



INTERNAL AUDIT DIVISION

AUDIT REPORT

Comprehensive Audit of the Economic and Social Commission for Western Asia (ESCWA)

Overall results relating to the effective management of ESCWA were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

24 December 2012

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AUDIT REPORT

Comprehensive audit of the Economic and Social Commission for Western Asia (ESCWA)

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted a comprehensive audit of the Economic and Social Commission for Western Asia (ESCWA).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Economic Commission for Western Asia was established on 9 August 1973 pursuant to the United Nations Economic and Social Council (ECOSOC) resolution 1818 (LV) and was renamed in 1985 as ESCWA. Its objectives are to: (a) foster economic integration at the subregional and regional levels; (b) promote the regional implementation of internationally agreed development goals, including the Millennium Development Goals; and (c) support regional sustainable development by contributing to bridging economic, social and environmental gaps in Member countries and sub-regions.
4. The Commission comprises 14 Member States in Western Asia, which meet biennially to provide overall direction to the work of the secretariat and to report to ECOSOC. Eight inter-governmental legislative and consultative Committees provide substantive and technical guidance to seven subprogrammes, which are implemented by seven substantive divisions. Since the beginning of 2011, the Arab region has been undergoing unprecedented changes affecting the socio-economic development of Member States in the region which impacted ESCWA's programme of work. Consequently, the new developments in the Arab region were discussed at the Commission's twenty-seventh Session in May 2012.
5. As illustrated in Table 1, ESCWA's proposed programme budget for the biennium 2010-2011 was \$79,616,500, which included estimated extra-budgetary resources amounting to \$7,796,500.

Table 1: ESCWA's resource requirements (thousands of US\$)

Component	2006-2007 expenditure	2008-2009 appropriation	2010-2011 estimate (after re-costing)
A. Policymaking organs	88.0	144.8	162.7
B. Executive direction and management	2,884.9	3,749.6	4,065.4
C. Programme of work	26,951.5	32,941.5	37,089.5
D. Programme support	28,393.8	27,882.8	30,502.4
Total Regular Budget	58,318.3	64,718.7	71,820.0
Extra budgetary resources	9,884.7	9,466.8	7,796.5
Total	68,203.0	74,185.5	79,616.5

Source: A/64/6 (Sect. 21)

6. Comments provided by ESCWA are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit of ESCWA was conducted to assess the adequacy and effectiveness of ESCWA's governance, risk management and control processes in providing reasonable assurance regarding **effective executive direction and management, fund-raising and programme management**.

8. The audit was included in the 2012 audit work plan because ESCWA was identified as a high risk area based on risk assessments by the Department of Management and OIOS in 2011. In its 2006 inspection (A/61/61 dated 17 January 2006), OIOS identified several control weaknesses relating to ESCWA's governance and organizational structure. Moreover, ESCWA had not been audited for more than five years.

9. The key controls tested for the audit were: (a) mandate and delegation of authority system; (b) security management systems; (c) human resources targets and strategies; (d) fund-raising strategy; and (e) results-based management. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Mandate and delegation of authority system** - controls that provide reasonable assurance on the clarity of the roles and responsibilities to ensure effective and efficient programme delivery in accordance with the delegated authority.

(b) **Security management systems** - controls that provide reasonable assurance that security management systems commensurate to the safety and security risks in ESCWA exist and that ESCWA complied with those systems.

(c) **Human resources targets and strategies** - controls that provide reasonable assurance that human resources targets and strategies are set and adhered to, to ensure the recruitment and retention of competent staff in ESCWA.

(d) **Fund-raising strategy** - controls that provide reasonable assurance that fund-raising activities are conducted in accordance with ESCWA policies to fund the extra-budgetary technical cooperation needs in the region.

(e) **Results-based management** - controls that provide reasonable assurance that ESCWA's subprogrammes have: (i) properly formulated expected results; (ii) systems to monitor progress toward the achievement of expected results; and (iii) indicators to measure performance.

10. The key controls were assessed for the control objectives shown in Table 2.

11. OIOS conducted the audit from 7 May to 11 June 2012. The audit covered the period January 2008 to December 2011.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

13. ESCWA's governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding **effective executive direction and management, fund-raising and programme management**. OIOS made 8 recommendations to address issues identified in this audit.

14. ESCWA has taken steps to enhance its visibility and impact in the Regional Coordination Mechanism (RCM). However, it needs to obtain from the host country either an acceptable site for temporary relocation or a funding and design approval for the permanent relocation of the UN House in Beirut given the fragile security situation in Lebanon and in the region. ESCWA's Business Continuity Plan (BCP) required (a) a periodic review to update the list of essential staff; and (b) a disaster simulation exercise considering the high security threats in Lebanon; both actions were taken subsequent to the audit.

15. Generally, ESCWA performed satisfactorily against Human Resources Management scorecard targets. Also, it strengthened controls to support compliance with certain provisions of the administrative instruction for hiring consultants. Resource mobilization efforts were undertaken mostly by each substantive division independently as ESCWA's capacity to coordinate and implement a comprehensive fund-raising strategy was inadequate. This was rectified with the recruitment of a Resource Mobilization Officer at the P-4 level who will be tasked with the finalization of a strategy and the establishment of an action plan. ESCWA developed guidelines for project managers to clearly formulate the qualitative indicators of projects to monitor progress and measure performance. Also, it established evaluation policies to use evaluation results to reflect on ESCWA's programme relevance and lessons learned.

16. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as the implementation of two important recommendations remains in progress.

Table 2: Assessment of key controls

Business objectives	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective executive direction and management	(a) Mandate and delegation of authority system	Partially satisfactory	Not assessed	Not assessed	Satisfactory
	(b) Security management systems	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
	(c) Human resources targets and strategies	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
Effective fund-raising activities	(a) Fund-raising strategy	Partially satisfactory	Satisfactory	Satisfactory	Satisfactory
Effective programme management	(a) Results-based management	Partially satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Mandate and delegation of authority system

Lack of ESCWA's performance measures related to its leadership role in the RCM

17. The RCM was established pursuant to the ECOSOC resolution 1998/46 of 31 July 1998, which emphasized the leadership role of regional commissions to hold regular inter-agency meetings with a view to improving coordination among the work programmes of the United Nations (UN) organizations in that region. There are over 27 UN entities and partners in the RCM including the World Bank and the International Monetary Fund.

18. According to ESCWA's 2010-2011 strategic framework A/63/6 (Prog. 18) dated 10 March 2008, "at the regional level, ESCWA will lead the Regional Coordination Group in identifying priority areas where the concerned United Nations entities could provide collective support for development interventions in the ESCWA region, as well as in the broader context of the Arab region". In ESCWA's 2010-2011 proposed programme budget A/64/6 (Sect. 21) dated 26 March 2009, the indicators of achievement included seven deliverables to be produced under the purview of the RCM or one of its thematic working group. However, ESCWA did not establish performance measures to self-assess its leadership role in the RCM under any of the expected accomplishments and performance indicators within its executive direction and management functions. As a result, there was no reference in ESCWA's 2010-2011 programme performance report A/67/77, dated 29 March 2012, to its leadership role in the RCM.

19. Aside from the RCM, the Regional Director's Team (RDT) from the United Nations Development Group (UNDG) acts as another inter-agency mechanism in the region. Our discussion with the senior management reflected that RDT took over the leadership role as opposed to ESCWA playing that role. In this regard, an independent consultants' 2010 report titled *Evaluation of ESCWA's Inter-Governmental Mechanism* noted that it was difficult for ESCWA to exercise a leadership role at the regional level due to the presence of several major UN operational programmes' funds and other entities despite repeated calls for it to play such a role. While ESCWA is the only UN body with the convening power to bring together the development partners at the regional level for achieving RCM objectives, it had not clearly demonstrated its leadership role as outlined in its strategic framework. ESCWA's role in the RCM should be strengthened by achieving better visibility and impact in the region.

(1) ESCWA should ensure that it plays a leadership role in the regional coordination mechanism in the region by: (a) using its unique convening power to enhance its visibility and impact; and (b) establishing appropriate performance measures to self-assess its leadership role.

ESCWA accepted recommendation 1 and stated that it leads two of the four RCM thematic working groups effectively which has strengthened its role in the RCM. Indicators for RCM performance are included in ESCWA's work programme and an additional one related to maintaining consistent high level representation in RCM will be considered starting 2013. Based on the action taken by ESCWA, recommendation 1 has been closed.

B. Security management systems

Relocation of the UN House in Beirut remained outstanding

20. The Security Risk Assessment (SRA) report dated September 2011 rated the overall risk level for the UN House as 'High' and recommended two options for mitigating ESCWA's security risks: (a)

permanently relocate the UN House to a new location within Beirut; or (b) temporarily relocate the UN House to a new location within Beirut. The Government of Lebanon offered 80,000 square feet of land to ESCWA in the north of Lebanon, and agreed to build the premises according to the UN requirements and at no costs to the Organization. However, the decision to relocate has been stalled due to changes in the UN's requirements.

21. Following the 2011 SRA report, the host country indicated its agreement to offer a property in a new location to temporarily relocate the UN House. However, none of the temporary locations met ESCWA's needs. In the meantime, the Government implemented a stand-off distance to the UN House by closing two roads adjacent to the building between 7:30 am and 4:30 pm on all working days. While the arrangement temporarily addressed ESCWA's security risks, there was no evidence of a formal commitment from the host country for the relocation.

(2) ESCWA should urgently obtain an action plan from the host country for a temporary or permanent relocation of the UN House in Beirut given the fragile security situation in Lebanon and in the region.

ESCWA accepted recommendation 2 and stated that under the temporary action plan, the Government and ESCWA have discussed a number of locations, but none has been found acceptable to date by either party. In the meantime, a permanent site has been identified and made available to ESCWA, which submitted construction requirements to the Government. Funding and design approval are pending in the Parliament. Recommendation 2 remains open pending receipt of either an acceptable site for temporary relocation or a funding and design approval for a permanent relocation of the UN House in Beirut from the host country.

Implementation of SRA report recommendations

22. The SRA report also made a number of recommendations relating to mitigating security risks in the UN House premises, which had yet to be implemented.

(3) ESCWA should implement all outstanding recommendations of the Security Risk Assessment report to mitigate the security risks to the UN House in Beirut.

ESCWA accepted recommendation 3 and provided evidence of implementing all recommendations of the security risk assessment. Based on the action taken by ESCWA, recommendation 3 has been closed.

Need to update business continuity plan (BCP)

23. ESCWA prepared a comprehensive BCP in 2010 reflecting on an all-hazards approach to the integration of crisis management and Information and Communications Disaster Recovery (DR) Plan. The BCP addresses three phases: Phase I – Activation (internal or external relocation); Phase II – Recovery operations at the DR location; and Phase III – Reconstitution (termination of DR location operation and return to normal operations at UN House, Beirut). Offsite replication was recently performed with a full database replica in Vienna. During the audit, ESCWA was negotiating with the United Nations Interim Force in Lebanon (UNIFIL) so that an in-country replica of the database could be maintained in UNIFIL's facility.

24. An objective of the BCP called for ensuring and validating "BCP readiness through testing, simulating and exercising of the BCP, and providing training to ESCWA staff on BCM (Business

Continuity Management) and BCP implementation”. A disaster simulation had not been performed yet, but the Information and Communications Systems Section was planning for an exercise of different disaster simulations in 2012. There were also sections of the BCP that required updating. For example, ESCWA’s organizational structure needed revision indicating the current staff in the BCP chain of command.

(4) ESCWA should schedule: (a) a periodic update of the Business Continuity Plan due to the high turnover of staff in ESCWA; and (b) a disaster simulation exercise considering the high security threats in Lebanon.

ESCWA accepted recommendation 4 and stated that BCP is an “evergreen” document updated on ad-hoc basis to reflect latest changes to staff lists and policy changes. It has further been overhauled twice in the past half-year: in June and November 2012. On 27 August 2012, ESCWA’s Security and Safety Section in conjunction with the Training and Development Section of the Department of Safety and Security conducted a table top exercise addressing a progressive simulation of a combination of Mass Casualty security incidents. ESCWA and other UN Agencies personnel involved in the preparation and support of contingency planning were in attendance. Host country senior officials from security and emergency agencies also attended the exercise. Based on the action taken by ESCWA, recommendation 4 has been closed.

C. Human resources targets and strategies

ESCWA’s performance against human resources scorecard for 2011

25. ESCWA’s performance against Human Resources Management Scorecard was satisfactory, as shown in Table 3.

Table 3: Comparison of targets with actual results

A. 2011 Human Resources Management Scorecard – Strategic Indicators	Target	Actual result/Remarks
A.1. Reduce recruitment timeline	92 days	104 days
A.2. Reduce Vacancy Rate	11 %	9 %
A.3. Improve representation of Member States	20%	Five Member States or 36 % are unrepresented
A.4. Improve representation of women in all categories	45%	40 %
A.5. Improve representation of women at senior levels	36%	31 %

Consultancy services

26. During the 2010-2011 biennium, ESCWA engaged 309 consultants from 43 countries using funds from the regular budget, regular programme for technical cooperation, development account and the voluntary contributions totaling \$1.8 million.

27. A review of a random sample of 20 consultants showed that relevant provisions of ST/AI/1999/7 and ST/AI/1999/7/Amend.1 were not fully complied with when hiring consultants. For example: (a) supplementary data forms, which provide detailed background and experience of consultants, were not available for two consultants; (b) for seven consultants, supplementary data forms had no information related to the shortlisted candidates; (c) there were no resumes or personal history profiles for two consultants; (d) for five consultants, no medical clearance was obtained; and (e) performance evaluation

of two consultants did not indicate whether the consultancy work achieved the desired results. Consequently, compliance with the provisions of ST/AI/1999/7 was inadequate in selecting consultants and the mechanisms used to verify whether the consultants carried out their assignments in accordance with the terms agreed in the special service agreements were weak as consultants' files were incomplete to provide audit trail.

- (5) ESCWA should ensure that consultants are engaged in compliance with ST/AI/1999/7 and ST/AI/1999/7/Amend.1 regarding competitive selection, medical clearance and performance evaluation and that complete documentation is maintained at the Human Resources Management Section.**

ESCWA accepted recommendation 5 and stated that it has implemented two HR processing system upgrades to ensure that the competitive selection process for consultants is transparent and more fully documented: (a) The Expert Knowledge Base, which more completely captures the steps of assessment, contracting and performance evaluation for consultants with adequate substantive review from hiring managers, demonstrating competitive selection; and (b) The Lotus Notes-based Expert Recruitment Workflow, which serves as a digital repository of all mandatory documentation, including but not limited to medical clearances and performance evaluation. Further, digitization of all key HR files including the above is expected to be completed by the end of 2012, thus strengthening ESCWA's Business Continuity preparedness through remote access. Based on the action taken by ESCWA, recommendation 5 has been closed.

D. Fund-raising strategy

Need for fund-raising strategy

28. ESCWA received project-tied voluntary contributions of \$8.7 million in 2010-2011, which was higher than the \$2.2 million from the previous year. Since 1997, ESCWA received only \$1.66 million contributions to the Trust Fund for ESCWA Regional Activities, which was established in 1975 to supplement ESCWA's regular budget resources. ESCWA's efforts in encouraging Member States to contribute to the trust fund stopped in 2002 when the last pledging conference was held. The last time a Member State contributed to the trust fund was in 2007 (Oman).

29. During the audit, ESCWA had no comprehensive fund-raising strategy. Resource mobilization efforts were undertaken mostly by each substantive division independently. Only recently did ESCWA establish a dedicated function to mobilize resources. Consequently, ESCWA did not receive contributions from the Member States in the region which has a tremendous potential for both earmarked and unearmarked funding.

- (6) ESCWA should establish a capacity to coordinate and implement a comprehensive fund-raising strategy to mobilize extra budgetary funds by exploring the availability and interest of donors in the region.**

ESCWA accepted recommendation 6 and stated that ESCWA has completed recruitment of a Resource Mobilization Officer at the P-4 level within ESCWA's Programme Planning and Technical Cooperation Division, who is expected to join by mid-December 2012. Priority among the Officer's duties will be to finalize a resource mobilization strategy and establish an action plan. In the meantime, in 2012, ESCWA has been successful in raising the interest of a wide range of donors and partners in its technical cooperation work and has received pledges from donors in the region, including Saudi Arabia, as well as international and bilateral donors. Consequently, extra-budgetary funds for the 2012-2013 biennium are expected to exceed those raised in 2010-2011, with close to \$3 million raised in 2012. Secondly, ESCWA's resource mobilization focus will be on raising funds for specific technical cooperation initiatives and projects. Recommendation 6 remains open pending receipt of a copy of the finalized resource mobilization strategy and the action plan.

E. Results-based management

Formulation of indicators of achievement

30. During the 2008-2009 and 2010-2011 biennia, ESCWA executed 49 projects amounting to \$25,154,798 funded from both regular budget and extra-budgetary resources. A review of a sample of projects showed adequate project documentation for those funded from the regular budget but a lack of uniformity and consistency for those funded from extra-budgetary resources. Qualitative indicators of achievement often lacked clarity making it difficult to assess the achievement of projects.

31. In addition, two projects did not have progress reports, and progress reports for two projects were still in draft. Nearly all progress reports on file were not dated making it difficult to determine when the reports were prepared and finalized. Of the five projects that ended prior to 2011, three did not have programmatic closure and four did not have financial closure. Therefore, the controls to monitor project progress were weak.

- (7) ESCWA should: (a) clearly formulate the qualitative indicators of achievement in the project documents to measure performance against those indicators; and (b) strengthen its existing mechanism to monitor project progress in accordance with the terms of the project document.**

ESCWA accepted recommendation 7 and stated that its Project Committee finalized ESCWA Guidelines for Project Managers for both Development Account and extra-budgetary projects which provide for formulating relevant indicators that measure project outcomes. Based on the action taken by ESCWA, recommendation 7 has been closed.

Programme evaluation

32. In accordance with Rule 107.2 of the Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation: (a) all programmes shall be evaluated on a regular, periodic basis. At the programme or subprogramme level, evaluation plans shall be linked to the medium-term plan, and they shall be integrated with the

programme budget cycle; and (b) the evaluation system shall include periodic self-evaluation of activities directed at time-limited objectives and continuing functions.

33. Since 2010, ESCWA adopted a comprehensive evaluation policy built around the core principles of accountability, credibility and continuous learning, and requires an action plan to implement evaluation recommendations. In 2011, ESCWA evaluated subprogramme 5: Statistics for evidence-based policy-making, resulting in 10 major recommendations in strategic vision, management issues, institutional issues, priority programmatic areas and coordination and partnership. There was no action plan to implement the recommendations of these evaluations and to reflect on lessons learned, and to assure ESCWA's programme relevance.

(8) ESCWA should use evaluation results to reflect on its programme relevance and prepare an action plan to implement all relevant evaluation recommendations in a timely manner in compliance with the 2010 evaluation policy.

ESCWA accepted recommendation 8 stating that it has allocated necessary resources to undertake assessments that were endorsed in ESCWA's evaluation policy, particularly those relating to external subprogramme evaluations. The evaluation of the Statistics division that was completed in 2011 was followed by preparing a performance compact, which represents a detailed and actionable plan for implementing the agreed recommendations from the evaluation. In 2012, ESCWA commenced work on two subprogramme evaluations: (a) Information and Communication Technology Division; and (b) Social Development Division. The first has been submitted for final review by the concerned division, and will be followed by preparing a performance compact. The completion of the evaluation of the Social Development Division is expected by the end of 2012. Development Account projects are also being evaluated by an external evaluator upon their completion. Based on the action taken by ESCWA, recommendation 8 has been closed.

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the Management and staff of ESCWA for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS
Comprehensive audit of the Economic and Social Commission for Western Asia (ESCWA)

Recom. no.	Recommendation	Critical/ Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1.	ESCWA should ensure that it plays a leadership role in the regional coordination mechanism in the region by: (a) using its unique convening power to enhance its visibility and impact; and (b) establishing appropriate performance measures to self-assess its leadership role.	Important	C		Implemented
2	ESCWA should urgently obtain an action plan from the host country for a temporary or permanent relocation of the UN House in Beirut given the fragile security situation in Lebanon and in the region.	Important	O	Receipt of either an acceptable site for temporary relocation or a funding and design approval for a permanent relocation of the UN House in Beirut from the host country.	On-going
3	ESCWA should implement all outstanding recommendations of the Security Risk Assessment report to mitigate the security risks to the UN House in Beirut.	Important	C		Implemented
4	ESCWA should schedule: (a) a periodic update of the Business Continuity Plan due to the high turnover of staff in ESCWA; and (b) a disaster simulation exercise considering the high security threats in Lebanon.	Important	C		Implemented
5	ESCWA should ensure that consultants are engaged in compliance with ST/AI/1999/7 and ST/AI/1999/7/Amend.1 regarding competitive	Important	C		Implemented

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by ESCWA in response to recommendations.

Recom. no.	Recommendation	Critical/ ¹ Important ²	C/ ³ O ³	Actions needed to close recommendation	Implementation date ⁴
6	selection, medical clearance and performance evaluation and that complete documentation is maintained at the Human Resources Management Section. ESCWA should establish a capacity to coordinate and implement a comprehensive fund-raising strategy to mobilize extra budgetary funds by exploring the availability and interest of donors in the region.	Important	O	Evidence of a comprehensive fund raising strategy	June 2013
7	ESCWA should: (a) clearly formulate the qualitative indicators of achievement in the project documents to measure performance against those indicators; and (b) strengthen its existing mechanism to monitor project progress in accordance with the terms of the project document.	Important	C		Implemented
8	ESCWA should use evaluation results to reflect on its programme relevance and prepare an action plan to implement all relevant evaluation recommendations in a timely manner in compliance with the 2010 evaluation policy.	Important	C		Implemented

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

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