TERMS OF REFERENCE FOR NIM / HACT FINANCIAL AUDITS

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INTRODUCTION

Throughout this document, the term "implementing partner" is used to refer to the institution designated to manage the project. Where the project is nationally implemented (NIM), this will refer to a government institution. Where the project is NGO executed, this will refer to an NGO. The term "government coordinating authority" refers to the government institution, which is the official UNDP counterpart.

This TOR highlights requirements in the audit services required as well as areas to be covered in the audit report and management letter, as follows:

- Auditors must certify, express an opinion, and quantify the Net Financial Misstatement (NFM) on each of the following:

  (i) UNDP Statement of Expenses - the **Combined Delivery Report (CDR)** - for the period 1 January to 31 December 2023
  (ii) Statement of Cash Position reported by the project as at 31 December 2023
  (iii) Statement of Assets and Equipment as at 31 December 2023

- Auditors must indicate the risks associated with their findings and provide a categorization by risk:
  High, Medium, or Low.

- Auditors must provide the monetary value of the NFM of the qualification if the audit opinion on the CDR is Qualified, Adverse or Disclaimer.

Follow-up to resolve Audit Observations

1. The United Nations Board of Auditors (UN BoA) has commented on the NGO/NIM audit results and the cases where they noted a lack of conclusive actions to properly address an audit qualification in the previous year audit and the related NFM. They also commented on the recurrence of the same significant audit issues in the same projects without being duly resolved. This is unacceptable and UNDP offices must ensure adequate and direct action is taken to prevent the same deficiencies from recurring in the future. If further guidance is needed, UNDP offices should contact OAI, Special Assignments Section or the respective OAI Regional Audit Centre.

A Critical Audit Requirement

2. Following the International Standards on Auditing (ISA 450 and ISA 710), there is a requirement regarding a previous year modified audit opinion.[1] This audit standard requires that auditors, when expressing an opinion on this year's statements, take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

3. Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years that would lead the UN BoA to issue a modified audit opinion on UNDP financial statements. (Refer to Annex 5)

4. UNDP offices must ensure the audit services are adequately covered as specified in the present TOR and CDRs are duly certified by the implementing partners and auditors and signed by UNDP CO management and attached to the audit reports; the same applies for the Statement of Cash Position (cash and bank balances of the project) and Statement of Assets and Equipment. If the project does not hold any assets or equipment or there is no cash at hand or bank account, the auditors must clearly indicate this in the opinion page and certify it.

[1] A "modified" audit opinion means either a qualified opinion, a disclaimer of opinion or an adverse opinion.

Annex 1	provides the audit services required and standard scope of audit.
Annex 2	describes the qualifications of an auditor and may help in the process of selecting auditors.
Annex 3	is a sample audit report that needs to be submitted by the auditor (ISA 705, 706). A management letter needs to be attached to the audit report.
Annex 4	provides a definition of audit opinions (ISA 700).
Annex 5	provides guidance on Reporting Prior Year Modified opinion not corrected (ISA 450 and 710).
Annex 6	defines the three risk categories of audit observations and recommendations.
Annex 7	provides a template sample of certified prior year updated action plan that needs to be uploaded in CARDS.
Annex 8	provides a template for audit data and observations that auditors need to submit, and the CO copy paste in CARDS the information.
Annex 9	provides guidance on formulating audit observations and recommendations.
Annex 10	provides guidance on Audit Materiality (ISA 320 and 450).

A. Background

The Country Program Document relating to the Cooperation cycle covering the period 2023 – 2027, agreed between the Joint Office of UNDP, UNFPA, and UNICEF, and the Government of Cabo Verde was approved in February 2023 by the Executive Committees of the three agencies, which headquartered in New York. This Programming document, whose objectives and expected results derive greatly from the UNDSCF 2023 – 2027, signed in October 2022 between the Agencies of the United Nations System and the Government of Cabo Verde, is in perfect alignment with clearly identified national priorities. in the Strategic Sustainable Development Plan 2022 - 2026 (PEDS) and in the Government Program for this legislature. It is also in line with the Sustainable Development Goals, the 2030 agenda, and naturally with the priorities of the three agencies of the Joint Office expressly identified in the respective Strategic Plans for the period 2022 – 2025.

The Framework Cooperation Program 2023 – 2027 expresses the strong commitment of the three agencies to support the country in its development efforts through the adoption of policies and strategies aimed at strengthening human capital, drastic reduction of poverty and inequalities, promoting inclusive economic growth, as well as strengthening resilience to face climate hazards. To do this, the three agencies undertake to make their contributions to the country by (i) improving the conditions of access of populations, particularly the most vulnerable, to education and health services, in (ii) the management of natural resources and biodiversity, in (iii) the promotion of sustainable and inclusive economic development and finally, in (iii) the strengthening of democratic governance.

The Joint Office of UNDP, UNFPA, and UNICEF has a common organizational structure and Country Program that reflects the mandates of the three agencies and uses programmatic and financial project management mechanisms aligned with adopted HACT standards, rules, and procedures by the three agencies. Indeed, it is important to emphasize that the Joint Office of UNDP, UNFPA, and UNICEF in Cabo Verde has been a "HACT Compliant" Office since 2006 and scrupulously follows the principles, rules and procedures established in the HACT procedure manuals. Thus, macro-evaluation and micro-evaluation exercises are carried out at the start of each programming cycle and annually the HACT Assurance Plans, setting out spot check visits, programmatic visits and financial and internal control audits, are established and implemented during the year.

The HACT framework was first adopted in 2005 by UNDP, UNICEF, UNFPA and WFP, in accordance with United Nations General Assembly resolution 56/201 on the triennial review of operational activities development of the United Nations system. The HACT framework provides a common (harmonized) operational framework for the provision of cash to governmental or non-governmental implementing partners, whether or not those partners work with one or more UN agencies. The objective of the HACT framework is to promote closer alignment of development assistance with national priorities and to strengthen national management and accountability capacities, with the aim of gradually moving to national systems. It is understood that the term "harmonized" in the context of the HACT framework refers to agencies implementing a common operational framework using an identical, uniform and standardized approach and tools. The HACT framework represents a shift from cash transfer assurances resulting from project-level controls and audits to a method of assurance arising from risk/systems-based assessments and audits.

It is therefore in the context described above and with a view to assessing the accuracy of financial documents and internal controls of some IP 's, that the Joint Office of UNDP, UNFPA and UNICEF in Cabo Verde is considering mobilizing the technical assistance of an audit firm appropriate for the conduct of financial audits.

TOR is directed to the audit of UNDP financial statements, which are referred to as Combined Delivery Reports (CDR).

The following Implementing Partners are included in the FY2023 audit plan (expenses in USD):

#	Implementing Partner	Project Number and Title	Output Number	FY2023 Expenses
1	DNP	117842	114909	385,000
2	MS	117737	00114510;00114511;00114512;00114513	738,000
3	ME	117736	00115508;00114509;00131673	435,000
4	ICCA	117739	114514	309,000
5	DNA	00115101	112856	725,000
6	MFDIS	103657	114803	135,000
7	MJ	132546	132965	85,000

B. Project Management

Implementing Partner (IP)	Amount to be audited	Project number	Output number	Project Contact Information
DNP	385,000	117842	114909	
MS	738,000	117737	00114510;00114511;00114512;00114513	
ME	435,000	117736	00115508;00114509;00131673	
ICCA	309,000	117739	114514	
DNA	725,000	00115101	112856	
MFDIS	135,000	103657	114803	
MJ	85,000	132546	132965	

C. Consultations with concerned parties

Prior to the start of audit work the auditor will be required to consult with the UNDP office, the government counterpart, and the implementing partner for each project. Further, upon completion of the draft audit report and management letter, the auditor will be required to meet with the UNDP office and the government entity coordinating authority to debrief them on its major findings from the audit and its recommendations for future improvements as well as to seek their feedback thereon.

D. Description of Financial Reports (UNDP CDR) to be audited

Description of the Combined Delivery Report and Supporting Schedules

The report to be audited is referred to as the Combined Delivery Report (CDR). This report is prepared by UNDP, using an in-house accounting software package called Quantum. The CDR serves as the official financial statement that must be certified by the auditors. Project financial statements, if certified, **must** reconcile to the expenses appearing in the CDR and **must** be attached to the audit report. As described in more detail below, the CDR combines expenses from three disbursement sources for a calendar year. Refer to the section below on changes to the CDR since the adoption of the International Public Sector Accounting Standards (IPSAS) by UNDP effective 1 January 2012. The three disbursement sources include:

1. *Implementing partner (either Government or NGO)*

   UNDP procedures require that where funds are advanced to the executing agency, the agency must submit to the UNDP office, on a quarterly basis, a financial report including: (1) the status of the advance; (2) a list of the disbursements made since the previous financial report; and (3) a request for a new advance. The UNDP office enters the disbursements in ATLAS through the year as the financial reports are received. These implementing partner disbursements are recorded in the *Government* expenses column in the CDR.

2. *UNDP (country offices, headquarters units, regional hubs, etc.)*

Disbursements made by UNDP from its own bank accounts are entered in ATLAS by the UNDP office. These UNDP disbursements are recorded in the *UNDP* expense column in the CDR. These disbursements may be classified as either *direct payments* or *UNDP support services*. This distinction, while very important for audit purposes, is not apparent from the CDR and can only be provided by the UNDP office as a supporting schedule. A brief description of each category is provided below.

a) Direct Payments - This is where the implementing partner is responsible for the expenses but requested UNDP to effect payment to the vendor/consultant on its behalf. The implementing partner is accountable for the disbursement and maintains all supporting documentation.
UNDP simply effects payments on the basis of properly authorized requests and gives the implementing partner a copy of the related disbursement voucher as evidence that payment was made.

b) UNDP Support Services - This is where the government and UNDP have agreed that UNDP will provide support services to the project and signed a Letter of Agreement. These support services must be described in the Letter of Agreement (LOA). UNDP is fully responsible and accountable for these expenses and, accordingly, maintains all supporting documentation for the disbursement. These expenses are outside the scope of audit and, therefore, will not be reviewed by the auditors. This scope limitation should not be used as a reason for issuing a qualified audit opinion on the CDR. Where there is no signed Letter of Agreement for UNDP Support Services or a Country Programme Action Plan (CPAP) with the respective clauses of the LOA for UNDP Support Services, the audit should also cover the UNDP expenses under CO support.

3. *UN agencies*

The UN agency reports its expenses to UNDP and to the government. The UNDP office enters the expenses in Quantum. These UN agency expenses are recorded in the UN agencies expense column in the CDR. Note: Any expenses under this column are outside the auditors' scope of audit. UN entities are audited under their own audit arrangement, following the 'Single Audit' principle and are not covered by UNDP's audit regime.

At the end of the year, after receiving the fourth quarter financial report from the implementing partner and the year-end expense report from the UN agency, UNDP prepares the CDR and submits it to the implementing partner for signature. UNDP will provide the auditor with the signed CDR together with the following supporting documentation.

1. The quarterly financial reports submitted by the implementing partner.
2. A list of the direct payments processed by UNDP at the request of the implementing partner.
3. A list of the disbursement made by UNDP as part of support services provided to the implementing partner.
4. The UN agency expenses statement for the year.
5. Relevant financial reports that show the expenses of Global Fund sub-recipients for the year which need to be reconciled to the CDR expenses.
6. Letter of Agreement for UNDP support services signed between UNDP and the Government (or CPAP with relevant clauses regarding UNDP support services).
7. Relevant financial reports that show expenses of UNDP CO support, if there is no Letter of Agreement.

Note: With the adoption of the International Public Sector Accounting Standards (IPSAS) by UNDP effective 1 January 2012, the CDR is now prepared in two sections; the first section containing the total expense information as explained above (by Implementing Partner, UNDP and UN Agencies) and the second section showing the following information:

- Outstanding NEX advances
- Un-depreciated Fixed Assets
- Inventory

- Prepayments
- Commitments

In addition to the verification of the total project expense reflected in the CDR, the auditors will be responsible for validating certain areas of the information appearing in the Funds Control section of the CDR as shown above.

Outstanding NEX advances – If there is an amount appearing under this category, the auditors should reconcile it to the cash at hand at the project level. In principle, this amount should represent the balance of any advances transferred to the implementing partner minus the total expenses reported in the quarterly financial reports submitted by the implementing partner to UNDP.

Un-depreciated Fixed Assets – There could be cases where fixed assets that belong to or are used by the project are under UNDP's control (i.e. in situations where UNDP is providing support services to the project and there is no signed Letter of Agreement, as an example). If there is an amount appearing on the CDR under this category, the auditors should investigate and determine that these assets are project related or not and, if project related, should perform the same audit procedures to validate the assets as those undertaken for the certification of the Statement of Assets and Equipment. Please refer to the Programme and Operations Policies and Procedures (POPP) section on "Administrative Services/Asset Management/Property Plan and Equipment/Furniture and Equipment Acquisition and Maintenance" for information regarding the custody/control/ownership of assets.

Inventory – Similar to the case of Un-depreciated Fixed Assets, there may be situations where certain items of inventory that were acquired for the project are temporarily under UNDP's control/custody. If there is an amount under this category, the auditors should determine the nature of the inventory and whether it is intended for the project. If it is determined that the inventory is project related, then the same audit procedures fort the certification of the Statement of Assets and Equipment should be applied. Please refer to the aforementioned section of the POPP on asset management as well as the section on "Financial Resources/Inventory Management" for additional guidance as necessary.

Prepayments – The auditors should validate any amount appearing under this category, i.e. determine what it represents and if it is in any way project related.

Commitments – Any amounts appearing under this category would be provided for informational purposes only and, therefore, the auditors would not be required to undertake any audit procedures related to the verification or validation of same.

E. Audit Services Required

The scope of the audit services required is the following:

- An entity that is subject to audit is the project office whether located within a government department or in a separate location.
- The audit will be carried out in accordance with either ISA[2] or INTOSAI[3] auditing standards.
- The audit period is 1 January to 31 December of the year 2023.
- The scope of the audit is limited to the implementing partner expenses, which are defined as including: (1) all disbursements listed in the quarterly financial reports submitted by the implementing partner; and (2) the direct payments processed by UNDP at the request of the implementing partner.
- The auditor is required to verify the mathematical accuracy of the CDR by ensuring that the expenses described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the request of the government) are reconciled to the expenses, by disbursing source, in the CDR.

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[2] International Standards on Auditing (ISA) published by the International Auditing and Assurance Standards Board of the International Federation of Accountants

[3] International Organization of Supreme Audit Institutions

- The auditor is required to state in the audit report the amount of expenses excluded from the scope of the audit because they were made by UNDP as part of direct support services and the amount of total expenses excluded because they were made by a UN agency. This scope limitation is not a valid reason for the auditors to issue a qualified audit opinion on the CDR.
- The auditor is required to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.
- That the auditor is required to express an opinion as to the overall financial situation of the project for the period 1 January to 31 December 2023and will certify:

    1. The Statement of Expenses (**CDR**) for the period from 1 January to 31 December 2023;

    2. The Statement of Cash Position (cash and bank balances of the project) reported by the project as at 31 December 2023; and

    3. The Statement of Assets and Equipment held by the project as at 31 December 2023.

- The auditor is required to, as applicable, report in monetary value, the net financial misstatement of any modified audit opinion (modified opinions can be qualified, adverse, or disclaimer) on the Statement of Expenses (CDR) where applicable. This should also include prior year non-resolved NFM.

- The audit firm is required to submit a draft audit report by 30/04/2024 and a final signed audit report with signed UNDP statements by 15/05/2024.

Note: Audit opinions must be one of the following: (a) unmodified, (b) qualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than "unmodified", the audit report **must** describe both the nature and amount of the possible effects on the financial statements.

The report should also make a reference to the section of the management letter with regard to the related audit observation number and the action taken or planned to be taken to address and conclusively correct the issues underlying the qualification. A definition of audit opinions is provided in Annex 4.

F. The Audit Report

The TOR should clearly indicate the expected contents of the audit report and the topics/areas to be covered by the auditors (Refer to Annex 3 for a sample Audit Report).

1. <u>Executive Summary</u>

The audit report should contain an executive summary highlighting (a) the results of the financial audits (Net Financial Misstatement (NFM), audit opinions); (b) the findings per audit area including critical observations, significant weaknesses in internal control and areas, etc.

2. <u>Audit Engagement</u>

The audit report should clearly indicate the auditor's opinion. This would include at least the following:

- That it is a special purpose and confidential report
- The audit standards that were applied (ISAs, or national standards that comply with one of the ISAs in all material respects)
- The period covered by the audit opinion
- The amount of expenses audited
- The amount of the net financial misstatement of the modified audit opinion on the CDR, if modified
- The reason(s) resulting in the issuance of a modified audit opinion, qualified, adverse or disclaimer of opinion (the reason(s) must be also included in the management letter as an audit observation(s))

- The scope limitation (description and value) for those transactions that are the responsibility of UNDP (as part of direct CO support services to NIM) or a UN agency. Important to note: Such scope limitation should not be reason for a qualified audit opinion as such transactions would be, in general, excluded from the audit scope
- Whether the UNDP CDR - for the period from 1 January to 31 December 2023 is adequately and fairly presented and whether the disbursements are made in accordance with the purpose for which funds have been allocated to the project.

(a) A Financial Audit to express an opinion on the project's financial statements that includes:

- Expression of an opinion on whether the statement of expenses presents fairly the expense incurred by the project over a specified period in accordance with agreed upon accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of the Government or UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The CDR is the mandatory and official statement of expenses to be certified. Other forms of statement of expenses that may be prepared by a project office are not accepted.

- Whether the result of the prior year's audits resulting in modified audit opinions on the CDR had conclusive actions to properly address an audit qualification in the previous year audit and the related NFM. If there is a lack of conclusive actions, the auditors must consider the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

Note: Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years.

- Expression of an opinion on the value and existence of the project's statement of assets and equipment as at a given date. This statement must include all assets and equipment available as at 31 December 2023, and not only those purchased in a given period. Where a project does not have any assets or equipment, it will not be necessary to express such an opinion; however, this should be disclosed in the audit report.

- Express an opinion on the value and existence of the cash held by the project as at a given date, i.e. 31 December 20__. The Audit Firm is required to express and opinion on the Statement of Cash Position. Where the project does not hold any cash, this should be disclosed in the audit report.

The Financial Audit will be conducted in accordance with International Standards on Auditing (ISA).

(b) An audit to assess and express an opinion on the project's internal controls and systems.

The deliverable will be an audit report similar to a long form management letter that covers the internal control weaknesses identified and the audit recommendations to address them.

3. Management Letter

The management letter should be attached to the audit report and cover the following topics/issues:

- A general review of a project's progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document or Annual Work Plan (AWP). This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However, general compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.

- An assessment of a project's internal control system with equal emphasis on: (i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project; and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.

- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.

The audit of internal controls and systems will be conducted in accordance with the International Standards on Auditing (ISA).

The management letter should also include the following:

- Audit observations/recommendations (guidelines in Annex 9)

- The categorization of audit observations by risk severity: High, Medium, or Low. Definitions of these categories are given in Annex 6.

- Management comments/response to audit observations and recommendations (project management and/or UNDP, as applicable).

- Indication of observations that affect the audit opinion (when qualified, adverse or disclaimer of opinion is given).

More detailed guidance for the above general categories is provided below.

Review of project progress

As part of the general review of project progress, specific steps could include the following:

- Review annual and quarterly work plans, quarterly and annual financial reports, and requests for direct payments and assess in terms of their timeliness and their compliance with the project document or the AWP, and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management.

- Review the annual project report prepared by the implementing partner and assess in terms of compliance with UNDP guidelines and whether the implementing partner met its responsibilities for monitoring described in the project document or AWP.

- Review whether the decisions and/or recommendations of the above activities have been followed through by the implementing partner.

- Review the pace of project progress and comment on the causes for delays.

- Comment on whether implementation services of the UN Agency were provided in line with the project document or AWP.

Assessment of internal control

The auditor is required to conduct a general assessment of internal controls according to established internal control standards. An example of established internal control standards and further information is available on the INTOSAI site www.intosai.org *(Guidelines for Internal Control Standards)*. The INTOSAI standards are intended for use by government managers as a framework to establish effective internal control structures.

In addition to the above general assessment, additional specific steps should include the following:

- Review the expenses made by the implementing partner and assess whether they are in accordance with the project document, AWP and budgets; and are in compliance with the UNDP POPP on Results and Accountability.

- Review the process for procurement/contracting activities and assess whether it was transparent and competitive.
- Review the use, control and disposal of non-expendable equipment and assess whether it is in compliance with UNDP POPP on Results and Accountability; and also whether the equipment procured met the identified needs and whether its use was in line with intended purposes.
- Review the process for recruiting project personnel and consultants and assess whether it was transparent and competitive.
- Review the implementing partner accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements of cash; and for supporting the preparation of the quarterly financial report.
- Review the records of requests for direct payments and ensure that they were signed by authorized government officials.

Recommendations for improvement

Recommendations should be directed to a specific entity so there is no confusion regarding who is responsible for implementation. The response of the entity should be included in the management letter, immediately following the recommendation.

Also, the auditor may wish to comment on “good practices” (if any) that were developed by the implementing partner that should be shared with other project personnel.

Available Facilities and Right of Access

The auditor will be granted full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts, etc.) and all employees of the entity. The auditor has a right of access to banks, consultants, contractors and other persons or firms engaged by the project management.

ANNEX 1: AUDIT SERVICES REQUIRED

The scope of audit services shall be in accordance with International Standards on Auditing (ISA) and cover the overall management of the project's implementation, monitoring and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenses, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas as they are performed at the level of the project:

Human resources

The audit work shall cover the competitiveness, transparency and effectiveness of the recruitment and hiring of personnel and include performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

Finance

The audit work shall cover the adequacy of the accounting and financial operations and reporting systems. These include budget control, cash management, certification and approving authority, receipt of funds, and disbursement of funds, recording of all financial transactions in expense reports, records maintenance and control.

Procurement

The audit work shall cover the competitiveness, transparency and effectiveness of the procurement activities of the project in order to ensure that the equipment and services purchased meet the requirement of either the government or UNDP and include the following:

- As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders

- Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment

- Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective

- Management and control over the variation orders

The audit work in the area of procurement shall also cover the use of consulting firms and the adequacy of procedures to obtain fully qualified and experienced personnel and assessment of their work before final payment is made.

Asset Management

The audit work shall cover equipment (typically vehicles and office equipment) purchased for use of the project. The procedures for receipt, storage, and disposal shall also be reviewed.

Cash Management

The audit work shall cover all cash funds held by the project and review procedures for safeguarding of cash.

General Administration

The audit work shall cover travel activities, vehicle management, shipping services, office premises and lease management, office communications and IT systems, and records maintenance.

Note*:* The above scope shall cover those transactions performed at the level of the project to include direct payments made by the UNDP office at the request of the project.

Scope Limitation

Transactions/actions that are performed by the UNDP office at the request and on behalf of the project (i.e. UNDP direct support services to NIM) where there is a signed Letter of Agreement (LOA) are **not** to be included in the audit scope**.**

Important note: Such scope limitation should not be a reason for issuing a modified audit opinion by the auditors. Please refer to Section D.

ANNEX 2: QUALIFICATIONS OF AN AUDITOR

FIRM PROFILE:

The Audit Firm must have experience performing financial and internal control audits (i.e., accounting, financial reporting, purchasing, travel, and internal control). The Firm must also be familiar with the United Nations System in general and its auditing procedures and regulations.

Minimum Years of Experience: 5 years of relevant experience in the field;

Other: The Audit Firm must comply with the Code of Ethics for Professional Auditors published by the International Ethics Standards Board for Auditors (the IESBA code).

The ethical principles that govern the auditor's professional responsibilities for this type of work are as follows:
a) integrity;
(b) objectivity;
(c) professional competence and awareness;
(d) confidentiality;
(e) professional behavior; It is
(f) compliance with technical standards.

Curricula Vitae of all members of the audit team must be provided to the UN agency(ies) and must include details of relevant work carried out by the team, including ongoing work indicating responsibilities undertaken by them, their qualifications and experience carrying out financial and internal control audits.

<u>KEY PERSONNEL</u>

Title: "Team leader":
Academic Background: Minimum master’s degree in accounting or financial management or CPA accredited
General Experience: Minimum of 10 years of experience in the field of auditing and verification of accounts.
Specific Experience: 5 years of experience in financial and internal control audits
Required Languages: Have oral and written communication skills and be fluent in Portuguese and English
Other: Demonstrate skills that allow you to obtain results in work under pressure

Title: “Team Member - Senior Auditor”:
Academic Background: Bachelor's degree in related field, or minimum be accredited by CPA/ACCA
General Experience: Minimum 5 years of experience conducting audits
Specific Experience: 5 years of experience in financial and internal control audits
Required Languages: Have oral and written communication skills and be fluent in Portuguese and English
Other: Demonstrate skills that allow you to obtain results in work under pressure

Title: “Team Member – Auditor”:
Academic Background: At least be accredited by the CPA / ACCA
General Experience: Minimum 5 years of experience conducting audits
Specific Experience: 3 years of experience in financial and internal control audits
Required Languages: Have oral and written communication skills and be fluent in Portuguese and knowledge of English
Other: Demonstrate skills that allow you to obtain results in work under pressure

CRITERIA FOR SELECTION OF THE BEST OFFER (Cumulative analysis)

The award of the contract will be made to the proposal that has been evaluated and determined as:

a) responsive/compliant/acceptable, and

b) Having received the highest score out of a pre-determined set of weighted technical and financial criteria specific to the solicitation.

* Technical Criteria weight; [70%]

* Financial Criteria weight; [30%]

Summary of Technical Proposal Evaluation Forms		**Score Weight**	**Points Obtainable**
1	Expertise of Firm / Profile	21%	150
2	Proposed Methodology, Approach and Implementation Plan	43%	300
3	Qualification of Personnel	36%	250
	T O T A L	**100%**	**700**

Technical Proposal Evaluation (Form 1)		
Expertise of the Firm / Organization		**Points Obtainable**
1.1	General Organizational Capability which is likely to affect implementation, Quality Assurance Procedure and Financial stability	**50**
1.2	Extent to which any work would be subcontracted (subcontracting carries additional risks which may affect project implementation, but properly done it offers a chance to access specialized skills).	**50**
1.3	Expertise / Experience of the firm and organization:	**50**
	UN experience, major multilateral or, bilateral organizations – 2.5	
	Professional experience related to the assignment – 2.5	
	S U B T O T A L	**150**

Technical Proposal Evaluation (Form 2) **Proposed Methodology, Approach and Implementation Plan**		
2.1	To what degree does the Proposer understand the task and propose a consistent methodological and approach?	**100**

2.2	Is the scope of tasks well defined and does it meet the TOR requirements?	**100**
2.3	Are the different components of the audit assignment adequately weighted relative to one another?	**50**
2.4	Is the presentation clear and is the sequence of activities and the planning logical, realistic and promise successful and efficient implementation to audit assignment?	**50**
	S U B T O T A L	**300**

Technical Proposal Evaluation (Form 3)		
Qualification of the Personnel		
3.1	**Team Leader (Audit Manager)**	
	- Academic Qualification	**30**
	- Team Leader/coordination experience	**20**
	- Relevance of competencies and Professional experience to the purpose of the audit	**30**
	- Language qualification	**20**
	Sub-total	**100**
3.2	**Senior Auditor**	
	- Academic Qualification	**20**
	- Relevance of competencies and Professional experience to the purpose of the audit	**40**
	- Language qualification	**15**
	Additional team members (for the evaluation purposes the average score of CVs will be applied.	
3.3	**Auditors**	
	- Academic Qualification	**20**
	- Relevance of competencies and Professional experience to the purpose of the audit	**40**
	- Language qualification	**15**
	Sub-total	**150**
	Total Technical Proposal Points	**250**

ANNEX 3: SAMPLE AUDIT REPORT

Independent Auditor's report to:

The National Project Director and
The Resident Representative

I. Executive Summary

___________________(audit firm name) has been engaged by UNDP _______ (country office) to conduct the audit of ___________________ (project name and number) nationally implemented by (implementing partner's name) for the year ended 20_____. We have issued audit opinions as summarized in the table below and as detailed in the next section:

Statement	Opinion * [Unmodified or Modified (i.e., Qualified/Adverse/Disclaimer)]	Reason for Modified Opinion (provide brief description and observation number)	Net Financial Misstatement (in US$)
Statement of Expenses			
Statement of Assets and Equipment			
Statement of Cash Position			

The audit findings are summarised in the table below:

Observation Number	Observation	Risk Severity (High, Medium, Low)

AUDITOR'S NAME (Please print): ____________________

AUDITOR'S SIGNATURE: ___________________________

STAMP AND SEAL OF AUDIT FIRM: ______________________

AUDIT FIRM ADDRESS: __________________________

AUDIT FIRM TEL. NO. ____________________________

II. Audit Engagement

Sample Independent Auditor's Report on Statement of Expenses (UNDP CDR)

REPORT OF THE INDEPENDENT AUDITORS TO UNDP [insert project name] (Refer to ISA 700)

We have audited the accompanying Statement of Expenses ("the statement") of the project [insert project and project number(s)], [insert official title of project] for the period [insert period covered].

Opinion

Clean Opinion: Option 1: (Unmodified)
In our opinion, the attached statement of expenses presents fairly, in all material respects, the expense of [insert amount in US$] incurred by the project [insert official title of project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add - and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Modified Opinions (Refer to ISA 705)

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the attached statement of expenses presents fairly in all material respects the expenses of [insert amount in US$] incurred by the project [insert official title of project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add: and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Option 2: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in the Basis for opinion section of our report, the statement of expenses do not present fairly the expenses of [insert amount in US$] incurred by the project [insert official title of project] for the period from [insert period covered].

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement of expenses. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of expenses of [insert amount in US$] incurred by the project [insert official title of project] and audited by us for the period from [insert period covered].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of expenses section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation and fair presentation of the statement for <name/title> project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of expenses is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of expenses, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter *[if applicable (Refer to ISA 706)]*

We draw attention to Note [X] to the accompanying statement of expenses which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

Sample Independent Auditor's Opinion on Statement of Assets and Equipment (Refer to ISA 700)

We have audited the accompanying statement of assets and equipment ("the statement") of the project number [insert project and project number(s)], [insert official title of project] as at [insert date].

Opinion

Clean Opinion: Option 1: (Unmodified)
In our opinion, the accompanying statement of assets and equipment presents fairly, in all material respects, the assets and equipment status of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Modified Opinions (Refer to ISA 705)

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of assets and equipment presents fairly, in all material respects, the balance of inventory of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Option 2: (Adverse opinion)

In our opinion, because of the significance of the matter discussed in the Basis for opinion section of our report, the accompanying statement of assets and equipment does not present fairly the assets status of the project [insert official title of the project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement assets and equipment. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of assets and equipment amounting to [insert amount in US$] as at xxxx [insert date].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of assets and equipment. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation of the statement of assets and equipment of the project, and for such internal control as management determines is necessary to enable the preparation of a statement of assets and equipment that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit

Our objectives are to obtain reasonable assurance about whether the statement of assets and equipment is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of assets and equipment, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter *[if applicable (Refer to ISA 706)]*

We draw attention to Note [X] to the accompanying statement of expenses which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

Sample Independent Auditor's Report on Statement of Cash Position (only if the implementing partner received cash advances) (Refer to ISA 700)

We have audited the accompanying statement of cash position ("the statement") of the project number [insert project and project number(s)], [insert official title of project] as at XXX.

Opinion

Clean Opinion: Option 1: (Unmodified)

In our opinion, the accompanying statement of cash position presents fairly, in all material respects, the cash and bank balance of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Modified Opinions *(Refer to ISA 705)]*

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of cash position presents fairly, in all material respects, the cash and bank balance of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 2: (Adverse opinion)

In our opinion, because of the significance of the matter discussed in the Basis for opinion section of our report, the accompanying statement of cash position does not present fairly the cash and bank balance of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement of cash position. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of cash position amounting to [insert amount in US$] as at xxxx [insert date].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of cash position section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation of the statement of cash position of the project, and for such internal control as management determines is necessary to enable the preparation of a statement of cash position that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of cash position is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of cash position, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter *[if applicable (Refer to ISA 706)]*

We draw attention to Note X to the statement of cash position which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

Note: Audit opinions must be one of the following: (a) unmodified, (b) qualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than "unmodified" the audit report must describe both the nature and amount of the possible effects on the UNDP financial statement (CDR) (Amount of qualification). A definition of audit opinions is provided in Annex 4.

III. Management Letter

(***should contain the following at a minimum – Refer to Section F, subsection 3 above***)

- Review of the effectiveness of the internal control system

- Description of specific internal control weakness noted

- Project progress & timeliness in relation to planned activities

- Audit observations/recommendations
  - Finding
  - Recommendation
  - Management comments/response to audit observations and recommendations (project management and/or UNDP, as applicable)

- Categorization of audit observations by risk severity (High, Medium, or Low)

- Indication of observations that affect the audit opinion (when qualified, adverse or disclaimer of opinion is given)

ANNEX 4: DEFINITION OF AUDIT OPINIONS

Unmodified (Clean) Opinion (ISA[4] 700)

An unmodified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.

An unmodified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

Emphasis of Matter (ISA 706)

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

An emphasis of matter is not considered a modified opinion.

Qualified Opinion (ISA 705)

The auditor expresses a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Disclaimer of opinion (ISA 705)

The auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Adverse Opinion (ISA 705)

The auditor shall express an adverse opinion when, having obtained sufficient appropriate audit evidence, s/he concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

[4] ISA = International Standards on Auditing

Annex 5: International Standards on Auditing (ISA) 450 and 710

Guidance on Reporting Prior Year Modified opinion not properly corrected or resolved

Following the International Standards on Auditing (ISA) 450 and ISA 710 that came into effect on December 2010 there is a requirement regarding a previous year modified audit opinion[5] This audit standard requires that auditors, when expressing an opinion on this year's statements, to take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years that would lead the UN BoA to issue a modified audit opinion on UNDP financial statements.

[5] A "modified" audit opinion means either a qualified opinion, a disclaimer of opinion or an adverse opinion.

ANNEX 6: Priority of Audit Observations and Recommendations

High	Prompt action is required to ensure that UNDP is not exposed to high risks, i.e. failure to take action could result in major negative consequences and issues.
Medium	Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money.

ANNEX 7 TEMPLATE FOR AUDITORS TO REVIEW AND SIGN THE UPDATED ACTION PLANS FOR PRIOR YEAR AUDIT OBSERVATIONS AND RECOMMENDATIONS

Award no.:			Output No.:			Opinion Type:						
Obs No	**Observation**	**Recommendation**	**Audit Area**	**Risk Severity**	**Proj/CO Mngt Comments**	**Action(s) Planned**	**Target Impl. Date**	**Action Unit**	**Person Responsible for Action**	**Updated Status**	**Actual Impl. Date**	**Description of Status Update**
Award no.:			**Output No.:**			**Opinion Type:**						
Obs No	**Observation**	**Recommendation**	**Audit Area**	**Risk Severity**	**Proj/CO Mngt Comments**	**Action(s) Planned**	**Target Impl. Date**	**Action Unit**	**Person Responsible for Action**	**Updated Status**	**Actual Impl. Date**	**Description of Status Update**
Award no.:			**Output No.:**			**Opinion Type:**						
Obs No	**Observation**	**Recommendation**	**Audit Area**	**Risk Severity**	**Proj/CO Mngt Comments**	**Action(s) Planned**	**Target Impl. Date**	**Action Unit**	**Person Responsible for Action**	**Updated Status**	**Actual Impl. Date**	**Description of Status Update**

Implementing Partner (IP)

Signature of IP Official: ___________________

Name and title (print): _______________________

Date: _______________

UNDP Office

Signature of UNDP Official:__________________

Name and title (print): ____________________

Date: ________________

Government Auditors/Audit Firm

Signature of Audit firm Official: _________________

Name and title (print): _________________________

Date: _______________

Stamp and Seal of audit firm: ________________

Note: The values for the "Updated Status" could be: Implemented, In Progress, Not Implemented, N/A or Withdrawn. "N/A" means not applicable and would be used if there is an overall change in a project's working environment that makes last year's audit observation no longer applicable. For example, the project has been closed. Another example for using "N/A" is a project that had its own bank account and last year' audit recommendation called for the need to perform monthly bank reconciliation. However, the following year, the auditor notes that the bank account has been closed. "Withdrawn" would be used if there is an overall change in a project's working environment that makes last year's audit observation and recommendation no longer valid. " Withdrawn" is very rarely used.

ANNEX 8: TEMPLATE FOR AUDIT DATA AND OBSERVATIONS

The information in the four tables below should be completed by the auditors and signed. The CO can obtain the electronic version of the word document and copy and paste the information in CARDS for each project/project audit report.

Table 1 - Template for auditors to report on the audit of the UNDP CDR

UNDP Combined Delivery Report (CDR) as at 31 December 20__							
1	**Project No.**	**Output No.**	**Amount audited and certified (US$)**	**Audit opinion** (unqualified, qualified, adverse, disclaimer)	**Total amount of qualification of audit opinion** (if qualified, adverse or disclaimer of opinion)	**Reason(s) for qualification** of audit opinion and breakdown of **NFM amount** (US	**Observation(s) that had impact on qualification** of audit opinion (list observation number(s) and page of audit

Table 2 - Template for auditors to report on the audit of the statement of cash position

Statement of Cash Position				
Project No.	**Output No.**	**Value of Cash Position Statement** as at 31 December 20	**Audit Opinion - Statement of Cash Position**	**Total amount of qualification -** *Statement* of Cash Position (US$)

Table 3 – Template for auditors to report on the audit of the statement of assets and equipment

Statement of assets and equipment				
Project No.	**Output No.**	**Value of assets and equipment** as at 31 December 20__ (cumulative from project start	**Audit Opinion - Statement of Assets and Equipment**	**Total amount of qualification** on the Statement of assets and equipment (US$)

Table 4 - Template for auditors to report on current year audit observations and recommendations

Project No.	Output No.	Observ. No	Audit Observation	Recommendation	Audit Area	Risk Severity	Project/CO Mngmt. Comments

Name and position of Auditor: ________________________

Signature of Auditor: ________________________________ Date: __________________________

Name and stamp of Audit Firm: _______________________

ANNEX 9: GUIDANCE OF FORMULATING AUDIT OBSERVATIONS AND RECOMMENDATIONS

The purpose of this note is to provide guidance on formulating audit observations and recommendations that are effective.

Effective audit observations should consist of four (4) common elements:

1) Condition
2) Criteria
3) Effect, potential impact or Risk
4) Recommendation

Items 1 to 3 must be part of what constitutes an audit observation. Below are helpful tips on each of these areas.

CONDITION

The "Condition" refers to a conclusion, problem, or opportunity noted during the audit review. It directly addresses a control objective or some other standard of performance. Sample condition statements include:

- ” The appropriate individual did not authorize this document."
- "The account has not been reconciled for three months."
- "The process can be streamlined to save six hours per day."

When documenting the condition, it is important to include the necessary level of detail in the description of the problem. Someone who has not participated in the audit but has some basic understanding of the subject matter or function, should be able to comprehend any condition statement.

CRITERIA

This element describes the standard being used as the benchmark for evaluation. In other words, it depicts the ideal condition. The criteria may reference a specific policy, procedure, or government regulation. At other times, the criteria may simply be a matter of common sense or prudent business practice. For example, a criteria statement might state that "Per policy #1234, all loans greater than $100,000 must be approved by the board of directors;" or "Payroll processing responsibilities should be segregated to control the authorization of master file changes."

EFFECT, POTENTIAL IMPACT OR RISK

The effect statement describes the particular risk that could exist (the potential impact or risk) or that has already existed (the effect) as a result of the condition or problem. Basically, it answers the question, "so what?" Effect statements often discuss the potential for loss, noncompliance, or customer dissatisfaction created by the problem.

Management is likely to zero in on the information provided in this aspect of the audit observation, as it allows them to see how the condition will negatively impact their activities. As a result, the effect statement often serves as the catalyst for a positive change.

One note of caution is in order - the risk suggested by the effect statement should not be overblown or exaggerated. While auditors are responsible for pointing out risks associated with control breakdowns, the effect statement should remain reasonable, plausible and should not be worded as if the world were coming to an end. If auditees are to take the audit observation seriously and respect what an auditor has to say, an auditor talks about risk in realistic, not exaggerated, terms.

Risk Levels

In addition to explaining the and giving details about the "Effect, potential impact or risk" in the text of an audit observation, UNDP requires that the auditor also identifies the risk level in the audit report by using one of the following 3 pre-established risk levels:

High	Prompt action is required to ensure that UNDP is not exposed to high risks, i.e. failure to take action could result in major negative consequences and issues.
Medium	Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money.

RECOMMENDATION

This aspect suggests how the situation might be remedied. An effective recommendation directly relates to and targets the cause. It isn't enough to state in general terms that management should fix the problem; the recommendation statement should also explain how remediation is to be achieved.

A good recommendation maintains the proper balance between the risk presented and the cost to control it. Before making a recommendation, the auditor should consider the following questions:

Does the recommendation solve the problem and eliminate or reduce the risk?

- Can the recommendation be implemented within the current environment?
- Is the recommendation cost-effective?
- Will the recommendation act as a temporary bandage or a permanent solution?

Examples of effective recommendations include monthly or quarterly physical inventories of all assets and equipment with reconciliation to appropriate records.

ADDITIONAL TIPS

Whenever possible, similar findings should be combined into one form so that the case for implementing the recommendation is strengthened.

Playing devil's advocate can be an extremely helpful exercise. After completing the audit observation and recommendation, auditors should place themselves in the auditees' shoes and challenge/question the validity of the issue. If the issue cannot stand up to this exercise, it probably should not be included in the audit report.

ANNEX 10: GUIDANCE ON AUDIT MATERIALITY (ISA 320, 450)

ISA 320

ISA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

For purposes of the ISAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

ISA 450

ISA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Each individual misstatement is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.

The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- Affects compliance with regulatory requirements;
- Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements;
- Is an omission of information not specifically required by the applicable financial reporting framework but which, in the judgment of the auditor, is important to the users' understanding of the financial position, financial performance of the entity.

The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial statements. There are different acceptable approaches to the auditor's evaluation of such uncorrected misstatements on the current period's financial statements. Using the same evaluation approach provides consistency from period to period.