

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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Resilient nations.*

AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

RIGHT TO EDUCATION IN THE GAZA STRIP
(Directly Implemented Project No. 87840, Output No. 94739)

Report No. 1800
Issue Date: 7 September 2017

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Right to Education in the Gaza Strip
(Project No. 87840, Output No. 94739)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Deloitte (the audit firm), from 6 June to 3 July 2017, conducted an audit of Right to Education in the Gaza Strip, Project No. 87840, Output No. 94739, (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2016 and the accompanying Funds Utilization statement¹ as of 31 December 2016. The audit did not cover the Statement of Assets as no assets were held by the Project. In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit results

Based on the audit report(s) and corresponding management letter(s) submitted by the audit firm, the results are summarized in the table below:

Project Expenditure*		
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)
6,505	Qualified	1,682

*NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenditure due to an overstatement of expenditures recorded in the Combined Delivery Report, which was caused by the incorrect recording of prepayments to contractors as expenses (refer to issue 1).

Key recommendation: Total = 1, high priority = 1

The audit resulted in one high (critical) priority recommendation that aims to ensure the reliability and integrity of financial and operational information. For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

Recording prepayments to contractors as expenses (Issue 1)

The audit noted that eight payments made by UNDP to contractors based on signed contracts were recorded as an expense in full, while these payments represented a 20 percent prepayment of the total contract amounts. These payments were paid to the contractors to start implementing the project activities and were properly supported by signed contracts between UNDP and contractors along with other supporting documents. This accounting treatment led to the overstatement of recorded expenditures in the Combined Delivery Report by the total amount of US\$1,557,572. This accounting treatment also led to inflating the indirect costs recorded under the 'Facilities and Administration' account code by \$124,606.

Recommendation: The Office should fully implement and follow proper accounting treatments for recording of prepayments as required by POPP.

Management comments and action plan

The Special Representative of the Administrator accepted the recommendation and is in the process of implementing it. Comments and/or additional information provided have been incorporated into the report, where appropriate.



Brett Simpson
Officer-in-Charge
Office of Audit and Investigations

**Report on Financial Audit of Directly Implemented Project
Managed by UNDP Programme of Assistance to the Palestinian People (PAPP)**

Right to Education in the Gaza Strip

Project ID 00087840

Output ID 00094739

August 29, 2017

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Part I – Executive Summary

To: The Director of Office of Audit and Investigations (OAI)

United Nations Development Programme (UNDP)

Dear Sir/Madam;

This report represents the results of the financial audit conducted by Deloitte Haskins & Sells LLP (DHS) through Deloitte & Touche (ME) Palestine Office on the project ID 00087840 - Output ID 00094739 "Right to Education in the Gaza Strip" (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP) for the period from 1 January to 31 December 2016.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the LTA ACP/8631/2014/04 signed between UNDP and Deloitte India on 31 July 2015.

We have issued audit opinions as summarized in the table below and as detailed in the next sections:

Statement of Expenses	Qualified
Statement of Fixed Assets	Not applicable
Statement of Cash Position	Not applicable

As a result of our audit, we have raised one audit finding with net financial impact as summarized below:

Audit Finding	Priority	Net Financial Impact
Recording prepayments to contractors as expenses	High (Critical)	US\$ 1,682,178



Follow up on Previous Audit Report

The Output ID 00094739 was not audited in previous years, accordingly no follow up procedures were performed.

A handwritten signature in blue ink, appearing to be "M.E.", written over a light blue horizontal line.

Deloitte & Touche (M.E.)

Ramallah, Palestine

August 29, 2017



Audit objectives

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project between 1 January to 31 December 2016 and the funds utilization as at 31 December 2016 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement are the mandatory and official statements upon which the audit opinion should be expressed. Other forms of statement of expenses that may be prepared by a project office are not accepted.
- 2) Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP Project as at 31 December 2016. This statement includes all assets available as at 31 December 2016 and not only those purchased in a given period. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.
- 3) Expressing an opinion on whether the statement of cash held by the Project presents fairly, the cash and bank balance of UNDP Project as at 31 December 2016, only if a dedicated bank account was established specifically for the project.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

Scope of Audit

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project for the period 1 January to 31 December 2016. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties", unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centers and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office.

INDEPENDENT AUDITOR'S REPORT ON STATEMENT OF EXPENSES

**To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme (UNDP)**

Qualified Opinion

We have audited the accompanying Combined Delivery Report (CDR), and the Funds Utilization Statement ("the statement") of the UNDP Project ID 00087840 - Output ID 00094739 "Right to Education in the Gaza Strip" for the period from January 1 to 31 December 2016.

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion section of our report, the accompanying Combined Delivery Report (CDR), and the Funds Utilization Statement presents fairly, in all material respects, the expenses of US\$ 6,504,560.04 incurred by the UNDP under project ID 00087840 - Output ID 00094739 "Right to Education in the Gaza Strip" for the period from 1 January to 31 December 2016, in accordance with UNDP accounting policies, and were (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

Basis for Qualified Opinion

1. Based on the sample selected, for 8 of the payments made by UNDP to contractors, the UNDP recorded the payments as an expense in full instead of recording it as prepayments and reversing later the prepayments for the actual expenses incurred by the contractors. This treatment which is not in line with the UNDP accounting policies resulted in overstating the expenses reported within the CDR by US\$ 1,557,572. This overstatement represents only the prepayments tested in our sample selected; we were not provided with the total population of the prepayments recorded directly as expenses to quantify the total amount of the overstatement.
2. The aforementioned overstatements of the CDR, led to overstating the indirect costs (Facilities and Admin – Implement, account code 75105) - which is calculated at 8% of the total expenses reported within the CDR - by US\$ 124,606.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the CDR and Funds Utilization section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management responsibilities

Management is responsible for the preparation of the CDR and Funds Utilization statement of the project, and for such internal control as management determines is necessary to enable the preparation of a CDR and Funds Utilization Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the CDR and Funds Utilization statement are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also,

- Identify and assess the risks of material misstatement of the CDR and Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in blue ink, appearing to be "E. H. H.", written over a horizontal line.

Deloitte & Touche (M.E.)

Ramallah, Palestine

August 29, 2017



Financial audit of Project ID 00087840 "Right to Education in the Gaza Strip"
For the year ended 31 December 2016

Combined Delivery Report (CDR)



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 1 of 4
Run Time: 23-02-2017 10:02:16

Selection Criteria:

Business Unit : PAL10
Period : Jan-Dec (2016)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00094739

Project Id : 00087840 Right to Education in the Gaza	Period : Jan-Dec (2016)
Output # : 00094739 Right to Education in Gaza	Impl. Partner : 02388 UNDP - PAPP
	Location : Palestine

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)				
Fund : 30000 (PROGRAMME COST SHARING)				
61305 - Salaries - IP Staff	0.00	48,658.02	0.00	48,658.02
61310 - Post Adjustment - IP Staff	0.00	22,188.06	0.00	22,188.06
62310 - Contrib to Jt Staff Pens Fd-IP	0.00	16,744.14	0.00	16,744.14
62315 - Contrib. to medical, social in	0.00	142.20	0.00	142.20
62320 - Mobility, Hardship, Non-remova	0.00	5,164.98	0.00	5,164.98
62340 - Annual Leave Expense - IP	0.00	265.71	0.00	265.71
63530 - Contribution to EOS Benefits	0.00	2,656.74	0.00	2,656.74
63535 - Contribution to Security	0.00	3,010.98	0.00	3,010.98
63540 - Contribution to Training	0.00	850.14	0.00	850.14
63545 - Contribution to ICT	0.00	1,062.72	0.00	1,062.72
63550 - Contributions to MAIP	0.00	177.12	0.00	177.12
63555 - Contribution to UN JFA	0.00	2,302.50	0.00	2,302.50
63560 - Contributions to Appendix D	0.00	177.12	0.00	177.12
64398 - Direct Project Cost-Staff	0.00	8,254.38	0.00	8,254.38
65115 - Contributions to ASHI Reserve	0.00	5,667.66	0.00	5,667.66
65135 - Payroll Mgt Cost Recovery ATLA	0.00	386.28	0.00	386.28
71205 - Intl Consultants-Sht Term-Tech	0.00	8,550.00	0.00	8,550.00
71305 - Local Consult.-Sht Term-Tech	0.00	800.00	0.00	800.00
71405 - Service Contracts-Individuals	0.00	329,381.83	0.00	329,381.83
71410 - MAIP Premium SC	0.00	604.01	0.00	604.01
71415 - Contribution to Security SC	0.00	15,095.42	0.00	15,095.42
71505 - UN Volunteers-Stipend & Allow	0.00	116,588.76	0.00	116,588.76
71520 - UNV-Language Allowance	0.00	6,161.01	0.00	6,161.01
71535 - UNV-Medical Insurance	0.00	9,017.18	0.00	9,017.18
71540 - UNV-Global Charges	0.00	5,434.85	0.00	5,434.85
71541 - UNVs-Contribution to security	0.00	7,283.40	0.00	7,283.40
71550 - UNV-Resettlement Allowance	0.00	9,710.34	0.00	9,710.34
71565 - UNV-Natl Appoint/Sep incl Trvl	0.00	103.76	0.00	103.76
71590 - UNV Development Effectiveness	0.00	19,719.87	0.00	19,719.87
71605 - Travel Tickets-International	0.00	0.00	0.00	0.00
71615 - Daily Subsistence Allow-Intl	0.00	464.16	0.00	464.16
71620 - Daily Subsistence Allow-Local	0.00	871.73	0.00	871.73
71635 - Travel - Other	0.00	- 6.06	0.00	- 6.06
72105 - Svc Co-Construction & Engineer	0.00	5,264,162.84	0.00	5,264,162.84
72125 - Svc Co-Studies & Research Serv	46,616.99	0.00	0.00	46,616.99
72130 - Svc Co-Transportation Services	0.00	- 64.93	0.00	- 64.93
72145 - Svc Co-Training and Educ Serv	0.00	1,844.65	0.00	1,844.65
72205 - Office Machinery	0.00	91.07	0.00	91.07
72311 - Fuel, petroleum and other oils	0.00	657.03	0.00	657.03
72405 - Acquisition of Communic Equip	0.00	2,119.22	0.00	2,119.22
72425 - Mobile Telephone Charges	0.00	1,783.98	0.00	1,783.98
72505 - Stationery & other Office Supp	0.00	346.28	0.00	346.28
72705 - Hospitality-Special Events	0.00	15,275.26	0.00	15,275.26
72805 - Acquis of Computer Hardware	0.00	43.00	0.00	43.00

Ramzy Khader
Ima Al Hussein:

Project Manager
Program Specialist

23-2-2017

23/2/2017

[Signature]



Financial audit of Project ID 00087840 "Right to Education in the Gaza Strip"
For the year ended 31 December 2016



UN Development Programme
Report ID: unglodip

Combined Delivery Report By Project

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Project Id : 00087840 Right to Education in the Gaza		Period : Jan-Dec (2016)		
Output # : 00094739 Right to Education In Gaza		Impl. Partner : 02388 UNDP - PAPP		
		Location : Palestine		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
73107 - Rent - Meeting Rooms	0.00	0.00	0.00	0.00
73410 - Maint, Oper of Transport Equip	0.00	2,776.35	0.00	2,776.35
74210 - Printing and Publications	0.00	445.54	0.00	445.54
74505 - Insurance	0.00	1,258.54	0.00	1,258.54
74525 - Sundry	0.00	186.96	0.00	186.96
74598 - Direct Project Costs - GOE	0.00	37,338.60	0.00	37,338.60
74599 - UNDP cost recovery chrgs-Bills	0.00	109.32	0.00	109.32
75105 - Facilities & Admin - Implement	0.00	481,796.78	0.00	481,796.78
76120 - Unrealized Loss	0.00	264.12	0.00	264.12
76125 - Realized Loss	0.00	63.45	0.00	63.45
76135 - Realized Gain	0.00	- 24.02	0.00	- 24.02
Total for Fund 30000	46,616.99	6,457,943.05	0.00	6,504,560.04
Total for Dept : 70001	46,616.99	6,457,943.05	0.00	6,504,560.04
Total for Output : 00094739	46,616.99	6,457,943.05	0.00	6,504,560.04
Project Total :	46,616.99	6,457,943.05	0.00	6,504,560.04



Signed By: Ramzy Khader project Manager Date: 23-2-2017
Signed By: Iman Al Hussein Program Manager Date: 23/2/2017



Financial audit of Project ID 00087840 "Right to Education in the Gaza Strip"
For the year ended 31 December 2016



UN Development Programme
Report ID: ungicdrp

Combined Delivery Report By Project

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Run Time: 23-02-2017 10:02:18

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2016)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00094739

Project Id : ALL	Period : Jan-Dec (2016)			
Output # : ALL	Impl. Partner :			
	Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	46,616.99	6,457,943.05	0.00	6,504,560.04

Ramzy Whader project Manager *[Signature]* 23-2-2017
Iman Al Hussein: Program Specialist *[Signature]* 28/2/2017





UN Development Programme
Report ID: ungicdrp

Combined Delivery Report By Project

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Run Time: 23-02-2017 10:02:19

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2016)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00094739

Project/Award: 00087840 Right to Education in the Gaza

Period : As at Dec 31, 2016

Output #	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances		124,699.02
Undepreciated Fixed Assets		0.00
Inventory		0.00
Prepayments		0.00
Commitments		0.00

Ramzy Khuder project Manager 23-2-2017
Iman Al Hussein: Program Specialist 23/2/2017



Part III – Management Letter

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**To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme (UNDP)**

Introduction

Under International Standards on Auditing, auditors are encouraged to report various matters concerning an entity's internal control structure noted during their audit, and are required to report certain of those matters. Matters that are required to be reported are "significant deficiencies in the design or operation of the internal control structure that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements."

As part of our audit of the Project's financial statements of the Project ID 00087840 - Output ID 00094739 "Right to Education in the Gaza Strip" for the period from 1 January to 31 December 2016, we considered UNDP's internal control structure and compliance with its accounting policies in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. Our purpose was not to provide assurance on the internal control structure.

We emphasize that the responsibility for a sound system of internal controls rests with management and work performed by external audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery.

The matters raised in this part are those which came to our attention during the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be needed. Recommendations for improvements should be assessed by management for their full commercial impact before they are implemented. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Acknowledgment

We wish to express our appreciation for the courtesy and cooperation extended to our representatives during the course of their work.



Deloitte & Touche (M.E.)

Ramallah, Palestine

August 29, 2017



Finding 1: Recording prepayments to contractors as expenses

Observation

Per Programme Operations Policies and Procedures, a prepayment is used when a supplier requires partial or full payment for goods or services prior to the delivery/provision of the goods or services. When paid, prepayments reflect as amounts due to UNDP and are recorded in the asset account 16065 (Prepaid Voucher Modality). As the goods or services are provided, the prepaid asset balance must be reduced and an expense recorded for the amount of goods or services received by UNDP. This is achieved by receipting and vouchering against the relevant PO and offsetting the prepayment against the Accounts Payable PO voucher. Such offsets need to be communicated to the vendor.

During the audit, and based on the sample selected, we noted that for 8 of the payments made by UNDP to contractors based on signed contracts, the Office recorded the payments as an expense in full, while these payments represented a 20% prepayment of total contracts upon signature of contract with the suppliers, against obtaining bank Guarantees from the suppliers. These payments were paid to the contractors to start implementing the project activities which are properly supported with signed contracts between UNDP and contractors along with other supporting documents.

This accounting treatment led to overstatement of the CDR with the total amount of US\$ 1,557,572 representing the amount of the prepayments made to the contractors. The table below illustrates the instances noted:

S.L	Journal ID	Date Recorded	Account #	Beneficiary Name	Description	Amount - USD
1	AP06754966	29-Nov-16	72105	Shayah Co.	Adv.Paym.-Shayah Co.-inv.#376	389,000
2	AP06759707	1-Dec-16	72105	Usama J. Kuhail Partners.	Adv.Paym.-Kuhail Co.-inv.#66	299,668
3	AP06662730	28-Sep-16	72105	3 Brother Co.	Adv.Pya.-3 brothrs Comp.inv.85	116,890
4	AP06660988	28-Sep-16	72105	Mushtaha & Hassouna Co.	Adv. Pay.-Mushtaha&Hsona Comp.	203,180
5	AP06662730	28-Sep-16	72105	Shayah Co.	Adv. Paym.-Shayah Comp.inv#373	159,144
6	AP06725267	7-Nov-16	72105	Abdel Hakim Co.	Adv.Pay.-Abdelhkm Co.-inv.#394	118,655
7	AP06752504	28-Nov-16	72105	Salahdin Co.	Adv.Pay.-Salahdin Co-inv.#367	103,983
8	AP06356757	11-Feb-16	72105	Al Junaina Co.	Lot13A-inv.#1	167,052
						1,557,572

The aforementioned overstatement in the total amount of 1,557,572 led to overstating the indirect costs (Facilities and Admin – Implement, account code 75105) - which is calculated at 8% of the total expenses reported within the CDR – by US\$ 124,606.

The net financial impact of this observation including the overstatement in indirect costs (Facilities and Admin – Implement, account code 75105) is US\$ 1,682,178.

Non-compliance with UNDP POPP and recording prepayments to contractors as expense and not as prepayments may result in reporting inaccurate expenses on CDR which can be misleading for stakeholders making decisions.

Priority

High (Critical)

Recommendation

The Office should fully implement and follow proper accounting treatments for recording of prepayments as required by POPP.

Management's Response and action plan

UNDP/ PAPP agree with the audit finding. UNDP/PAPP will review the internal process with respect to contract advance payments to be in line with the POPP as well as with Audit recommendation.

Auditor's Response

UNDP country office management accepted the observation. No further audit procedures required.

Priorities of Audit Recommendations

High (Critical)	Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take action could result in major consequences and issues.
Medium (Important)	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 Auditors directly with the Office management, during the exit meeting and through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the audit report.