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Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



1 OBJECTIVE

The objective is to give UNDP an independent audit opinion on the management and performance of the financial, operational, and project activities for projects under UNDP's National Implementation modality (NIM). The audit will be carried out by the selected firm on behalf of the UNDP's Office of Audit and Investigation (OAI).

2 BACKGROUND

UNDP is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. UNDP is on the ground in 166 countries, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and its wide range of partners.

The UNDP Rwanda Country Office is working with the Government and other partners to respond to development challenges that Rwanda and the world are facing today. All our programmes and activities in different areas of development respond to the challenges facing the country to achieve the Millennium Development Goals (MDGs), including the overarching goal of cutting poverty in half by 2015.

Our assistance framework is guided by the United National Development Assistance Plan signed between the Government and the UN Agencies in July 2013 and aligned with the priorities of the Government of Rwanda as identified in the Economic Development for Poverty Reduction Strategy II (EDPRS II) and the Vision 2020 of Rwanda. UNDP assistance is focused around 3 Key Result areas: (1) Inclusive Economic Transformation; (2) Accountable Governance; and (3) Human Development.

In addition to providing its own Core Resources, UNDP Rwanda also helps the host country to attract and use aid effectively. In addition to the areas mentioned above, UNDP Rwanda integrates in all its programmes and activities the protection of human rights, environmental sustainability, the empowerment of women and the promotion of the Information and Communication Technologies.

UNDP receives funds from donors, for which it is accountable and which it allocates to recipient countries in support of UNDP-sponsored projects aimed at achieving sustainable human development. Projects and programmes are implemented by UNDP using the following modalities: National Implementation (NIM), Direct Implementation (DIM), NGO Implementation and UN Agencies Implementation. National Implementation (NIM) is an arrangement whereby

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UNDP entrusts a national institution to undertake and manage, as Implementing Partner (IP), such projects.

List of Projects to be Audited: The list of projects to be audited will be determined each year based on the criteria set by UNDP's Office of Audit and Investigation and communicated to the selected audit firm.

3 CONSULTATIONS WITH CONCERNED PARTIES

Prior to the start of audit work, the selected audit firm will be required to consult with the UNDP country 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 country 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. The management's feedback received from both UNDP and the Government entity coordinating authority would thereafter need to be included in the management letter of the respective Award.

4 SCOPE OF WORK¹

The selected firm shall be required to conduct an audit of a report referred to as the Combined Delivery Report (CDR) for all NIM Projects. This report is prepared by UNDP, using an in-house accounting software package called ATLAS. 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 expenditures from three disbursement sources for a calendar year. The three disbursement sources include:

1. Implementing partner (either Government or NGO):

UNDP procedures require that where funds are advanced to the implementing partner, the implementing partner must submit to the UNDP country 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 country office enters the disbursements in ATLAS throughout the year as the financial reports are received. These implementing partner's disbursements are recorded in the *Government* expenditure column in the CDR.

¹ Detailed TOR for the NIM Audit with relevant templates and formats will be provided with the start of each assignment.

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2. UNDP (country office, headquarters or other country offices):

Disbursements made by UNDP from its own bank accounts are entered in ATLAS by the UNDP country office. These UNDP disbursements are recorded in the *UNDP* expense columns 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 country 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 the 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. These support services must be described in the project document/annual work plan (AWP). 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 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 country office enters the expenses in ATLAS. 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.

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At the end of the year, after receiving the fourth quarter financial report from the implementing partner and the year-end expenditure 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:

- The quarterly financial reports submitted by the implementing partner;
- A list of the direct payments processed by UNDP at the request of the implementing partner;
- A list of the disbursement made by UNDP as part of support services provided to the implementing partner;
- Letter of Agreement for UNDP support services signed between UNDP and the Government (or CPAP) with relevant clauses regarding UNDP support services);
- 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 now be responsible for validating certain areas of the information appearing in the second 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.

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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 or not it is intended for the project. If it is determined that the inventory is project related, then the same audit procedures for 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.

Audit Services Required:

The audit will cover the period of 1 January to 31 December 2014². All offices for projects to be audited, whether located within the respective government departments or separate location, will be subject to audit.

The audit will be carried out in accordance with International Standards of Auditing (ISA) and International Organization of Supreme Audit Institutions (INTOSAI) standards.

The scope of the audit will be limited to the implementing partner expenditures, which are defined as include (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 will be responsible for verifying the mathematical accuracy of the CDR by ensuring that the expenditures described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the request of the government, the list of disbursements made by UNDP as part of support services, and the UN agency expenditure statement) are reconciled to the expenditures, by disbursing source, in the CDR.

The auditor will be responsible for stating in the audit report the amount of expenditures excluded from the scope of the audit because they were made by UNDP as part of support services and the amount of total expenditures 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.

² As this is the TOR for a Long Term Agreement, for the following year, the audit will cover the same period 1 January – 31 December of that year.

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The auditor will be responsible for stating in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.

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 2014 and will certify:

- The Statement of Expenditure (CDR) for the period from 1 January to 31 December 2014;
The Statement of cash position (cash bank balances of the project) reported by the project as at 31 December 2014;
- The statement of assets and equipment held by the project as at 31 December 2014;
- The auditor is required, as applicable, report in monetary value, the net financial impact (NFI) of any modified audit opinion (modified opinions can be qualified, adverse, or disclaimer) on the statement of expenses (Combined Delivery Report (CDR)) where applicable. This should also include prior year non-resolved NFI.

The UNDP country office will ensure the audit services are adequately covered as specified in the present TOR, and Combined Delivery Reports (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 (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.

Auditors must indicate the risks associated with their findings and provide a categorization by risk level: High, Medium, or Low. Auditors must provide the monetary value of the Net Financial Impact (NFI) of the qualification if the audit opinion on the CDR is Qualified, Adverse or Disclaimer.

The timeline for the submission of the draft audit report and the final signed audit report with signed statements will be agreed upon between UNDP and the selected audit firm, but generally it is expected that the audit firm submits the draft report by 21 March 2015 and the final signed audit report with signed UNDP statements by 31 March 2015.

Note: Audit opinions must be one of the following: (a) qualified (negative), (b), unqualified (favourable), (c) adverse (negative), or (d) disclaimer (negative). If the audit opinion is other than “unqualified” (favourable) 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.

5	THE AUDIT REPORT AND MANAGEMENT LETTER
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6.1. Audit Report

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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 ISA in all material respects).
 - The period covered by the audit opinion
 - The amount of expenses audited
 - The amount of the net financial impact 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 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 Combined Delivery Report (CDR) - for the period from 1 January to 31 December 2013;
- (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 UNDP accounting policies (IPSAS) 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 Combined Delivery Report (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 UNDP CDR had conclusive actions to properly address an audit qualification in the previous year audit and the related Net Financial Impact (NFI). If there is a lack of conclusive actions, the auditors must take into account 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

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equipment available as at 31 December 2014, and not only those purchased in a given period. Where a NGO/NIM 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 31 December 2014. Where a dedicated project bank account is opened and used solely for the cash transactions of a NGO/NIM project, e.g. if the project is in a remote location. The Audit Firm is required to express an opinion on the Statement of Cash Position where a dedicated bank account for the NGO/NIM project has been established and/or the project holds petty cash. 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 of 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.

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 for Audit (ISA).

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The management letter should also include the following:

Effective audit observations/recommendations

- The categorization of audit findings 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 effect the audit opinion (when qualified, adverse or disclaimer opinion is given)

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 Annual Work Plan (AWP), and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management;
- Review the Annual Project Reports 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(s) were provided in line with the project document or AWP.

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Assessment of internal control:

The auditor is expected to conduct a general assessment of internal controls according to established internal control standards. An example of established internal control standards is available from the Organization of Supreme Audit Institutions (INTOSAI). The INTOSAI standards are intended for use by government managers to use as a framework to establish effective internal control structures. For further information, the INTOSAI *Guidelines for Internal Control Standards* can be found on the INTOSAI Web site www.intosai.org.

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

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

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contracts etc.) and all employees of the entity. The auditor should be advised that he/she has a right of access to banks, consultants, contractors and other persons or firms engaged by the project management. If an auditor may not have unrestricted access to any records, person or location during the course of the audit, this restriction should be clearly defined, with reasons, in the TOR.

6 DELIVERABLES

During the Assignment, the selected firm will deliver for each project but not limited to the following:

The first draft of the audit reports, including the CDR, a statement of assets and equipment and a statement of Cash position, should be submitted on **21 March 2015**.

The final audit reports, including the CDR, a statement of assets and equipment and a statement of Cash position that should be submitted not later than **31 March 2015**.

7 QUALIFICATIONS

The audit firm must demonstrate the following qualifications and experience:

The audit firm must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. No staff member of the audit firm should, during the period covered by the audit or during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the entity. A letter of exclusivity and availability should be attached with the proposal from each team member of the audit firm.

The audit firm should be experienced in applying either ISA or INTOSAI audit standards. The audit firm must employ adequate staff with appropriate professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited. The certificate of ISA/INTOSAI should be attached for verification.

Together with an offer where the audit firm is supposed to address its compliance with the above requirements, a Curriculum vitae (CVs) should be provided by the principal of the firm of auditors who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. CVs should include years of professional experience of a principal signing the opinion as well as of auditors carrying the audit, together with details on major audits carried out by the applicable staff, indicating their capability and capacity to undertake the audit of the projects.

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The offer should also include information on the previously conducted audits during the period of 3 previous years (2011-2013) indicating name of the company that contracted the services. UNDP may contact one of few of the previous employees for references.

8 OTHER CONSIDERATIONS

The successful firm must start the assignment as soon as possible following the completion of the selection process.

Submissions will be accepted from audit firms only.

Contracting Arrangements: The Successful Result of this Process will be a Services Contract for the audit firm.

UNDP reserves the right to annul the tender and not to award the contract to any of the bidders. Although an attempt is made to contract for the complete package of the audit services, UNDP may at its discretion split the contract amount among different bidders. UNDP would pay for the services upon acceptance of them and verification that the quality was satisfactory.

Should UNDP deem unsatisfactory the services provided by the selected firm, UNDP shall reserve the right to terminate the contract of audit services with the selected firm.

The payment for the audit services shall be made against billings made by the selected firm as follows:

- 20 % as a start-up cost of the proposed price by the selected audit firm.
- 60 % of the proposed price by the selected firm upon the submission of the draft audit reports and.
- The remaining 20 % balance shall be paid by UNDP following its acceptance as satisfactory the final audit reports submitted by the selected firm.

9 SUBMISSIONS

Proposal Contents: The contents and format of the requested proposal should include, but not limited to the following:

A description of Audit Approach and Methodology that will be applied by the selected firm to meet the objectives and scope of the Audit services required by UNDP. This description should be accompanied with an indication of the level of staff who will be involved in implementing each phase of the audit approach and, as applicable of the statistical sampling that will be used for that purpose. A letter of exclusivity and availability for each team member should be attached.

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A description of the Audit's Firm Profile. This description should provide, but not limited to the following:

- Total number of audit professionals employed distinguishing between audit partners, audit managers, audit seniors, and audit assistants.
- A brief description of the recruitment standards, promotion policies and professional training procedures applied.
- The five major audit clients that are serviced with a brief description of the nature and extent of the audit services rendered.
- A description of experience in providing audit services to international development agencies and organizations and nature of audit services rendered. Also, a specific listing and description of engagements, current or prior, in UN or UNDP funded activities, if any.
- Concise curriculum vitae of the key persons who will be involved in the audit exercise.
- Certificate of ISA/INTOSAI.

Time Schedule of the audit: The proposal should include a conceptualization of how the selected firm, in the absence of any constraints from UNDP, would schedule the execution of the audit.

The Submissions should be made in two separate envelopes Technical Offer and Financial Offer (Indicating: DO NOT OPEN IN ADVANCE). Offers that are not submitted separately will be deemed as disqualified and will not be assessed further.

Submission requirements:

The deadline for submission of offers is XXXXXXX at 11:00 hrs Kigali time.

The offers and audit reports should be submitted in English.

The final audit reports should be submitted both in hard copies and soft copy (on a CD).

Duration of the contract: 30 Calendar days

Schedule for audit: The audit will be conducted from 01 March 2015 to 31 March 2015 for all projects.

The first draft of the audit reports should be submitted on 21 March 2015.

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The final audit reports and the Management letter should be submitted not later than 31 March 2015.

10 SELECTION PROCESS

The evaluation of the successful proposal shall be based upon most responsiveness to UNDP requirements and a combination of the substantive presentation, the competitiveness of the fees and the time schedule of the audit exercise. The criteria of evaluation will comprise these elements with a total of 100 points as detailed below. A proposal, which obtains less than 40 points on the substantive presentation, shall not be deemed of sufficient substantive position to be awarded the contract.

Substantive Presentation [70 points].

- The potential capacity to have quality services provided to UNDP will be considered on the basis of a mix of:
 - The profile of the firm/company (10 points);
 - The adequacy of the audit approach and methodology to meet the audit services required (25 points);
 - The qualifications and competence of the personnel and the number of working days proposed for the audit (25 points);
 - The schedule of the engagement, assessed in terms of its responsiveness to the schedule requirements of UNDP (10 points).

The Competitiveness of the Fees [30 points]

If the substantive presentation of a proposal achieves the minimum of 50 points, the competitiveness of the fees will be taken into account in the following manner:

The total amount of points for the fees component is 30. The maximum number of points shall be allotted to the lowest fees proposed that is compared among those invited firms which obtain the threshold points in the evaluation of the substantive presentation. All other fees proposals shall receive points in inverse proportion to the lowest fees.

Given that the total number of projects is determined each year based on the criteria set by UNDP's Office of Audit and Investigation, firms are requested to quote their audit fees per project.

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The Basis of Award will be to the Firm which qualifies in the evaluation of the substantive presentation and propose the lowest audit fee per project.

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ANNEX 1: AUDIT SERVICES REQUIRED

The scope of audit services shall be in accordance with International Standards for Audit (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 NGO) 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.

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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 country 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.



TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)

ANNEX 2: QUALIFICATIONS OF AN AUDITOR

Please refer to Section 7 above.

ANNEX 3: SAMPLE AUDIT REPORT

Auditor's report to:

The National Project Director and
The Resident Representative

Format for Financial Certifications

I. Sample Certification for 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 expenditure ("the statement") of the project [insert project and project number(s)], [insert official title of project] for the period [insert period covered].

Management is responsible for the preparation 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.

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project's preparation of the statements 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 project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Clean Opinion: Option 1: (Unmodified)

In our opinion, the attached statement of expense 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 2: (Qualified opinion)

In our opinion, the attached statement of expense, except for the reasons indicated above in paragraphs (1), (2), (3), etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for Qualified opinion is clearly explained] 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 UNDP accounting policies [if needed add: and the note to the statement].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc. [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained] the statement of expense does not give a true and fair view of the expense of [insert amount in US\$] incurred by the project [insert official title of project] for the period from [insert period covered].

Option 4: (Disclaimer of opinion)

Because of the significance of the matter described in paragraph (1),(2), (3), etc. [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of expense 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].

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

We draw attention to Note [insert number] to the statement of expense which describes the uncertainty related to the [insert the issue]. Our opinion is not qualified in respect of this matter.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



Auditor's Name and Signature

Date of the auditor's report

Auditor's address

II. Sample Certification for Statement of Assets (Refer to ISA 700)

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

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

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project's preparation of the statement 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 project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Option 1: (Unmodified)

In our opinion, the attached statement of assets 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 [insert date].in accordance with UNDP accounting policies [if needed add: set out in the note to the schedule].

Modified Opinions (Refer to ISA 705) Option 2: (Qualified opinion)

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



In our opinion, the attached statement of assets, except for the reasons indicated above in paragraphs (1), (2), (3), etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for Qualified opinion is clearly explained] presents fairly in all material respects the balance of inventory of [insert amount in US\$] incurred by the project [insert official title of project] as at [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the schedule].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc. [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained] the statement of assets does not give a true and fair view of the expense of [insert amount in US\$] incurred by the project [insert official title of project] and audited by us as at [insert date].

Option 4: (Disclaimer of opinion)

Because of the significance of the matter described in paragraph (1),(2), (3), etc. [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of assets of [insert amount in US\$] incurred by the project [insert official title of project] and audited by us as at [insert date].

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

We draw attention to Note [insert number] to the statement of assets which describes the uncertainty related to the [insert the issue]. Our opinion is not qualified in respect of this matter.

Auditor's Name and Signature

Date of the auditor's report

Auditor's address

III. Sample Certification of Statement of Cash Position (Statement of Cash Position is required only if there is separate bank account for each of the projects and/or petty cash) (Refer to ISA 700)

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

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project's preparation of the statement 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 project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Option 1: (Unmodified)

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

Modified Opinions (Refer to ISA 705) Option 2: (Qualified opinion)

In our opinion, the attached statement of cash, except for the reasons indicated above in paragraphs (1), (2), (3), etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for Qualified opinion is clearly explained] presents fairly in all material respects the cash and bank balance amounting to [insert amount in US\$] as at [insert date] in accordance with the UNDP accounting policies [if needed add: set out in the note to the statement].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc. [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained] the statement of cash does not give a true and fair view of the cash and bank balance of [insert amount in US\$] audited by us as at [insert date].

Option 4: (Disclaimer of opinion)

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



Because of the significance of the matter described in paragraph (1),(2), (3), etc. [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of cash in the amount of [insert amount in US\$] audited by us as at [insert date].

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

We draw attention to Note X to the statement of cash which describe the uncertainty related to [give explanation of the uncertainty]. Our opinion is not qualified in respect of this matter.

Auditor's Name and Signature

Date of the auditor's report

Auditor's address

Date of issuance: _____

AUDITOR'S NAME (Please print): _____

AUDITOR'S SIGNATURE: _____

STAMP AND SEAL OF AUDIT FIRM: _____

AUDIT FIRM ADDRESS: _____

AUDIT FIRM TEL. NO. _____

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

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



ANNEX 4: DEFINITION OF AUDIT OPINIONS

Unqualified (Clean or positive) Opinion

An unqualified 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.

Qualified Opinion – a modified (negative) audit opinion

A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.

Disclaimer of opinion – a modified (negative) audit opinion

A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

Adverse – a modified (negative) audit opinion

An adverse opinion is expressed by an auditor when the financial statements are significantly misrepresented, misstated, and do not accurately reflect the expenses incurred and reported in the financial statements (**UNDP CDR**, statement of cash, statement of assets and equipment).

An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



Annex 5: International Standard for Audit (ISA) 450 and 710

Guidance on Reporting Prior Year Modified opinion not corrected

Following the International Audit Standard (ISA) 450 and ISA 710 that came into effect on December 2010 there is a requirement regarding a previous year modified audit opinion. 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.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



ANNEX 6: PRIORITY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

- High: Action that is considered imperative to ensure that UNDP is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
- Medium: Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
- Low: Action that is considered desirable and should result in enhanced control or better value for money.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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

Award no.:		Output No.:		Opinion								
Obs No	Observation	Recommendation	Audit Area	Risk Severity	Proj/CO Mngt	Action(s) Planned	Target Impl	Action Unit	Person Responsible for Action	Updated Status	Actual Impl. Date	Description of Status Update
Award no.:		Output No.:		Opinion								
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								
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
<i>Implementing Partner (IP)</i>			<i>UNDP Country Office</i>			<i>Government Auditors/Audit Firm</i>						
Signature of IP Official:			Signature of UNDP Official: _			Signature of Audit firm Official:						
Name and title (print):			Name and title (print):			Name and title (print):						
Date:			Date:			Date:						
						Stamp and Seal of audit firm: _____						

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



ANNEX 8: TEMPLATE FOR AUDIT DATA AND OBSERVATIONS

The information in the four tables below should be completed by the NGO/NIM 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 NGO/NIM auditors to report on the audit of the UNDP CDR

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

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



Table 2 - Template for NGO/NIM 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 2010 (US\$)	Audit Opinion - Statement of Cash Position	Total amount of qualification - Statement of Cash Position (US\$)

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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

Statement of assets and equipment			Audit Opinion - Statement of Assets and Equipment	Total amount of qualification on the Statement of assets and equipment (US\$)
Project No.	Output No.	Value of Assets and equipment as at 31 December 2013 (cumulative from project start date) (US\$)		

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

Project No.	Project 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: _____

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



ANNEX 9: GUIDANCE OF FORMULATING AUDIT OBSERVATION

Parts of the note that follows are from an article in the Internal Auditor, April, 1999 by Brian M. Schwartz. 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; and
- 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

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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** Action that is considered imperative to ensure that UNDP is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
- **Medium** Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
- **Low** Action that is considered 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?

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



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.

TERMS OF REFERENCES

Request for Proposal (RFP- NIM Audit) Provision of Audit Services for UNDP Projects under National Implementation (NIM)



ANNEX 10: SAS 220 - GUIDANCE ON AUDIT MATERIALITY

Below are some highlights from the Statement of Auditing Standards (SAS) 220 – Audit Materiality. These are meant to provide guidance to the auditors in determining the materiality of observations for reporting purposes and as they might affect the audit opinion. The auditors should refer to SAS 220 for more details.

The purpose of the SAS is to establish standards and provide guidance on the concept of materiality and its relationship with audit risk.

Auditors should consider materiality and its relationship with audit risk when conducting an audit (SAS 220.1)

A matter is material if knowledge of the matter would reasonably influence the economic decisions of users taken on the basis of the financial statements. Materiality may be considered in the context of the financial statements as a whole, any individual statements within the financial statements or individual items included within the financial statements.

Materiality depends on the nature and size of the item or error judged in the particular circumstances. Since materiality has both qualitative and quantitative aspects, it is not capable of any general mathematical definition.

Auditors should plan and perform the audit so as to provide them with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. (SAS 220.2)

The assessment of what is material is a matter of professional judgment.

Auditors would consider the possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial statements. For example, an error in a month end procedure could be an indication of a potential material misstatement if that error is repeated each month.

In evaluating the fair presentation of the financial statements, auditors should assess whether the aggregate of uncorrected misstatements that have been identified during the audit is material (SAS 220.4).