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**INTERNATIONAL RENEWABLE ENERGY AGENCY**

Fourth meeting of the Council

Abu Dhabi, 12 – 13 November 2012

### **Report of the Director-General on the Status of the Implementation of the Audit Observations and Recommendations**

1. The Office of the Auditor General of Norway issued Management Letters dated 5 June 2012 and addressed them to the Director-General of IRENA with respect to audits of the Liquidation financial statements of the Preparatory Commission of IRENA covering period 1 January to 5 April 2011; and with respect to audits of the financial statements of IRENA covering period 6 April to 31 December 2011.
2. The present report on the status of the implementation of audit observations and recommendations is providing Members with an update on actions taken by the Director-General in response to observations and recommendations made by the external auditors.
3. The auditors attest that they have conducted random tests of internal controls within the Agency to check on any weaknesses. While no weaknesses requiring significant improvements were identified, for some areas where controls could be strengthened, recommendations were communicated to the management.
4. The auditors further noted that the year 2011 was IRENA's first full year of operation. The auditors had observed great progress on internal routines, management involvement, delegation of authorities, and establishment of policies and procedures in several important areas. Key management positions had mostly been filled, and auditors therefore considered IRENA to have competent administrative functions able to handle both internal and external matters. It is considered that the planned implementation of an enterprise resource planning (ERP) system will further strengthen both internal and external reporting as well as improve routines and reduce risk.

5. The Secretariat has taken appropriate measures to address the recommendations of the external auditors as detailed below.

### **I. Liquidation Financial Statements of the Preparatory Commission of IRENA**

6. Appropriate action was taken in the liquidation financial statements to make adjustments for:
  - a. Misstated intangible asset values;
  - b. Misstated annual leave accrual values;
  - c. Presentation of foreign exchange losses and gains at gross values rather than at net values.
7. The Secretariat is continuing its efforts to recover the amount overpaid to a former staff member and is currently using the appropriate channels to bring the matter to a successful close.
8. The management took note of the weaknesses identified in petty cash management and has taken actions to minimize usage of petty cash, has ensured full reconciliation of petty cash register for 2011, and has implemented revised procedures with better control mechanisms.
9. The external auditors noted that improvements were necessary to ensure amounts outstanding are fully recovered or reimbursed at the time of staff members' separation. In this respect, management has already established procedures to ensure that no final separation payments are made until all outstanding arrears are settled.

### **II. 2011 Financial Statements of IRENA**

10. The management implemented the following audit recommendations in the 2011 financial statements, making corrections for accounting entries as proposed by the auditors.
  - a. Presentation of cash surplus in non-current liabilities;
  - b. Corrections on recognition of property, plant, and equipment items;
  - c. Calculation of education grant accruals.
11. On-going efforts are being made to ensure that recommendations to ensure better controls over manual payroll calculations are duly followed. Traceability is being assured by clearly

reflecting in the calculation sheets segregated gross amounts for adjustment entries as well as shares of staff member and agency provident fund contributions. Where different currencies of payroll calculations are warranted, the calculations are being conducted in separate tables. The management also implemented corrective procedures to address some weaknesses in accounting for prepayments, in controlling accounts payable, and in assuring monthly transfer of Provident Fund contributions to the appropriate bank account.

12. Finally, the management accepted recommendations relating to recognition and control over accounting treatment of plant, property, and equipment (PPE). IRENA is reviewing its 2012 expenditures and PPE acquisitions to ascertain that the assets capitalization definition is correctly applied. To improve traceability of new PPE items acquisitions, the standard payment request form was updated to include check boxes.