



Internal Oversight Division

Reference: IA 2017-01

Audit Report

Audit of Payroll

May 23, 2017

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LIST OF ACRONYMS

AIMS	Administrative and Information Management Systems
DPPF	Department of Program Planning and Finance
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
HCM	Human Capital Management
HR	Human Resource
HRMD	Human Resources Management Department
HRPI	Human Resource Pension and Insurance unit
ICSC	The International Civil Service Commission
IIA	Institute of Internal Auditors
IOD	Internal Oversight Division
MAAS	Management and Administrative Applications Section
MHA	Mobility and Hardship Allowance
OI	Office Instruction
UN	United Nations
WIPO	World Intellectual Property Organization

EXECUTIVE SUMMARY

1. In accordance with its 2017 work plan, the Internal Oversight Division (IOD) conducted an Audit of Payroll, which represents around 65 per cent of the Organization's annual expenditures in 2016. The objectives of the audit were to: (a) assess the adequacy and effectiveness of governance, risk management and internal controls over payroll processes and systems; and (b) verify accuracy of payroll calculations following the implementation of the revised United Nations (UN) common system compensation package.
2. IOD found that the World Intellectual Property Organization (WIPO) had successfully implemented the revised UN compensation package for staff in the professional and higher categories with no disruption. These changes affected the salaries of around 635 WIPO professional staff¹ and above (regular and temporary). IOD's review of a sample of employees' pay for accuracy following the implementation of the revised UN compensation package did not reveal any significant anomalies.
3. With regards to payroll operational processes, certain control activities and manual processes put in place for providing assurance were found to be redundant; hence the overall payroll process is not fully benefiting from efficient control functionalities already available in the Administrative and Information Management Systems' Human Resource tool (AIMS HR).
4. Further customization and automation of certain operational processes could help enhance key controls and address some systemic issues; and compliance and alignment of operational processes with respective rules, regulations and office instructions would further increase efficiency and effectiveness of the payroll process.
5. Finally, access rights to the Enterprise Resource Planning (ERP) tools including PeopleSoft® Human Capital Management (HCM) and the Payroll Solution, are currently being reviewed in collaboration with the Security and Information Assurance Division, to ensure among others, compliance and alignment with the organizational strategy for access management.

¹ Business Intelligence data: regular and temporary staff- 560 professionals, 66 Directors, and 9 executives

1. BACKGROUND

6. The PeopleSoft® HCM was implemented in January 2014. The package provides WIPO with a comprehensive set of tools to strengthen Human Resource (HR) Management, comprising position management, benefits and entitlements, payroll, recruitment, staff performance, and learning and development. The new system further enhances integration of payroll and related processes into the Organization's ERP, Administrative and Information Management Systems (AIMS).

7. Multiple departments within WIPO perform payroll related activities, including Units of the Human Resources Management Department (HRMD), and the Department of Program Planning and Finance (DPPF). Key stakeholders in the processing of payroll include:

(a) HR Operations Services

(i) Benefits and Entitlements Unit; and

(ii) Pension and Insurance Unit, (including HR Service Desk).

(b) The Pay and Entitlement Unit of the Finance Division; and

(c) The Management and Administrative Applications Section (Technical Support)

8. The payroll process is designed based on sets of policies and guidelines that have been develop to implement related staff regulations and rules on HR management. Salaries of over one thousand staff members in multiple locations of WIPO are processed through AIMS HR and the Payroll solution.

Table 1: Distribution of staff per category

	Executive	Director	Professional	General Service	Non-Staff	Total
Regular Employee	9	64	497	501	1	1072
Temporary Employee		2	63	31		96
Non-Staff					76	76
Total	9	66	560	532	77	1244

Source: WIPO Business Intelligence (BI) dashboard (March 2017)

9. Staff costs represents around 65 per cent of total expenditure over the last three biennia, as shown in the table below, and monthly payroll averages 10 million Swiss francs.

Table 2: Staff Costs as a Percentage of Overall Expenditures 2011-2016

Heading	2012	2013	2014	2015	2016
Staff costs as a percentage of overall expenditure	68.7%	66.6%	67.5%	64.5%	64.7%
Total Staff related Expenses (in millions of Swiss francs)	199.1	214.2	208.5	215.4	211.6
Non-Staff related Expenses(in millions of Swiss francs)	90.9	107.5	100.3	118.4	115.2
Total expenditure	290	321.7	308.8	333.8	326.8

Sources: HRMD Annual Report 2015, Un-audited 2016 financial figures from BI

10. On December 23, 2015, the General Assembly of the UN adopted a resolution on the review of the common system compensation package for staff in the professional and higher categories. The resulting revised compensation package developed by the International Civil Service Commission² (ICSC) was implemented by WIPO on January 1, 2017.

A. OBJECTIVES

11. The objectives of this audit were to:

- (a) Assess the adequacy and effectiveness of governance, risk management and internal controls over payroll processes and systems; and
- (b) Verify whether payments of salaries and benefits are complete, accurate and compliant with WIPO Staff Regulations and Rules, and in particular, changes made following the implementation of the revised UN common system compensation package.

B. SCOPE AND METHODOLOGY

12. The audit covered relevant components of the payroll process, including reviewing existing policies, procedures and practices. The audit reviewed payroll data of the 2016/2017 biennium, with particular emphasis on data for 2017, in order to assess compliance with the new UN common system compensation package.

13. The audit reviewed the design and effectiveness of key controls with a view to assessing operational effectiveness and efficiency of: the payroll process, segregation of duties, exception reporting, and reconciliations. Audit tests were performed to provide reasonable assurance on payroll data accuracy, and compliance of the payroll process.

² <http://icsc.un.org/rootindex.asp>

14. The audit assessed the effectiveness of internal controls and risk management, as well as the completeness and accuracy of the payroll by:

- (a) Reviewing the current workflow of payroll and assessing effective integration of systems and tools used to produce the payroll;
- (b) Verifying whether tools used to process payroll have been designed and implemented as planned;
- (c) Verifying whether changes to the revised UN common system compensation package have been accurately reflected in the Staff Regulations and Rules;
- (d) Performing a walkthrough of the end to end process to gain an understanding of payroll process, and verify whether changes to the revised UN common system compensation package have been accurately integrated;
- (e) Assessing design and effectiveness of controls (manual and automated) and risk management, including reviewing reconciliations, logs, and monitoring reports, to ensure that these controls are efficiently designed, and function effectively;
- (f) Testing accuracy and compliance with staff Regulations and Rules (including changes made as a result of the revised UN common system compensation package), and related Office Instructions and guidelines, through sample tests; and
- (g) Assessing whether resources are adequate to ensure an effective and efficient management of payroll.

15. The audit also considered the findings/recommendations made by the external auditors in their 2015 audit of the Human Resource Management Department. As a result, the audit avoided to the extent possible, duplication of recommendations, and also performed a follow-up of the existing recommendations of the external auditors in order to gain reasonable assurance on related residual risks, and support reliance on the work performed by external auditors.

16. The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

2. AUDIT RESULTS

17. the Audit noted the following positive developments:

- (a) The Human Capital Management and Payroll Solution have been integrated in the Organization's ERP and the payroll workflows are being mapped in collaboration with the Office of the Controller; and
- (b) Changes to the revised UN common system compensation package have been accurately integrated in the payroll system and reflected in the Staff Regulations and Rules.

18. Overall, except for the observations and recommendations below, which would help further enhance efficiency and effectiveness of the payroll process, the audit found internal controls over payroll processes and systems, to be generally adequate and effective.

A. IMPLEMENTATION OF THE REVISED UN COMMON SYSTEM COMPENSATION PACKAGE

19. WIPO implemented the revised UN common system compensation package for staff in the professional and higher categories on January 1, 2017. These changes concerns around 635 professionals³ and above (regular and temporary). The WIPO Staff Regulations and Rules have also been amended to reflect the changes⁴.

Table 3: Summary of Changes to the Compensation Package

Heading	Items	Effective Date
Unified Salary Scale	One base salary rate Revised Step increment Discontinued accelerated step increments Personal Transition Allowance	January 1, 2017
Dependency Allowances	Spouse allowance Single parent allowance Transitional allowance	January 1, 2017
Relocation and Mobility Benefits	Full removal of household goods Discontinued non-removal allowance Settling-in grant Mobility incentive Repatriation grant	January 1, 2017
Education Grant. <i>(this item was not covered because it does not impact payroll)</i>	Revised admissible expenses Global Sliding scale Education grant travel Capital assessment fees Special education grant	School year in progress on January 1, 2018

Source: HRMD

20. The revised compensation package for staff in the professional category and above provides the same base salary for staff members at the same grade and step, irrespective of family circumstances. It excludes dependency recognition from the salary scale by establishing separate spouse and child allowances.

21. The compensation package also removes family status from the calculation of a number of assignment allowances, and discontinues some existing allowances. Changes that affect the payroll include:

- (a) Net salary;
- (b) Personal transition allowance;
- (c) Spouse allowance;

³ Business Intelligence data: regular and temporary staff- 560 professionals, 66 Directors, and nine executives

⁴ Proposed changes were presented to the WIPO Coordination Committee

- (d) Child allowance;
 - (i) Single parent allowance;
 - (ii) Transition allowance;
- (e) Hardship allowance;
- (f) Mobility allowance;
- (g) Mobility incentive;
- (h) Non-removal allowance; and
- (i) Settling-in grant.

22. Furthermore, because changes in the compensation package could reduce the pensionable remuneration for some staff members, measures have been taken to grandfather the pensionable remuneration so that these staff members whose pension salary reduces after the introduction of the revised package continue to use the pension salary rate previously applicable.

Table 4: Comparison of January 2017 and December 2016 Net Remunerations at Headquarters (in Swiss francs)

Staff Type	Current amount 01-2017	Child Allow. Transition	Child Allow. single	Spouse allowance	Total Net remuneration 01-2017	Net remuneration 12-2016	Var. Net remuneration	% Var.
Regular - Professional and Above	6,837,810	88,738	42,432	147,112	7,116,092	7,053,283	62,810	0.89%
Temporary - Professional and Above	550,904	2,955	-	14,698	568,558	570,920	-2,362	0.41%
Total	7,388,714	91,693	42,432	161,811	7,684,650	7,624,202	60,448	0.79%

Source: Pay and Entitlement Unit – Payroll reconciliation January 2017

23. The above table summarizes the comparison of the payroll run on December 2016, and January 2017 at Headquarters. The Headquarters' payroll experienced an overall increase in net remuneration for staff in the professional and higher categories of around 0.79 per cent (Sfr. 60.448) from 7.62 million Swiss francs to 7.68 million Swiss francs⁵.

24. However, this difference also includes variations of approximately 17 thousands Swiss francs that are not directly linked to the new compensation package⁶ (i.e. elements such as increase in medical insurance premiums, appointments, promotions, and separations). Furthermore, the impact of other elements such as the effect of the multiplier has not been included.

⁵ Payroll for the External Office does not significantly impact the result because of the small number of staff concerned (less than 20).

⁶ Elements such as appointments, promotions, and separations; note that a full line by line analysis was not performed to identify other items not related to the compensation package, such as variations in multipliers in External Offices.

25. More specific analyses performed by the Finance Division show that staff members with dependents experienced an increase of 0.13%, while staff members without dependents saw an increase between 0.20% and 4.32%, depending on the grade and step⁷.

26. Overall, WIPO has successfully implemented the changes resulting from the revised compensation package with a minimum of disruption; a few requests for clarification were received on the dedicated helpline, following the implementation of the new package.

B. PAYROLL MANAGEMENT

(i) Control Mechanisms in the Payroll Process

27. HRMD developed a “Payroll Action” and “Payroll sign-off” forms using Microsoft® Word, to capture monthly changes made to payroll data. Likewise the Human Resource Pension and Insurance (HRPI) Unit prepares a “Movement of Pension and Insurance” sheet that records monthly changes to related data. These documents serve among others, as control mechanisms to ensure that changes are reviewed and approved by management.

28. While acknowledging that this control measure is useful notably for ownership and accountability, this practice is redundant since the PeopleSoft® HR solution already provides features to replace such manual processes.

29. Furthermore, the payroll run process includes a control mechanism that requires that all units involved in the payroll process to review and justify changes made during the month. This is done through the Payroll Reconciliation file that is shared by the Pay and Entitlements Unit during the payroll reconciliation period (between the 10th and 17th of the month).

30. The reconciliation compares the payroll of the current month with the previous month and highlights differences at an individual level for each payroll element. This control mechanism is in addition to controls done using the above mentioned control forms and sheets⁸.

31. Finally, these control forms/sheets are meant to be signed and sent to the Pay and Entitlements Unit prior to the start of the payroll run (before the 10th of the month). In practice, this is not always the case, and delays occurred that reduce the usefulness and relevance of these control forms and sheets.

⁷ Staff promoted from G to P, with dependents experienced a slight decrease - source: summary of differences between December 2016 and January 2017 – (Pay and entitlement Unit)

⁸ Payroll Action form, Payroll Sign-off form, and Movement of Pension and Insurance sheet

Table 5: Analyses of Submission Dates of Control Forms/Sheets

Months	Expected Date	Payroll Action Form Submission Date	Movement of Pension and Insurance Submission Date	Delay Payroll Action submission	Delay Movement of Pensions and Insurance Submission
October 2016	10/7/2016	10/10/2016	10/11/2016	3	4
November 2016	11/9/2016	not received	11/29/2016	not received	20
December 2016	12/5/2016	12/2/2016	12/6/2016	-3	1
January 2017	1/10/2017	1/24/2017	1/10/2017	14	0
February 2017	2/10/2017	2/10/2017	2/15/2017	0	5
March 2017	3/10/2017	3/14/2017	3/10/2017	4	0

Source: Pay and Entitlement Unit

33. The above analysis of the submission dates of monthly payroll action forms and movement of pension and insurance sheets, show that:

- (a) Out of six months, the payroll action form was not received in one instance, delayed in three instances, on time in one instance, and sent in advance in one instance;
- (b) The Movement of Pensions and Insurance sheet was delayed in three instances, on time in two instances, and sent one day later in one instance. The month of November 2016 was received after the payroll period (after 23rd of the month).

34. Inconsistent timeliness in providing these forms would potentially delay the payroll process and impact the overall efficiency and effectiveness of payroll management.

35. A control mechanism embedded in PeopleSoft® HR would provide for a more streamlined and efficient process. For instance, the Task Management feature of PeopleSoft® HR can be utilized to review changes to payroll data without the need for imputing the same data into separate tools, and a system produced summarized reconciliation report signed at the end of the verification process of HR Operations would enhance efficiency while maintaining ownership and accountability.

(ii) Risk Management in the Payroll Process

36. While some identified risks in WIPO's Enterprise Risk Management (ERM) system can be related to the payroll process, risk management can be further enhanced by identifying explicit payroll risks than can be specific to each Unit involved in the payroll process, as well as cross-cutting risks that could be managed across stakeholders of the payroll process. This is especially relevant because ongoing changes and enhancements would impact the current risk landscape of the payroll process.

37. The Office of the Controller should continue to work with all stakeholders involved in the payroll process, in identifying, documenting and monitoring payroll related risks, as part of the organizational risk management process.

Recommendations

1. The Human Resource Management Department should identify fitting solutions in PeopleSoft® HR solution, to replace the current payroll action forms and the movement of insurance sheets, while maintaining ownership and accountability. (Priority: High)

C. SYSTEMS AND TOOLS

(i) Data Errors during the Payroll Process

38. Finance's Pay and entitlement Unit has observed various types of errors that have occurred over time and in most instances, during the input of payroll information. These errors are in many cases the result of incorrect use of the tool, with some errors having a blocking effect on the payroll run. HR staff members responsible for entering payroll related data may not have full knowledge of the tool and/or controls may have not been put in place to timely detect or prevent these types of errors.

39. The table below lists examples of the types of errors that have occurred during the payroll process.

Table 6: Types of Data Errors Identified during the Payroll Process

Types of Errors	Examples
Job information	▪ Payroll System is set to « Other », therefore the calculation is not generated
	▪ Pay Group selected is not consistent with contract type (e.g. following promotion across categories or change of duty station)
	▪ Step field in Salary Plan is left blank
	▪ Separation row is missing
	▪ Contract type is missing or not consistent with actual contract
	▪ An new Grade is created and entered in the Job Data without the necessary setup (e.g. the new option requires corresponding scales)
Positive Input	▪ Positive Input is created using an inactive record (inactive items should not be viewable)
	▪ Positive Input is missing (e.g. assignment/settling in grant)
Benefits	▪ Student flag is not ticked
	▪ Currency of rent is incorrect
	▪ Insurance beneficiary is missing
	▪ Rental subsidy entitlement not removed following change of contract status from fixed to temporary
Other	▪ Triggers are not generated correctly when several rows are created but not saved at each action
	▪ New employee ID is created though there is already one in Finance (system should not allow for duplicate IDs)

Source: Pay and Entitlement Unit

40. The above error types could lead to incorrect calculation of payroll elements; furthermore, errors such as incomplete setup during the creation of a new grade would block the payroll run. Discussions with the Management and Administrative Applications Section indicate that some of these errors could be addressed through configuration/customization while others would require better oversight and training.

41. Going forward, a thorough assessment of the root cause and frequency of these errors would help identify the best method to resolve them, either through configuration, customizations, enhanced controls, or additional training; this would further enhance efficacy and effectiveness of the payroll process.

(ii) Enhancing Design and Automation in the Payroll Process

42. The design of the payroll process is underpinned by sets of policies, instructions, and guidelines that have been developed to implement related Staff Regulations and Rules on human resources management, including payroll. While the review of a sample of employees pay for accuracy of payroll calculations found no significant error, Internal Oversight Division (IOD) notes a number of opportunities to further enhance design, automation and compliance in the payroll process as follows:

43. **Multiplier⁹** - the Multiplier is still manually imputed in the system. This can be enhanced by importing data on multiplier into the payroll solution. This is even more relevant as the number of external offices increase, requiring the manual input of a higher number of multipliers.

44. **Mobility and Hardship Allowances (MHA)** - The new UN compensation package re-defined the range of payments for mobility allowance, and modified staff eligibility by excluding staff members serving at H duty stations¹⁰ from receiving mobility allowances. IOD found that while the Office Instructions¹¹ on MHA requires that payments be made on a monthly basis, in practice however, these payments have been made annually.

45. One staff member was paid mobility allowance in July 2016, which covered the period between July 2016 and June 2017; hence mobility was paid in advance. The above practices are non-compliant with Staff Regulations and Rules as well as with the related Office Instruction.

46. Finally, MHA, though not many, are still managed on a Microsoft® Excel spreadsheet.

47. **Language Allowances** – likewise, Language Allowances are currently being managed on a Microsoft® Excel spreadsheet.

48. Assessing the possibility of managing these allowances directly in AIMS, HR would enhance efficiency and effectiveness of the process.

⁹ An index used to determine the post adjustment, designed to compensate the differences in living costs, thereby providing the staff with the same purchasing power at all duty stations.

¹⁰ Currently, WIPO staff members only serve in H and A duty stations. H-category duty stations include Geneva, New York, and Tokyo. A-category duty stations include Beijing, Moscow, Rio de Janeiro and Singapore.

¹¹ Office Instructions (OI) 2014/50 covered the policy on mobility and hardship until 2016 when a new OI (44/2016) was issued. An Information circular, IC 11/2016 on Mobility to Offices Away from Headquarters) was also issued

49. **Overtime Payment** - Payment of overtime through the payroll process is currently a stand-alone and manual process. IOD found that staff members were given up to 18 months after overtime was incurred, to claim cash compensation for overtime. The related regulations and instructions¹² do not mention an 18 month period or any limit of time for cash compensation. A time limit for claiming cash compensations should be specified in the relevant rules.

50. WIPO is currently collecting business requirements, as part of the initiation of a new Time Management Application project, which would seek to better integrate overtime management in the HCM system and payroll solution¹³.

(iii) Access Management

51. The Management and Administrative Applications Section is currently reviewing access rights to the ERP tools including PeopleSoft® HR. Also, the Security and Information Assurance Division is currently in the process of reviewing the definition of access roles, and developing access models, with a view to standardizing roles across the Organization. This is part of the development of an evolving reference architecture model for access management, which would support the implementation of an identity management system.

52. IOD supports these initiatives which will further enhance the efficiency and effectiveness of access management in WIPO, and encourages the continued coordination and cooperation between the Management and Administrative Applications Section and the Security and Information Assurance Division in ensuring that work done is aligned with the organizational strategy for access management.

Recommendations

2. The Human Resource Management Department and the Department of Program Planning and Finance should:
 - a. Assess the type, cause and frequency of data errors with a view to identifying the best method to resolve them, which may include, but not limited to, system configuration, customization or enhanced internal controls and additional training; and
 - b. Assess the benefits of importing data for the multipliers into the Payroll Solution; and integrating management of both Mobility and Hardship allowances, and Language Allowances in AIMS HR.

(Priority: Medium)

¹² WIPO staff Regulation 3.12 and Office Instruction 75/2012 (corr.) on the implementation of the overtime rule: Staff members have a maximum of six months to request for compensation leave. If the supervisor believes that the staff member would not be able to get a leave within the six month period, then compensation is by cash payment

¹³ The External Auditors' (EA) review of HRMD in 2015 made a recommendation on the need to enhance internal controls in the management of overtime.

3. The Human Resource Management Department should:

- a. Ensure that payment of mobility and hardship allowances are aligned with related Regulations, Rules and Instructions; and
- b. Update the Office Instructions on Overtime to include a time limit for claiming cash compensation for overtime incurred.

(Priority: Medium)

ACKNOWLEDGMENT

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TABLE OF RECOMMENDATIONS

No	Recommendations	Priority	Person(s) Responsible	Other Stakeholders	Management Comments and Action Plan	Deadline
1.	The Human Resource Management Department should identify fitting solutions in PeopleSoft® HR solution, to replace the current payroll action forms and the movement of insurance sheets, while maintaining ownership and accountability.	High	T. Dayer C. Exner M-S. Zinzindohue	Management and Administrative Applications Section (MAAS)	Fitting solutions will be identified in close collaboration with MAAS while considering possible implications on other functionalities in AIMS and maintaining the high level of controls currently in place.	31.12.17
2.	<p>The Human Resource Management Department and the Department of Program Planning and Finance should:</p> <ol style="list-style-type: none"> a. Assess the type, cause and frequency of data errors with a view to identifying the best method to resolve them, which may include, but not limited to, system configuration, customization or enhanced internal controls and additional training; and b. Assess the benefits of importing data for the multipliers into the Payroll Solution; and integrating management of both Mobility and Hardship allowances, and Language Allowances in AIMS HR. 	Medium	T. Dayer C. Exner M-S. Zinzindohue	PPBD MAAS	<p>Analysis of the underlying issues to be conducted and joint strategy to be agreed upon with PPBD. MAAS will be consulted regarding feasibility and set of options.</p> <p>A change request (CHAN 01644) has now been created to address importing data for the multiplier.</p>	31.12.17

No	Recommendations	Priority	Person(s) Responsible	Other Stakeholders	Management Comments and Action Plan	Deadline
3.	<p>The Human Resource Management Department should:</p> <p>(a) Ensure that payment of mobility and hardship allowances, are aligned with related Regulations, Rules and Instructions; and</p> <p>(b) Update the Office Instructions on Overtime to include a time limit for claiming cash compensation for overtime incurred.</p>	Medium	T. Dayer C. Exner M-S. Zinzindohue A. Coutin		Review of current practice and update of the relevant Office Instruction.	31.12.17

[Annex I follows]

ANNEX I: RISK RATING AND PRIORITY OF AUDIT RECOMMENDATIONS

The risk ratings in the tables below are driven by the combination of likelihood of occurrence of events and the financial impact or harm to the Organization's reputation, which may result if the risks materialize. The ratings for audit recommendations are based on the control environment assessed during the audit.

Table 1.1: Effectiveness of Risks/ Controls and Residual Risk Rating

		Compound Risk Rating (Likelihood x Impact)			
		Low	Medium	High	Very High
Control Effectiveness	Low	Low	Medium	High	Very High
	Medium	Low	Medium	High	High
	High	Low	Low	Medium	Medium

Table 1.2: Priority of Audit Recommendations

Priority of Audit Recommendations	Residual Risk Rating
Requires Immediate Management Attention	Very High
Requires Urgent Management Attention	High
Requires Management Attention	Medium
Routine in Nature	Low

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