



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

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JUN 24 1974

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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.

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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 A. 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 organiza- 81 Stat. 453.
tions, including the International Atomic Energy Agency, the Presi- 22 USC 2221.

dent 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."