

Office of Internal Audit and Investigations (OIAI)  
Report 2012/27

# Report on an Audit of the Budgeting Process in UNICEF

October 2012

## Executive Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the budgeting process in UNICEF. The audit sought to assess the effectiveness of the governance, risk-management and control processes over budget planning, preparation, implementation and monitoring. The audit covered the budgets for the biennia 2010-2011 and 2012-2013, and was conducted from October 2011 to March 2012. The audit covered activities in most HQ Divisions, particularly the Division of Policy and Strategy (DPS) and the Division of Financial Management (DFAM) as the main actors in the budgeting process, as well as all regional offices and nine sampled country offices.

As part of results-based management, UNICEF is committed to results-based budgeting (RBB). Under the RBB process, an organization identifies the results it wants to achieve, determines the resources needed for those results, and then allocates them. This should ensure that the organization's processes, resources and services are directed at strategically important results. Decision 2006/2 of the Executive Board related to the Institutional Budget "welcomed the continued improvement in results-based management and urged the Executive Director to give high priority to implementing results-based budgeting for the next biennium (2008-2009)". Since then, UNICEF has taken steps to increase linkage between results and resources.

### **Key observations and conclusion**

The audit made two recommendations that were rated high priority – that is, related to issues that required immediate management attention. The recommendations addressed the following observations:

- There is a need for more clearly defined and communicated roles in, and responsibilities for, the budgeting process. The Budget Policy (effective 1 January 2012) needs to assign clear roles and responsibilities for the global process of budget planning, preparation and monitoring to a specific Division. The Policy also needs to assign responsibility for monitoring and reporting on the use of funds. Further, the roles and responsibilities defined in the Budget Policy need to supersede those assigned in previous guidance, such as the 1994 Budget Manual. All these adjustments should decrease the risk of confusion, gaps and overlaps in the budgeting process.
- The RBB approach adopted by UNICEF was at an early stage of implementation. There is a need for an RBB implementation strategy with a set of policy, guidance and tools covering both the institutional and programme budgets. This would increase UNICEF's capacity to effectively implement RBB and allocate resources for achieving the planned results.

Based on the audit work performed, we concluded that, except for the high-priority areas noted above, the governance, risk-management and control processes over the budgeting process in UNICEF were adequate and functioning well.

DFAM and DPS have developed actions plans to address the audit observations. OIAI agrees with them and will monitor their implementation.

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## Background

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the budgeting process in UNICEF. The audit was carried out from October 2011 to March 2012.

As part of results-based management, UNICEF is committed to results-based budgeting (RBB). Under the RBB process, an organization identifies the results it wants to achieve, determines the resources needed for those results, and then allocates them. This should ensure that the organization's processes, resources and services are directed at strategically important results. Ultimately RBB, as applied to the UNICEF institutional budget, is a results-driven budgeting process whereby resources are related to indicators, including the baseline targets to be achieved, presented by cost classification categories. For programmes, the RBB approach is anchored on the Joint Inspection Unit (JIU)-developed benchmarks for Results-Based Management (RBM), and most of the regular resources are allocated for country programmes of cooperation based on an Executive Board-approved formula

As a decision-making tool for selecting results and priorities, and allocating resources accordingly, RBB should help improve transparency, visibility, aid effectiveness and value for money. In 2006, in reviewing the Institutional Budget, the UNICEF Executive Board “urged the Executive Director to give high priority to implementing results-based budgeting (RBB) for the next biennium 2008-2009” (Decision 2006/2).<sup>1</sup>

In 2009, the Executive Boards of UNDP, UNFPA and UNICEF asked the three organizations to work together to present a “road map” for improved linkages between resources and results, and improvement and greater harmonization in the presentation of the biennial support budget for 2012-2013. In addition, the Boards asked the organizations to work towards presentation of a single, integrated budget (defined as the combined programme and institutional budgets) for each organization, beginning in 2014. Historically, UNICEF has produced separate programme and institutional budgets (see *UNICEF budgets*, below).

At the first regular session of 2010, the three organizations presented a joint road map, which was endorsed by all three Executive Boards. The road map proposed that the organizations prepare a joint report that would include a review of RBB models and methodologies, and submit it to the 2010 second regular session of the Executive Board. This was done, and envisaged a fully integrated budget submission for the period beginning in 2014. Meanwhile, in 2011, the UNICEF Executive Board encouraged UNICEF to improve indicators to be “specific, measurable, attainable, relevant and time-bound”, and to link resources and expected results in a more explicit manner.

Since 1 January 2012, and as a step towards aligning resources and expected results, allocation of resources assigned to country programmes is done by Intermediate Results (IRs) based on discussions and negotiations with partners. This is being implemented in UNICEF's new management system, VISION (Virtual Integrated System of Information).

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<sup>1</sup> Subsequent decisions by the Executive Board on the subject – Decision 2008/2 on the 2008-9 biennium, Decision 2009/20 on the 2010-11 biennium and more recently the Decision 2011/23 on the Institutional Budget 2012-13 – have noted progress on results-based budgeting for the Institutional budget.

## UNICEF budgets

UNICEF prepares budgets for regular resources (RR) and other resources (OR).

**Regular Resources (RR)**, the most flexible form of resources, are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. They include income from voluntary annual contributions from governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. Two Board decisions (1997 and 2008) guide the calculation of RR planning levels for country programmes.

**Other Resources (OR)** do have restrictions, and are largely allocated to programme assistance, including emergencies. They are also mostly received from governments (58 percent in 2010) and the private sector (30 percent in 2010). About 12 percent are received through inter-organizational arrangements.

**Trust funds** are mostly received from Governments and through inter-organizational arrangements, and are mostly used for procurement services<sup>2</sup> (95 percent in 2010). Budgets are not prepared for trust funds.

**Table 1: Resources available to UNICEF, 2010-2013<sup>3</sup>**

<i>(In millions of United States dollars)</i>	<b>2010-2011</b>	<b>2012-2013</b>
Regular Resources	2,604	2,709
Other Resources	5,769	6,150
Trust Funds	2,046	2,841
<b>Total available resources</b>	<b>10,419</b>	<b>11,700</b>

UNICEF's Budget Policy<sup>4</sup> provides the following definitions of the organization budgets:

**Institutional budget:** The Budget Policy states that this includes “*the estimated costs of development effectiveness,<sup>5</sup> United Nations development coordination, management, and special purpose activities and outlined in the Institutional Budget document approved by the Executive Board on a biennial basis. Funded from regular resources and cost recoveries from other*

<sup>2</sup> UNICEF may procure for other agencies with which a written Memorandum of Understanding has been signed. Such services are offered to UN agencies, governments, NGOs, etc., where the supplies and equipment to be procured are consistent with the aims and policies of the Organization.

<sup>3</sup> E/ICEF/2011/AB/L.2: Institutional Budget document for 2012-2013, presented to the Executive Board in September 2011.

<sup>4</sup> UNICEF Financial and Administrative Policy 2, 1 January 2012.

<sup>5</sup> The Executive Board document *Institutional budget for 2012-2013* (E/ICEF/2011/AB/L.2) defines development effectiveness as follows: “Activities and associated costs that contribute to the effective delivery of development results. Normally these are activities of a policy-advisory, technical and implementation nature that are needed to achieve the objectives of UNICEF-assisted programmes and results pursued in each of the organization’s focus areas. These activities are essential to the delivery of development results and are not included in specific programme components in country/regional/global programme documents.”

*resources and special accounts. One of categories of budget reported in the Statement of Budget and Actual Amounts in the UNICEF Financial Statements.”*

**Programme budget:** The collective term for UNICEF budgets other than the Institutional Budget, approved by the Executive Board in Country Programme Documents and the Advocacy, Programme Development and Intercountry Programme Document for the implementation of programme activities and achievement of programmatic results and funded by RR and OR.

**Integrated budget:** Combined programme and institutional budgets.

### **Audit objectives and scope**

The objective of the audit was to assess whether policies and processes over budgeting were complete, and were conducive to appropriate linkages between results and resources.

The audit reviewed whether 1) UNICEF objectives and expected results were clearly defined and supported by indicators, baselines, targets and appropriate strategies; 2) resources were estimated and allocated based on expected results; 3) resources were sufficient to achieve expected results; 4) resources related to approved and funded activities were made available when they were needed; and 5) results and corresponding resources were monitored to ensure organizational objectives and expected results were achieved.

The audit covered both the Institutional and Programme Budgets, including the 7 percent set-aside and the Emergency Programme Fund. The budgeting process in Private Fundraising and Partnerships (PFP) Division was excluded from the scope of this audit as this subject area was considered in a separate audit of PFP carried out in November 2011 in Geneva.

The audit covered the budgets for the biennia 2010-2011 and 2012-2013.

OIAI conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. In addition, OIAI also followed International Standard of Supreme Audit Institutions 400 *Reporting Standards in Government Auditing*.

## Observations

### Roles and responsibilities in the budgeting process

Before January 2012, the budgeting roles and responsibilities of HQ Divisions, Regional and Country Offices were divided across the various guidance documents and manuals that together formed the basis of the budgeting process. Besides the UNICEF Financial Regulations and Rules, internal guidance which assigned roles and responsibilities in the budgeting process included the following:

- The UNICEF *Budget Manual* (1 February 1994).
- The Executive Directive *Guidelines for a New Unified Programme Budget System and Revised Programme Coding* (CF/EXD/1989-007).

The above-mentioned documents were still officially valid at the time of the audit, although they were outdated in many aspects.

Since 1 January 2012, the new Budget Policy, issued by DFAM, has assigned roles in, and responsibilities for, the budgeting process to HQ Divisions, Regional Offices and Country Offices. However, the Budget Policy did not formally supersede any of the previous guidance and manuals that had already assigned roles and responsibilities in the budget process, including the documents mentioned above. The fact that the assigned roles and responsibilities in the budgeting process without superseding previous guidance was partly due to the absence, within UNICEF, of a common framework or approach guiding policy development, review, approval and issue. This issue has recently been addressed in a separate audit.<sup>6</sup>

A further reason why the Budget Policy had not superseded previous guidance was because the current status of the accountabilities, roles and responsibilities of HQ Divisions, Regional and Country Offices was still unclear. The Budget Policy did not define and assign roles and responsibilities for all specific budget-related activities to either DPS or DFAM at each stage of the budgeting process. Their revision had been envisaged in the Report on the Accountability System of UNICEF (E/ICEF/2009/15). However, it had not been done, and it was therefore not possible for DFAM to consolidate in a single document the current roles and responsibilities attached to the many processes, managed by different internal stakeholders, which together form the budgeting process. For the same reason, some activities were being performed by DPS without being clearly assigned to it in the Budget Policy. Examples included the following:

- The new Budget Policy did not assign the responsibilities for leading the global process of budget planning, preparation and monitoring, including controls and reviews, to a designated Division.
- Activities associated with budget monitoring at UNICEF global level were not assigned.
- The Budget Policy did not specifically assign activities associated with budget reporting (such as presentation of use of funds against budgets).
- The new Budget Policy stated that “the responsibility of all relevant authorities defined in this

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<sup>6</sup> Report on an Audit of the Framework for Managing Policies, Procedures and Guidance (2012/15), June 2012.

policy includes the overall management of risks related to the budget process". Roles and responsibilities for managing global risks in the budgeting process were not assigned to a specific Division.

The audit noted that some budgeting activities currently carried out by DPS could not be directly matched with the roles and responsibilities set out in the Budget Policy. These include the running of the Executive Board-approved formula for the allocation of regular resources, and the review of Office Management Plans (OMP) prepared by HQ Divisions as well as Regional Offices.

**Agreed Action Plan 1 (high priority):** The Comptroller, in close consultation with DPS, PD and others as needed, agrees to:

- ensure that the Budget Policy is revised and adjusted to ensure that the responsibilities, authorities and accountabilities of HQ Divisions (in particular DFAM and DPS), Regional and Country Offices cover all aspects of the budgeting process including institutional and country programme budgets; and,
- ensure that the revised Budget Policy explicitly supersedes previous guidance to avoid confusion, gaps and overlaps.

DFAM will:

- 1) In collaboration with DPS, PD and EMOPS, revise and adjust Budget Policy to include the responsibilities, authorities and accountabilities of HQ Divisions (in particular DFAM and DPS), Regional and Country Offices in all aspects of the budgeting process including institutional and country programme budgets; to be done in Q2(second quarter) 2013.
- 2) Communicate revisions of Budget Policy and related previous guidance being superseded. – Q2/2013.

DPS will:

- 3) Incorporate in the DPS regulatory framework its responsibilities and accountabilities related to the budgeting process as included in the Budget Policy (Q2/2013).

**Responsible Officers:** Deputy Director, DFAM Budget (for items 1 and 2); Deputy Director, DPS (for item 3).

**Expected Date of Completion:** Q2/2013.

## Implementation of Results-Based Budgeting in UNICEF

In Decision 2010/20, the UNICEF Executive Board endorsed the results-based budgeting (RBB) approach to the institutional budget (see *Background* section, above). Both the General Assembly and a study by UN's Chief Executives Board (CEB) recommended the use of the benchmarking framework developed by the Joint Inspection Unit (JIU) as a major tool in the implementation of results-based approaches by organizations of the United Nations system.



The main conclusions of the CEB study<sup>7</sup> (CEB/2005/HLCM/R.6) showed that agencies were at different levels of RBB readiness in terms of existing internal RBM frameworks, information systems, budget management, internal accountability frameworks, internal leadership, etc. The study acknowledged that RBB entailed a complex and lengthy change in the management and organizational culture of each organization, and that there were no shortcuts. Moreover, it was widely recognized that RBB was not a purely financial concept, but rather a management approach that had to be shared and owned throughout the organization, in particular by line managers.

In view of the above, the RBB approach followed by UNICEF for the biennium 2012-2013 was as follows.

***For the institutional budget:*** Indicative resources, based mostly on previous budgets or expenditure patterns, were determined for organizational outputs attached to each of the cost-classification categories approved by the Executive Board. UNICEF had thus linked organizational units to those categories and to the Board-approved functional clusters. The rationale of that approach is that resources are allocated directly to the organizational units that carry out the activities to deliver intended outputs. As functional clusters group together a number of units that deliver certain outputs, they constitute the link between results and resources.

***For the programme budget:*** DFAM and DPP had anchored RBB for programme budget on the JIU-developed benchmarks for Results-Based Management (RBM). The following benchmarks were to be considered:

- Conceptual framework for RBM exists as a broad management strategy.
- Respective responsibilities of the organization's main parties are clearly defined.
- Objectives have been clearly formulated for the organization.
- The organization's programmes are well aligned with its long-term objectives.
- The organization's resources are well aligned with its long-term objectives.
- An effective performance-monitoring system is in place.
- Evaluation findings are used effectively.
- RBM is internalized throughout the organization.
- A knowledge-management strategy is developed to support RBM.

However, the approach above, although adopted by DFAM and DPP, had been neither been formally communicated within UNICEF nor formally endorsed by senior management. Two instructions by DFAM (CF/DFAM/BI/2008-002 and CF/DFAM/BI/2010-002) defined RBB as the process of identifying results, then allocating resources to achieve them within the framework of the Medium-Term Strategic Plan. However, they did not include a description of the difference of treatment between the institutional and the programme budgets as laid out above. The UNICEF Budget Policy issued on 1 January 2012 did not even establish RBB itself as the organization-wide approach towards resources estimation and allocation.

The fact that the Budget Policy neither defined nor established RBB as the UNICEF-adopted

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<sup>7</sup> *Concept paper on results-based budgeting (RBB) in the organizations of the United Nations system*, Chief Executives Board for Coordination, CEB/2005/HLCM/R.6, March 2005.

budgeting approach for both the institutional and programme budgets had significantly reduced UNICEF capacity to effectively and efficiently implement RBB and allocate resources for achieving the planned results for programmes and operations.

**Agreed Action Plan 2 (high priority):** As part of its on-going efforts to strengthen linkage between results and resources, DFAM, with assistance from DPS and other relevant stakeholders, agrees to coordinate and complete development and communication of an RBB implementation strategy for both programme and institutional budgets. The strategy will include: the formal adoption of RBB in the Budget Policy; assigned responsibilities; guidance and tools aimed at enforcing linkage between resources and results; and estimated resources and timelines.

In the context of activities informing preparation of UNICEF MTSP, 2014 -2017, DFAM will:

- 1) Ensure UNICEF approach to RBB is addressed within Budget Policy including assignment of responsibilities (Q4/2012).
- 2) Develop/communicate instructions for preparation of institutional budget (Q1/2013).
- 3) Implement institutional budget preparation (with appropriate guidance and tools) (Q3/2013).
- 4) Evaluate impact of strategy development/communication (Q4/2014). *(This action point will not be monitored by OIAI as it is beyond the agreed action plan).*

DPS will:

- 5) Assess the newly introduced practice of results based budgeting and allocation for programmes in VISION (Q2/2013).
- 6) Issue relevant guidance on the RBM and RBB strategy for programme budgets in Q3/2013 for implementation for the new MTSP (2014-2017), Q3/2013.

**Responsible Officers:** Deputy Director, DFAM Budget (for items 1 to 4); Deputy Director, DPS (for items 5 and 6).

**Expected Date of Completion:** Q4/2013

## Automation of budget review and resource allocation

UNICEF should have in place an automated system for budget review and resource allocation. This should be reasonable in cost, supported globally, easy to use and capable of storing, sorting and consolidating budget review comments and recommendations, and should support and inform transparent decisions on allocations.

In UNICEF, budgets are reviewed, approved and allocated through various committees, as follows:

- The Global Programme Budget Review (PBR) and Technical Review Team (TRT) review, and make recommendations on, the biennial Institutional Budget before it is reviewed and recommended by the Chairperson of the Global PBR, endorsed by the Executive Director, and approved by the Executive Board.
- Regional PBRs and TRTs review Country Institutional Budget and Programme Budget proposals before they are submitted to the Regional Director, endorsed by the Executive

- Director and approved by the Executive Board.
- The Allocation Committee (AC), which is chaired by the Executive Director, provides an independent review of the allocations recommended by the Allocation Advisory Committee (AAC) and makes decisions on the allocations for 7 percent Set Aside; the latter are funds available to the Executive Director for allocation in strategic areas and innovative activities that have the potential for accelerating achievement of results for children. The AC also decides the allocations of RR-for-OR funds and global thematic funds<sup>8</sup> (excluding humanitarian response).
  - The Harmonized Review Body (HRB) allocates programme OR non-thematic resources for activities that are managed at global level or at multi-country level.
  - There are also committees to allocate global thematic humanitarian funds and the Emergency Programme Fund (EPF).

The PBR and TRT (global and regional) review mechanisms – submissions, exchanges, review comments and recommendations – were not managed electronically. Over time, TRT and PBR members had been given common work spaces in the intranet where all the documents were posted, and members could choose to read them electronically, but the review process, recommendations and the approval were not automated. Neither was there any software-based system to handle funding requests from HQ Divisions, Regional Offices and Country Offices for global thematic funds (including global thematic humanitarian funds), RR-for-OR funding or 7 percent set-aside. Submissions, as well as exchanges, comments and recommendations, were captured in Excel and Word worksheets and exchanged through emails. The same applied to review and allocations of global non-thematic resources and Emergency Programme fund (EPF).

From January 2012, EMOPS and DPS had begun creating allocations for global thematic humanitarian and global thematic and non-thematic funds in the Grant Master in VISION, which is automatically work-flowed to DFAM – which can then post the allocations to the receiving offices' accounts. In general, however, the absence of an automated mechanism supporting budget review and resources allocations led to heavy reliance on paper-based and manual intervention for reviewing budget submissions.

Excessive reliance on manual intervention had reduced UNICEF's capacity to sort, analyze, consolidate and monitor issues raised during the budget-review and allocation processes for global thematic or non-thematic funds, 7 percent set-aside, RR-for-unfunded-OR and EPF. An automated option would lead to the following:

- efficient and effective budget review and resource-allocation mechanisms;
- systematic and structured tracking of submissions and review comments, which could improve the timeliness of decision-making by the approval authorities as well as the efficiency of the budgeting process;
- systematic and structured consolidated information on allocations of funds to HQ Divisions, Regional Offices and Country Offices; and,
- reduced risk of human error in manually reviewing and managing allocation decisions, which could increase the efficiency of budgeting process.

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<sup>8</sup> RR-for-OR represents allocation of RR to functions that were to have been covered by OR and have not been funded, but which UNICEF thinks should be implemented anyway. Global thematic funds cover UNICEF global goals and are allocated to offices based on set criteria.

**Agreed Action Plan 3 (medium priority):** DFAM, in consultation with DPS, ITSS, CMO and other relevant stakeholders, agrees to coordinate and complete the evaluation and selection of the most cost-effective automated options for supporting the Programme Budget Review/Technical Review Team (global and regional) processes, as well as the review and allocation processes for global thematic and non-thematic funds, 7 percent set-aside, regular resources for unfunded other resources and Emergency Programme Fund.

DFAM will:

- 1) Develop approach for institutional budget preparation, review, submission and approval – including whether automated processes are required/desirable and cost-effective (Q4/2012).
- 2) Develop/communicate instructions for preparation of institutional budget (Q1/2013).
- 3) Implement institutional budget preparation (with appropriate guidance and tools) (Q3/2013).

DPS will:

- 4) Complete the ongoing work in DPS (in collaboration with ITSSD and CMO) for automation of some elements of allocation of the 7 percent set-aside and regular resources for unfunded other resources and launch the automation (Q4/2012).
- 5) Assess the automation of the allocation of the 7 percent set-aside and regular resources for unfunded other resources in 2013, for possible expansion to other programme and emergency resources (Q4/2013).

**Responsible Officers:** Deputy Director, DFAM Budget (for items 1 to 3); Deputy Director, DPS (for items 4 and 5).

**Expected Date of Completion:** Q4/2013.

## Monitoring of use of resources and achievement of results

UNICEF should regularly monitor its performance against use of resources and achievement of key results, in order to address recurring and systemic issues and to incorporate lessons learned and best practices into its interventions.

Budget utilization and achievements of key results were included in the annual reports of country offices, but were not being monitored globally in a comprehensive manner. While information about key results and associated resources mostly were available, they could be found only at the country-office level; there was no established system for monitoring resources utilization and key results at the global level in UNICEF. This was mainly due to shortcomings in the assignment of responsibilities for budget monitoring (this issue is addressed in recommendation 1, above). There was also a need for guidance for budget monitoring at the global level. This would increase UNICEF's capacity for timely identification and rectification of unsatisfactory performance.

**Agreed Action Plan 4 (medium priority):** In close collaboration with DFAM and other relevant stakeholders, DPS agrees to develop guidance to enable systematic monitoring and analysis of budget utilization and achievement of key results at the global level. This will reinforce managers' accountability for the efficient and effective use of resources and achievement of

results. The following steps will be taken:

- 1) Once the full performance module in VISION is developed and launched, during the second half of 2012, various dimensions of systematic monitoring and analysis of budget utilization by managers at all levels will be assessed (Q4/2012).
- 2) The focus of 2012 and early 2013 will be on implementation of MoRES in VISION and it is not in the interests of the organization to introduce too many elements simultaneously to ensure quality performance monitoring; further the new MTSP and its RBM structure will inform the strategy for 2014 onwards.
- 3) Guided by the 'accountability framework' and the RBM structure of the new MTSP, draft guidance will be developed and reviewed by GMT and RMTs in Q3/2013 for introduction from 2014.
- 4) Guidance will be developed by DPS in consultation with DFAM, OED, EMOPS and PD, as well as ROs, to be issued in Q4/2013 for implementation from 2014.

**Responsible Officer:** Deputy Director, DPS

**Expected Date of Completion:** Q4/2013

In September 2012, UNICEF Management decided to consolidate the budget monitoring and analysis function for corporate level budget monitoring and analysis into a single unit in Headquarters. This consolidated function is expected to be fully operational by the end of Q4/2012. Responsible Officer: Director DFAM.

## **Annex A**

### **Definition of priorities of audit recommendation**

**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 recommendations, if any, are dealt with by the Audit Team directly with the country office management. Therefore, low priority recommendations are not included in the final report.