

Criteria supporting IAIG's audit opinion

1. In accordance with Executive Board decision 2015/13, IAIG has provided an opinion in this annual report, based on: the scope of work undertaken, and the adequacy and effectiveness of the organization's framework of governance, risk management and control. Furthermore, in accordance with Executive Board decision 2016/13, IAIG herewith provides the rationale for this opinion. The summary of the audit work performed is provided in the body of the annual report, essentially under section V. This annex provides a brief description of the criteria used to support the IAIG opinion.
2. The results of the following are taken into account to support the IAIG opinion:
 - (a) Audits of field offices;
 - (b) Audits of cross-functional themes;
 - (c) Audits of projects;
 - (d) IAIG continuous auditing and data analytics programme; and
 - (e) The implementation status of audit recommendations as at the end of the calendar year.
3. The distribution of 2017 audit results regarding the adequacy and effectiveness of the governance, risk management and control at the audited entity level is shown in table 2. Furthermore, table 5 in the IAIG annual activity report shows the distribution of the number of audit reports that were issued by IAIG in 2017 by type of audit rating, "satisfactory", "partially satisfactory", and "unsatisfactory".
4. The distribution of audit ratings for 2017 is as follows:

Rating	Number of ratings	Per cent of grand total
Internal audits		
Satisfactory	0	0%
Partially satisfactory – Some improvement needed	5	10%
Partially satisfactory – Major improvement needed	4	8%
Unsatisfactory	2	4%
No rating*	6	13%
Internal audit total	17	35%
Project audits		
Satisfactory	14	29%
Partially satisfactory – Some improvement needed	3	7%
Partially satisfactory – Major improvement needed	0	0%
Partially satisfactory (old rating system)	5	10%
Unsatisfactory	2	4%
No rating*	7	15%
Project audit total	31	65%
GRAND TOTAL	48¹	100%

*No rating is provided for reviews, consultancy engagements and project financial audits without an internal audit component

5. The table above shows that there were four unsatisfactory ratings in 2017, up from zero in 2016. In addition, 35 per cent of all audits have a rating "partially satisfactory" (25 per cent in 2016); where there are deficiencies in governance, risk management and controls which need to be addressed. While 29 per cent of

¹ There are 48 ratings, but only 45 reports. This is because the internal audit of Panama contains four separate ratings.

Internal Audit and Investigations Group

IAIG Activity Report for 2017

Annex 5

audits had a satisfactory rating (62 per cent in 2016), the audits nonetheless identified areas for improvement. Moreover, the reduced percentage of satisfactory ratings since 2016 is a negative trend.

6. In project audits in 2017, the cumulative financial impact of project audit reports with a qualified opinion was \$139,315 (zero in 2016). For internal control reports, the financial impact on audit observations was \$171,247 (\$52,973 in 2016). This negative trend demonstrates a need for improvement.
7. The IAIG data analytics programme identified serious issues in the vendor management system, which required the closure of more than 16,000 vendor accounts that were duplicated or inactive. System data integrity issues also exist.
8. In addition to the above comparison, the qualitative nature of the audit and other results were also given due consideration. This is done to the extent that serious shortcomings on the corporate level may have been identified during the reporting period, which, in the opinion of IAIG, could have a pervasive and serious negative impact across the organization. Furthermore, qualitative matters arising from investigations have been considered in the opinion.
9. The implementation rate of internal audit recommendations was also taken into consideration. The actual implementation rate of internal audit recommendations at the end of 2017 was 92 per cent and therefore “satisfactory”. The rate of 92 per cent gives comfort that the organization takes effective and timely action to address deficiencies identified in audits. Nonetheless, IAIG notes a 1 per cent decrease in the implementation rate from 93 per cent in 2016.
10. Consequently, based on the scope of work undertaken in 2017, in IAIG opinion, the adequacy and effectiveness of the governance, risk management and control in the audit reports issued in 2017 were, in aggregate, “partially satisfactory (major improvement needed)”. This means that they were generally established and functioning but needed major improvement. Issues identified could significantly affect the achievement of the objectives of the organization.