Internal Audit of the Guatemala Country Office

February 2015

Office of Internal Audit
and Investigations (OIAI)
Report 2015/04

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Guatemala Country Office. The audit team visited the office from 21 October to 13 November 2014. The audit sought to assess the office's governance, programme management and operations support, and covered the period January 2013 to September 2014.

The current 2010-2014 country programme, now coming to an end, has had three main components: *Health, nutrition and water, sanitation and hygiene*; *Protection and education*; and *Adolescent development*. The total budget was originally US$ 34.2 million, of which US$ 4.2 million has been from Regular Resources (RR) and $US 30 million Other Resources (OR), later raised to US$38 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling.

At the time of audit in October 2014, the office was in the process of preparing the 2015-2019 country programme, which had been approved by UNICEF's Executive Board the previous month.

The country office is located in the capital, Guatemala City, with no zone offices. At the time of the audit the office had a total of 26 posts.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address the issues raised in this report. None are rated high priority (that is, addressing issues that require immediate management attention).

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the country office were generally established and functioning during the period under audit. Guatemala country office has prepared an action plan to address the issues noted.

The Guatemala country office, in collaboration with the Latin America and Caribbean Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) February 2015

Contents

Objectives

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office explained to the audit that the structure and staffing reflected the programmatic priorities as proposed in the current country programme; minor changes had been made on the basis of the 2012/2013 mid-term review recommendations, some of which were approved by the regional PBR committee.[1] In 2014 there had been another review of the office structure to reflect development of the new 2014-2019 country programme; these changes had also been approved by the PBR.

[1] The programme budget review (PBR) is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

The country office's controls related to performance management were adequate; staff performance assessments for 2013 (mid-year and annual) had been done, and key outputs for heads of sections were well aligned with programme outputs. Committees such as the country management team, the programme management team (CMT), the contract review committee (CRC), the joint consultative committee (JCC), the property survey board (PSB) and the office learning committee were established, and overall they functioned well. The CMT had met eight times in 2013, and four times in 2014 up to October. Programme team and JCC meetings were regularly held and minuted.

The office participated in UN inter-agency activities, including the development of the 2015-2019 UNDAF[2] and related outputs. UNICEF led the thematic task force of *Unaccompanied child migrants* and the UN operations management team, and co-led thematic task forces on democratic governance and civil participation, democratic participation and nominating commissions, and youth.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the control processes over governance, as defined above, were generally established and functioning during the period under audit.

[2] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the above areas were covered in this audit.

At the time of audit in October 2014, the office was in the process of preparing a new country programme for the period 2015-2019. The 2010-2014 country programme had had an approved budget ceiling of US$ 34.2 million, including US$ 4.2 million in regular resources. However, two approvals for increases to the OR ceiling raised the latter to US$ 38 million. The planned budget for 2013-2014 was US$ 16 .1 million, while the funded amount was US$ 16.9 million. At the time of audit in July 2014, the office had utilized approximately 93.4 percent of its funded budget (OR & RR). The emergency budget for 2013-2014 was US$ 406,840, of which 74.3 percent had been utilized by October 2014.

The audit found that controls were functioning well over a number of areas. The situation analysis (SitAn) on the situation of children and women had been updated as part of the mid-term review in 2012, using current guidance and analytical tools, and ensuring participation of relevant stakeholders, including adolescents.

A number of key steps had been undertaken with regard to the Harmonized Approach to Cash Transfers (HACT). The office had carried out assurance activities of NGO implementing partners—these included micro assessments and spot checks. The office had also commissioned audits of five NGOs that received more than US$ 100,000 during the period 2012-2013. Meanwhile the UN Resident Coordinator had commissioned a macro-assessment of the country's public financial management system in 2010. This included an assessment of the supreme audit institution (SAI). The review concluded that the SAI "was competent to perform scheduled and special audits of government partners".

The office had supported the institutionalization of MoRES[3] in the Ministry of Education, working with the ministry and other implementing partners to develop cross-sectoral responses in order to reduce pre-school and first-grade dropouts, and to improve support and monitoring of schools at local level. The annual report recorded that the results were successful, and in 2014 the ministry had asked the office for technical assistance to reinforce the MoRES methodology in the reduction of other bottlenecks identified in the access to preschool and junior high education.

The office informed the audit that, in 2012, it had led key state institutions and several international cooperation agencies in a bottleneck analysis of determinants of chronic malnutrition. The results laid the basis for the Government's action at local level and the achievements noted by audit.

Donor reporting was timely, and the final donor reports reviewed complied with prescribed requirements.

The audit also noted the action taken to mitigate two particular risks. These were as follows.

Data and information availability: The office used national data collection and information systems to report on progress against identified indicators. However, there were still significant gaps in the availability of adequately disaggregated baseline information. This was exacerbated by the fact that no census had been conducted since 2002. This affected the office's projections (especially on younger age cohorts), as it used the outdated census data as a basis. The gaps in data posed a risk to accurate monitoring and reporting of the country programme, and of progress towards national goals/results for children.

However, gaps in baseline information were being addressed through focused surveys. Also, the UN Resident Coordinator informed the audit that support to strengthen data and information collection, analysis and dissemination was planned as a major activity within the context of the 2015-2019 UNDAF. The partners met during the audit acknowledged that the UNICEF office, in collaboration with other UN agencies and bilateral partners, was supporting some national institutions in strengthening the availability and analysis of data and information.

Transferring funds to the Government One Account: In 2012, the Government established a system whereby each international organization was required to transfer all funds to any Government entity via the *Cuenta Unica* (One Account), from which they were disbursed to Government ministries. The system is aimed at streamlining all development assistance, reducing duplication and ensuring accuracy in reporting.

The audit was told that, in practice, following the One Account system meant that every collaboration with a Government institution requires in-depth revision of an individual annual workplan by the relevant institution with SEGEPLAN[4] (the Planning Secretariat), followed by acceptance of the Ministry of Finance of the financial capacity within the relevant institution to accept funds, and finally the signing of a specific agreement, before the funds were transferred to the relevant institution. The audit was shown documentation received from

[3] MoRES is the Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged. It highlights the fact that there are critical conditions or determinants which either constrain or enable the achievement of results for particular groups of children.

[4] *Secretaría de Planificación y Programación de la Presidencia de la República de Guatemala*.

SEGEPLAN by October or November that meant no collaboration involving funds transfer could be pursued for the year. The audit verified this process with another UN agency.

The audit also met officials from SEGEPLAN, who explained to the audit that they were aware of the constraints, and plans were under way to solve some of them – for example, ensuring that there was clarity amongst the various Government institutions. However, the processes that took the most time (technical review of agreements by SEGEPLAN officials) were not being dropped.

In its 2014 risk assessment, the country office indicated that the transfer process exposed the office to risks of loss of donor confidence, loss of funding and extreme delays in programme implementation. To manage the identified risks, the office had therefore decided to only use NGOs for implementation of programme activities (see related observation *Partnerships*, p10 below).

However, the audit also noted the following.

Child protection strategies

The child protection outcome and related outputs is the largest component of the Guatemala country programme, with a total of US$ 5,115,568 for 2013 and 2014.

Since the beginning of the 2005-2009 country programme, the UNICEF country office had adopted a systemic approach to dealing with child protection issues in the country. The audit reviewed the rolling workplans for 2013 and 2014 and verified that the intermediate results were systemic in intent, and that most activities contributing to these results were on advocacy, providing technical support, strengthening practitioners and providing some service delivery to various institutions.

Since the 1990s, the office had advocated a national law on international adoption. On 31 December 2007 an Adoption Law was passed in Guatemala, laying the legal foundation for regulating international adoptions. At the time of entry into effect of the new Adoption Law, the number of cases outstanding for international adoption was 3,032, which prompted UNICEF to adopt a case-by-case approach to help Government partners deal with the caseload. Such support included technical assistance to improve the capacity of the Guatemala Solicitor General's office to investigate pending cases, helping ensure that processes prioritized the best interests of each child. Resources for this technical assistance consisted of 20 professional investigators paid for by UNICEF from 2010 to 2013, for an amount of US$ 198,650.

The work of these professionals included evaluation of the appropriateness of each option in order of priority. They reviewed family reunification; if this was not considered appropriate, they evaluated other family options. If these too were deemed inappropriate, they considered surrogate family or domestic adoption; and if that was not appropriate, they pursued international adoption. The emphasis was on ensuring adherence to the law in the whole process. By March 2013, the pending cases had been reduced to 113. By the time of audit in October 2014, only 21 cases were pending.

In June 2013 an externally-based NGO made formal accusations that UNICEF was supporting forced reunifications of children with their families instead of international adoption. There had been no such claims within Guatemala itself. Nonetheless, UNICEF decided to commission an NGO to conduct an independent investigation of 20 cases of family reunification so as to assess the capacity of the State system to investigate each case properly. This was intended both to further improve State capacity and to prove that the allegations made against UNICEF were unfounded. The audit noted that the office's child protection programme had only two national professionals. However, the office stated that additional hours of work by programme staff and management had made possible the close follow-up of this issue required by UNICEF headquarters and the Regional Office.

The audit noted that the change of approach to incorporate individual casework into the Child Protection programme had not been preceded by a formal risk assessment, and the RCSA[5] had not been updated to reflect the risks involved – which had included both the reprioritization of resources from other child protection activities, and the accusations made against UNICEF.

While the office confirmed that no formal risk assessment had been recorded, it stated that the office's response to the accusations made against UNICEF had been initiated from UNICEF headquarters with the knowledge of the Regional Office, and that the risks involved were effectively monitored throughout the entire process. However, this was not documented, and the audit could not confirm whether the risk was being managed.

Action 1 (medium priority): The office should, in collaboration with the regional office, establish a process for timely recording within its risk profile any significant risks, and the corresponding risk mitigation activities, arising from changes in programme direction or approach approved or initiated by UNICEF headquarters and the Regional Office.

Staff responsible for taking action: Representative
Date by which action will be taken: March 2015

Partnerships

Collaborative partnerships with NGOs, and with other UN organizations, were a major strategy of the country programme. The office had entered into 33 programme cooperation agreements (PCAs) in 2013 and 20 in 2014, with UNICEF commitments totalling US$ 5.3 million and US$ 6.5 million respectively. The programme sections followed procedures for identifying and selecting partners. The audit noted the following.

PCA details: Before submitting a proposed PCA to the PCA review committee (PCARC), programme sections were required to complete a detailed spreadsheet that included outcomes, outputs, activities, budget, and results from micro-assessments (see following page). The audit reviewed the spreadsheet and noted some inconsistencies, such as the requirement to define results for each activity; these should already have been defined at output level.[6] This contributed to the delays in finalizing PCA agreements. Both staff and

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[5] Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

[6] UNICEF programmes plan for results on two levels. An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of

implementing partners commented that the planning process took too long, and usually reduced the time for implementation.

PCA amendments: There were many amendments to PCAs—for example in 2013 one PCA was amended 11 times. For example, a PCA signed with an NGO in January 2013 was amended a week later in January, then in March, May, July, August, and September. The total amendments amounted to US$ 913,921.85 compared to the original PCA value of US$ 408,437.81. Another PCA signed with an NGO in March 2014 for PMTCT[7] programmes, for an amount of US$ 254,777, was amended in July for an additional US$ 66,994 for related activities. There were other examples.

The major cause of these amendments was the need to include additional activities that could not be implemented by Government institutions as per annual workplan arrangements, or that required an NGO to administer the funds on behalf of a Government institution; or when priorities (such as those related to the nutrition emergency) had to be implemented quickly. The office thus used the NGOs as funds management agents, for which a fee (ranging from 3 to 6 percent) was paid. However, the NGO capacity assessments had not included an assessment of the NGOs' capacities to handle significant amounts of funds within short periods or, in some cases, to adequately support implementation of several programme components.

The amendments constrained timely implementation and systematic monitoring of progress towards planned results, as these kept on changing. These issues were also especially emphasized by all the NGO partners with whom the audit met. However, the office strongly stated that working with the NGOs in this manner was the only way they could assure timely implementation of planned activities.

Micro-assessments: Micro-assessments of a partner, or potential partner, review the risks involved in working with that particular NGO or other body. They are done as part of the Harmonized Approach to Cash Transfers, under which UNICEF offices keep paperwork to a minimum by demanding only the documentation appropriate for the risks presented by the specific partner. However, a micro-assessment can also be a preparatory step prior to concluding a PCA.

The office procedures involved micro-assessments carried out by relevant staff, prior to preparation of a PCA. Between 2009 and 2010 there were 36 micro-assessments, of which seven were rated significant to high; and 16 assessments were done between 2011 and 2014, most of them resulting in a risk rating of moderate. All of these were undertaken by UNICEF staff. However, the NGOs were not assessed for their capacity to act as funds management agents.

Agreed action 2 (medium priority): The office agrees to:

i. In accordance with the Harmonized Approach to Cash Transfers and programme cooperation agreement (PCA) guidelines, commission systematic assessments of all NGOs with which it collaborates, including their capacities for both fiduciary and programme management.

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a school or clinic, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

[7] Prevention of mother-to-child transmission (of HIV).

ii. Ensure that PCAs are adequately planned, so as to minimize amendments, and to assist monitoring of progress towards results for interventions implemented by non-government implementing partners.

Staff responsible for taking action: Deputy Representative and Operations Officer
Date by which action will be taken: March 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of capital equipment. It also includes the identification, security, control, maintenance and disposal of property, plant and equipment (PP&E).
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had completed a minimum operating security standards (MOSS) self-assessment in December 2013, and was rated as 100 percent compliant by the UN Department of Safety and Security. The audit also noted that the office had successfully renegotiated its rent, resulting in a cost saving of US$ 74,900.

Bank accounts management

The audit reviewed the office's management of its bank accounts. There were two, one in local currency (Quetzal), and one in American dollars.

Bank optimization: Country offices are expected to forecast their cash requirements for the immediate future so that they are not holding funds unnecessarily far ahead. This allows UNICEF globally to maximize returns on its resources. The audit's analysis of disbursements against the amounts held in the office's bank accounts showed that in six out of 10 periods reviewed, the balance of funds exceeded the limit established of two weeks' disbursement (doing so nine times in one period).

Bank reconciliations: The office had two bank accounts, one in local currency (Quetzal) and one in American dollars. The bank reconciliations were prepared by a driver (who was not an accountant, as verified by the audit), who was also in charge of vehicle management and vendor records creation, among other functions.

The audit reviewed the bank reconciliations for the period October 2013-September 2014. The reconciliations included from 11 to 93 outstanding items in the same months; in six instances the outstanding items were unreconciled for more than 60 days. The office explained that this was due to payees not cashing their cheques. The audit noted that, during the period under analysis, there were 35 void cheques, mainly due to typing errors.

Agreed action 3 (medium priority): The office agrees to strengthen the bank account management by:

i. Ensuring a proper monitoring and follow-up mechanism for the process of bank optimization.
ii. Implementing the use of electronic bank transfers to implementing partners, service providers and retired staff members, minimizing the use of cheques for payments.

Staff responsible for taking action: Operations Officer
Date by which action will be taken: March 2015

Vendor master records

The vendor master records creation in VISION was done by a driver who was also in charge of vehicle management, bank reconciliation preparation, transporting staff members within Guatemala City and on field trips, and support to the supply section. The audit also noted that there was no effective process to verify the accuracy of the bank details provided by the vendors.

According to the information retrieved from UNICEF's management system, VISION, the office had created 648 vendor records. A review of the vendor master data showed that at least 20 were duplicated. The duplicates had been created either during the migration of data into VISION (which was rolled out in 2012), or through creation of new master records for the same vendor without checking for existing master records in the system. The vendors with duplicate master records had not been identified, blocked from posting and marked for deletion.

Duplication of vendor master records could provide erroneous information related to a vendor account, increasing the risk of incorrect payments. In some cases, there could also be errors in information related to disbursements and liquidations, resulting in an implementing partner receiving cash disbursements despite having advances outstanding for more than six months.

Agreed action 4 (medium priority): Pending its joining the Panama Hub in March 2015, the office agrees to:

i. Establish a mechanism to ascertain the legitimacy of the vendors and the validity of their bank accounts.
ii. Check for pre-existing vendor master records in VISION prior to the creation of a new vendor master records.
iii. Establish a mechanism of periodic review for vendor master records that could enable the identification and block of vendors with multiple master records in VISION.

Staff responsible for taking action: Operations Officer
Date by which action will be taken: March 2015

Supply management

A country office continues to be accountable for ensuring the quality of the results achieved through the provision of programme supplies, even when control of those supplies has been transferred to an implementing partner. The results for children from supply assistance should also be assessed and monitored according to the framework described in the supply manual.

The programme supply assistance provided by the office during the period 2013-2014 represented nine percent of total programme expenditure; US$ 802,224 in 2013 and US$ 602,489 in 2014 at the time of the audit. The audit reviewed the processes related to supply management covering procurement, and noted the following.

Procurement by implementing partners: The audit review noted that three PCAs signed with implementing partners in 2013-2014 included a supply component, wherein procurement was undertaken by the implementing partners. The office could not provide evidence of capacity assessments that could ensure transparent and competitive procurement processes by the partners.

Supply planning: Early forecasting of needed commodities will ensure that the right supplies will be received in a timely manner through cost-effective and efficient procurement. Supply planning is an essential part of work planning. According to the information retrieved from VISION, the office placed 108 purchase orders for the purchase of assets and programme supplies during 2013 and 2014. For 2013, the office provided a supply plan by section that included only information related to supplies to be purchased by implementing partners during 2013. For 2014, no information related to the supply planning could be obtained.

Goods-in-transit: The office did not have a warehouse for the reception and storage of goods. All deliveries for purchases carried out by the office were delivered by agreement to the implementing partners' premises, mainly the Ministry of Health. According to the information retrieved from VISION, at the time of the audit there were US$ 312,616-worth of items recorded as goods-in-transit. The delivery date of these goods was already past due. After consulting the supply section, the audit established that the monitoring of these deliveries was carried out by each programme section, but was not followed up in a timely manner.

Agreed action 5 (medium priority): The office agrees to:

I. Prepare its supply plan based on the consolidated supply requisition list, and incorporate it as an essential part of the workplans.
II. Identify the discrepancies related to supply management and adjust them in VISION, ensuring that deliveries of goods to suppliers are effectively monitored and recorded.

Staff responsible for taking action: Deputy Representative and Operations Officer
Date by which action will be taken: March 2015

Conclusion: Operations support

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control

processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.