



AUDIT

OF

ONE UN COVID BASKET FUND
(Directly Implemented Project No. 127475, Output No. 121397)

IN

UNDP NIGERIA

Report No. 2541
Issue Date: 29 August 2022

**Report on the Audit of One UNDP Covid Basket Fund
(Project No. 127475, Output No. 121397)
implemented by UNDP Nigeria
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Talal Abu –Ghazaleh & Co. (the audit firm), from 2 May to 14 June 2022, conducted an audit of ‘One UN Basket Fund’ (Project No. 127475, Output No. 121397 ‘Support to COVID-19 Response’) (the Project), which is directly implemented and managed by the UNDP Country Office in Nigeria (the Office). This was the first audit of the Project.

The audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series. The audit work covered financial transactions as well as internal controls and systems for the purpose of expressing an opinion on whether the financial statements present fairly, in all material aspects, the Project’s operations, as well as assess compliance with UNDP regulations, rules, policies and procedures and donor agreements. The audit covered the Project’s Combined Delivery Report, which includes expenses for the period from 1 January to 31 December 2021 and the accompanying Funds Utilization statement¹ as of 31 December 2021. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: governance, programme, and operations. The audit did not include activities and expenses incurred or undertaken at the “responsible party” level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters) or expenses of other United Nations agencies. The audit did not cover the Statement of Assets as no assets were held by the Project. In addition, 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 of The Institute of Internal Auditors (The IIA).

Overall audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as **satisfactory/some improvement needed**, which means, “the assessed governance arrangements, risk management practices and controls as applicable to the Project’s financial statements were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to overstatement of the UNDP expense column in the current Combined Delivery Report at an amount of \$22,882,670. The overstatement occurred when UN Agencies expenses were recorded as UNDP expenses.

The audit firm had assessed the finance area as fully satisfactory, however, OAI has concerns with the controls in the finance area which led to significant overstatement of expenditures in the Combined Delivery Report (Please see recommendation below).

The details of the financial audit results are presented in the table below:

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.

Project Expenses*			
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)	Impact on CDR (applicable when there is NFM)
3,476	Qualified	22,883	Overstatement

* Expenses recorded in the Combined Delivery Report (CDR) were \$29,909,531. Excluded from the audit scope were transactions that relate to expenses of other United Nations agencies (\$22,882,670) and expenses processed and approved by other UNDP offices outside of the country (\$2,073,021). Also excluded were expenses incurred at the “responsible party” level (\$1,478,129).

**NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenses due to overstatement of the UNDP expense column in the current CDR at an amount of \$22,882,670 and understatement of the UN Agencies Expense column with the same amount. The resulting financial impact was a material overstatement of the financial statements in the amount of 22,882,670 that represented 76,3 percent of the total project expenditures (\$29,909,531.42) recorded in the CDR as at 31 December 2021, of which \$3,475,712 was directly incurred by the Office.

Key recommendation: Total = 1, high priority = 1

The recommendation aims to ensure reliability and integrity of financial and operational information.

For high (critical) priority recommendation, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

UN Agencies expenses were recorded under the UNDP expense column (Issue 1)	<p>UN Agencies expenses were recorded under the UNDP expense column in the Combined Delivery Report (CDR), overstating UNDP expenses in the amount of \$22,882,669.58 and understating the UN Agencies Expense column with the same amount. This occurred as a result of issuing UN Agencies advances locally to comply with the donors’ requirements.</p> <p><u>Recommendation:</u></p> <p>We recommend the Office to continue liaising with the UNDP Office of Financial Management at the Bureau for Management Services to find a solution that would categorize and map locally managed UN agency advances to the correct column in the CDR to accurately reflect project implementation arrangements in the project’s financial reports. Alternatively, the Office should revert back to the established practices to engage UN agencies through the corporate project clearing account.</p>
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Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it.

Comments and/or additional information provided have been incorporated into the report, where appropriate.



Helge
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Helge S. Osttveiten
Director
Office of Audit and Investigations

**United Nations Development Programme
(UNDP)**

**Financial Audit of Directly Implemented Project Managed by
UNDP Country Office in Nigeria**

**“One UN COVID Basket Fund, Support to COVID-19 Response”
(Project ID 00127475 - Output ID 00121397)
For the period from 1 January to 31 December 2021**

23 August 2022

**Talal Abu-Ghazaleh & Co. International
Certified Public Accountants**



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1. PART I – EXECUTIVE SUMMARY**1.1. Executive Summary:**

This report represents the results of the financial audit conducted by Talal Abu – Ghazaleh & Co. of Project ID 127475 - Output ID 121397 “One UN COVID Basket Fund, Support to COVID-19 Response” (the project), directly implemented by UNDP Nigeria for the period from 1 January to 31 December 2021.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the Contract for professional Services Number UNDP/OAI/LTA-12-2020-DIM-TAGI (471) signed between UNDP and Talal Abu-Ghazaleh and Co. on 1 March 2021.

- Audit Opinions:

The following is the summary of the audit opinions provided:

Report on	Type of Opinion	Note
Financial Position	Qualified.	UN Agencies Expenses have been recorded under the UNDP Expense Column instead of the UN Agencies Expense column at an amount of US\$ 22,882,669.58
Statement of Fixed Assets	Not applicable.	There were no fixed assets or equipment, therefore, no audit opinion is to be provided on the statement of fixed assets.
Statement of Cash	Not applicable.	There was no separate bank account for the project under audit, therefore, no audit opinion is to be provided on the Statement of Cash.

- Audit of Internal Controls and Systems

We have assessed the reliability and integrity of the project’s financial and operational information, effectiveness and efficiency of the project’s operations, safeguarding of project’s assets and compliance with legislative mandates, regulations and rules, policies and procedures as well as with the donor agreement.

The following is the summary of the the project's internal controls assessment in the following areas:

Report on	Rating
Organization and Staffing	Fully Satisfactory
Programme and project management	Fully Satisfactory
Human Resources	Fully Satisfactory
Finance	Fully Satisfactory
Procurement:	Fully Satisfactory
Asset Management	Not applicable
Cash Management	Fully Satisfactory
Information Systems	Fully Satisfactory
General Administration	Fully Satisfactory
Follow-up on previous audits	Not applicable.

Based on our assessment of the above areas, the overall rating of the Internal Controls and Systems is assessed as **Fully Satisfactory**.

- Audit Finding:

As a result of our audit, the following finding was included in the management letter:

Summary of Audit Finding	Priority	Net Financial Impact
UN Agencies Expenses have been recorded under the UNDP Expense Column instead of the UN Agencies Expense column at an amount of US\$ 22,882,669.58	High (Critical)	Overstatement of the UNDP expense column in the current CDR at an amount of US\$ 22,882,669.58 and understatement of the UN Agencies Expense column with the same amount.

- Follow-up on Previous year's Audit Recommendations:

The Project ID 127475 - Output ID 121397 "One UN COVID Basket Fund, Support to COVID-19 Response" was not audited in the prior years.

Sincerely yours,

Talal Abu -Ghazaleh & Co. International
License No. 201/2022

Jamal Milhem, CPA
Certified Accountant License # (100/98)
Ramallah - Palestine, 23 June 2022



1.2. Audit Objectives

A. The objective of the financial audit is to express an opinion on the project's financial position which includes:

- 1) Expressing an opinion on whether the financial expenses incurred by the project for the period from 1 January to 31 December 2021 and the funds utilization, the accounts receivable and the accounts payable as at 31 December 2021 were fairly presented in accordance with UNDP's accounting policies and that the expenses incurred 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.
- 2) Expressing an opinion on whether the statement of fixed assets, at net book value, presents fairly the balance of depreciated assets of the UNDP Project as at 31 December 2021. This statement should include all assets available as at 31 December 2021 and not only those purchased in the year under audit. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.

Expressing an opinion on whether the statement of cash held by the Project presents fairly the cash and bank balance of UNDP Project as at 31 December 2021. It is required to express an opinion on the Statement of Cash only where a dedicated bank account for the DIM project has been established. In cases where the cash transactions of the audited DIM project are made through the country office bank accounts, this type of opinion is not required.

- As applicable, providing the progress made in implementing the recommendations raised in a previous year audit report.
- The objective of the assessment of Internal Controls and Systems is to assess the reliability and integrity of the project's financial and operational information, effectiveness and efficiency of the project's operations, safeguarding of project's assets and compliance with legislative mandates, regulations and rules, policies and procedures as well as with the donor agreement.

The financial audit was conducted in accordance with the International Standards on Auditing (ISA), the 700 series.

1.3. Scope of Audit:

A. The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project for the period from 1 January to 31 December 2021.

The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties", unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centers and UNDP Headquarters and where the supporting documentation are not retained at the level of the UNDP office.

B. Audit of Internal Controls and Systems

Conduct the necessary audit steps to cover the project's internal controls and systems in order to assess:

- (a) Reliability and integrity of project financial and operational information;
- (b) Effectiveness and efficiency of project operations;
- (c) Safeguarding of project assets;
- (d) Compliance with legislative mandates, regulations and rules, policies and procedures, as well as donor agreements.

Assess the internal controls with regard to the audited project in the following areas:

- (i) Organization and Staffing: Assess the overall project structure for effective work flows and management arrangements, including assignment of authority, accountability and responsibility to staff.
- (ii) Programme and project management: Assess the management aspects in terms of approval of the project, financial management of project funds, and monitoring of implementation towards achievement of project objectives. This includes reporting to the, Steering Committee, Project Board and/or Donors.
- (iii) Human Resources: Assess competitiveness and transparency of the recruitment process; and effectiveness of the management of project personnel, including contract administration, performance evaluation and payment of salaries and allowances.
- (iv) Finance: Assess the compliance with UNDP policies with respect to the safe custody and adequate management of cash, commitment of expenditures against approved budget, disbursement or payments against liabilities and cash advances to field offices, project staff, etc.
- (v) Procurement: Assess whether goods, services and civil works for the project are procured competitively and in a transparent manner in accordance with UNDP policies and procedures. This includes management of obligations and appropriate assessment of goods or services delivered and monitoring performance of the contractors, before payment.
- (vi) Asset Management: Assess whether project assets are adequately recorded, safeguarded, monitored, including periodic physical verification of their use and existence.
- (vii) Cash Management: Review the safeguarding of all cash (including bank accounts) held separately for the purposes of the project either in the UNDP country office or at the project field offices, including cash held as advances or imprest in any sub-office or field office.
- (viii) Information Systems: Assess the efficiency and security of the information systems established and maintained from project funds and their adequacy to meet the management and reporting requirements of the projects.
- (ix) General Administration: These include areas of operations not specifically covered above and for which expenses are charged to the project covering such areas as: travel of project staff, use and maintenance of project vehicles, lease and maintenance of office premises.
- (x) Follow-up on previous audits: As may be applicable, assess the status of implementation of the previous year's audit recommendations.

2. PART II – FINANCIAL AUDIT REPORTS

2.1. Auditor's Report on Financial Position

**Independent Auditor's Report on the Project Financial Position
of UNDP DIM Project ID 127475 - Output ID 121397
"One UN COVID Basket Fund, Support to COVID-19 Response"**

**To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme (UNDP)**

We have audited the financial position of UNDP Project ID 127475 - Output ID 121397 "One UN COVID Basket Fund, Support to COVID-19 Response" for the period from 1 January to 31 December 2021, which includes: (a) the accompanying Combined Delivery Report (CDR); (b) the Funds Utilization Statement (the statement); and (c) the project-related accounts receivable and accounts payable.

The CDR expenditures totaling at US\$ 29,909,531.42, are comprised of expenditures directly incurred by UNDP Country Office in Nigeria for an amount of US\$ 3,475,711.55 and expenditures incurred by entities other than the UNDP Country Office in Nigeria for an amount of US\$ 26,433,819.87. Our audit only covered the expenditures directly incurred by UNDP Country Office in Nigeria for an amount of US\$ 3,475,711.55

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for our qualified opinion section of our report, the attached Combined Delivery Report (CDR) and Funds Utilization Statement present fairly, in all material respects, the expenses of US\$ 3,475,711.55 directly incurred by the UNDP Country Office in Nigeria and charged to Project ID 127475 - Output ID 121397 "One UN COVID Basket Fund, Support to COVID-19 Response" for the period from 1 January to 31 December 2021 in accordance with UNDP's 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.

Basis for Qualified Opinion.

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the CDR and Funds Utilization section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

- The UNDP expenses column in the current Combined Delivery Report (CDR) is overstated by US\$ 22,882,669.58 due to the recording of the UN agencies expenses under the UNDP expenses column in the Combined Delivery Report instead of the UN Agencies Expense column.

Management's Responsibility

Management is responsible for the preparation of the CDR and the Funds Utilization Statement of the project and for such internal controls as management determines are necessary to enable the preparation of a CDR and Funds Utilization statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the CDR and the Funds Utilization statement 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 ISA 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.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CDR and Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 organization's internal controls.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identified during our audit.

Talal Abu-Ghazaleh & Co. International
License No. 201/2022

Jamal Milhem, CPA
Certified Accountant License # (100/98)
Ramallah - Palestine, 23 June 2022



2.2. Combined Delivery Report (CDR) and Funds Utilization statement:

"One UN COVID Basket Fund, Support to COVID-19 Response" Project ID 127475 - Output ID 121397 for the period from 1 January to 31 December 2021



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

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Run Time: 08-03-2022 12:03:06

Selection Criteria :

Business Unit : NGA10
Period : Jan-Dec (2021)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00121397

Project Id : 00127475 One UN COVID Basket Fund	Period :	Jan-Dec (2021)		
Output # : 00121397 Support to COVID-19 Response	Impl. Partner :	99999 UNDP		
	Location :	PROGRAMME SECTION		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 36401 (Nigeria - Central)				
Fund : 28644 (COVID Country Response)				
71205 - Intl Consultants-Sht Term-Tech	0.00	- 2,975.00	0.00	- 2,975.00
71305 - Local Consult.-Sht Term-Tech	0.00	7,303.43	0.00	7,303.43
71610 - Travel Tickets-Local	0.00	2,289.46	0.00	2,289.46
71615 - Daily Subsistence Allow-Intl	0.00	23,632.00	0.00	23,632.00
71620 - Daily Subsistence Allow-Local	0.00	411,683.21	0.00	411,683.21
71630 - Shipment	0.00	4,158.00	0.00	4,158.00
71635 - Travel - Other	0.00	439.07	0.00	439.07
71810 - Contractual Svcs-indiv ImpPtnr	0.00	903,645.60	0.00	903,645.60
72120 - Svc Co-Trade and Business Serv	0.00	51,736.34	0.00	51,736.34
72125 - Svc Co-Studies & Research Serv	0.00	173,781.10	0.00	173,781.10
72165 - Svc Co-Social Svcs, Social Sci	0.00	140,659.68	0.00	140,659.68
72205 - Office Machinery	0.00	46,203.18	0.00	46,203.18
72210 - Machinery and Equipment	0.00	207,195.50	0.00	207,195.50
72310 - Minerals,Mining & Metal Prdcts	0.00	2,990.00	0.00	2,990.00
72311 - Fuel, petroleum and other oils	0.00	10.13	0.00	10.13
72330 - Medical Products	0.00	128,338.69	0.00	128,338.69
72350 - Medical Kits	0.00	1,158,202.32	0.00	1,158,202.32
74205 - Audio Visual Productions	0.00	3,882.62	0.00	3,882.62
74210 - Printing and Publications	0.00	- 126.11	0.00	- 126.11
74225 - Other Media Costs	0.00	31,756.25	0.00	31,756.25
74505 - Insurance	0.00	472.49	0.00	472.49
74510 - Bank Charges	0.00	0.00	0.00	0.00
74705 - Port Operation	0.00	182,803.95	0.00	182,803.95
74725 - Other L.T.S.H.	0.00	443,015.38	0.00	443,015.38
75105 - Facilities & Admin - Implement	0.00	496,826.35	0.00	496,826.35
75705 - Learning costs	0.00	487.34	0.00	487.34
75710 - Participation of counterparts	0.00	2,592,781.79	0.00	2,592,781.79
75711 - TrnWrkshp&Conf - Stipends	0.00	101.82	0.00	101.82
76125 - Realized Loss	0.00	20,074.87	0.00	20,074.87
76135 - Realized Gain	0.00	- 4,507.62	0.00	- 4,507.62
Total for Fund 28644	0.00	7,026,861.84	0.00	7,026,861.84
Fund : 30087 (3rdP CS UNSyst ProjCooperation)				
72330 - Medical Products	0.00	1,071,653.72	0.00	1,071,653.72
75105 - Facilities & Admin - Implement	0.00	58,074.51	0.00	58,074.51
75710 - Participation of counterparts	0.00	3,599,845.22	0.00	3,599,845.22
Total for Fund 30087	0.00	4,729,573.45	0.00	4,729,573.45
Fund : 30089 (EU CS UNSyst ProjCooperation)				
72160 - Svc Co-Education & Health Serv	0.00	226,315.30	0.00	226,315.30



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

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Run Time: 08-03-2022 12:03:07

Project Id : 00127475 One UN COVID Basket Fund		Period :	Jan-Dec (2021)	
Output # : 00121397 Support to COVID-19 Response		Impl. Partner :	99999 UNDP	
		Location :	PROGRAMME SECTION	
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72330 - Medical Products	0.00	4,164,099.78	0.00	4,164,099.78
72620 - Joint Programming Expenditure	0.00	0.00	0.00	0.00
74105 - Management and Reporting Svcs	0.00	0.00	- 78,000.00	- 78,000.00
75105 - Facilities & Admin - Implement	0.00	179,733.63	0.00	179,733.63
75710 - Participation of counterparts	0.00	13,660,947.42	0.00	13,660,947.42
Total for Fund 30089	0.00	18,231,096.13	- 78,000.00	18,153,096.13
Total for Dept : 36401	0.00	29,987,531.42	- 78,000.00	29,909,531.42
Total for Output : 00121397	0.00	29,987,531.42	- 78,000.00	29,909,531.42
Project Total :	0.00	29,987,531.42	- 78,000.00	29,909,531.42



Signed By: Mohammed Yahya Date: 07 June 2022
Signed By: UNDP Resident Representative Date: _____

SP

Samir J. Matar
Tajal Abu-Ghazaleh & Co.
For identification purposes only



UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

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Run Time: 08-03-2022 12:03:07

Selection Criteria :

Business Unit : NGA10
Period : Jan-Dec (2021)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00121397

Project Id : ALL	Period : Jan-Dec (2021)			
Output # : ALL	Impl. Partner : Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
36401 - Nigeria - Central	0.00	29,987,531.42	- 78,000.00	29,909,531.42



UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

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Run Time: 08-03-2022 12:03:10

Funds Utilization

Selection Criteria :

Business Unit : NGA10
Period : Jan-Dec (2021)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00121397

Project/Award: 00127475 One UN COVID Basket Fund		Period : As at Dec 31, 2021
Output # 00121397	Impl. Partner :99999 UNDP	UNDP AMOUNT
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		0.00
Unamortized Intangible Assets		0.00
Inventory		0.00
Prepayments		0.00
Commitments		16,484.86

3. PART III: MANAGEMENT LETTER

3.1. Current year Audit Findings and Recommendations

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

Introduction

Under International Standards on Auditing, auditors are encouraged to report various matters concerning an entity's internal control structure noted during their audit and are required to report certain of those matters. Matters that are required to be reported are "significant deficiencies in the design or operation of the internal control structure that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements".

As part of our audit of the Project's financial position of Project ID 127475 - Output ID 121397 "One UN COVID Basket Fund, Support to COVID-19 Response" for the period from 1 January to 31 December 2021, we considered UNDP's internal control structure and compliance with its accounting policies in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. Our purpose was not to provide assurance on the internal control structure.

We emphasize that the responsibility for a sound system of internal controls rests with management and work performed by external audit should not be relied upon to identify all strengths and weaknesses that may exist, neither should our work be relied upon to identify all circumstances of irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery.

The matters raised in this part are those which came to our attention during the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be needed. Recommendations for improvements should be assessed by management for their full business impact before they are implemented. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Acknowledgment

We wish to express our appreciation for the courtesy and cooperation extended to our representatives during the course of their work.

Talal Abu -Ghazaleh & Co. International
License No. 201/2022

Jamal Milhem, CPA
Certified Accountant License # (100/98)
Ramallah - Palestine, 23 June 2022



Finding No. 1:

Title: UN Agencies Expenses were recorded under the UNDP Expense Column

Criteria

UNDP Programme and Operations Policies and Procedures (POPP), CDR states that, *"The expenditures reported in the CDR reflect expenses recorded in the Atlas general ledger grouped into the following columns:*

- a *Government: This represents expenditures recorded against liquidated NEX advances*
- b *UN Agency: This reflects expenditures reported by UN Agencies through PDRs*
- c *UNDP: This represents all other expenditures i.e. expenditures incurred by UNDP on direct implementation, direct payments and reimbursements.*

POPP states *"UN Agencies Expenses: Shows only expenses incurred by UN agencies, acting as responsible parties to the project. This expense will be derived from project delivery reports (PDRs) reported to UNDP and accepted by the implementing partner as part of valid project expenses"*.

Further, the POPP states *"UNDP Expenses: Displays expenses directly incurred by UNDP on behalf of the project"*.

POPP, Agency Implementation Finance, paragraph 12 states:

"Under exceptional circumstances (e.g. agency does not operate under the global PCA modality (i.e. does not use corporate Project Delivery Report (PDR) submissions), agency has not signed the Standard Basic Executing Entity Agreement (SBEEA), etc.), offices can request the use of local PCA account (account 16010) through GSSU. The authorization of the use of local agency account is provided by OFM/FPMR/CFRA, with the understanding that it becomes the Country Office's responsibility to ensure that the balance in local PCA account 16010 is liquidated in a timely manner." UNDP Offices can contact GSSU Agencies unit for general policy guidance or to request authorization for the use of local agency account using the email address provided'.

Observation

During the audit, we noticed that the UN agencies expenses have been recorded under the UNDP expenses column in the Combined Delivery Report at an amount of US\$ 22,882,669.58, instead of recording them under the UN Agencies Expense column, although these amounts do not represent expenses incurred by UNDP on behalf of the project.

This occurred as a result of issuing UN Agencies advances via account number 16010 and liquidated the advances locally to comply with the donors requirements. The project was a basket fund and was operating under the exceptional revenue modality for 'Local Direct Pass-through Fund Management', where UNDP Country Office is financially and programmatically accountable for the entire contribution agreement, but parts of the project's activities were implemented by other entities like UN agencies and responsible parties.

It is worth to mention that the CO recorded these advances after liaising with the UNDP HQ and GSSC prior to processing the advances to the UN agencies. However, there is a limitation in Atlas's ERP System. No process was developed to map local advances to the UN agency column in the CDR when exceptional circumstances requires local management of project funding/liquidation that cannot be accommodated through the corporate Project Clearing Account (PCA) modality. UNDP is in the process of phasing out Atlas, to be replaced by a new ERP system, Quantum, during 2023.

The technical limitation described above led to an overstatement of the UNDP expense column in the current CDR at an amount of US\$ 22,882,669.58 and an understatement of the UN agencies expense column with the same amount.

The CDR for the period under review is final, and the books are closed. Any subsequent corrections will only reflect in future periods.

Priority

High (Critical)

Recommendation

We recommend the UNDP office to continue liaising with the UNDP Office of Financial Management (OFM) at the Bureau for Management Services to find a solution that will categorize and map locally managed UN agency advances to the correct column in the CDR to more accurately reflect project implementation arrangements in the project's financial reports. Alternatively, the Office should revert back to the established practices to engage UN agencies through the corporate Project Clearing Account (PCA) modality that makes use of corporate Project Delivery Reports (PDR) to avoid further misstatements of UN agency incurred expenses in the CDR.

Management's Response

Country Office recognized the fact that, UN Agencies Expenses were recorded under the UNDP Expense Column as indicated in the audit report. This is as a result of the account code (16010 - due from UN agencies) that was used in advancing funds to Agencies and liquidate locally (non-PDR) based on POPP, Agency implementation financing, exceptional guidance paragraph 12. An authorization received from OFM/CFRA for the use of account code 16010 was shared with the audit. Based on this justification, Management is of the view that audit opinion is reviewed as Country Office action is inline with UNDP rules and Policies.

Subsequent to the audit fieldwork the Country Office in consultation with OAI referred the audit query to UNDP Office of Financial Management (OFM) at the Bureau for Management Services, and it was confirmed that the Office followed the correct procedure per exceptional POPP guidance, and the correct fund codes were used. OFM agreed that UNDP Headquarters shall revisit the categorization of the three columns in CDR to ensure expenses from local advances are mapped to the right column.

Auditors response

The qualified audit opinion is retained, due to the materiality of the misstatement in the CDR.

Definition of Standard Audit Ratings to audit report covering the audit of internal controls and systems

▪ Fully Satisfactory	The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
▪ Satisfactory / Some Improvement Needed	The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
▪ Partially Satisfactory / Major Improvement Needed	The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
▪ Unsatisfactory	The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

Priorities of Audit Recommendations

High (Critical)	Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
Medium (Important)	Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.