



AUDIT

OF

UNDP PHILIPPINES

Support to Peacebuilding and Normalization Programme
(Directly Implemented Project No. 107421, Output No. 107729)

Report No. 2106

Issue Date: 20 August 2019

**Report on the Audit of UNDP Philippines
Support to Peacebuilding and Normalization Programme
(Project No. 107421, Output No. 107729)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through BDO LLP (the audit firm), from 13 to 23 May 2019, conducted an audit of Support to Peacebuilding and Normalization Programme (Project No. 107421, Output No. 107729) (the Project), which is directly implemented and managed by the UNDP Country Office in Philippines (the Office). This was the first audit of the Project.

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 2018 and the accompanying Funds Utilization statement¹ as of 31 December 2018. 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). 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*.

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenses*	
Amount (in \$ '000)	Opinion
1,203	Unmodified

*Expenses recorded in the Combined Delivery Report were \$2,024,223.88. Excluded from the audit scope were transactions that relate to expenses processed and approved by other UNDP offices outside of the country (\$28,547.26). Also excluded were expenses incurred at the “responsible party” level (\$792,590.52)

Key recommendations: Total = 2, high priority = 2

The two recommendations aim to (a) ensure the reliability and integrity of financial and operational information (Recommendation 1) and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2).

For high (critical) priority recommendations, 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. Both high (critical) priority recommendations are presented 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.

Outstanding responsible party advances (Issue 1)

Significant advances (\$2,573,284.25) were paid to responsible parties by the Project during the implementation period on signing the Responsible Party Agreements; however, despite not being fully utilised by the responsible parties, the outstanding amounts had not been returned beyond the due date provided by the agreements.

Recommendation: The Office should request that the unutilised advances are returned from the responsible parties, in line with the Responsible Party Agreement. Where there are difficulties in requesting the return of these funds, the donor should be made aware and involved in the process. Advances to responsible parties should be made for required amounts of cash in smaller batches, to limit the balance of funds held by the responsible parties.

Inadequate due diligence of responsible parties (Issue 2)

Adequate due diligence was not performed on responsible parties including missing micro-assessments, requests for information, capacity assessment checklists and risk analysis.

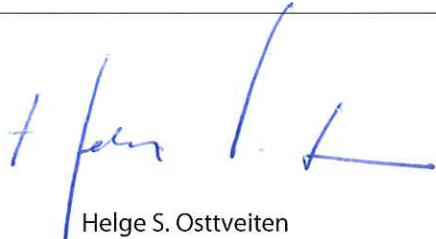
Recommendation: The Office should perform adequate due diligence on all responsible parties prior to their selection.

Project management should perform a Capacity Assessment Checklist (CACHE) of responsible parties as part of the due diligence procedures. Only partners meeting the minimum capacity assessment requirements as detailed in the 'UNDP Programme and Operations Policies and Procedures' should be selected.

Project management should also perform risk assessments as part of the due diligence process. Risk mitigation strategies should be designed and implemented during the process of selection. All due diligence procedures performed on both selected and rejected responsible parties should be kept on file for documentation purposes.

Management comments and action plan

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



Helge S. Ostveiten
Director
Office of Audit and Investigations