



**CONSOLIDATED REPORT**

**ON THE 2021 AUDITS OF PROJECTS DIRECTLY IMPLEMENTED BY UNDP**

**Report No. 2542**

**Issue Date: 29 April 2022**

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**Consolidated Report on the 2021 Audits of Projects  
Directly Implemented by UNDP  
Executive Summary**

In April 2022, the Office of Audit and Investigations (OAI) conducted a review and analysis of the audit reports of projects directly implemented (DIM) by UNDP. The DIM audits were undertaken in 2021 of project expenditures incurred in the fiscal year (FY) 2020. The objective of the 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.

**Purpose and scope of the review**

The review aimed to a) analyse the distribution of the audit opinions; b) identify common audit issues and trends; and c) determine the implementation of the prior year's audit recommendations.

The review covered 58 DIM audit reports for FY 2020 with total audited expenditures of \$721 million. This pertained to 58 projects implemented by UNDP Country Offices and Headquarters, specifically the Bureau for Policy and Programme Support (BPPS). Of the 58 audit reports, 56 reports were audits of projects implemented by 37 Country Offices with total expenditures of \$714 million, and two reports were audits of BPPS projects with a total of \$7 million in audited expenditures.

**Results of the review**

Out of the 58 project reports issued, the auditors provided unmodified opinions on the statement of expenditures (CDR) and statement of assets for 50 reports (86 percent) and modified opinions on the statement of expenditures for 7 projects and a modified opinion on the statement of assets for one project.

The net financial impact of the modified opinions resulted in the overstatement of expenses in the CDRs of \$35.3 million, equivalent to a Net Financial Misstatement of 4.9 percent of the total audited expenditures. For OAI, a Net Financial Misstatement of 1.5<sup>1</sup> percent or greater requires Management's attention as this negatively impacts the accuracy of UNDP's project financial information.

The auditors raised a total of 34 audit observations. Most of the UNDP audit observations were within three areas: financial management; development activities, and procurement. The area of financial management had the highest number of observations relating mainly to: (a) inaccurate presentation of expenditures in the statement of expenditures (CDR) such as expenditure recorded incorrectly (5 projects), and expenditures not eligible (two projects); (b) expenditures charged twice (two instances); and non-compliance with contractual terms (two instances).

Of the 34 recommendations, 28 (or 82 percent) were implemented at the time of this review. The remaining 6 recommendations were not implemented of which two were rated high priority.

OAI therefore noted that the majority of the recommendations had been addressed at the time of this review. However, reiterates the importance for the responsible offices to timely implement the remaining audit recommendations.

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<sup>1</sup> A materiality threshold of 1.5 percent NFM is used as a benchmark, for consistency with the threshold followed for HACT audit reports

Regional and Central Bureaux with oversight responsibilities as the “second line of defense” are required to monitor all Country Offices under their purview and ensure that measures are taken to address all issues reported within the DIM audit reports.

Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## 1. Introduction

The objective of the audits of projects directly implemented by UNDP is to provide UNDP with assurance as to the proper use of financial resources when UNDP acts as the implementing partner. This is achieved by auditing the financial statements of the projects. To ensure independence, all DIM project audits are conducted as internal audits by OAI, instead of being managed by the business units themselves.

The audits are performed annually by UNDP and are primarily financial audits. OAI may decide that the financial audit should be extended to include the review of internal controls and systems. The DIM audits are mostly conducted by audit firms engaged by and working on behalf of OAI. In some cases, OAI auditors undertake the DIM audits.

While projects directly implemented by UNDP (DIM projects) are included in the scope of Country Office audits that are conducted by OAI, the explanation for having specific project audits (DIM audits) is outlined below:

- Country Office audits performed by OAI follow a cycle that may extend up to five or six years. As projects have a limited duration, some of them may not be covered within the Country Office audit cycle.
- Over the years, there has been an increase in the use of the DIM modality across business units in UNDP; the total financial volume of projects implemented under the DIM modality exceeds in 2022 the total volume of projects implemented under the NGO/NIM modality.
- Donors of DIM projects have increasingly expressed a need for assurance in the form of project audits.

In line with the DIM audit strategy approved by the Organizational Performance Group, UNDP aims to audit, annually, a selected number of high risk and/or high expenditure projects, which cumulatively account for approximately 30 percent of UNDP's annual DIM expenditure. For this purpose, OAI has established a risk-based approach for the selection of DIM projects for audit.

## 2. Results of the DIM audits

For FY 2020, the review covered 58 DIM audit reports with total audited expenditures of \$721 million, pertaining to 58 projects and 139 outputs implemented by UNDP Country Offices and Headquarters, specifically the Bureau for Policy and Programme Support (BPPS). Of the 58 audit reports, 56 corresponded to DIM projects implemented by 37 Country Offices with total expenditures of \$714 million, and two to BPPS projects with a total of \$7 million in audited expenditures.

### Distribution of audit opinions

The external audit firms were required to certify, express an opinion and, if applicable, quantify the net financial misstatement (NFM) on the financial statements, which included:

- (a) the Combined Delivery Report (CDR) and the accompanying Funds Utilization statement for the period 1 January through 31 December 2020;
- (b) the statement of cash as of 31 December 2020, applicable when the project holds a dedicated bank account); and
- (c) the statement of fixed assets as of 31 December 2020, when assets are held by the project.

The audits were conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

A total of 50 out of 58 DIM projects audited (86 percent) received an unmodified opinion on both the statements of expenditures and assets, and 7 projects received modified opinions on the statement of expenditures, and 1 project received a modified opinion on the statement of assets.

The projects with modified opinions on the statement of expenditures (CDR) were implemented by Country Offices in Iraq, India, Madagascar, Niger and Cote d'Ivoire (See Annex 1). Out of the seven projects with modified opinions, six projects received qualified opinions and one project received an adverse opinion on the statement of expenditures.

The net financial impact of the modified opinions resulted in the overstatement of expenses on the CDRs totalled \$35.3 million, representing a Net Financial Misstatement of 4.9 percent of the audited expenditures. For OAI, a Net Financial Misstatement of 1.5<sup>2</sup> percent or greater requires Management's attention as this negatively impacts the accuracy of UNDP's project financial information.

The modified audit opinions on the statement of expenditure (CDR) were mainly due to (a) expenditure recorded incorrectly (5 projects), and expenditures not eligible (two projects).

The most significant financial misstatements were as follows:

- A project implemented by UNDP Madagascar (Project 126918) resulted in an adverse opinion with an NFM of \$1.0 million due to expenses not corresponding to the activities of the project. The resulting financial impact was 71 percent of this project's expenditures that was directly incurred by the Office for FY 2020.
- A project implemented by UNDP Iraq (Project 89459), with an overstatement of expenditures totalling \$28.3 million. This overstatement resulted from incorrectly recording expenses incurred in 2019 in 2020.
- A project implemented by UNDP India (98752) resulted in a net financial misstatement of \$3.9 million, due to the recording of expenditures related to another project.

Out of 24 projects whose assets were audited, 1 project implemented by UNDP Nigeria received an adverse opinion with a net financial impact of \$11,343. The adverse opinion on the statement of assets resulted from incorrect asset information entered in Atlas (enterprise resource planning system of UNDP).

Table 1: The distribution of the NFM on the CDR and assets by region

Region	NFM from qualified opinion on CDR (\$)	NFM from adverse opinion on CDR (\$)	Total NFM on the CDR (\$)	NFM from adverse opinion on assets (\$)
RBA	1,339,407	996,325	2,335,732	11,343
RBAP	3,921,829	-	3,921,829	
RBAS	29,015,616	-	29,015,616	
	<b>34,276,852</b>	<b>996,325</b>	<b>35,273,177</b>	<b>11,343</b>

#### Audit observations and recommendations

Auditors were required to include, in a management letter, the internal control weaknesses noted. The management letter included the audit observations and recommendations, and their risk severity classified

<sup>2</sup> Ibid.

by audit area.

Table 2: Number of observations and the corresponding recommendation rating per region

Region	Recommendation Rating		
	High	Medium	Total
RBA	7	11	18
RBAP	3	0	3
RBAS	0	3	3
RBEC	0	3	3
RBLAC	0	5	5
BPPS	0	2	2
Total	10	24	34

The audit reports contained 34 observations and recommendations. The distribution of the audit observations by risk severity and by audit area were as follows:

- Risk severity: The reportable audit observations were classified as high and medium. 10 of the audit observations (29 percent) were categorized as high priority, and 24 (71 percent) were categorized as medium priority.
- Audit areas: The distribution by audit area was as follows:

Table 3: Distribution by audit area and risk severity for the 34 audit observations and recommendations

Risk severity	High risk	Medium risk
Financial Management	6	10
Procurement of Goods and/or Services	2	3
Human Resources Selection & Administration	-	2
Management and Use of Equipment/Inventory	1	2
Project Progress and Rate of Delivery	1	7

Three areas, namely (a) financial management, (b) procurement of goods/services, and (c) project progress and rate of delivery accounted for 29 audit observations or 85 percent of the total audit observations.

The financial management observations related to: (a) inaccurate presentation of expenditures in the statement of expenditures (CDR) (seven instances); (b) expenditures charged twice (two instances); and (c) non-compliance with contractual terms (two instances).

Of the 34 recommendations, 28 (or 82.3 percent) were implemented at the time of this review. The remaining 6 recommendations were not implemented of which two were rated high priority.

### 3. Implementation of prior year audit recommendations

All prior year recommendations from audits conducted in 2020 were implemented.

### 4. Conclusion and recommendations

The net financial impact of the modified opinions resulted in the overstatement of expenses on the CDRs of \$35.3 million equivalent to a Net Financial Misstatement of 4.9 percent of the total audited

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expenditures. For OAI, a Net Financial Misstatement of 1.5<sup>3</sup> percent or greater requires Management's attention as this negatively impacts the accuracy of UNDP's project financial information.

OAI noted that the majority of the recommendations had been addressed at the time of this review. However, reiterates the importance for the responsible offices to timely implement the remaining audit recommendations.

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 reported within the DIM audit reports.

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<sup>3</sup> Ibid



## Annex 1

### Project expenditures with modified<sup>4</sup> opinions

Region	Country Office	Project	Output(s)	Audited Expenditure	Opinion Type	NFM	Reason for NFM
RBAS	Iraq	89459-Funding Facility for Stabilization	95684	\$195,795,722	Qualified	\$28,270,379	Expenses not recorded in the correct accounting period
RBAS	Iraq	85156-Iraq Crisis Response and Resilience Programme	105112	\$4,969,547	Qualified	\$616,302	Expenses not recorded in the correct accounting period
RBAS	Iraq	115890-Support to Security & Justice	113282	\$3,502,399	Qualified	\$128,935	Expenses not recorded in the correct accounting period
RBAP	India	98752-Improving Efficiency of Vaccination Systems	101970	\$9,182,471	Qualified	\$3,921,829	Expenditures recorded were related to another project
RBA	Madagascar	126918-Appui Systeme Sante COVID-19	120844	\$1,410,756	Adverse	\$996,325	Expenses not corresponding to activities defined in project output and budget
RBA	Niger	125389-Processus Electoral 2020-2021	119773	\$6,054,492	Qualified	\$422,218	Advance recorded as expenditure (\$404,803), and double payment to a responsible party (\$17,414)
RBA	Cote d'Ivoire	124498-Appui aux Elections en CI	119409	\$4,743,440	Qualified	\$917,189	Prepayment recorded as expense (\$910,565), and assets recorded as expense (\$6,624)

<sup>4</sup> In addition to the modified opinions on the statement of expenditure, one project received an adverse opinion on the statement of assets, with an NFM of \$11,343.