



AUDIT

OF

UNDP NIGERIA

INTEGRATED COMMUNITY STABILIZATION
(Directly Implemented Project No. 108936, Output No. 108476)

Report No. 2275

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Report on the Audit of UNDP Nigeria Integrated Community Stabilization (Project No. 108936, Output No. 108476) Executive Summary

The UNDP Office of Audit and Investigations (OAI), through KPMG SA (the audit firm), from 25 June to 16 July 2020, conducted an audit of Integrated Community Stabilization, Project No. 108936, Integrated Community Recovery and Resilience in Borno State: EU, Output No. 108476 (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 firm conducted a financial audit in accordance with the International Standards of Auditing (ISA) 700 series, to express an opinion on whether the project financial position presents 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 2019 and the accompanying Funds Utilization statement¹ as of 31 December 2019 as well as Statement of Assets as of 31 December 2019. 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 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* | | | Project Assets | |
|------------------------|---------|-----------------------|------------------------|------------|
| Amount (in \$ '000) | Opinion | NFM** (in \$ '000) | Amount (in \$ '000) | Opinion |
| 4,645 | Adverse | 374 | 12 | Unmodified |

**Expenses recorded in the Combined Delivery Report were \$5,957,032. Excluded from the audit scope were transactions that relate to expenses processed and approved by entities other than the UNDP Country Office (\$1,312,489).*

***NFM= Net Financial Misstatement*

The audit firm issued an adverse opinion on project expenses due to milestone payments for the construction and building of school classrooms and hospitals that were incurred in FY2018 but recognized on the FY2019 statement. The resulting impact was a material overstatement in the amount of \$373,724.57 that represented approximately 8 percent of statement expenditures directly incurred by the UNDP Country Office in Nigeria as at 31 December 2019.

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.

Key recommendation: Total = **1**, high priority = **1**

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

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. The high (critical) priority recommendation is presented below:

Inaccurate presentation of the statement of expenditures (cutoff of expenditures) (Issue 1)

The audit identified transactions relating to milestone payments for construction and building of school classrooms and hospitals that were incurred in 2018 but recognized on the FY2019 Combined Delivery Report as expenses. The resulting impact was a material overstatement of the Combined Delivery Report in the amount of \$373,724.57 that represented approximately 8 percent of the statement of expenditures as at 31 December 2019. The issue above primarily arose as a result of inter-project transfers whereby the project under audit (108476) lacked sufficient funds to pay for the construction costs in 2018 and as such, these costs were temporarily charged to another project (110175). Management subsequently reversed the transactions to the relevant project (108476); however, the reversal was effected to the FY2019 period rather than to FY2018 when the costs were incurred. Further analysis of similar transactions in the general ledger also revealed instances of inter-project transfers between the projects above, where costs incurred in FY2018 were inadvertently booked to the FY2019 period resulting in further reversals in FY2020.

Recommendation: Country Office management should put in place robust control processes that ensure all expenses recorded in the Combined Delivery Report relate to the reporting period. Specifically, the Country Office should also:

- (a) Issue a directive to all staff to avoid cross financing of project expenses or transfer of funds between projects.
- (b) Formulate a budget override policy for short-term project deficits occurring due to special circumstances in the office. Such a budget override policy should be aligned to the requirements and limitations of the UNDP Internal Control Framework.
- (c) Initiate a process whereby communications between project managers and the finance team occur prior to each year-end closing, to facilitate timely review and approval of expenditures in Atlas for the given year and ensure only expenditures for which the services or goods were received are recorded in the project's statement of expenditures in Atlas.

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.

Brett Simpson
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