



AUDIT

OF

UNDP VENEZUELA

APOYO AL PROGRAMA DE FORMACIÓN ACADÉMICO-MUSICAL, FASE II
(Directly Implemented Project No. 58656, Output Nos. 74571, 74572 & 88324)

Report No.1835
Issue Date: 28 September 2017

Report on the Audit of UNDP Venezuela
Apoyo al Programa de Formación Académico-Musical Fase II
(Project No. 58656, Output Nos. 74571, 74572 & 88324)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Deloitte Haskins & Sells, LLP (the audit firm), from 8-26 May, 2017, conducted an audit of Apoyo al Programa de Formación Académico – Musical Fase II, Project ID 58656 (the Project), which is directly implemented and managed by the UNDP Country Office in Venezuela (the Office).

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 expenses for the period from 1 January to 31 December 2016 and the accompanying Funds Utilization statement¹ as of 31 December 2016 as well as Statement of Assets and Statement of Cash Position as of 31 December 2016. 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 Expenses*			Project Assets		
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)	Amount (in \$ '000)	Opinion	NFM** (in \$ '000)
6,598	Unqualified	-	60,831	Disclaimer	5,867

**NFM= Net Financial Misstatement

The audit firm issued a disclaimer of opinion on the project assets, as they were not provided with sufficient evidence to confirm the value of assets as of 31 December 2016. This was due to the absence of complete records of inventories and of asset movements for the audited period (refer to issue 3.3 in the auditors' report).

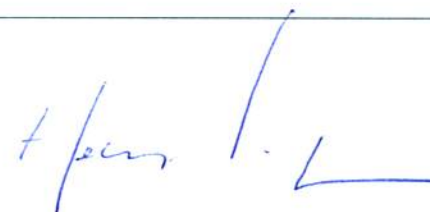
Key recommendation(s): Total = 3, high priority = 0

The three recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 3.3; and, (b) safeguarding of assets (Recommendations 3.1 and 3.2).

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.

Management comments and action plan

The UN Resident Coordinator and UNDP Resident Representative accepted the three recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

A handwritten signature in blue ink, which appears to read 'H. Osttveiten', is enclosed within a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations



REPORT ON THE FINANCIAL AUDIT OF UNDP VENEZUELA DIM PROJECT

Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II

**Project Number 58656
For the period 1 January to 31 December 2016**

Issued September 2017

**Apoyo al Programa de Formación
Académico – Musical de la Fundación Musical
Simón Bolívar (Fundamusical) – Fase II**

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REPORT ON THE FINANCIAL AUDIT OF UNDP VENEZUELA DIM PROJECT

Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II

Project Number 58656

For the period 1 January 2016 to 31 December 2016

Issued 27 September 2017

PART 1 EXECUTIVE SUMMARY

Deloitte Haskins & Sells LLP (DHS) through Deloitte Venezuela, Chartered Accountants (Venezuela) conducted a financial audit of Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II (Project number 58656) ('the project'), directly implemented by UNDP VENEZUELA ('the office') for the year ended 31 December 2016. The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI).

1.1 Background of the project

The project N° 58656 "Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II" is a community development program initiated on 1 March 2010, by the Bolivarian Republic of Venezuela, through *Fundación Musical Simón Bolívar (Fundamusical)* as an implementation ally, and The United Nations Development Program (UNDP) by the Government of Venezuela, with the support of UNDP.

The purpose of the Program is to contribute to a significant improvement in the living conditions of Venezuelan youth, supporting the strategic consolidation process of the National System of Youth and Child Orchestras promoting the professionalization of the members of the orchestras and centers, as well as ensuring the provision and modernization of instruments and equipment that permit to achieve and maintain performance excellence levels. This support will allow to progress in the improvement of the living condition of children and adolescents of the Bolivarian Republic of Venezuela, with emphasis and priority on poor and vulnerable communities of the country.

The Project shall be executed by *Fundación Musical Simón Bolívar (Fundamusical)*. The coordination will be under the responsibility of the Executive Director of the Foundation, who will be assisted by the Project's General Coordinator for the follow-up of the execution in line with the standards and procedures established in the Technical Cooperation Project Management Manual of UNDP (Management Manual), the preparation of the reference terms for hiring the advisors, goods and services, technical specifications of goods and services and budget control. He will also be in charge of making the arrangements to create an evaluation commission, including the preparation of evaluation and final reports.

Operational activities will be implemented under three (3) components:

- Ensure access to professional teachers, getting better the formation process of the orchestras members;
- Look at the better options to satisfy the instruments and equipment requests;
- Identify the most viable markets to obtain instruments and equipment and Guarantee the proper availability of this to the beneficiaries.

Implementation of these components should have immediate effects on youth development making an impact on social inequalities, access to income-generating activities, better management of the risks to which populations may be exposed. The Program will also strengthen human capital and the capacity for initiatives and resilience of vulnerable communities.

1.2 Audit Scope

Specifically, the audit objectives comprised the review of:

- The expenses incurred and recorded in the Combined Delivery Reports (CDR) of Project N° 58656 "Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II" during the period from 1 January to 31 December 2016, as reported by the Office in Venezuela;
- The value and existence of assets and equipment held by Project N° 58656 "Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II" as at 31 December 2016; and
- The value and existence of cash held by Project N° 58656 "Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II" as at 31 December 2016, either as cash at hand or in the bank account.

1.3 Summary of Audit Opinions

Report of independent auditors to UNDP Venezuela program on the Statement of Expenses

In our opinion, the accompanying combined Statement of Expenses (Combined Delivery Report - CDR) as of and for the year ended 31 December 2016, relating to the Project's expenses amounting to US\$ 6,598,386.94 presents fairly, in all material respects, the expenses incurred by **Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II**, through The United Nations Development Program (UNDP) during the period between 1 January and 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.

Report of independent auditors to UNDP VENEZUELA project 58656 on the Statement of Assets and Equipment

Due to limitations in the scope of our work, which did not allow us to obtain sufficient audit evidence to provide a basis for an audit opinion on the Statement of Assets and Equipment, relating to the absence of a list of units counted (additions during 2016 amounting to US\$ 5,867,425) to the date of the physical inventory taking conducted, and a detail of movements in musical instruments from January 2017 through the date of our physical inventory taking that allowed us to make the comparisons and reconciliations required, as part of the application of other standard auditing procedures, we do not express an opinion on the accompanying Statement of Assets and Equipment of **Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II** as of 31 December 2016, in accordance with UNDP accounting policies.

Report of independent auditors to UNDP VENEZUELA project 58656 on the Statement of Cash

Taking into account that **Project N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II** did not have a separate bank account for the management of the Project's fund, therefore, the preparation of the Statement of Cash was not required.

In addition, we prepared a Management Letter (refer to Section 3) that provides recommendations to the project management for improvement.

Yours faithfully,

LARA MARAMBIO & ASOCIADOS



Adriana Blanco E.
Partner

27 September 2017

PART 2: FINANCIAL AUDIT REPORTS

2.1 Report on the Combined Statement of Expenses

To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Program, UNDP

We have audited the accompanying Combined Delivery Report (CDR) of the UNDP project "number 58656, Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II (PUDC)" for the period from 1 January to 31 December 2016.

The Combined Statement of Expenses prepared by management includes a total amount of US\$ 6,598,386.94 incurred in 2016. As of 31 December 2016, the combined statement of expenses prepared by management also includes an amount of US\$ 4,989 corresponding to commitments acquired at that date.

Management responsibilities

Management is responsible for the preparation of the Combined Statement of Expenses (Combined Delivery Report - CDR), presented and prepared based on cash disbursements made in accordance with the Accounting Policies of the United Nations Development Program (UNDP) that is free from material misstatement, whether due to fraud or error; therefore, it is not intended to be prepared in accordance with accounting principles generally accepted in Venezuela (VEN-NIF).

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the CDR 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 International Standards on Auditing, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) effective in Venezuela. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined statement of expenses is free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined statement of expenses. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Combined Statement of Expenses, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation of the Combined Statement of Expenses 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Combined Statement of Expenses. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying Combined Statement of Expenses (Combined Delivery Report - CDR), relating to the Project's expenses amounting to US\$ 6,598,386.94 presents fairly, in all material respects, the expenses incurred by **Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II**, through The United Nations Development Program (UNDP) during the period between 1 January and 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.

The translation of the Combined Statement of Expenses into English has been made solely for the convenience of English-speaking readers.

LARA MARAMBIO & ASOCIADOS


Adriana Blanco E.
Public Accountant
CPC N° 5416

27 September 2017



Page 1 of 4
Run Time: 08-02-2017 14:02:50

Business Unit : VEN10
Period : Jan-Dec (2016)
Selected Project Id : 00058656
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

Dept: 52808 (Venezuela - Poverty Reduction)				
Fund : 30071 (Programme Cost Sharing GOV1)				
84398 - Direct Project Cost-Staff	0.00	101.37	0.00	101.37
74598 - Direct Project Costs - GOE	0.00	43.44	0.00	43.44
75105 - Facilities & Admin - Implement	0.00	8.69	0.00	8.69
Total for Fund 30071	0.00	153.50	0.00	153.50
Total for Dept : 52808	0.00	153.50	0.00	153.50
Total for Output : 00074571	0.00	153.50	0.00	153.50

Fund : 30071 (Programme Cost Sharing GOV1)				
64398 - Direct Project Cost-Staff	0.00	931.10	0.00	931.10
74598 - Direct Project Costs - GOE	0.00	399.05	0.00	399.05
75105 - Facilities & Admin - Implement	0.00	79.81	0.00	79.81
Total for Fund 30071	0.00	1,409.96	0.00	1,409.96
Total for Dept : 52808	0.00	15,303.56	0.00	15,303.56
Total for Output : 00074572	0.00	15,303.56	0.00	15,303.56

Project Id : 00058656 Fase II: Programa de Formación		Period :	Jan-Dec (2016)	
Output # : 00088324 Simon Bolivar		Impl. Partner :	03374 FUND. DEL EDO. 84ST. NAC. DE	
		Location :	Venezuela	
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp

Output # : 00074571 Orquestas y núcleos dotados	Impl. Partner : 03374 FUND. DEL EDO. 81ST. NAC.DE
	Location : Venezuela

Dept: 52808 (Venezuela - Poverty Reduction)

Fund : 30071 (Programme Cost Sharing GOV1)

64398 - Direct Project Cost-Staff	0.00	3,872.75	0.00	3,872.75
72399 - Other Materials and Goods	0.00	6,166,326.00	0.00	6,166,326.00
72510 - Publications	0.00	8,713.00	0.00	8,713.00
74110 - Audit Fees	0.00	29,739.71	0.00	29,739.71
74598 - Direct Project Costs - GOE	0.00	1,659.75	0.00	1,659.75
75105 - Facilities & Admin - Implement	0.00	372,618.67	0.00	372,618.67

Total for Fund 30071	0.00	6,582,929.88	0.00	6,582,929.88
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Total for Dept :	52808	0.00	6,582,929.88	0.00	6,582,929.88
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Total for Output : 00088324	0.00	6,582,929.88	0.00	6,582,929.88
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Project Total :	0.00	6,598,386.94	0.00	6,598,386.94
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Signed By :

Date :

Signed By :

Date :

Adriano Flores C.
CERA MARAMBAO & ASOCIADOS

Deloitte



Selection Criteria :

Business Unit : VEN10
Period : Jan-Dec (2016)
Selected Project Id : 00058656
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

Project Id : ALL	Period : Jan-Dec (2016)
Output # : ALL	Impl. Partner : Location :

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
52808 - Venezuela - Poverty Reduction	0.00	6,598,386.94	0.00	6,598,386.94



Funds Utilization

Selection Criteria :

Business Unit : VEN10
Period : Jan-Dec (2016)
Selected Project Id : 00058656
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

Project/Award: 00058656 Fase II: Programa de Formación

Period : As at Dec 31, 2016

Output #	00088324	Impl. Partner :03374 FUND. DEL EDO. SIST. NAC.DE	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			4,989.29

2.2 Report on Statement of Assets and Equipment

To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Program, UNDP

We were engaged to audit the accompanying Statement of Assets and Equipment of the UNDP project "number 58656, Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar (Fundamusical) – Fase II (PUDC)" as at 31 December 2016.

Management responsibilities

Management is responsible for the preparation of the Statement of Assets and Equipment of **Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II**, and for such internal control as management determines is necessary to enable the preparation of a Statement of Assets and Equipment that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on the Statement of Assets and Equipment based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) effective in Venezuela. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement of Assets and Equipment is free from material misstatement. However, because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were formally contracted as the Project's auditors on a date subsequent to the year ended 31 December 2016; therefore, we did not witness the physical inventory taking of musical instruments at that date. Initial inventories of musical instruments corresponding to 2015 amounting to USD 54,963,318 were reviewed by us during the prior year audit. Additions to musical instruments were made in 2016 for US\$ 5,867,425, with a total amount of US\$ 60,830,743 at the end of 2016. During our participation in the physical inventory takings conducted, we were unable to reconcile the subsidiary ledger of inventories to the inspection date versus the count made due we did not obtain such ledger and the retrospective detail of inventory outputs during 2017 (US\$ 5,867,425) to be able to satisfy ourselves as to the existence of inventories as of 31 December 2016. Until receipt and analysis of the details referred-to above, we will be unable to determine the effects that might arise in connection with the inventory of musical instruments as of 31 December 2016, disclosed in the accompanying Statement of Assets and Equipment.

Disclaimer of Opinion

Due to limitations in the scope of our work, which did not allow us to obtain sufficient audit evidence to provide a basis for an audit opinion on the Statement of Assets and Equipment, relating to the absence of required information as mentioned in the paragraph of basis for disclaimer of opinion, we do not express an opinion on the accompanying Statement of Assets and Equipment of **Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II** as at 31 December 2016, in accordance with UNDP accounting policies.

The translation of the Statement of Assets and Equipment into English has been made solely for the convenience of English-speaking readers.

LARA MARAMBIO & ASOCIADOS



Adriana Blanco E.
Public Accountant
CPC N° 5416

27 September 2017

YEARS: 2010 - 2016

EXPRESSED IN US\$.

YEAR	PROJECT	MUSICAL INSTRUMENTS		EQUIPMENT		FURNITURE		VEHICLES		BOOKS		TOTAL
		UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	
2010	74571	90	498.899,61									498.899,61
2011	74571	133	2.434.665,90	129	292.094,52							2.726.760,42
2012	74571	238	894.934,85	16	74.066,37							969.001,22
2013	74571	145	1.019.104,78									1.019.104,78
2014	74571	77	1.179.790,11									1.179.790,11
2014	84584	31.465	11.703.638,50			26.380	3.551.659,93	27	4.317.643,55			19.572.941,98
2015	74571	1.274	2.521.864,55	78	145.517,68							2.667.382,23
2015	88324	51.704	11.138.688,00			55.900	15.190.749,88					26.329.437,88
2016	88324	28.096	5.858.712,00									5.858.712,00
2016	LUTHERIA	0	0,00							20	8.713,00	8.713,00
TOTAL		113.222	37.250.298	223	511.678,57	82.280	18.742.409,81	27	4.317.643,55	20	8.713,00	60.830.743,23

SUMMARY PER PROJECT

YEAR	PROJECT	MUSICAL INSTRUMENTS		EQUIPMENT		FURNITURE		VEHICLES		BOOKS		TOTAL
		UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT	
	74571	1.957	8.549.259,80	223	511.678,57							9.060.938,37
	84584	31.465	11.703.638,50	0	0	26.380	3.551.659,93	27	4.317.643,55			19.572.941,98
	88324	79.800	16.997.400,00			55.900	15.190.749,88					32.188.149,88
	LUTHERIA									20	8.713,00	8.713,00
	TOTAL			223		82.280		27		20		60.830.743,23

Adriana Blanes B.
 CARA MAHAMBIO & ASOCIADOS

Deloitte



2.3 Report on the Statement of Cash

The Project N° 58658 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II did not have a separate bank account for the management of the project's funds; therefore, preparing the Statement of Cash was not required.

LARA MARAMBIO & ASOCIADOS



Adriana Blanco E.
Partner

27 September 2017

PART 3: Management Letter

To The Director of the Office of Audit and Investigations (OAI)
United Nations Development Program, UNDP

Dear Sir,

In compliance with the assignment entrusted to us by, we conducted the review of accounting procedures and internal control system for the assessment and valuation of the financial and organizational structure of management body of the ***Proyecto N° 58656 Apoyo al Programa de Formación Académico – Musical de la Fundación Musical Simón Bolívar – Fase II***. The review has been conducted to assess the reliability of accounting records and financial information. Therefore, it does not necessary put out all the improvements that a specific and detailed study could possibly reveal. However, it allowed us to identify weaknesses that need to be corrected, as follows:

3.1 Inadequate conditions in the warehouses of inventory of goods.

3.2 Inadequate security controls for warehouse management.

3.3 Timely submission of the subsidiary ledger of inventories and the detail of acquisitions and disposals during 2017.

We remain at your disposal to bring all the precisions that you may require on the content of this report.

The translation of the Management Letter into English has been made solely for the convenience of English-speaking readers.

Yours faithfully,

LARA MARAMBIO & ASOCIADOS



Adriana Blanco E.
Partner

27 September 2017

PRIORITIES OF AUDIT RECOMMENDATIONS

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNDP country office management is to address the issues.

The following categories of priorities are used:

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	Low priority recommendations, if any, are dealt with by the Auditors directly with the Country 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.

3.1 Inadequate conditions in the warehouses of inventories of goods

OBSERVATION

During our audit, three physical inspections of the inventory of musical instruments were conducted (in April, June and August 2017) in order to satisfy ourselves as to the existence of inventories by validating additions during 2016, through the review of a retrospective detail of acquisitions and disposals justified until the closing date of the audited period.

In the different inspections conducted, we used the same sample selected, which represented 100% of additions in 2016 for an amount of US\$ 5,867,425. During our reviews, we observed internal control weaknesses affecting the safeguard and maintenance of goods, including:

- Environmental factors: due to the location, space and structure of the warehouses, boxes where instruments were kept were evidently damaged due to humidity.
- Safety and protection: lack of security cameras, inadequate signaling system and expired fire extinguishers were also noticed.
- Identification and control: most of instruments were not duly identified; the description of some boxes did not correspond with their contents, which made difficult the identification and count of musical instruments.

Observations were made during and after the physical inventories in 2017; however, the last physical inventory taking where we participated did not reflect a significant progress in reference to the situations described above.

PRIORITY

Medium (Important)

RECOMMENDATION

The project management should strengthen the management of the warehouses as to ensure that inventories are kept safely and adequately protected from damage while properly classified and stored.

MANAGEMENT COMMENT AND ACTION PLAN

The UNDP finds surprising this finding considering that in previous audits it had not been noted. The UNDP office takes note of the observation and will recommend to the project to make the necessary adjustments to maintain an appropriate place for "warehouses of inventories of goods".

EXPECTED COMPLETION DATE

Abril 2018

3.2 Inadequate security controls for warehouse management.

OBSERVATION

During the third physical inspection, the warehouse managers informed us of the theft of 946 musical instruments known as "cuatro" in 2016, representing a total of US\$ 201,316, according to the following detail. We requested from the project's management the required documentation supporting those claims as well as information as to their position regarding those events, obtaining the data summarized below:

Claim	Date	N° of Units	Model	Unit Cost (US\$)	Total Cost (US\$)
1	25/02/2016	59	Cuatro 4/4	226	13.334
		16	Cuatro 3/4	213	3.408
		1	Cuatro 1/2	200	200
2	8/03/2016	90	Cuatro 4/4	226	20.340
		6	Cuatro 3/4	213	1.356
3	2/05/2016	162	Cuatro 3/4	213	34.506
4	12/05/2016	204	Cuatro 3/4	213	43.452
5	9/06/2016	114	Cuatro 4/4	226	25.764
		12	Cuatro 3/4	213	2.556
		282	Cuatro 1/2	200	56.400
	Total	946			201.316

The management of Fundamusical informed us that the insurance policy only covered the first and the fifth claims reported; no indemnity was paid for the other claims due to lack of information requested by the insurance company.

Actions should be taken to avoid thefts of instruments in the future that will hinder meeting the Project's objectives.

PRIORITY

Medium (Important)

RECOMMENDATION

The project management should strengthen controls over assets and equipment by implementing the following recommendations:

- Conduct physical inventory takings on a monthly basis to be able to timely address any issues in respect of safeguarding of assets;
- Improve access to warehouses by limiting it to only authorized personnel following strict protocols;
- Insurance Policy: Maintain information required by the insurance company to cover claims reported and minimize the impact of losses.
- Develop a recovery plan to try to obtain an indemnity for the claims 2, 3 and 4 referred to in the chart above to reduce the losses due to inadequate inventory controls.
- Assess the possibility to escalate the matter to the UNDP Office of Audit and Investigations for further review.

MANAGEMENT COMMENTS AND ACTION PLAN

The UNDP office transfers goods once they are received by the counterpart, on the understanding that UNDP office does not have directly custody of these goods. We have taken note about safety recommendations and the counterpart will be instructed to take necessary improvements to adjust the facilities.

EXPECTED COMPLETION DATE

Abril 2018

3.3 Timely submission of the subsidiary ledger of inventories and the detail of acquisitions and disposals during 2017.

OBSERVATION

Initial inventories corresponding to 2015 amounting to US\$ 54,963,318 were reviewed by us during the prior year audit. Additions to musical instruments were made in 2016 for US\$ 5,867,425, with a total amount of US\$ 60,830,743 at the end of 2016. As part of auditing procedures to satisfy ourselves as to the ending balance of the inventory of musical instruments as of 31 December 2016, three physical inventory takings were conducted on different dates for subsequent verification of units counted versus the subsidiary ledger and the detail of acquisitions and disposals, prepared by management of Fundamusical; however, this verification could not be carried out because we were not timely provided with the subsidiary and the detail requested. This situation impeded us to review the existence of items referred-to above and provide an opinion of the value of assets as at 31 December 2016.

PRIORITY

Medium (Important)

RECOMMENDATION

We recommend to Fundamusical's management to maintain the inventories helpers updated, as well as the supports corresponding to the purchases and outputs of warehouse instruments for their verification and / or third parties in a timely manner.

MANAGEMENT COMMENT AND ACTION PLAN

The UNDP Office takes notes of the observation and will recommend to the counterparty to make necessary corrections to maintain inventory sheet updated.

EXPECTED COMPLETION DATE

Abril 2018

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