Internal Audit of the Democratic People's Republic of Korea Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2012/30

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Democratic People's Republic of Korea (DPRK) country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities. The audit team visited the office from 11 to 26 September 2012. The audit covered the period from 1 May 2011 to 10 September 2012.

The audit differed from a normal country-office audit in that there was special emphasis on follow up of previous audit recommendations, from an audit in April 2011. By agreement with a donor, the audit reviewed in detail the use of funds provided for Strengthening Tuberculosis Control and elimination of Malaria in DPRK. Because of these priorities, the audit omitted some of the areas that would normally be reviewed. Details of what the audit did cover are given at the head of the relevant sections.

DPRK is under UNICEF's East Asia and the Pacific Regional Office (EAPRO). According to the 2008 census, it has a population of 24 million. Under-five mortality rate per 1,000 live births is 55. Data on gross national income per capita is not available but the World Bank classifies the country as low-income. The current country programme cycle is 2011-2015, with approved budget of US$ 8.5 million in regular resources and a ceiling for other resources of US$ 119 million. The country programme has five main programme components: Health (including Tuberculosis and Malaria); Nutrition and Care; Water, Sanitation and Hygiene; Education; and Advocacy and Knowledge Management.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures to address the issues raised in the report. There is one high-priority issue, which is to be addressed by the Public Sector Alliances and Resource Mobilization Office (PARMO). The issue concerned delays in receipt of donor funds, long processes for reporting and verification of quarterly progress update and disbursement request reports, and incomplete guidance on donor financial verification reviews. There are no high-priority measures for the country office to address.

Conclusion

The audit concentrated on the implementation of recommendations made in its previous audit completed in April 2011 and did not review all aspects of governance, programme management, and financial and operational support. The audit therefore does not give an overall conclusion on the DPRK country office, but conclusions on each area audited are given in the text.

This audit report contains a number of observations and the country office has agreed to corrective actions. The measures to address the issues raised are presented with each observation in the body of this report. The DPRK country office, with support from EAPRO, and OIAI will work together to monitor implementation of these measures.

Contents

Objectives

The objective of country-office audits is to provide assurance as to whether there are adequate controls over a number of key areas in the office, and to inform management of the audit's conclusions. The areas reviewed include the economic acquisition and efficient use of resources, safeguarding of assets, and accuracy and timeliness of financial and operating information. The audit also reviews the office's measurement and reporting on whether objectives have been met, and assesses whether activities comply with UNICEF's and other applicable regulations, policies and procedures.

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.

In Governance, this audit focused on the supervisory structures, staffing structure, and delegation of authorities and responsibilities.

Satisfactory key controls
The office conducted annual management and programme reviews and followed up on the recommendations from these reviews to ensure that appropriate actions were taken.

Follow-up on previous audit
Offices are required to implement the agreed audit recommendations and to report to OIAI on action taken to implement them until they are all closed. This action should be embedded in the systems, procedures and accountabilities within the office in order to ensure that they are sustained, and to prevent recurrence of the observation.

The DPRK country office was audited by OIAI in April 2011 and the audit report (2011/16) contained 12 recommendations for action by the office. The office regularly reported to OIAI on actions taken to address the recommendations and by the end of July 2012, OIAI had closed them all, based on desk review of the reported actions and the supporting documents submitted by the office. The current audit verified the reported actions and, through a sample of 2012 related transactions, assessed whether they had been sustained. The audit also determined whether the weaknesses and risks identified during the earlier audit had been adequately addressed.

Of the 12 recommendations, 10 had been substantially addressed by the office and the actions had been sustained. Further actions were needed to address the two remaining recommendations, which related to supply procurement and logistics and contribution monitoring. The audit made new observations on these, and they are given in this report.

Organizational structure

The TB and Malaria programmes were fully funded by a donor, with total commitment of about US$ 88 million for five years starting mid-2010. According to the donor agreement, management of these programmes was to be integrated through the country office's systems and resources and not through the creation of parallel structure. Despite this, the TB and Malaria Unit was organized as a parallel structure reporting directly to the Representative. This meant that while the Deputy Representative was responsible for the overall coordination of the country programme, the TB and Malaria Unit did not report to her. In addition, while programme results related to the TB and Malaria were part of the Health component of the approved country programme, the Chief of the Health Section had no responsibility for achievement of the planned results related to the TB and Malaria interventions.

An EAPRO oversight mission visited DPRK in September-October 2011 and recommended an office structure corresponding to the country programme, whereby TB and Malaria would be under the health programme and the Deputy Representative would oversee the management of all programmes and projects, irrespective of donor. According to the oversight mission, this would mean a better, fairer and clearer distribution of tasks and workloads, assist the exchange of technical information and ensure that all programme staff, especially the health section, were aware of the results from, and issues facing, the Malaria and TB interventions.

In May 2012, the office proposed abolition of the post of the Head of TB and Malaria Unit and its replacement with a TB and Malaria Programme Manager. The change was approved by the regional programme budget review. However, instead of integrating the TB and Malaria programme staff into the Health Section, the office retained the structure of the TB and Malaria Unit (except that the Manager was to report directly to the Deputy Representative). The office had not implemented this change at the time of audit in August 2012.

The audit agrees with the observation of the EAPRO oversight mission as indicated above. The lack of integration of the TB and Malaria programme staff into the Health section could also compromise the ability of the office to adopt a standard approach to health, with the Chief of Health accountable for all health-related planned results.

Agreed action 1 (medium priority): In preparation for the mid-term review planned for June 2013, the country office agrees to review the overall staffing structure of the country office and its adequacy in delivering the planned programme results, including those related to the TB and Malaria programmes. This exercise is to be conducted during the mid-term review process and is expected to be completed by 31 July 2013. The exercise will be led by the Representative.

Governance: Conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to the supervisory and staffing structures and to delegation of authorities and responsibilities, which are part of governance as defined above, were generally established and functioning during the period covered by the audit.

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.

In this area, the audit focused on resource mobilization and contribution management, support to programme implementation, monitoring and evaluation.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

There was strong collaboration between the Ministry of Public Health, the donor, WHO and UNICEF in implementing the donor-supported Tuberculosis (TB) and Malaria Programmes. The donor had assessed programmatic performance as strong for both the TB and Malaria programmes. The office had harmonized field-monitoring procedures and tools. Staff were trained on the use of these tools and used them during field visits.

The office had secured written confirmation from the DPRK government that the five-year integrated monitoring and evaluation plan (IMEP) could be revised to include review of the effectiveness (including quality and timeliness) of critical programme supplies during the mid-term review, which is scheduled for 2013.

Requesting and receiving donor contributions

UNICEF had signed a five-year agreement with a donor, The Global Fund,[1] worth about Euros (€) 61 million (about US$ 88 million) for Strengthening Tuberculosis Control and Pre-elimination of Malaria in DPRK. In accordance with the agreement, a quarterly Progress Update and Disbursement Request (PU/DR) was prepared with input from the government partner, the sub-recipient of the funds, and the UNICEF DPRK country office. This took time – about 45 days, for the three parties to provide their input. The PU/DR was used by the donor as the basis for releasing funds against its commitment.

Reporting and funds requesting process: In accordance with the agreement with Global Funds, a quarterly Progress Update and Disbursement Request (PU/DR) was prepared with input from the government partner, the sub-recipient of the funds, and the UNICEF DPRK country office. This took time – about 45 days, for the three parties to provide their input. The PU/DR was used by the donor as the basis for releasing funds against its commitment. According to the office, almost all members of the country office's TB and Malaria team were involved in the process of preparing the PU/DR. The exercise normally did not end with the submission of the report; about 10 more days were devoted to responding to queries and requests for documents and information by the donor. Additional reports were also requested in the process of reviewing the PU/DR. About two-thirds of each quarter was taken by the PU/DR process—time that would have been used in implementing the programmes. It had been agreed that the PU/DR process would every six months instead of quarterly, but the office, and the audit, thought this might have limited benefits unless the whole process was reviewed and rationalized.

Timeliness of receipt of funds from the donor: The office generally ensured that the PU/DRs were submitted to the donor within the agreed period. There were major delays in the receipt of the requested funds. Between May 2011 and May 2012 it took from 71 to 169 days (an average of 109 days) from the time the PU/DR was submitted to the time the funds were received by UNICEF. In October 2011 the issue was raised in a meeting with the Global Fund, which agreed to address the delay; however, significant delays persisted. This in turn delayed implementation of the agreed activities. The office also expressed concern that the delay in the receipt of funds is a risk to the reputation of UNICEF as the office was expected to implement programme activities based on the agreed plan, although funds were received late.

Verification by the donor: Global Fund hired an agent to verify the PU/DRs in detail prior to the disbursement of funds to UNICEF. The financial verification involved detailed review of expenditures reported in the PU/DR together with detailed examination of the supporting documents and records related to the reported expenditure, including how these transactions were recorded in the UNICEF system (ProMS[2]/VISION). From the documents requested by the donor and the way the verification of the PU/DR was conducted, the audit concluded that the donor was performing an audit rather than a simple verification. This is a violation of the agreement with the donor, which stipulated that the books and records of UNICEF shall be subject to internal and external audit exclusively in accordance with the financial regulations and rules of UNICEF.

[1] The Global Fund to Fight AIDS, Tuberculosis and Malaria, normally known simply as the Global Fund. UNICEF is the Principal Recipient of the grant, with just one sub-recipient in the DPRK (the World Health Organization).

[2] Until the end of 2011, ProMS was the system used in field offices to record the approved programme and the related budget allotments and expenditures. It was replaced by VISION in January 2012.

The audit noted that there was lack of clarity within the office as to the difference between "verification" and "audit". During the audit, the office received a five-page list of documents requested by the donor and sent this to the Public Sector Alliances and Resource Mobilization Office (PARMO), which indicated that many of the listed documents should not be submitted. PARMO has been preparing guidance on the type of document and information offices are authorized to provide to donors as part of donor verification missions, where UNICEF is the principal recipient.

Agreed action 2 (high priority): PARMO agrees to take the following actions:.

i. In consultation with Country Office, PARMO intends to negotiate with the donor on the agreed timeline for releasing of funds. This is to include discussion on how to streamline the process of reporting/requesting and verification of the PU/DR.
ii. Parmo intends, in consultation with DFAM, to finalise the guidance to the country office on what donor verification entails, together with a clear description of the financial and programme documents and official records and systems that the office can make available to the donor for verification purposes.

The target completion date for implementing the agreed action is 28 February 2013 and the person responsible is the Senior Advisor, Public Sector Alliances Office, PARMO.

Monitoring the use of funds by sub-recipient

Recommendation 3 of the 2011 audit recommended that the country office should establish oversight mechanisms to ensure full compliance with the requirements related to transfer of funds established in the grant agreement. It should, for example, assess the financial and programmatic capacity of the sub-recipient before any transfer of resources (such as funds and supplies), and systematically monitor its financial performance as required in the grant agreement.

The office had taken several steps to implement the recommendation. It had developed, and was using, a checklist for the review of the sub-recipient's quarterly PU/DR. There were regular meetings between the office and the sub-recipient on financial monitoring and programme implementation. The programme and finance staff of the office, and the sub-recipient, jointly reviewed PU/DRs to assess validity of reported progress and expenditure and the requested disbursement. This included comparing the actual expenses against the budget and reviewing any variation; and review of the reasonableness of disbursement requested by the sub-recipient comparing it with approved planned activities for the period and remaining cash balance. The office also conducted spot checks of sample expenses reported by the sub-recipient against its records.

However, there were some areas would benefit from attention by the office:

- Not all receipts and other supporting documents were translated to English, making it difficult for the office's and sub-recipient's international staff to verify them; it was not clear they had done so.
- The receipts and other supporting documents were not cross-referenced against the summary, so it was very difficult to establish where the numbers in the summary came from.
- The receipts and other supporting documents showed no evidence of basic controls by

the implementing partner and the sub-recipient. For example, there were no verification/certification marks and they were not stamped paid. While the implementing partner had certified the summaries, indicating that the statement was true and correct and the expenditure incurred for the agreed purpose, there was no audit trail from the sub-recipient indicating that it had verified the statement of expenditure.

The sub-recipient informed the audit that the documents submitted to UNICEF had been photocopied prior to its review; they thus did not reflect the English translation and verification done. The sub-recipient also said it was reviewing the documentation it would submit to the UNICEF office in future. However, it agreed to certify the statement of expenditures submitted by its implementing partners to indicate that it had verified the same.

The office stated that it was uncertain about the degree of financial verification it could undertake, as the sub-recipient is a sister UN agency.

Agreed action 3 (medium priority): The country office agrees to come to an understanding with the sub-recipient on the level of documentation for reporting on expenditure on the use of the funds; and on how the country office will verify the financial performance of the sub-recipient in order to comply with the grant agreement. Whatever level of documentation is decided, the office agrees to ensure that documents submitted as evidence of expenditure by the sub-recipient reflect audit trails for the sub-recipient's review and verification. The target date for completing the agreed action is 31 January 2013 and the person responsible is the Representative, UNICEF.

Supply procurement and logistics

The 2011 OIAI audit recommended (recommendation 2) that the country office establish procedures and assign staff responsibilities to ensure systematic monitoring of implementation of agreements related to logistics of programme supplies. In particular, the office should obtain receipts and distribution reports for malaria supplies, as specified in the agreement signed with the Ministry of Public Health.

The office considered collecting individual receipts from end-users, but found this was not feasible because of the hundreds or even thousands of end-users involved. Instead, the office monitored distribution of supplies to their final destination through field-monitoring visits and verification of assets on loan. However, while the office used the prescribed checklist for field visits, it did not report on the use of supplies or compare the the reported quantities to what had been planned in the distribution lists.

The central government acknowledged the receipt of supplies received in their warehouse and informed the country office of the monthly stock balance, but did not report on distribution to the end-users. The government only provided the actual distribution lists on request.

Agreed action 4 (medium priority): The country office agrees to ask the implementing partner to provide the office with updated distribution reports twice a year. The office intends to request that the reports reflect the actual movement of supplies from central warehouses at the national level (where UNICEF supplies are delivered), and to use them as a basis for a more targeted, effective and efficient monitoring of supplies during field monitoring visits.

The target completion date for the implementation of the agreed action is 31 July 2013. Person responsible: Procurement Specialist.

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the systems and processes related to support to programme implementation, monitoring and evaluation were generally established and functioning during the period covered by the audit. The audit concluded that improvements were needed in resource mobilization and contribution management, as described above.

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 property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the 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 areas above were covered in this audit as part of the audit follow-up, except human-resources management. Warehousing and inventory management was not covered because the office had no warehouse.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The audit reviewed a sample of 2012 transactions related to cash transfers, contracts and travel, and found that the certification of liquidations had been embedded into the system and were performed only by staff assigned this role. There was adequate segregation of functions in processing transactions. Payments for contracts for services were in line with the checklist established by the office, and contracts were signed by both parties before work began, based on approved terms of reference. The officials signing supply receipts were as per the list communicated by the Government, and support for travel of government staff was in compliance with UNICEF policy.

Accounting for programme supplies

The current UNICEF Chart of Accounts came into effect on 01 January 2012, following implementation of the International Public Sector Accounting Standards (IPSAS) [3] in UNICEF. These accounts included *1310190 – Goods-in-Transit (Field Offices)*, which is used to record

[3] IPSAS are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

the value of programme supplies that are controlled by UNICEF while in-transit from a supplier or freight forwarder; *7600110 – Programme Supplies*, which is used to record the expense of transferring programme supplies originally received into a UNICEF warehouse; and *7600210 – Programme Supplies – Implementing Partner*, which is used to record the expense of programme supplies that are delivered directly to an implementing partner without passing through a country office warehouse.

As of 10 September 2012, the office had over US$ 10 million-worth recorded as goods-in-transit, although most of these items had already been received and distributed to partners. These supplies were mostly procured through Supply Division in Copenhagen where they were recorded as an asset *(Goods in Transit*) upon shipment, and at the country office level they were supposed to be recorded as an expense upon receipt by implementing partners. However, the country office was not aware of this.

Supplies procured locally and through the China country office were incorrectly recorded as *Programme Supplies*; they should have been recorded as *Programme Supplies - Implementing Partner*, since the office did not have a warehouse and supplies were delivered directly to implementing partners.

The accounting entries described above resulted in overstatement of the asset account and understatement of the expense account. The errors occurred because of inadequate knowledge in accounting for the whole range of transactions related to supply and logistics. There was also a need within the country office to monitor and review the accuracy of general ledger account balances.

The office took action as soon as the issue was raised by the audit and obtained advice from Supply Division on how to adjust the Goods in Transit account.

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

i. strengthen staff's capacity in accounting for the whole range of transactions related to supply and logistics transactions; and,
ii. establish procedures and accountabilities for the regular review of the general ledger account balances of the office to identify errors in the accounts. This is intended to include regular generation of the general ledger account balances of the office, and review of the appropriateness of the balances and the accounting entries (based on spot checks) and timely action to correct errors identified.

The target completion date for the implementation of the agreed action is 30 May 2013. Person responsible: Operations Manager.

Assets on loan

An agreement with a major donor of the country office states that vehicles and motorcycles procured by UNICEF using the donor contributions will be made available to the Host Government and the sub-recipient on a loan basis using UNICEF's standard vehicle loan agreement.

During the last quarter of 2011, as part of the migration from ProMS, all UNICEF offices were required to review their Lotus Notes Database of non-expendable property (NEP). Offices were required to record properties that were on loan to other UN agencies, government and implementing partners, but over which UNICEF retained control, in the data field "On-Loan".

In preparation for the mid-year closure of accounts in June 2012, the Division of Financial and Administrative Management (DFAM) required offices to request the recipients of assets on loan to confirm the status of these assets.

The office recorded in its Non-Expendable Property (NEP) database 255 items of vehicles and motorcycles on loan and these were migrated to VISION. Recipients of these items signed a Vehicle Loan Agreement using the UNICEF standard form. In July/August 2012, the office requested the recipients to confirm the status of assets loaned to them, and they did. The office also conducted physical verification of a sample of these items to confirm their existence and status, and whether they were being used as intended. :

In August 2012, the office noted that 190 motorcycles procured using the donor's contribution and delivered to the government partner in November 2011 were not covered by a loan agreement and not recorded in the NEP database, and therefore were not migrated into VISION. The office took immediate action on 6 August 2012 to execute a loan agreement with the Ministry of Public Health. However, at the time of audit, these items had not been recorded in VISION as assets on loan, as the office was still inquiring from headquarters on the procedures to follow in recording them.

Of the 445 items on loan, 412 were items with their value ranging from US$ 495 (motorcycle) to US$ 1,186 (motor tricycle) each. Under UNICEF policy with respect to plant, property and equipment (PPE),[4] items with a value below US$ 1,500 are treated as expenses rather than as assets, taking into consideration the cost of maintaining them as compared to the benefit that could be derived in treating them as assets. It should be noted that once these programme supplies are recorded in VISION as on loan, they go through administrative procedures such as recording depreciation, maintainenance of loan agreements and confirmation of their existence.

Agreed action 6 (medium priority): The country office agrees to ensure that there is clear understanding and coordination within the office of the correct procedure for the recording and issuance of assets on loan to ensure that loan agreements are executed upon release of the asset, and that they are correctly recorded in VISION.

The target completion date for the implementation of the agreed action is 31 May 2013. Person responsible: Procurement Specialist.

Agreed action 7 (medium priority): PARMO agrees, in consultation with the country office, to discuss with the donor a limit on the unit value of vehicles and motorcycles that will be issued on loan, in order not to waste valuable resources in managing low-value items. The target completion date for the implementation of the agreed action is 31 January 2013. Person responsible: Senior Advisor, Public Sector Alliances Office, PARMO.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that the aspects of financial management, procurement and contracting, asset management, and information and communication technology that were examined as part of the follow-up of recommendations, and are related to operations support as defined above, were generally established and functioning during the period covered by the audit.

[4] Items formerly classified as NEP are now known as PPE.

Annex A: Methodology, 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, OIA 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, OIA 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.