one thing, they are evaluating management's performance in implementing recommendations which the management may not have accepted, in whole or in part. Moreover, the rate at which recommendations are implemented and policies adopted or changed depends on a variety of considerations: the cost of implementing the recommendations; their priority relative to other ongoing or new activities; the constraints of staff and timing within which the Bank

*attested*

October 7, 1974

operates, etc. I do not see how OED can properly evaluate these considerations; at best it can raise what are likely to be rather sterile questions about them.

I suggest that we discuss these issues prior to the Board Meeting of October 15th, when R74-197 is on the agenda.

WCBaum:rma

cc: Mr. Shoaib ✓  
Mr. Willoughby  
Mr. van der Tak

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

SecM74-696  
October 8, 1974

FROM: The Secretary

Tentative Schedule of Board Meetings

Attached for information is a tentative schedule of Executive Directors' Meetings and business (apart from loan and credit projects) from the present date through September 1975. This replaces the previous schedule dated September 4, 1974 (SecM74-605).

Distribution

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Executive Vice President and Vice  
President, IFC  
President's Council  
Directors and Department Heads, Bank and IFC

TENTATIVE SCHEDULE OF IBRD/IDA/IFC BOARD MEETINGS  
THROUGH SEPTEMBER 1975

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SecM74-696  
October 8, 1974

Except as noted below, the Board will plan to meet each Tuesday to consider proposed loans and credits. No meetings are scheduled for:

December 24	Christmas Holiday recess
August 19, 1975	Annual recess (tentative)
August 26	Annual recess (tentative)
September 23**	Directors have suggested that there be no meeting of the Board in the week prior to the Governors' Meeting

In addition to the weekly consideration of loan and credit projects, the subjects listed below are suggested for discussion by the Board on the following dates:

October 15	1974 Annual Meetings Arrangements
October 22	Joint Audit Committee Report
November 5	Review of the Bank's Lending Rate
November 12	Environmental Criteria for Bank Projects
November 14 (Thurs.)*	Seminar on Non-Formal Education
November 19	*Education Sector Policy Paper (Second Edition)
November 26	Bank Group Activities in the Field of Health Appointments to Standing Committees
December 3	Bank Lending to High Income Countries
December 10	*Split Interest Rate
December 17	Third Window Lending
December 19 (Thurs.)	1975 Annual Report Seminar
January 7, 1975	*Prepayment of Bank Loans *Offset Borrowing and Lending
January 14	Review of the Bank's Rural Development Program
January 21	Preferences for Domestic Contractors: Review of Bank Experience
January 28	Bank Policy on Urban Transport
February 4	Bank Research Program: Annual Report
February 18	Two-Year Bond Issue
February 25	Review of Five-Year Program and Mid-Year Review of FY'75 Program and Budget
March 6 (Thurs.)	Possible Bank Operations in Housing Sector Seminar on Selected Research Projects from the Bank's External Research Program
April 29	Staff Compensation Review
May 20	Annual Report on the Staff Retirement Plan
June 17	Review of IBRD/IDA FY'76 Operating Program and Administrative Budget
July 8	Draft Bank/IDA and IFC Annual Reports (to be preceded by "Seminars" on June 19 and June 23)
July 29	Allocation of FY'75 Net Income
August 5	IFC Financial Statements
August 12	IBRD and IDA Financial Statements Two-Year Bond Issue

Additional Items to be considered for Scheduling

1. Bank's Approach to Resource Management and Systems
2. Review of Revised Industrial Sector Policy Paper
3. Board Procedures--Lending Documents

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\* Indicates a change from the schedule dated September 4, 1974 (SecM74-605)

\*\* Subject to change

INTERNAL AUDITING  
REVIEW GROUP

# OFFICE MEMORANDUM

TO: Mr. M. Shoaib

DATE: August 29, 1974

FROM: James M. Kearns, Dir., OPD

SUBJECT: Internal Auditing Review Group

As indicated in the attached memo, I've notified those whom you want to serve on the review group.

I have not however set a date for the first meeting because I'm off on a trip on September 5 for up to three weeks. Not knowing whether you'd want to await my return or go ahead without me, I deferred calling the first meeting.

Plans of those involved for September and October are:

Adler:	Here all the time
Dillard:	Here all the time
Gabriel:	Here all the time
Kearns:	Away Sept. 5 thru Sept. 26
Leyes:	Away until Sept. 9
Rapley:	Away Sept. 9 thru Sept. 13

Also attached is the original paper. I did not circulate the covering memo but only the attached work program.

Attachments

JMKearns:bl

*Mr Kearns*  
*Let us now*  
*set a date please*  
*Ushoib*  
*18 Sept.*

*Friday Oct. 11, 1974*  
*3.00 pm*

See Distribution

August 29, 1974

James M. Kearns, Dir., OPD

Internal Auditing

At Mr. McNamara's request, Mr. Shoaib is convening a group to review and advise upon the functions and work program of the Internal Auditing Department.

In his absence, Mr. Shoaib asked me to request each of you (and myself) to serve on the group, and send you a copy of the attached proposed internal auditing work program.

Upon Mr. Shoaib's return on September 4, a time for a meeting will be set.

Distribution: Messrs. J. Adler, Dir., P&B  
D. Dillard, Dir., Finance & Management Dept., IFC  
G. K. Gabriel, Controller  
John Leyes, Price Waterhouse  
L. N. Rapley, Dir., Int. Auditing Dept.

cc: Mr. Shoaib ✓

JMKearns:b1

# OFFICE MEMORANDUM

TO: Mr. M. Shoaib, Vice President

DATE: June 26, 1974

FROM: Lawrence N. Rapley, Director, Internal Auditing

SUBJECT: Overall Internal Audit Work Program

*7/12/74 Mr Shoaib*  
*Please organize a group (Cabral, Kraus, P.W. etc) to consider the functions of the Internal Auditing group*  
*Emw*

With reference to our recent discussions in connection with the department's FY75 budget request, which included three professional positions which were subsequently turned down, I have put together a paper on the overall internal audit coverage of the Bank Group activities.

It discusses the objectives of the department, our policy of frequency of rotation of audits and the present staffing situation which is resulting in less than an acceptable minimum audit coverage and an inability to keep on top of significant and continuing increases in Bank Group lending and other activities. The paper sets out an overall work program consistent with the frequency of audit rotation policy and with our objectives, and includes several activities not looked into previously. It also provides for necessary extensions of the scope of audit in certain other activities as well as increased emphasis on the management audit aspects of Bank Group programs and activities.

*member*  
*see Shoaib*  
*X Keller, Cabral, P.W., Kraus, X Keller, Rapley*

This overall program calls for an additional five positions and is, of course, based on today's situation as I see it. It does not take into account the considerable slippage we are already experiencing or any material changes in the volume or nature of activities of the Bank Group in the future which would have an effect on our scope of audit and relative staffing situations.

*John Leager*

May I please have your approval to this plan of action.

atts.

June 28, 1974

Mr. McNamara:

I think the approach is basically sound although I would want to be personally involved in any decision to extend the audit work into management audit aspects referred to in the sentence starting from the 6th line of Page 2 of the attachment. The same applies to audit coverage not previously carried out referred to in the opening sentence of Paragraph 8 but I still do feel that as soon as staff constraints can be relaxed somewhat, we should be doing more internal audit on the classical pattern irrespective of the extent to which internal audit should get involved in management audit. If you agree, the best course would perhaps be for Mr. Rapley and Mr. Adler to discuss the matter together and work out a three year program over which the Internal Audit Department could attempt to achieve the fundamental objectives.

*M. Shoaib*  
Shoaib



## INTERNAL AUDITING DEPARTMENT

### OVERALL INTERNAL AUDIT WORK PROGRAM

#### Introduction

1. The purpose of this memorandum is to initiate the course of action which I recommend should be taken to provide adequate overall internal audit coverage of the World Bank Group consistent with the objectives of the department.

#### Objectives of Internal Auditing

2. Internal Auditing in the Bank Group has the overall objective of assisting all levels of Management in the effective discharge of their responsibilities by furnishing them with independent and objective audits and appraisals of financial, administrative, accounting and other activities. With the primary emphasis on internal controls and related systems and procedures, Internal Auditing is concerned with reviewing and appraising their soundness, adequacy and application, and in promoting effective control at reasonable cost. In addition, consideration is given to (1) compliance with various governing agreements or instruments and related decisions, policies, regulations or procedures of the Board of Governors, Executive Directors and Bank Group Management; (2) the effective utilization of Bank Group resources; (3) protecting the Bank Group's interests; (4) seeking to determine the reliability and validity of accounting, financial and other data used by Management; and (5) possible means of improving the efficiency and effectiveness of the activity reviewed.

#### Background

3. Since the time I joined the Bank Group in May 1970, when the audit staff consisted of three professionals (one was subsequently transferred to Controller's in July 1970 which took over the responsibility for bank reconciliation work), the plan of operations which I have followed with the tacit approval of Mr. Aldewereld has always been to expand the audit staff over some four to five years to achieve an acceptable minimum level of audit coverage for the entire Bank Group. As staff became available, the work program would be developed whereby major activities of the Bank Group would be reviewed annually and the remaining activities would be audited mostly on a biennial basis with the rest being extended to a three-yearly basis. This plan was discussed with and generally agreed to by Mr. Aldewereld, Vice President - Finance, the Joint Audit Committee and Price Waterhouse & Co.

4. Unfortunately, due to budget restrictions, requests for additional professional and special services staffing have been consistently turned down since 1972, resulting in less than an acceptable minimum audit coverage of the Bank Group, a longer frequency between audits, an inadequate mix of staff, and an inability to keep on top of significant and continuing increases in Bank Group lending and other activities and changes in the manner in which these

activities are being managed. There are certain basic financial and accounting areas in the Bank Group which we feel are important enough to be covered on a regular annual basis. Other areas can be covered less frequently. Furthermore, we believe it is extremely important that the internal audit work be in sufficient depth so that basic changes in financial and accounting controls can be recognized and appraised. The need to achieve basic audit objectives with existing staff restraints has precluded us from adequately extending our audit work into the management audit aspects of Bank Group programs and activities for possible means of improving the utilization of Bank Group resources. As we plan ahead it is important, therefore, to review our position vis-a-vis the present level of internal audit coverage in the Bank Group and what we consider adequate coverage to fully protect the Bank's interests.

#### Overall Internal Audit Program

5. Consistent with the objectives stated in paragraph 2, the audit responsibility is carried out through annual work programs covering selected areas and a rotation of audits depending on their relative importance. Comprehensive reviews and appraisals of internal control systems and transactions are significantly important now with the considerable expansion of the Bank Group's activities, the retirement of long-term experienced personnel and the increasing use of computer equipment. In addition, the budget restraints being applied to support departments are now resulting in constant endeavors to reduce staff effort by streamlining procedures. Such changes are desirable but require continuing audit evaluation to determine that adequate safeguards still exist to protect the Bank's interests and to measure whether desired increases in efficiency are really being achieved.
6. It is particularly relevant to have an adequate internal audit coverage of the Bank Group activities now that some member governments and the Joint Audit Committee of the Executive Directors are currently taking an active interest in the scope and activities of the internal audit function in the Bank Group to endeavor to satisfy themselves that resources of the three organizations are being properly and effectively used and administered.
7. To achieve an acceptable minimum level of audit coverage for the World Bank Group on the original basis, I am recommending and attaching hereto for Management's approval a Summary of Major Areas of Assignments by Frequency of Audit with supporting annexes covering (1) Schedule of Assignments by Frequency of Audit and (2) Overall Work Program Analysis of Man-Weeks Required. This audit coverage has been planned to give due consideration, where appropriate, to coordination with the work of the external auditors, Price Waterhouse & Co., to avoid any duplication of effort and has been prepared on the frequency of audit basis set out in paragraph 3.
8. The proposed audit coverage includes a number of activities not previously audited and provides, in some instances, for the extension of our scope of audit, as well as increased emphasis on the management audit aspects of many Bank Group programs and activities. In addition, the overall work program also includes specific management type reviews such as (a) procurement services at Headquarters, (b) building operations and maintenance, (c) insurance programs, (d) document retention system, (e) competitive bidding and general

procurement practices and procedures in the lending program, etc. These and other activities summarized below account for much of the increased manpower over the present staff.

- (1) Our work on data processing services should be extended to provide periodic reviews of the computer center operations and to evaluate the EDP controls and related computer applications.
- (2) We plan in the near future to review the effectiveness of the administrative budget as a management control device, the development of departmental costs and related procedures and controls.
- (3) Our current planned time of some 40 man-weeks on the accounting and financial aspects of loans and credits and on project supervision procedures is clearly not adequate to provide effective audit coverage in these areas. Our scope of audit in each area includes:

(a) Accounting and Financial -

Reviewing and evaluating internal control over Bank loans and IDA credits and, on a selected basis, examining loans/credits signed or becoming effective, disbursements, principal repayments and collection of interest and other charges to determine that such transactions have been approved and recorded in accordance with applicable policies, procedures and agreements. Principal amounts outstanding are confirmed direct with the borrowers on a sample basis.

(b) Project Supervision -

Ascertaining and evaluating existing procedures and guidelines in supervising procurement and other aspects of loans/credits and, on a sample basis (at present, a very limited selection of loans/credits drawn from one sector of one region), measure compliance with Bank/IDA policies and procedures. This audit work covers, for the selected loans and credits -

- (i) Practices followed in determining the qualifications of contractors, solicitation of bids and award of contracts;
- (ii) Compliance with loan/credit covenants covering financial and operational reporting by the borrower;
- (iii) Selection of independent auditors, the scope of their audit and standards of reporting (observing where possible deficiencies in auditing standards may exist);
- (iv) Reporting by staff members on field supervision missions, frequency, composition and duration of visits, areas covered, recommendations made, etc.; and
- (v) Methods used in the respective operating departments to determine the effectiveness and adequacy of their supervision procedures.

We believe the time allocated to this activity should be at least initially doubled in order to obtain wider and more effective coverage (especially when this is viewed in the context of the continuing expansion of the Bank/IDA lending program and the current situation of some 1,500 loans/credits with a net amount outstanding aggregating some \$24 billion).

- (4) The audit program allocates 1/2 a man-year to work jointly with the Operations Evaluation Department, at their request, in reviewing financial data and audit practices in their evaluation of selected loan/credit projects. We expect that this assistance will be required on a continuing and expanded basis in subsequent years. This also reflects the advantage of utilizing the expertise available in this department.
  - (5) The demands are increasing for audit assistance in various other areas of the Bank Group such as audits of specific UNDP projects costs, special operational travel study, reviewing proposals for changes in systems and procedures and draft policy statements, agreements, manuals, etc. In addition, we are presently engaged in the follow-up to a review covering the auditing standards of the National Audit Council of Thailand for the Asia Region Projects Department which we carried out in FY73. As a result of this review, additional requests for similar work in other countries are being received as Projects staff question the effectiveness of independent audits in the context of the Bank's reliance on such audits as an important control element in the effective utilization of funds by the borrower.
  - (6) It is important to build flexibility into the overall work program and to provide time to enable the department to keep abreast of current Bank Group developments which could have an impact on future audits. Flexibility must also be provided where audits are only being carried out on a two- or three-yearly cycle, as it is equally important to carry out spot checks of sensitive control areas in the off years. Time for this has been included in the overall provision for nonprogrammed assignments.
9. An earlier budget request for computing activities support in FY75 from the Computing Activities Department (not yet confirmed) will assist us in making more effective use of staff time in the clerical phases of audits and will enable some of the staff effort to be channeled into more productive and effective areas. This utilization of the computing facilities will have a long-range effect on the efficiency of audits to be conducted in future years. However, for FY75 any savings of manpower will be offset by the audit time required for planning and consultation in developing appropriate programs. In this connection, it would seem imperative to have in the department an experienced EDP staff auditor to develop this aspect of our activities as soon as possible, in addition to assisting in the extension of our scope of audit to cover periodic computer center audits and the evaluation of EDP controls in specific computer applications.

Staffing

10. In order to achieve the overall audit coverage proposed, it is suggested that implementation would be on a gradual basis over one or two years as additional staff is authorized and becomes available. The new program calls for an authorization of a total of five additional positions (over the existing ten authorized positions - 8 professional and 2 special services) in the upper and middle staff levels and would provide the Bank Group with what I consider to be an adequate internal audit coverage based on the existing volume of business and the activities currently identified. With these additional positions I plan to build up a strong nucleus of highly qualified staff which, combined hopefully with a policy of rotating staff to other positions in the Bank Group for career development purposes, would also provide this department with the flexibility it needs to do an effective job.

atts.

Lawrence N. Rapley  
May 31, 1974

INTERNAL AUDITING DEPARTMENT  
SUMMARY OF MAJOR AREAS OF ASSIGNMENTS  
BY FREQUENCY OF AUDIT 1/

<u>AREA OF AUDIT</u>	<u>Percent</u>	<u>Estimated Man-Weeks</u>			
		<u>Total</u>	<u>Annual</u>	<u>Biennial</u>	<u>3 Years</u>
CASH RESOURCES	6%	42	42	-	-
LENDING PROGRAM	15%	106	96	10	-
OTHER ASSETS, LIABILITIES, RESERVES, ETC.	8%	52	-	37	15
ADMINISTRATIVE PROGRAMS AND SERVICES	31%	216	53	128	35
SPECIAL PROGRAMS AND SERVICES	10%	71	6	33	32
OTHER ASSIGNMENTS	20%	138	91	-	47
SPECIAL WORK FOR OTHER DEPARTMENTS	<u>10%</u>	<u>70</u>	<u>70</u>	<u>-</u>	<u>-</u>
TOTAL	<u>100%</u>	<u>695</u>	<u>358</u>	<u>208</u>	<u>129</u>
PERCENT OF TOTAL	<u>100%</u>		<u>52%</u>	<u>30%</u>	<u>18%</u>

MAN-YEAR EQUIVALENT 2/

MAN-WEEKS ANNUALIZED	<u>65%</u>	<u>505</u>	<u>358</u>	<u>104</u>	<u>43</u>
Add - OVERHEAD					
Leave, holidays, staff meetings, professional development and orientation	21%	165			
Administration, planning, supervision and review (including Joint Audit Committee activities, discussions with and work for Vice President, follow-up of audit recommendations, work program, budget matters, etc.)	8%	65			
Estimate for overruns/slippage in time allocations	<u>6%</u>	<u>45</u>			
	<u>35%</u>	<u>275</u>			
GROSS MAN-WEEKS PER YEAR	<u>100%</u>	<u>780</u>			
MAN-YEARS REQUIRED ANNUALLY TO COMPLETE WORK PROGRAM ON PLANNED FREQUENCY OF AUDIT 3/					<u>15</u>

1/ See Annex 1 for details

2/ See Annex 2 for details

3/ Excludes secretarial/clerical staff of 3

April 1974

INTERNAL AUDITING DEPARTMENT  
SCHEDULE OF ASSIGNMENTS BY FREQUENCY OF AUDIT

<u>Area of Audit</u>	<u>Organization</u>			<u>Last Report Issued</u>	<u>Percent</u>	<u>Estimated Man-Weeks By Frequency of Audit</u>				<u>Remarks</u>
	<u>Bank</u>	<u>IDA</u>	<u>IFC</u>			<u>Total</u>	<u>Annual</u>	<u>Biennial</u>	<u>3 Years</u>	
<u>CASH RESOURCES</u>										
Borrowings - including related interest and bond issuance expenses	x	x	x	Apr. 73			10			
Cash Held by Depositories - including deposit and withdrawal transactions	x	x	x	Aug. 73			18			
Investments - including special reserve fund assets and related investment income	x	x	x	June 73			14			
					<u>6%</u>	<u>42</u>	<u>42</u>	<u>-</u>	<u>-</u>	
<u>LENDING PROGRAM</u>										
Bank Loans and IDA credits - including related income and project supervision and procurement procedures	x	x		Apr. 72			80			Includes additional 40 weeks to provide for planned increase in scope of audit in FY75
IFC Operational Investments - including related income and portfolio supervision procedures			x	Nov. 73			16			
Paying Agency - servicing loan participations and sales	x		x	Aug. 73				10		
					<u>15%</u>	<u>106</u>	<u>96</u>	<u>10</u>	<u>-</u>	
<u>OTHER ASSETS, LIABILITIES, RESERVES, ETC.</u>										
Accounts Payable and Other Liabilities	x	x	x	May 71				10		
Accounts Receivable - Miscellaneous and Other Assets	x	x	x	July 72				7		
Capital Stock, Reserves and Subscriptions										
Capital Stock - including amounts receivable on account of subscribed capital	x		x	-				)	9	No audit to date
Reserves	x	x	x	-				)		
Subscriptions and Supplementary Resources		x		-				)		
Office Working Funds and Miscellaneous Cash Accounts	x			Aug. 73					6	
Property, Furniture and Equipment	x			Oct. 71				12		Last audit covered "D" building only
Staff Loans and Advances	x		x	Feb. 73				8		
					<u>8%</u>	<u>52</u>	<u>-</u>	<u>37</u>	<u>15</u>	
<u>ADMINISTRATIVE PROGRAMS AND SERVICES</u>										
Annual Meetings - staffing and costs including those shared with IMF	x		x	-				12		No audit to date
Building Alterations and Maintenance	x			May 73			15			
Communications Services - including telephone facilities shared with IMF	x			June 73				15		
Consultants Services	x	x	x	Dec. 71				12		

Area of Audit	Organization			Last Report Issued	Percent	Estimated Man-Weeks By Frequency of Audit				Remarks
	Bank	IDA	IFC			Total	Annual	Biennial	3 Years	
<u>ADMINISTRATIVE PROGRAMS AND SERVICES (Cont.)</u>										
Contractual Services - including services rendered by consultants for non-operational departments	x		x	Mar. 73			20			
Education Benefits	x		x	Aug. 73					7	
Federal and Local Income Tax Reimbursements	x		x	Mar. 73		10				
Health Services - including life and medical insurance plans and operations of Health Room facilities shared with IMF	x		x	Aug. 71			11			
Insurance Program - property and casualty	x	x	x	Jan. 74					12	
Library Services - including facilities shared with IMF	x			-					8	No audit to date
Office Occupancy - rents, depreciation and security	x			Mar. 72			12			
Operational, Spouse and Home Leave Travel and Related Advances	x		x	Mar. 74		17				
Post and Housing Allowances	x		x	Oct. 71			8			
Procurement Services at Head Office	x			July 71			10			
Staff Food Services - including related accounts receivable, representation and hospitality	x			Jan. 73			10			
Staff Leave Accounting	x		x	Dec. 71					8	
Staff Resettlement	x		x	Nov. 72			8			
Staff Salaries - including dependency allowances, overtime and temporary salaries	x		x	Feb. 73		11				
Staff Benefits, Miscellaneous - including staff training, parking, staff activities, and language training facilities shared with IMF	x		x	-			10			No audit to date
					<u>31%</u>	<u>216</u>	<u>53</u>	<u>128</u>	<u>35</u>	
<u>SPECIAL PROGRAMS AND SERVICES</u>										
Cooperative Programs										
FAO	x			Nov. 73			)			
UNESCO	x			Nov. 73			)	10		
UNIDO	x			-			)			
WHO	x			Nov. 73			)			New Cooperative Program in FY74
Trust Funds and Research Programs										
Development Funds										
Indus Basin	x		)							
Nam Ngum	x		)	Jan. 72				12		
Tarbela	x		)							
Other Trust Funds										
International Crops Research Institute for the Semi-Arid Tropics (ICRISAT)	x		)							
International Laboratory for Research on Animal Diseases (ILRAD)	x		)							
International Livestock Center for Africa (ILCA)	x		)	-				16		No audit to date
Lower Mekong Project (MEKONG)	x		)							
Nam Ngum Dam Power Expansion Study (LAOS)	x		)							
Control of Onchocerciasis in Western Africa (ONCHO)	x		)							
United Nations Relief Operation in Dacca (UNROD)	x		)							



Area of Audit	Organization			Last Report Issued	Percent	Estimated Man-Weeks By Frequency of Audit				Remarks
	Bank	IDA	IFC			Total	Annual	Biennial	3 Years	
<u>SPECIAL PROGRAMS AND SERVICES (Cont.)</u>										
Research Programs										
Consultative Group on International Agricultural Research (CGIAR)	x		)							
Centro Internacional de Agricultura Tropical - International Centre of Tropical Agriculture (CIAT)	x		)							
Centro Internacional de Mejoramiento de Maiz y Trigo - International Maize and Wheat Improvement Centre (CIMMYT)	x		)							
Centro Internacional de la Papa - International Potato Centre - Peru (CIP)	x		)							
International Crops Research Institute for the Semi-Arid Tropics - India (ICRISAT)	x		)	-				16		No audit to date
International Institute of Tropical Agriculture - Nigeria (IITA)	x		)							
International Laboratory for Research on Animal Diseases - Kenya (ILRAD)	x		)							
International Livestock Centre for Africa - Ethiopia (ILCA)	x		)							
International Rice Research Institute - Philippines (IRRI)	x		)							
West African Rice Development Association (WARDA)	x		)							
UNDP (Bank operating as executing agency)	x			-				11		
UNDP Projects - planning and follow-up of audits conducted by outside auditors on claims by selected consultants for fees and expenses	x			-				6		
					<u>10%</u>	<u>71</u>	<u>6</u>	<u>33</u>	<u>32</u>	
<u>OTHER ASSIGNMENTS</u>										
Administrative Budget - review of the preparation and effectiveness of the Administrative Budget as a management control device, including the review of departmental costs and related procedures and controls	x		x	-					20	No audit to date
Data Processing Services - including review of computer operations, related controls, and facilities shared on a joint basis with IMF	x	x	x	Dec. 72				12		Coverage to be expanded in FY75 to include computer operations and related controls
Document Retention System - including effectiveness of retention policies, microfilming and outside records and storage facilities	x	x	x	-					15	No audit to date
EDI - including accountability for amounts made available to finance overseas courses, etc.	x			-					12	No audit to date
Resident Missions - office operations and accountability	x							12		Visits rotated so that major offices are covered at three-year intervals (time in the field is approximately 1 man-week per office)
European Offices London and Paris				Mar. 74						
Eastern Africa Region Nairobi				Feb. 74						
Western Africa Region Abidjan Accra Lagos				Nov. 70 - -						

Area of Audit	Organization			Last Report Issued	Percent	Estimated Man-Weeks By Frequency of Audit				Remarks
	Bank	IDA	IFC			Total	Annual	Biennial	3 Years	
<u>OTHER ASSIGNMENTS (Cont.)</u>										
Resident Missions (Cont.)										
Asia Region										
Dacca				-						
Islamabad				July 73						
New Delhi				July 73						
Bangkok				-						
Djakarta				June 71						
Provisions have not been made for possible future visits to other resident missions and offices in -										
Afghanistan										
Colombia										
Ethiopia										
Iran										
Japan										
Nepal										
Sudan										
Tanzania										
Zaire										
Zambia										
Staff Retirement Fund	x		x	Mar. 73			12			
Provisions for nonprogrammed assignments, discussions and consultations with staff members of other departments on sundry accounting and auditing matters, including proposed changes in systems and procedures, manuals, draft policy statements, draft agreements, etc.	x	x	x				55			See Annex 2 for breakdown
					20%	138	91	-	47	
<u>SPECIAL WORK FOR OTHER DEPARTMENTS</u>										
Auditing and Reporting Standards - special studies requested by other departments to determine if auditing and reporting standards of government auditors are acceptable for the Bank's financial reporting and audit requirements covering Bank loans and IDA credits	x	x		May 73			8			On basis of Audit Council of Thailand review
Financial Reporting - special assistance requested by Operations Evaluation Department in reviewing certain financial data and auditing practices with respect to selected studies of Bank loans and IDA credits	x	x		-			22			New coverage - initial provision for FY75
Other Special Work	x		x				35			Special Operational Travel Study has required some 45 man-weeks to date
UNDP Projects - audit of consultants fees and expenses on individual projects (Bangladesh - Land and Water Studies) (Ethiopia - Development Planning Assistance)	x			Jan. 73			5			Commitments through FY75 estimated to be 5 weeks per year
					10%	70	70	-	-	
TOTAL					100%	695	358	208	129	
PERCENT OF TOTAL					100%		52%	30%	18%	

## INTERNAL AUDITING DEPARTMENT

OVERALL WORK PROGRAM ANALYSIS OF MAN-WEEKS REQUIRED (ESTIMATED) <sup>/1</sup>

	Total Staff	Man-Weeks Allocated to Overhead							Man-Weeks Available (Net)				
		Total Man-Weeks Available	Annual Leave	Statutory Holidays	(Est.) Sick Leave	Staff Training Staff Meetings Courses Orientation	Planning, Supervision & Review	Administration	Estimate for Overruns/Slippage in Time Allocations	Secretarial/Clerical	Total	Programmed Assignments	Nonprogrammed Assignments, Discussions & Consultations on Sundry Auditing/Accounting Matters
MANAGEMENT	2												
Rapley		52	5	2	1	3	15	15	3		44	-	8
Worthington		52	5	2	1	3	10	10	3		34	12	6
AUDIT STAFF													
Upper Level	6												
Bladen		52	5	2	1	3		10	3		24	24	4
Ali		52	5	2	1	3		5	3		19	29	4
Shah		52	5	2	1	3			3		14	35	3
Clauwaert		52	5	2	1	3			3		14	35	3
Mosse		52	5	2	1	3			3		14	35	3
Position open (Est. EOD 6/1/74)		52	5	2	1	3			3		14	35	3
Assistant Level	2												
Lu		52	5	2	1	3			3		14	35	3
Wong		52	5	2	1	3			3		14	35	3
Current Authorized Staff	10	520	50	20	10	30	25	40	30		205	275	40
New Positions Required	5												
No. 1		52	5	2	1	3			3		14	35	3
2		52	5	2	1	3			3		14	35	3
3		52	5	2	1	3			3		14	35	3
4		52	5	2	1	3			3		14	35	3
5		52	5	2	1	3			3		14	35	3
Audit Staff Required	5	260	25	10	5	15			15		70	175	15
SECRETARIAL/CLERICAL	3												
Secretary - Miss de la Cruz		52	5	2	1					44	52		
Typist - Mrs. Bjarnason		52	5	2	1					44	52		
Clerk (Specialized) - M. Jassal		52	5	2	1					44	52		
Current Authorized Staff	3	156	15	6	3					132	156		
TOTAL	18	936	90	36	18	45	25	40	45	132	431	450	55

<sup>/1</sup> Based on Internal Audit Coverage of Bank Group Activities with optimum staff.

Note: On basis of a 40-hour week and an average of 40 man-weeks per year each man-week represents 1 working hour per week.

April 1974

Summary	
Net man-weeks available:	
Programmed assignments	450
Other	55
	505
Add - Overhead:	
Annual leave	75
Statutory holidays	30
Sick leave	15
Staff training, etc.	45
	165
Administration	40
Planning, etc.	25
	65
Overruns/slippage	45
	275
Gross Man-Weeks - Audit Staff	780
Secretarial/Clerical	156
Total Man-Weeks	936



CONSTITUTIONAL STATUS  
OF OPERATIONS EVAL.

DOCUMENT OF  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
NOT FOR PUBLIC USE

DECLASSIFIED  
MAY 27 2012  
CONFIDENTIAL  
WFG ARCHIVES

SecM73-203

April 13, 1973

FROM: The Secretary

OPERATIONS EVALUATION AND PROJECT PERFORMANCE AUDITS

Attached is a memorandum dated April 13, 1973 from the President on the introduction of Project Performance Audits and the future work program in Operations Evaluation.

Distribution:

Executive Directors and Alternates  
President  
Senior Vice President, Operations  
Vice Presidents, Bank, and Officers of IFC  
Directors and Department Heads, Bank and IFC



OFFICE OF THE PRESIDENT

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A.

→ History

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AUG 27 2012  
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April 13, 1973

MEMORANDUM TO THE EXECUTIVE DIRECTORS

SUBJECT: Operations Evaluation and Project Performance Audits

1. Evaluation reports on past Bank operations in Colombia and in the electric power sector were distributed to the Executive Directors and discussed in the middle of last year. In a memorandum of July 20, 1972 (Sec M72-388) I outlined to you an operational evaluation and audit program for FY1973, dealing mainly with projects for which loan/credit disbursements were completed some five years ago. The Operations Evaluation Division has been carrying out this program, and audit reports on a number of projects have been distributed in the last few months; further audit and evaluation reports are due for completion in the next five months.
2. With the exception of these reports, the Executive Directors have not been receiving an independent accounting, on a systematic and comprehensive basis, of the extent to which projects supported by the Bank and IDA have fulfilled the objectives on the basis of which loans and credits were approved. This is a gap which needs to be filled to give us a more complete and timely idea of our own performance as an institution trying to assist development. I therefore propose to introduce a system of Project Performance Audits, covering all projects financed with Bank/IDA assistance, and to add responsibility for their preparation to the existing functions of the Operations Evaluation Division.
3. Project Performance Audits will be prepared on all projects in developing countries about one year after completion of loan/credit disbursement (i.e. typically 4 to 8 years after approval by the Board of Directors). Their purpose will be to analyze the extent to which objectives stated in loan documents have been, or show promise of being, achieved and the reasons for deviations. The feasible sophistication of

this enquiry, one year after completion of Bank/IDA disbursements, will vary considerably among projects, depending on the nature of the objectives sought, the sector to which the project belongs and the duration of disbursements. But the aim will be to match the scope of the appraisal report, on the basis of which Bank/IDA support was approved, and to cover economic and institutional objectives to the extent possible as well as physical and financial ones. We believe that even at this stage it should usually be possible to identify the pattern of incipient benefits — which of course weigh heavily in investment analysis.

4. In the preparation of the reports maximum use will be made, as in any audit, of existing information, without, however, in any way violating the crucial principle of independence.

5. Preparation of Project Performance Audits will fit well with the other, more evaluative work of the Operations Evaluation Division, assisting it to identify topics of greatest relevance to the ongoing operations of the Bank. In some cases an important conclusion of a Project Performance Audit will likely be that the project should be subjected to a deeper evaluation a certain number of years later when results are more fully visible.

6. The new scheme will be introduced for all projects on which loan/credit disbursements ended after July 1, 1972. A major part of the work program of the Operations Evaluation Division for FY1974 will consist of steps to get the system underway and preparation of Performance Audits on each of the 25 projects for which loan/credit disbursements were completed in the first half of FY1973. The other part of the work program for that year will consist of a major evaluation study on past Bank lending for agricultural credit and the first phase of a study investigating, on the basis of an appropriate sample of past projects, the spread of administrative, managerial and technical innovations from Bank-assisted projects, and designed to establish the efficacy of this frequently expected phenomenon and how it could usefully be strengthened.

*Robert S. McNamee*



Constitutional Party of Canadian Democrats

as of  
Friday  
night  
Oct 16

<u>Members</u>	<u>Present</u>	<u>Not Present</u>
----------------	----------------	--------------------

- Mr. Kinnear
- Mr. (Kinnear)
- Mr. (Kinnear)
- Choi
- De Groot
- Dunton
- Garner (Kinnear)
- Gunderson
- Kell
- Isidorson
- Jansson
- Kirchhoff
- Kochman
- Kryger
- McLeod
- Randinson
- Lincoln Kinnear
- Rota
- Islam (Sen)
- Seltness
- Wahl

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DRAFT

CRW/tm

October 21, 1974

Since the two memoranda that you have before you were circulated we have had some further discussions with the United States Executive Director. As a result of these discussions Mr. McNamara has <sup>authorized</sup> ~~entitled~~ me to say that he is prepared to change the sentence in his memorandum of September 27 (towards the bottom of page 2) which states "It is for this reason that I would make the unit responsible both to the Executive Directors and to the President of the Bank Group", to read instead "It is for this reason that I would make the unit responsible to the Executive Directors, with an administrative link to the President of the Bank Group".

This change means, in terms of the symbolism of an organization chart, that whereas Mr. McNamara was before proposing that lines linking the Vice President responsible both to the Executive Directors and to himself should be retained when the Vice President is replaced by a Director General, he is now proposing that the organization chart should be changed at the time the Director General takes office to indicate only a dotted line (representing the administrative link) to himself while keeping the full line of responsibility to the Executive Directors.

In regard to the auditing and reporting standards proposed by the U.S. E.D. I am to add that we <sup>and generally in agreement</sup> have no objection specifically to any <sup>of those</sup> standards which are <sup>universally</sup> generally accepted, and <sup>also</sup> applied by us. But we are not yet ready to issue a code for the Department as we need ~~a~~ <sup>tot</sup> more experience before doing so.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 15, 1974

FROM: M. Shoaib

*M. Shoaib*SUBJECT: Operations Evaluation

I discussed our memorandum of September 27 and Mr. Sethness's memorandum of October 4 with Mr. Isbister on October 14 and Mr. Wahl on October 15 with the following results:-

*10/15*

Mr. Isbister thinks the present situation indicates very great progress in the intervening period since the question arose, and he would like to be the first to speak on the subject as the Chairman of the Joint Audit Committee and to eulogize the United States for the constructive assistance provided by them. He would, however, support our proposal to have two lines from the Head of the Operations Evaluation unit, one to the Board and one to the President.

Mr. Wahl said that he mentioned, with approval, the work done by the Operations Evaluation Department in the discussions this morning in the Board. He thought that the position taken in your paper is entirely reasonable and one which he will strongly support. He agrees that **dissociation** of the unit from the President of the Bank would lead to a situation where it would be harder for the unit to collect all the information it needed and to carry out its work effectively and efficiently.

cc: Mr. Damry  
Mr. Willoughby

MShoaib;hls

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 16, 1974

FROM: M. Shoaib *Usoib*SUBJECT: Operations Evaluation

107  
18

In continuation of my memorandum of October 15 regarding Operations Evaluation Department. I discussed our paper and Mr. Sethness's comments with Mr. Rawlinson. Earlier today Mr. Willoughby had discussed the matter with Mr. Browning, and copy of his record regarding the discussion is placed below. Mr. Rawlinson repeated much of the same kind of view as Mr. Browning expressed but went on to say that while he would earnestly request me to try and avoid a confrontation with the Americans since they are the largest donors and the IDA replenishment is yet to be decided, he would if it came to a vote be in favor of Mr. McNamara's proposal on principle.

I then discussed the matter with Mr. McLeod who was accompanied by his Alternate, Mr. Visbord, who had made a thorough study of all the papers. They told me that they would consult with their Governments who had not expressed any views so far but they were generally in favor of the Sethness position. In particular, they raised a question as to whether or not it would be appropriate, which they thought it was, for the post of Director General to be "advertised." By "advertising" they apparently meant asking each of the Executive Directors to find out from their Governments if they had a candidate. Finally, they suggested that perhaps an alternate solution might be more viable, namely, having a firm line from the Director General to the Board of Directors and a dotted line from the Director General to the President.

Attachment

cc: Mr. Damry  
Mr. Willoughby

MShoaib:hls

## OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib, Vice President

DATE: October 16, 1974

FROM: C. R. Willoughby *CRW***DECLASSIFIED**  
**AUG 27 2012**  
**WBG ARCHIVES**SUBJECT: Conversation with Mr. Rex Browning, UK Alternate EDCONFIDENTIAL

Following your suggestion, I had a useful conversation with Mr. Browning this morning about Operations Evaluation, referring to the memos from Messrs. McNamara and Sethness recently circulated and some of the operational problems of doing effective evaluation.

Mr. Browning, speaking after discussion with his colleagues, said he was concerned that increased emphasis on independence, particularly constitutional separation of operations evaluation from the Bank management, could mean that the Bank staff and management would take less notice of findings and lessons emerging from such studies. He had sufficient experience of Government relations with the Public Accounts Committee of the Commons (cf. the Executive Directors), to know that the essential thing was to convince staff and management of the validity of suggestions since the Directors could always be fobbed off with explanations and justifications from operational staff. The Bank's Board could not and should not be in the position of deciding about action in response to operations evaluation findings. In these ways as well as others, greater distance of operations evaluation from management would be likely to reduce its effectiveness.

On the other hand the United States was the largest IDA donor and if a sacrifice in the effectiveness of operations evaluation had to be made to suit the US Congress this was a small price to pay.

But were there any cheaper ways of meeting their demands, obviously important to them insofar as the U.S. Government had come back dissatisfied with the solution worked out by management over the last year? Could a committee of Executive Directors or Alternate Executive Directors be a solution?

Here I described the Asian Development Bank approach of having a unit similar to the OED and undertaking periodically to submit to the Executive Directors lists of completed projects from which they could select one or a group for study, which the management would then proceed to organize with an outside, probably academic institution that would present its report simultaneously to Board and management. Mr. Browning thought this was a good idea and wondered whether the US might not feel that this form of independent study would also satisfy Congressional requirements for the IBRD/IDA.

If the U.S. would accept this, then it was, in Mr. Browning's view, worth considering withdrawal of Mr. McNamara's memorandum, keeping the present set-up as it is but adding only the facility for periodic external studies by academic institutions suggested by the Asian Bank. He was obviously concerned by the cost implications of both Messrs. McNamara's and Sethness' proposals, wondering whether there would be enough for the high-level Director-General to do.

In sum, nothing very useful could be expected from independent external evaluation and audit, however conceived, but if the rather ill-informed persons involved in the U.S. Government insisted upon it, then it should be bought as cheaply as possible.

We also had some useful discussion about IBRD personnel policies and the crucial importance of greater inter-departmental rotation; Mr. Browning thought that a necessary step to get the latter would be a promotion system less dependent on the views of individual immediate superiors than he felt to be the case now.

CRWilloughby/aga

WORLD BANK GROUP

ROUTING SLIP		DATE <i>10/18</i>	
NAME <i>Mr. Shoats</i>		ROOM NO. <i>F1212</i>	
	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE
REMARKS			
FROM <i>C. R. Willoughby</i>		ROOM NO. <i>61050</i>	EXTENSION <i>2745</i>

*Mr. Shoats*

Form No. 89  
(2.66)

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

ROUTING SLIP		Date
18 Oct 74		
OFFICE OF THE PRESIDENT		
Name		Room No.
<i>Mr McNamara</i>		
<input type="checkbox"/>	To Handle	Note and File
<input type="checkbox"/>	Appropriate Disposition	Note and Return
<input type="checkbox"/>	Approval	Prepare Reply
<input type="checkbox"/>	Comment	Per Our Conversation
<input type="checkbox"/>	Full Report	Recommendation
<input checked="" type="checkbox"/>	Information	Signature
<input type="checkbox"/>	Initial	Send On
Remarks		
<i>Can we discuss on Oct 21 please</i>		
From		<i>Shoats</i>



## OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib, Vice President

DATE: October 18, 1974

FROM: C. R. Willoughby *CRW*SUBJECT: Discussions on the Constitutional Status of the Operations  
Evaluation Department

In accordance with the arrangements you had made I met yesterday with Messrs. Sethness, Hirschtritt and Reynolds in the U.S. Executive Director's office. I wanted to make three principal points:

1. The US Government had been saying that the purpose of its interventions was to strengthen operations evaluation in the Bank. As the direct manager of this function to date, I have felt that the US and GAO pressure and ideas had indeed been repeatedly beneficial to the Bank but I also felt that the particular step now proposed in Mr. Sethness' memo would be destructive of much of the good already done. Total separation of OED from management would substantially exacerbate problems of recruiting quality staff to the Unit and it would make ready access to the Bank and free, frank interchange with operating staff more difficult. There was even a certain inconsistency between what I had considered useful GAO pressure on us to look more at internal problems of efficiency, economy and detailed operating policy and, on the other hand, the effort to push us out of the Bank. The main response of my interlocutors was that GAO, as precisely such an outside body in the context of the US Government, would not be able to understand these points. Hence we discussed the differences between our situation and that of the US Government - the very large size of the latter and of GAO itself, offering ample scope for interchange and for promotion possibilities within GAO itself, and the GAO's main concentration on financial and compliance auditing, involving less difficult questions of judgment than management auditing or operations evaluation.

2. Why were we not in compliance with the 'independence' requirement of the US legislation already, especially with the proposed changes usefully developed with the US Government regarding the conditions of appointment and termination of the 'Director General'? Again thanks partly to the U.S. we also had the special link with the Joint Audit Committee, part of whose responsibility was to assess samples of our reports to see whether we were living up to standards laid down and in particular whether these reports, and the procedures applied in their preparation, demonstrated sufficient independence. Our reports had been criticized on many counts but never once, by anybody (including the US Government), for lack of independence. The answer to this was that Mr. McNamara's two references on page 2 of his memorandum (see Annex I) to lines of responsibility both to the Executive Directors and to the President were not consistent with the statement in the GAO standards paper "One of the primary considerations in establishing an effective

review and evaluation system is to ensure that it is independent of the Bank Group's President and other management officials." Moreover Mr. Hirschtritt had checked Mr. McNamara's paper with a man in GAO now away and, even though the matter had not been to the higher echelons there, it was likely that failure to go farther would lead to an adverse GAO letter to the US Congress about the Bank's non-response. (I did not have the impression that the large existing dimensions of our independence had been very well conveyed to the US GAO.)

3. In view of the importance of preserving the link with management, would the draft (attached as Annex II), following the lines of what had been accepted as regards independent audit in the Asian Development Bank, be acceptable? The US representatives read my draft but we did not discuss the details at all because, they said, (a) the ADB solution had not yet been accepted by GAO; (b) it was not accepted by anybody except as a first step even for the ADB; and (c) it would not seem to fulfill the reference in the US legislation to the need for "establishment... of...qualified groups...for...providing a.....continuous program of.... evaluation." But they kept my draft proposal. The idea seems to have been worked out very carefully in the ADB and could yet prove a useful additional third dimension of formal independence: Director-General, Joint Audit Committee link, external evaluations.

#### US Proposal

Mr. Hirschtritt said that he had been able to justify to the GAO the phrase at the top of page 2 of Mr. McNamara's memorandum to which they had objected, "...as well as to the President", by pointing out that this referred only to the transition period. He also felt he would be able to convince the GAO to accept the following language lower down the same page "It is for this reason that I would make the Unit responsible to the Executive Directors, with an administrative link to the President of the Bank Group", keeping in the important preceding sentence referring to the continuing role of the head of the Bank Group in ensuring the excellence of the staff and shaping the work program -- although it should be added that Mr. Sethness expressed some concern about this, especially the "shaping". Mr. Sethness wanted to take up this proposed change in the language of Mr. McNamara's memorandum with him immediately but in his absence we agreed it must be deferred until Monday. What it was agreed to mean essentially is that, while the organization chart would show two thick lines as long as the Vice President remains in charge, the Director-General would remain linked to the Board by a continuous line but to the President only by a dotted line, symbolizing an administrative link.

Other Executive Directors

Mr. Isbister also called me yesterday to ask me to draft some strong language, the main lines of which he suggested, for a brief statement by him at the Board in favor of Mr. McNamara's position. Mr. Damry reported to me that he had spoken to Messrs. De Groote, Barrios (for Gavalda), Rota and Kryger, and that they had all supported the President's position, the last one particularly strongly; he also felt Mr. Kochman did too. Mr. Islam and Rinnooy Kan with whom I spoke (as members of the Joint Audit Committee) both told me that they had reached their own conclusion that Mr. McNamara's memo already tended to go too far, Mr. Kan having an eye to the budget and also the need for close relationship between staff and OED for fair judgments to be reached, and Mr. Islam on several grounds particularly the contrast between financial and management auditing. Mr. Choi, citing the parallel of the Auditor General in his own country, told me he could see the logic of the US position; but, in the course of conversation, he appeared to be convinced by the discussions we had about how separation from management would weaken the effectiveness of evaluation.

Options

As of today and bearing in mind that we seem to be assured of strong statements from several EDs in favor of Mr. McNamara's memorandum or less, and that only Messrs. Janssen and McLeod seem likely to give strong (?) support to Mr. Sethness' position, I suppose that there are two principal options:

1. To accept the revised language proposed by Mr. Sethness on the grounds he gave that "even if it would somewhat weaken the effectiveness of evaluation, as you argue, that's a small price for the Bank to pay for \$500 million per year".
2. To stick to the position outlined in Mr. McNamara's memorandum already circulated and expect the US to be overridden in the Board.

Recommendation

I would favor Option 2 for the following reasons:

1. Responsibility to the Board must presumably mean that reports, and recommendations of evaluation reports, would be addressed to the EDs who would in turn have the responsibility for deciding the action to be taken on them, as I understand is the case in theory in the IDB. This is inconsistent with fundamental bases of the effective operation of the Bank.

2. Separated from management, except for a residual administrative link, I will have even greater difficulty than I have now to get (and perhaps keep?) competent staff because prospective recruits will fear on the one hand that they will be unacceptable afterward in a Bank which they have been responsible for criticizing (whether correct or not, this is already a very real fear and problem) and on the other hand that a 10-man unit offers little promotion prospects within itself.

3. The unit, as an outside appendix to the Bank, will lose close relationship to, trust of, and credibility with, operating staff -- anyway difficult to maintain -- which will severely hamper its ability to deal with, and provide sound judgments on, the kind of operational issues on which the most useful things are to be learned.

4. Relationships between Bank and unit will tend to become much more formalized and rigid than they already are: formal exchanges of memoranda, fuller staffing of the OED (e.g. to do accounting work we do not now do, or to rely less on Bank-produced Project Completion Reports), possible eventual creation of a corresponding internal evaluation service to parallel the external one (as has been happening in IDB, and could be essential to management). This means possible substantial additional budgetary costs, much beyond the mere creation of the DG's office.

5. This is a decision setting a pattern for the other regional banks and international organizations. As far as I can gather none, other than the IDB, now has a unit of the type urged by the US, and the reputation of the one in IDB, not gainsaid by the US officials, is poor. If the Bank finds the GAO pattern can be applied to a fully multilateral organization, then the U.S. will presumably use the example in its dealings with other parts of the UN system, etc.

It is not at all clear to me what are the real risks that failure to do exactly what some persons in the GAO want will seriously jeopardize IDA appropriations. Even assuming that GAO leadership does support its staff, one would have thought that the US Congress would be impressed with clear testimony by a U.S. representative as to how the weighted majority of an international organization's Board had explicitly decided that evaluation would remain more effective if not reporting only to it. Enemies of 'foreign aid' would remain enemies and friends friends.

Perhaps therefore it is worth postponing the Board discussion of this matter with a view to trying to convince the Executive Directors who tend to

Mr. Mohamed Shoaib

- 5 -

October 18, 1974

sympathize with the "US position" that a more conservative policy would be wiser, and/or to learn more about the real substance of the US position and find whether some really constructive compromise could not be reached as it has on past occasions.

Attachment

cc: Mr. Damry

CRW:ch

*Mr McNamara's  
Memo to the EDS  
of September 27*

and emphases in the current work program result directly from the Committee's suggestions. Standards applied in audit and evaluation work, which are basically those generally accepted worldwide for this type of work, have been given special attention by the Committee and their actual use examined in review of sample reports, as discussed in the Committee's forthcoming annual report for 1974.

I think that the time has now come for the growing link between the Executive Directors and the Operations Evaluation unit to be recognized formally by drawing lines on our Organization Chart directly linking the unit, and the Vice President in charge of it, to the Executive Directors as well as to the President. I also propose that, following the retirement in 1975 of the Vice President presently responsible, and in any case not later than December 31, 1975, a title of Director-General, more indicative of independence from the normal operations of the Bank, should be instituted for the manager of this function. Appointees to this post, which would have rank equivalent to that of a Vice President, would be selected by the Executive Directors from one or more names put forward by the President of the Bank, after informal consultations with the Executive Directors, from among persons then working inside or outside the Bank Group, but normally drawn from the senior staff of the Bank Group so as to ensure familiarity with the problems of development and the operations of the Group. Appointees would hold office for renewable terms of five years, be removable only by the Executive Directors and be ineligible for subsequent appointment or reappointment to the Bank Group staff except in unusual circumstances.

The basic work program of the unit would be reviewed and approved periodically by the Executive Directors and all the reports of the Operations Evaluation unit would be sent simultaneously to the Executive Directors and to the President, without any interference by the latter with their content. However, I do believe that the head of the Bank Group should continue to play a role in ensuring the excellence of the staff and shaping the work program, in the light of other on-going work and plans of the institution. It is for this reason that I would make the unit responsible both to the Executive Directors and to the President of the Bank Group. Appointment, termination, promotion and compensation decisions for the staff of the unit, to be drawn from inside or outside the Bank Group, should be at the discretion of the Director-General within the normal policies and procedures governing all Bank Group personnel, and the staff of the unit would be considered as regular employees of the Bank Group.

At present the Internal Auditing Department also reports to the Vice President responsible for Operations Evaluation. This Department, which has also grown significantly since 1970, is carrying out independent, systematic and objective audits and appraisals of the Bank Group's financial, administrative, accounting and other activities, with particular emphasis

*into an administrative line*

While support of the management and the kind of familiarity with Bank operational issues that can only be developed gradually and by means of ready interchange with Bank staff are essential to an effective evaluation <sup>system</sup> ~~effort~~ particularly to make the themes of the studies and the lessons derived as fully relevant and persuasive to the Bank as possible - it would seem desirable to create a facility for projects to be selected by the Executive Directors from time to time for review by parties brought in from outside. Such external assessment might yield useful fresh views and would provide an additional degree of assurance that problems are not remaining undiscovered by the overall evaluation effort. Hence it is proposed that a few of the completed projects that would be subject to performance audit in any year be selected by the Executive Directors for study by outside institutions.

The Director General will submit to the Directors a complete list of projects for which performance audit would be prepared over the following twelve months (currently nearly 100, and rising in coming years) and propose some for which outside <sup>e</sup>/<sub>h</sub> valuation might be undertaken. He will fully explain the basis for choice of these (such as random selection, or sector concentration, or type and importance of issues arising) and give sufficient information - in the form of notes about each project, the issues <sup>it raises</sup> arising and possible objectives of a performance review of each - to enable the Directors to reach a sound <sup>final</sup> ~~fiscal~~ selection of two or three projects for external review. The Director General would then locate appropriate academic or other non-profit-making institutions to carry out the work. Before finalization of the contract, details of the selected institutions or persons would be submitted to the Executive Directors for approval on a ~~no~~-objection basis. After review of all pertinent records in the Bank and discussion with the relevant Government, the project authority and the Bank staff involved with the project, the team would prepare a report, addressed to the Chairman of the Board of Directors and circulated simultaneously to him and to each Executive Director.

ROUTING SLIP

Date 18 Oct 74

OFFICE OF THE PRESIDENT

Name

Room No.

Mr McNamara

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

Can we discuss on  
set 21 please

From

Uwab



## OFFICE MEMORANDUM

TO: Mr. Mohamed Shoaib, Vice President

DATE: October 18, 1974

FROM: C. R. Willoughby *CRW*SUBJECT: Discussions on the Constitutional Status of the Operations  
Evaluation Department

In accordance with the arrangements you had made I met yesterday with Messrs. Sethness, Hirschtritt and Reynolds in the U.S. Executive Director's office. I wanted to make three principal points:

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Options

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Recommendation

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Mr. Mohamed Shoaib

- 5 -

October 18, 1974

sympathize with the "US position" that a more conservative policy would be wiser, and/or to learn more about the real substance of the US position and find whether some really constructive compromise could not be reached as it has on past occasions.

Attachment

cc: Mr. Damry

CRW:ch

Mr. McNamara's  
Memo to the EOs  
of September 27

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At present the Internal Auditing Department also reports to the Vice President responsible for Operations Evaluation. This Department, which has also grown significantly since 1970, is carrying out independent, systematic and objective audits and appraisals of the Bank Group's financial, administrative, accounting and other activities, with particular emphasis

into an administrative link

While support of the management and the kind of familiarity with Bank operational issues that can only be developed gradually and by means of ready interchange with Bank staff are essential to an effective evaluation ~~effort~~ <sup>system</sup> particularly to make the themes of the studies and the lessons derived as fully relevant and persuasive to the Bank as possible - it would seem desirable to create a facility for projects to be selected by the Executive Directors from time to time for review by parties brought in from outside. Such external assessment might yield useful fresh views and would provide an additional degree of assurance that problems are not remaining undiscovered by the overall evaluation effort. Hence it is proposed that a few of the completed projects that would be subject to performance audit in any year be selected by the Executive Directors for study by outside institutions.

The Director General will submit to the Directors a complete list of projects for which performance audits would be prepared over the following twelve months (currently nearly 100, and rising in coming years) and propose some for which outside <sup>e</sup>valuation might be undertaken. He will fully explain the basis for choice of these (such as random selection, or sector concentration, or type and importance of issues arising) and give sufficient information - in the form of notes about each project, the issues <sup>it raises</sup> arising and possible objectives of a performance review of each - to enable the Directors to reach a sound <sup>final</sup> ~~fiscal~~ selection of two or three projects for external review. The Director General would then locate appropriate academic or other non-profit-making institutions to carry out the work. Before finalization of the contract, details of the selected institutions or persons would be submitted to the Executive Directors for approval on a ~~no~~-objection basis. After review of all pertinent records in the Bank and discussion with the relevant Government, the project authority and the Bank staff involved with the project, the team would prepare a report, addressed to the Chairman of the Board of Directors and circulated simultaneously to him and to each Executive Director.

ROUTING SLIP

Date  
Oct. 23, 1974

*Put this file  
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Name

Room No.

OFFICE OF THE PRESIDENT

~~Mr. Shoalib~~

~~F 1212~~

~~Mr. Blaxall~~  
~~Mr. Shoalib~~

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

I think you will be interested to see the attached copy of a memorandum written by Mr. Blaxall regarding Operations Evaluation.

From

J. Burke Knapp



✓  
②  
—

## OFFICE MEMORANDUM

TO: Mr. Gerald Alter

DATE: October 14, 1974

FROM: John Blaxall

SUBJECT: Operations Evaluation - GAO Proposal

1. I do not think the GAO's proposed "standards" are particularly helpful. Nor do I think that the one experiment along these lines I know about, the IDB's Group of Controllers, has anything to recommend it. The results (up until the time I stopped seeing them a year ago) were voluminous, superficial, destructive of proper management practices in IDB, and I suspect quite ineffective in achieving their declared aims. I wonder whether anyone has ever evaluated the effectiveness of the GAO.

2. I think in general that the major benefit of evaluative work is in drawing lessons for future operations. The more remote an evaluation unit is from the operating staff, the less will this benefit be realized - both because the evaluation unit will be less familiar with operational details and constraints, and because operating staff will be less inclined to pay attention to its findings. Obviously there is a trade-off between "familiarity" and "independence". I am inclined to discount independence heavily, because I think it is a mirage, and because I am much more interested in drawing and incorporating useful lessons from experience.

3. If it is nevertheless necessary, for reasons of public accountability, that independence be given overriding weight, and it is decided that an entirely separate evaluation group must be set up, then I think it would be most undesirable for it to play the role proposed in the GAO paper. In particular, it should not have as one of its purposes to "recommend improvements in programs and activities", for two reasons. The first is that I do not see how an institution's management can function effectively if some independent group is making "recommendations for improvements" to the Board of Directors. This is simply a usurpation of the management function - and I could see the result turning into an endless and time-consuming wrangle of recommendations and counter-proposals. The second is that an institution has to go through the process of formulating an action before it can effectively implement it. I just do not believe that "recommendations for improvement" from some outside body, be they ever so wise, will be carried out.

N.B.  
4. This problem would be much more apparent if the Bank had ever established adequate procedures for handling its present internal operations evaluation reports. The recommendations should in my view always be accompanied (or at least closely followed) by a detailed statement of the management's reaction, and what it proposes to do in response to the recommendations. Since the evaluation group is internal, such a statement by management could be considered as definitive - subject of course to the Board's disagreement. But suppose the recommendations come from a third party, an independent evaluation group: is the Board going to end up as referee?

2.

5. Consequently I see an independent evaluation group playing a useful role, provided it is limited to pointing out deficiencies, and insisting on (and following up on) management's response to its findings. This is already a considerable extension of the analogous role of the financial auditor (who is not required to follow up on responses to his findings). While such an independent group would presumably satisfy the public accountability criterion, it would not be much use in drawing, and incorporating into future operations, the lessons of our experience. For that purpose I think we should still need some sort of internal evaluation staff. Presumably they would not have to worry about such extensive (and therefore superficial) coverage as they do now, since public accountability would no longer be a concern; they would be able to concentrate on true evaluation work, to the advantage of everybody.

JBlaxall:lb



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

→ C. : U.S.A.

B-161470  
B-175281

JUN 24 1974

The Honorable  
The Secretary of the Treasury

Dear Mr. Secretary:

Pursuant to the provisions of Public Law 93-189, approved December 17, 1973, we have prepared the enclosed statement of auditing and reporting standards for use by the U.S. Executive Director of the World Bank Group in proposing the establishment of an independent review and evaluation system for the Bank Group and for consideration by the Boards of Directors in formulating the terms of reference for an independent review system.

We are also enclosing a copy of GAO's Standards for Audit of Governmental Organizations, Programs, Activities & Functions, which describes the scope and standards for evaluation reviews which our office considers appropriate for all U.S. Government programs. This booklet contains additional details on the standards included in our statement and should assist the U.S. Executive Director in pursuing the establishment of an independent review system in the Bank Group.

Subsequent to the establishment of the independent review organization, our office will be making periodic reviews of the reports issued by the organization in accordance with the above cited legislation. During these reviews, we plan to consider the adequacy of the auditing and reporting standards being followed and to make appropriate recommendations for any revisions considered necessary.

B-161470  
B-175281

We appreciate the excellent cooperation and assistance of your staff during discussions on this matter prior to preparation of the enclosed statement of auditing and reporting standards.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James P. Aronson".

Comptroller General  
of the United States

Enclosures - 2

STATEMENT BY THE  
COMPTROLLER GENERAL OF THE UNITED STATES  
OF AUDITING AND REPORTING STANDARDS  
FOR USE BY THE U.S. EXECUTIVE DIRECTOR OF  
THE WORLD BANK GROUP  
IN PROPOSING THE ESTABLISHMENT OF AN INDEPENDENT  
REVIEW AND EVALUATION SYSTEM FOR THE BANK GROUP

Public Law 93-189 (see p. 10) required that the President, acting through the U.S. representative to the International Bank for Reconstruction and Development, propose and actively seek the establishment of an independent review and evaluation system for the Bank by its governing body. The law also required that a statement of auditing and reporting standards be prepared by the Comptroller General of the United States and presented for the consideration of the governing body to assist in formulating terms of reference for this independent review system.

This statement sets forth the auditing and reporting standards prepared by the Comptroller General for use by the U.S. representative to the World Bank Group in proposing the establishment of an independent review and evaluation system. For purposes of this statement, the World Bank Group includes the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation.

In considering these standards, the term "audit" may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (1) compliance with the articles of agreement and applicable rules and regulations of the Bank Group, (2) efficiency and economy of operations, and (3) effectiveness in achieving program results.

The work contemplated by the proposed independent review and evaluation system is beyond the scope and standards

applicable in the expression of an opinion by an independent public accountant on financial statements. However, the independent public accountant's work should be given full consideration but not duplicated in performing the management-type reviews envisioned in this statement.

Although it is recognized that, to a degree, similar standards may be applicable to both, distinct differences exist between financial auditing and management or operational auditing. The latter focuses on the auditors' role in analyzing situations and developing recommendations for operational, managerial, and administrative performance. Hence such management reviews concern identifying opportunities for increased efficiency, economy, and effectiveness in achieving Bank Group objectives for its programs and activities. The management auditor, therefore, contributes more input into the management decisionmaking process than traditionally has been done in the past.

## AUDITING STANDARDS

Auditing standards are general measures of the quality and adequacy of the work performed. Auditing procedures, on the other hand, represent the specific procedures followed in achieving the objectives of an audit.

The distinction drawn is not always a sharp one. General measures of quality and adequacy of work performed should not vary, whereas specific audit procedures will vary between assignments. At the same time, however, some procedures are so basic to the performance of a satisfactory audit that they may be considered as standards relating to adequacy of work performed.

### SCOPE OF REVIEW SYSTEM

The review system should provide the Boards of Executive Directors and, ultimately, the Boards of Governors with an independent and continuous program of selective reviews of all major programs and activities of the Bank Group, including the administration and implementation of loans to both public and private borrowers and the granting of technical assistance. The review should be directed generally to examining whether Bank Group activities attain the intended financial and economic development objectives in an economical, efficient, and effective way. Within this general aim, the effectiveness of loan implementation and administration and the technical assistance activities of the Bank Group should be evaluated in the light of its articles of agreement and bylaws and the policies and directives of the Boards of Governors and Executive Directors. Recommendations should be made concerning ways those programs and activities can be improved, bearing in mind the international character of the institutions and their assigned roles in financing world development.

In reviewing Bank Group assistance to developing countries, determining its contribution to social and economic progress in the project area should be emphasized in order to help evaluate its effectiveness as a development institution.

These audit standards provide criteria for conducting reviews for efficiency, economy, and effectiveness. The review should also examine policies, procedures, practices, and internal controls applicable to any aspect of the activities

for which the auditor attempts to make judgements regarding whether existing practices can be made more efficient or economical. In determining effectiveness, the auditor should review those policies, procedures, practices, and controls having specific bearings on the attainment of the goals and objectives established for the program, activity, or function under review.

Internal review is an important part of internal control and consideration should be given to such work. The auditor should consider the extent of the internal review work and the extent to which that work can be relied on to insure that other aspects of internal control are functioning properly. The auditor should take full advantage of the products of the internal review in making his own review. Independent public accountants' work, performed at the request of the Boards of Governors for the purpose of expressing an opinion on Bank Group financial statements, should also be considered but not duplicated.

The effective discharge of these responsibilities requires the prompt reporting of the findings and related recommendations to the Boards of Executive Directors together with comments of the Bank Group management.

The procedures established should provide for systematic followup on the actions taken by Bank Group management to implement the recommendations. Periodic reports of such actions should be made available to the Boards of Executive Directors and, through them, to the Boards of Governors.

The provisions for a program of continuing reviews should not require that all Bank Group activities be examined in a single year. To provide systematically for the required coverage over a reasonable period of time and for the assignment of priorities in conducting the work, a time-phased audit plan should be prepared, and revised periodically, and given to the Boards of Executive Directors to consider and approve. These independent reviews should be coordinated with the internal reviews and the financial audits by the independent public accountants.



## GENERAL STANDARDS AND PERSONAL QUALIFICATIONS

One of the primary considerations in establishing an effective review and evaluation system is to ensure that it is independent of the Bank Group's president and other management officials.

The organization should be headed by a highly qualified individual in the financial and administrative management area, and his staff should be built around a nucleus of seasoned accountants, economists, management analysts, and others experienced in international financial and/or developmental assistance programs and other appropriate areas.

The following standards should apply to all work.

1. Each review should be directed by persons having adequate technical training and proficiency.
2. An independent and objective attitude should be maintained.
3. Due professional care should be exercised.
4. The work should be adequately planned.
5. Assistants should be properly supervised.
6. Sufficient, competent, and relevant evidence should be obtained to afford a reasonable basis for expressing opinions, judgements, conclusions, and recommendations.

The organization established under these standards should be responsible to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors, which represent the member governments. Therefore, the staff should preserve an independent viewpoint in all its work so that the value of the examinations will not be impaired. Such independence requires objective consideration of facts and unbiased judgements in performing reviews and formulating conclusions.

Objectivity is an extremely important and basic requirement for the auditor. His goal in each case is to determine

the actual situation and to convey the most accurate knowledge possible to his report readers. He should develop all significant and pertinent information, pro and con, and give genuine consideration to all such information in reaching conclusions. Convincingness in reporting his findings and recommendations must be based primarily on portraying the situation that exists. Complete honesty and integrity are essential in carrying out his work and reporting on it.

In the exercise of due professional care the auditor must use good judgement in choosing and applying audit procedures and in preparing reports. All confidential information in Bank Group records should be appropriately protected.

The following basic audit procedures can be considered standards in the sense that they are standard requirements that should be observed and satisfied in making an audit.

1. The auditors should become fully familiar with the history of the Bank Group, its articles of agreement and bylaws, and with the policies adopted by the Boards with respect to the
  - a. purpose, scope, and objectives of the activities or functions being examined,
  - b. manner in which activities are to be conducted and financed, and
  - c. general nature and extent of Bank Group authority and responsibility.
2. The Bank Group's actual operating and administrative procedures and practices, reporting, internal review, and other elements of the system of internal management control should be reviewed and tested for effectiveness in achieving the aims and objectives outlined in the scope of review section of this statement.
3. Pertinent and significant information available to the Bank Group which is necessary to properly consider, support, and present any findings, conclusions, and recommendations should be fully explored and developed.

## REPORTING STANDARDS

The effective discharge of review responsibilities requires the prompt reporting of findings and related recommendations to the Bank Group Boards of Executive Directors and, ultimately, to the Boards of Governors. Comments of Bank Group management on the findings and recommendations normally would be obtained and made available to the Boards at the time they consider the reports.

To insure complete and appropriate reports, the following standards should govern.

1. Written reports should be submitted to the Boards of Executive Directors and through them to the Boards of Governors and Bank Group management.
2. Reports should be issued on or before the dates specified by regulation or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management, the Boards, and member governments.
3. Each report should:
  - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
  - b. Present factual matter accurately, completely, and fairly.
  - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
  - d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.
- k. Be issued without restriction. When there is a need to report confidential information, consideration should be given to preparing the confidential portion as a supplement so that the usefulness of the basic portion of the report is

not limited. When significant pertinent information is omitted because it is deemed privileged or confidential the nature of such information should be described and the authority under which it is withheld should be stated.

4. Followup reporting should be made to the Boards of Executive Directors and through them to the Boards of Governors on corrective actions taken by Bank Group management on all report recommendations.



Public Law 93-189  
93rd Congress, S. 1443  
December 17, 1973

## An Act

87 STAT. 714

To amend the Foreign Assistance Act of 1961, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Assistance Act of 1973".*

Foreign Assis-  
tance Act of  
1973.

87 STAT. 718

### INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 9. Chapter 3 of part I of the Foreign Assistance Act of 1961 is amended as follows:

(1) At the end of section 301 add the following new subsection:

75 Stat. 433;

"(e) (1) In the case of the United Nations and its affiliated organizations, including the International Atomic Energy Agency, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations a single professionally qualified group of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such group shall be established in accordance with such terms of reference as such governing authority may prescribe and that the reports of such group on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation group.

81 Stat. 453.  
22 USC 2221.

"(2) In the case of the International Bank for Reconstruction and Development and the Asian Development Bank, the President shall, acting through the United States representative to such organizations, propose and actively seek the establishment by the governing authorities of such organizations professionally qualified groups of appropriate size for the purpose of providing an independent and continuous program of selective examination, review, and evaluation of the programs and activities of such organizations. Such proposal shall provide that such groups shall be established in accordance with such terms of reference as such governing authorities may prescribe, and that the reports of such groups on each examination, review, and evaluation shall be submitted directly to such governing authority for transmittal to the representative of each individual member nation. Such proposal shall further include a statement of auditing and reporting standards, as prepared by the Comptroller General of the United States, for the consideration of the governing authority of the international organization concerned to assist in formulating terms of reference for such review and evaluation groups.

"(3) Reports received by the United States representatives to these international organizations under this subsection and related information on actions taken as a result of recommendations made therein shall

Reports to  
President,  
transmittal  
to Congress.

87 STAT. 719

be submitted promptly to the President for transmittal to the Congress and to the Comptroller General. The Comptroller General shall periodically review such reports and related information and shall report simultaneously to the Congress and to the President any suggestions the Comptroller General may deem appropriate concerning auditing and reporting standards followed by such groups, the recommendations made and actions taken as a result of such recommendations."

PROJECT EVALUATION  
in the ADB

## OFFICE MEMORANDUM

TO: Mr. R.S. McNamara

DATE: August 12, 1974

FROM: James M. Kearns, Dir., OPD

SUBJECT: Project Evaluation in the ADB

Mr. Inoue asked me to give you the attached along with his best regards.

He expects his Board -- particularly the Americans -- to agree to the proposals in the paper and he wanted you to know about it.

Att.

JMKearns:DW





# Record Removal Notice

<b>File Title</b> Operations Evaluation History - Reports 01		<b>Barcode No.</b> 1737829		
<b>Document Date</b> July 23, 1974	<b>Document Type</b> Report			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Post-Evaluation of ADB Projects: A Program for Action				
<b>Exception No(s).</b> <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input checked="" type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
<b>Reason for Removal</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Vlada Alekankina</td> <td><b>Date</b> Aug 21, 2012</td> </tr> </table>	<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> Aug 21, 2012
<b>Withdrawn by</b> Vlada Alekankina	<b>Date</b> Aug 21, 2012			