

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



CONSOLIDATED REPORT

**ON AUDITS OF PROJECTS DIRECTLY IMPLEMENTED BY UNDP FOR FISCAL YEAR
2021**

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**Consolidated Report
on Audits of Projects Directly Implemented by UNDP for Fiscal Year 2021
Executive Summary**

In October 2022, the Office of Audit and Investigations (OAI) conducted a review and analysis of the audit reports of projects directly implemented (DIM) by UNDP for fiscal year (FY) 2021. The review aimed at (a) analyzing the distribution of the audit opinions; (b) identifying common audit issues and trends; and (c) determining the implementation of the prior year's audit recommendations.

The DIM audits were undertaken in 2022 on project expenditures incurred in FY 2021. The objective of these DIM 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 DIM audits.

The DIM audits were primarily financial audits that aimed at expressing an opinion on the DIM projects' financial position. In some instances, the audit scope also covered the review of internal controls and systems of these DIM projects. For these audits the auditors also issued a rating about the quality of the internal controls, ref Annex 5 for details.

This review covered 54 DIM audit reports for FY 2021 with total audited expenditures of \$694.4 million, which comprised 54 projects directly implemented by 33 UNDP Country Offices.

Results of the review

Out of the 54 DIM audit reports issued, 37 reports were financial audits, and 15 reports also included a review of the internal controls. The remaining two reports were internal control audits, and thus, did not provide an audit opinion related to the financial statements.

Out of the 17 audits with internal control reviews, 14 (82 percent) were rated 'fully satisfactory', 2 (12 percent) were rated 'satisfactory/some improvement needed', and 1 (6 percent) was rated 'partially satisfactory/major improvement needed'.

Out of the 52 DIM financial audit reports issued, auditors provided unmodified opinions on the financial statements of 43 projects and modified opinions on the financial statements of 9 projects. Modified opinions were provided on the statement of expenditures (CDR) for seven projects and on the statement of fixed assets for three projects. One project received a modified opinion on both the statement of expenditures and the statement of fixed assets.


Out of the 54 DIM audit reports issued, 7 DIM projects were related to the COVID-19 pandemic with total audited expenditures of \$50.2 million. One of these projects, with DIM audited expenditures totalling \$3.5 million, received a qualified opinion on the statement of expenditures.

The net financial impact of the modified opinions resulted in an overstatement of expenses on the CDRs of \$22.9 million, representing 3 percent of total DIM audited expenditures and 1 percent of total DIM projects' expenditures for FY 2021. For OAI, a net financial misstatement (NFM) of 1.5¹ percent or greater requires management's attention to take remedial actions or enhance relevant controls as this negatively impacts the accuracy of UNDP's project financial information.

¹ A materiality threshold of 1.5 percent NFM is used as a benchmark (of audited project expenditures), for consistency with the threshold followed for HACT audit reports.

The auditors raised a total of 34 audit observations; 24 audit observations were related to 11 financial audits and 10 audit observations were related to 3 extended financial audits. The audit observations were mainly in two functional areas: financial management, and management and use of equipment/inventory. The area of financial management, which had seven high priority audit observations mainly related to (a) expenditures recorded in the incorrect accounting period; (b) salaries paid and recorded incorrectly; (c) unjustified charges on the delivery enabling service fees; (d) cost of assets not capitalized but recorded as project expenditures; (e) expenditures without adequate documentation or proper justification; and (f) UN agencies expenses recorded as UNDP expenses.

OAI issued an audit rating of the FY 2021 DIM audit exercise as **satisfactory/some improvement needed**, which means “The assessed governance arrangements, risk management practices and controls were 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 was primarily because of the volume of Net Financial Misstatement noted, indicating control weaknesses in preparation and management of project financial statements.

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Helge S. Ostveiten
Director
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