REPORT
ON THE AUDITS OF UNDP PROJECTS IMPLEMENTED BY NON-GOVERNMENTAL ORGANIZATIONS OR NATIONAL INSTITUTIONS AND GLOBAL FUND SUB-RECIPIENTS

(FISCAL YEAR 2020)

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# Table of Contents

1. Introduction 1
2. OAI’s role in the NGO/NIM/GF Sub-recipient audits 1
3. Review of the NGO/NIM/GF Sub-Recipient audits for FY2020 1
4. Implementation of prior year audit recommendations 4
5. Conclusion and recommendations 4
Report on the Audits of UNDP Projects
Implemented by Non-Governmental Organizations or National Institutions
and Global Fund Sub-recipients (FY2020)

Executive Summary

The overarching objective of the audits of UNDP projects implemented by non-governmental organizations (NGOs) or national institutions (NIM) is to provide UNDP with assurance as to the proper use of financial resources transferred to its implementing partners. The audits are performed annually by UNDP, and the Office of Audit and Investigation (OAI) supports the process by providing guidance for the conduct of the audits and reviews of the audit reports.

In August 2021, OAI concluded its review of the 2020 audits of UNDP projects implemented by NGOs or National Institutions and Global Fund Sub-recipients for the fiscal year 2020 (FY2020). The main objective of these audits was to provide UNDP with assurance that financial resources have been used in accordance with UNDP rules, regulations, policies and procedures. This report presents the consolidated results of these audits.

As of 31 October 2021, OAI had received 528 reports (92 percent) and $896 million of audited expenses (98 percent) from 85 Country Offices (98 percent).

OAI has issued review letters covering audit reports that have been received from the 85 Country Offices. A total of 60 Country Offices received a satisfactory rating by OAI, representing 71 percent of all review letters issued. The auditors performing the audits expressed modified opinions on the expenses of 43 projects in 21 Country Offices for a total overstatement of expenses of $1.3 million or 1.3 percent of the related audited expenses.

The auditors raised a total of 1,363 audit observations for FY2020. Most of the audit observations related to three areas, namely, financial management, procurement of goods and/or services, and record keeping systems and controls. The area of financial management had the highest number of audit observations with a total of 717 issues noted (53 percent). The 717 observations related mainly to: (a) the lack of adequate supporting documentation for expenses incurred (202 projects), (b) the absence of an adequate accounting system (93 projects), and (c) differences between the project records and the CDR, and the recording of 2019 expenses in the 2020 CDR (68 projects). Of the total 1,363 recommendation, 58 percent have been implemented.
1. **Introduction**

UNDP financial statements are audited annually by the United Nations Board of Auditors (UNBoA). In expressing its opinion on UNDP financial statements, the UNBoA refers to the outcome of the audits of NGO/NIM projects. Consequently, delays in the completion of these audits or modified opinions expressed by the auditors may have an impact on the opinion expressed by the UNBoA on UNDP financial statements. As of 31 October 2021, more than six months after the deadline, OAI had received 528 reports (92 percent) and $896 million of audited expenses (98 percent) from 85 Country Offices (98 percent).

The audit firms that are contracted by UNDP entities are required to conduct a financial audit to express an opinion on the project’s financial statements that includes: (a) expression of an opinion on whether the statement of expenses presents fairly the expense incurred by the project over a specified period in accordance with agreed upon accounting policies; (b) expression of an opinion on the value and existence of the project’s statement of assets and equipment as at a given date; and (c) expression of an opinion on the value and existence of the cash held by the project as at a given date (i.e., 31 December of each year).

2. **OAI’s role in the NGO/NIM/GF Sub-recipient audits**

The selection and audit of NGO/NIM projects each year must be completed based on the criteria and the deadline established by OAI. The contracting for the audit and acceptance of the audit reports is a process owned by UNDP offices (Country Offices, Central Units, Regional Bureaux, Regional Hubs). The audit reports are first submitted to the UNDP Office, and once accepted, they are submitted to OAI for review. The submission of audit reports to OAI is done by the UNDP office uploading the audit reports and specific contents into the Comprehensive Audit and Recommendation Database System (CARDS) that is managed by OAI. OAI checks the quality of the data and information uploaded to CARDS and assesses the quality of the scope of work as well as the reported results of the audit work.

3. **Review of the NGO/NIM/GF Sub-Recipient audits for FY2020**

Between the period of April and August of each year, OAI reviewed audit reports submitted by all business units. The purpose of the OAI review was to:

a) determine the overall outcome of the audits of the projects (or outputs);
b) identify the main and common weaknesses reported by the auditors;
c) assess whether the areas covered by the auditors were aligned with OAI requirements;
d) assess whether the audits were properly administered by the Country Office; and

e) assess if appropriate action has been taken or planned to be taken on the observations and recommendations arising from the audit.

The results of OAI’s reviews were shared in letters issued to 85 Country Offices. Of the 85 Country Offices, 60 received a satisfactory rating, 14 received a partially satisfactory rating, and 11 received an unsatisfactory rating as detailed in the table below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Satisfactory</th>
<th>Partially Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBA</td>
<td>21</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>RBAP</td>
<td>8</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>RBAS</td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>RBEC</td>
<td>11</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>RBLAC</td>
<td>15</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td><strong>60</strong></td>
<td><strong>14</strong></td>
<td><strong>11</strong></td>
</tr>
</tbody>
</table>

The analysis of the audit opinions and audit observations of the audit reports showed the following:
Distribution of audit opinions

The auditors performing the audits for UNDP issued modified audit opinions (qualified, adverse, or disclaimer) for 43 projects in 21 Country Offices.

The modified audit opinions were mainly due to (a) unsupported expenditures (15 projects); (b) unexplained differences between the Combined Delivery Report (CDR) and the project financial records (9 projects); (c) expenditure recorded incorrectly (7 projects); and expenditure not eligible (5).

The modified opinions resulted in an overstatement of CDR expenses by $7.5 million in 39 projects and an understatement of CDR expenses by $6.2 million in four projects. The distribution of the financial impact by region is shown below:

<table>
<thead>
<tr>
<th>Region</th>
<th>Overstatement of CDR expenses</th>
<th>Understatement of CDR expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBA</td>
<td>(2,778,320)</td>
<td>309,628</td>
</tr>
<tr>
<td>RBAP</td>
<td>(366,706)</td>
<td>-</td>
</tr>
<tr>
<td>RBAS</td>
<td>(4,242,506)</td>
<td>5,896,900</td>
</tr>
<tr>
<td>RBLAC</td>
<td>(121,171)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>(7,508,703)</td>
<td>6,206,528</td>
</tr>
</tbody>
</table>

The overstatement and understatement of expenses resulted in a Net Financial Misstatement (NFM) of $1.3 million or 1.3 percent of the related audited expenses.

The most significant overstatement of expenses for FY2020 relates to one project in Zambia (Project 00095469, $1.26 million) and was due to the recording, in the FY2020 CDR, of payments issued for goods and services provided in 2021. The most significant understatement of expenses for FY2020 relates to one project in Yemen (Project 00106771, $5.1 million) and was due to differences between the project’s general ledger and the CDR as well as the recording of previous year’s expenses in the current year CDR.

The seven projects listed below have the highest amounts of NFM due to ineligible or unsupported expenditures. The negative NFM amounts refer to an overstatement of the expenditures.
Among the projects with modified opinions were 14 GEF-funded projects in 10 Country Offices with a NFM of $825,933 or 5 percent of the related audited expenses. Also, there were four Global fund Sub-recipients in four Country Offices with modified opinions and an NFM of $480,844 or 6 percent.

Audit observations and recommendations

For each audit, the auditors are required to describe, in a management letter, the internal control weaknesses noted. The management letter includes the audit observations and recommendations, categorizes the nature of audit observations by risk severity, and classifies the audit observations and recommendations by audit area.

The audit reports contained 1,363 observations and recommendations. The distribution of the audit observations by risk severity and by audit area were as follows:

- **Risk severity**: The audit firms classified the audit observations in three categories, high, medium, and low. The 1,363 audit observations comprised of 488 (36 percent) categorized as high priority; 565 (41 percent) categorized as medium priority; and 310 (23 percent) categorized as low priority.

- **Audit areas**: The nature of audit observations and recommendations are categorized into seven audit areas as pre-determined by OAI in CARDS, namely (1) financial management, (2) human resources selection and administration, (3) management and use of equipment/inventory, (4) management structure, (5) procurement of goods and/or services, (6) project progress and rate of delivery, and (7) record keeping systems and controls.

The distribution by audit area and risk severity for the 1,363 audit observations and recommendations is shown below:

<table>
<thead>
<tr>
<th>Audit Observations (1,363)</th>
<th>By Area and Risk Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management (717)</td>
<td>311</td>
</tr>
<tr>
<td>Record Keeping Systems and Controls (162)</td>
<td>54</td>
</tr>
<tr>
<td>Procurement of Goods and/or Services (138)</td>
<td>52</td>
</tr>
<tr>
<td>Human Resources Selection &amp; Admin (125)</td>
<td>32</td>
</tr>
<tr>
<td>Management &amp; Use of Equipment/Inventory… (98)</td>
<td>22</td>
</tr>
<tr>
<td>Project Progress &amp; Rate of Delivery (98)</td>
<td>12</td>
</tr>
<tr>
<td>Management Structure (17)</td>
<td>5</td>
</tr>
</tbody>
</table>

Three areas, namely (a) financial management, (b) record keeping systems and controls, and (c) procurement of goods and/or services accounted for 1,017 audit observations or 75 percent of the total audit observations.

The 717 observations categorized in the area of financial management related mainly to: (a) the lack of adequate supporting documentation for expenses incurred (202 projects), (b) the absence of an adequate
accounting system (93 projects), and (c) differences between the project records and the CDR, and the recording of 2019 expenses in the 2020 CDR (68 projects).

Of the 1,363 audit recommendations, 791 (58 percent) have been implemented. For the remaining 572, planned actions were in progress (400) or the planned actions have not yet been provided (18) or were considered no longer applicable (154).

In addition, OAI reviewed the 12 audit reports submitted by RBA and BPPS and shared these results with the concerned bureaus. The auditors expressed an “unmodified” opinion on the Statement of Expenses for all 12 projects.

4. Implementation of prior year audit recommendations

The audit firms were required to review the progress achieved in implementing the prior year’s audit recommendations (FY2019) including those that were not solved in previous years, and to report on the updated “action plans” (intended management actions to address the observations) for those recommendations. The Country Offices were required to upload and monitor the implementation status of the recommendations in CARDS.

OAI focused its assessment on the implementation status of high priority recommendations. Of the 487 high-priority FY2019 recommendations, 456 (94 percent) had been implemented; 14 (3 percent) were still in progress; for 8 recommendations (2 percent) the action planned had not been provided; for 6 recommendations (1 percent) the Country Offices indicated that the projects were closed in 2019; and 3 recommendations (1 percent) had not yet been implemented. See chart below:

5. Conclusion and recommendations

OAI reiterates the importance of taking adequate measures (a) to ensure that future audit exercises are timely completed and in accordance with established guidelines; (b) to address the modified audit opinion and audit recommendations; and (c) to share with OAI the actions planned to address the issues raised by the auditors.

Regional and Central Bureaux with oversight responsibilities as the “second line of defense” are required to adequately monitor all Country Offices under their purview and ensure that measures are taken to address all issues noted in the HACT/NGO/NIM audit reports, including the audit of the remaining NIM/NGO projects.