



AUDIT

OF

MOZAMBIQUE RECOVERY FACILITY
(Directly Implemented Project No. 121665, Output No. 117637)

IN

UNDP MOZAMBIQUE

Report No. 2539
Issue Date: 13 September 2022

**Report on the Audit of Mozambique Recovery Facility
(Project No. 121665, Output No. 117637)
Implemented by UNDP Mozambique
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through BDO LLP (the audit firm), from 23 May to 10 June 2022, conducted an audit of ‘Mozambique Recovery Facility’ (Project No. 121665), ‘Housing and Community Infrastructure’ (Output No. 117637) (the Project), which is directly implemented and managed by the UNDP Country Office in Mozambique. This was the first audit of the Project.

The audit firm conducted a financial audit in accordance with the International Standards of Auditing (ISA), the 700 series, 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 (CDR), which includes expenses for the period from 1 January to 31 December 2021 and the accompanying Funds Utilization statement¹ as of 31 December 2021 as well as Statement of Assets as of 31 December 2021. 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 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).

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	NFM (in \$ ‘000)
3,797	Unmodified	(4)	88	Qualified	(46)

*Expenses recorded in the CDR were \$8,345,220. Excluded from the audit scope were transactions that relate to expenses processed and approved by other UNDP offices outside of the country (\$425,357). Also excluded were expenses incurred at the “responsible party” level (\$4,123,288), which were subject to a separate audit conducted by external auditors that resulted in an unmodified opinion. The total amount excluded from the audit scope was \$4,548,645.

**There was a Net Financial Misstatement (NFM) of \$4,045 but it did not affect the audit opinion as it was not financially material.

The audit firm qualified its opinion on project assets due to import duties not being added to the cost of two vehicles, as well as the incorrect recording of their in-service dates, which further affected the depreciation charges of the two vehicles. The resulting financial impact was a material understatement of

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.

the total net value of the project assets in the Statement of Assets as of 31 December 2021 in the amount of \$46,316.37, that represented 52.7 percent of the total project assets. This also resulted in a net financial impact of \$4,045 on the CDR due to the corresponding adjustments in the depreciation charges in 2021.

Key recommendations: Total = 4, high priority = 1

There were three medium (important) priority recommendations. These recommendations include actions to address the risk of purchasing goods and services without proper approval and authorization by creating purchase orders prior to the requisition of the goods and services, and after the receipt of invoices.

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	1	High
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3, 4	Medium

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:

Import duties not added to the cost of fixed assets and incorrect in-service dates applied (Issue 1)

The import duties of two vehicles totalling \$48,544 were expensed in 2020, instead of being capitalized as part of the asset costs. In addition, the invoice date was recorded as the asset in-service date, instead of recording the date in which the two vehicles became available for use. As a result, the assets total net book value as of 31 December 2021 was understated by \$46,316 and the accumulated depreciation amount fell short of \$2,228, including the 2021 depreciation charges of \$4,045.

Recommendation: The Office should add the import duties to the acquisition cost of the two project assets, correct the in-service dates, and make adjustments to the depreciation charges.

Management comments and action plan

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

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