



**REQUEST FOR QUOTATION (RFQ)
FOR AUDIT OF LOW VALUE GRANT (LVG) OF RECIPIENTS INSTITUTIONS
(NGO/CBO) FOR UNDP NEPAL**

NAME & ADDRESS OF FIRM	DATE: January 7, 2020
	REFERENCE: UNDP/RFQ/01/2020

Dear Sir / Madam:

We kindly request you to submit your quotation for **Audit of Low Value Grant (LVG) of Recipients Institutions (NGOs/ CBOs) for UNDP Nepal**, as detailed in Annex 1 of this RFQ. When preparing your quotation, please be guided by the form attached hereto as Annex 2.

This bidding exercise will result into Long Term Agreement for two years and subject to satisfactory performance of the service provider, it can be extended for additional one year.

Quotations may be submitted on or before **5:00 PM, January 21, 2020** in sealed envelope by (choose appropriate box) ☐ e-mail, ☒ courier mail or hand delivery ☐ facsimile to the address below:

**United Nations Development Programme
Ref: UNDP/RFQ/01/2020
The Registry, Reception, UN House
Pulchowk, Lalitpur, Nepal**

NOT APPLICABLE - Quotations submitted by email must be limited to a maximum of [indicate size]MB, virus-free and no more than [indicate number] email transmissions. They must be free from any form of virus or corrupted contents, or the quotations shall be rejected.

It shall remain your responsibility to ensure that your quotation will reach the address above on or before the deadline. Quotations that are received by UNDP after the deadline indicated above, for whatever reason, shall not be considered for evaluation. If you are submitting your quotation by email, kindly ensure that they are signed and in the .pdf format, and free from any virus or corrupted files.

A Pre-Bid Meeting will be held on 28 April 2016 at 3:00 PM at the UN Conference Room, UN House, Pulchowk, Lalitpur. All interested parties are highly encourage to attend the Pre-Bid Meeting.

Please take note of the following requirements and conditions pertaining to the above mentioned services:

Delivery Terms [INCOTERMS 2010] (Pls. link this to price schedule)	<input checked="" type="checkbox"/> FCA <input type="checkbox"/> CPT <input type="checkbox"/> CIP <input type="checkbox"/> DAP <input checked="" type="checkbox"/> Other: Service fee in Nepalese Rupees inclusive of VAT	
Customs clearance ¹ , if needed, shall be done by:	<input type="checkbox"/> UNDP <input type="checkbox"/> Supplier/Offeror <input type="checkbox"/> Freight Forwarder	
Exact Address/es of Delivery Location/s (identify all, if multiple)	UNDP Nepal and its Projects within Kathmandu and Outside.	
UNDP Preferred Freight Forwarder, if any ²	Not applicable	
Distribution of shipping documents (if using freight forwarder)	Not applicable	
Latest Expected Delivery Date and Time (if delivery time exceeds this, quote may be rejected by UNDP)	<input checked="" type="checkbox"/> Deliveries are to be made on "as and when required" basis upon issuance of the Purchase Order (PO) <input checked="" type="checkbox"/> As per Terms of Reference (ToR) attached in Annex 4 (if delivery will be staggered)	
Delivery Schedule	<input checked="" type="checkbox"/> Required <input type="checkbox"/> Not Required	
Packing Requirements		
Mode of Transport	<input type="checkbox"/> AIR <input type="checkbox"/> SEA	<input type="checkbox"/> Not applicable <input type="checkbox"/> OTHER
Preferred Currency of Quotation ³	<input type="checkbox"/> United States Dollars <input type="checkbox"/> Euro <input checked="" type="checkbox"/> Local Currency : Nepalese Rupees (NPR.)	
Value Added Tax on Price Quotation ⁴	<input checked="" type="checkbox"/> Must be inclusive of VAT and other applicable indirect taxes <input type="checkbox"/> Must be exclusive of VAT and other applicable indirect taxes	

¹ Must be linked to INCO Terms chosen.

² Depends on INCO Terms. The suggestion to use a UNDP preferred courier is only for purposes of familiarity with procedures and documentary requirements applicable to the UNDP when clearing with customs.

³ Local vendors must comply with any applicable laws regarding doing business in other currencies. Conversion of currency into the UNDP preferred currency, if the offer is quoted differently from what is required, shall be based only on UN Operational Exchange Rate prevailing at the time of UNDP's issuance of Purchase Order.

⁴ This must be reconciled with the INCO Terms required by the RFQ. Furthermore, VAT exemption status varies from one country to another. Pls. tick whatever is applicable to the UNDP CO/BU requiring the goods.

After-sales services required	<input type="checkbox"/> Warranty on Parts and Labor for minimum period of <input type="checkbox"/> Technical Support <input type="checkbox"/> Provision of Service Unit when pulled out for maintenance/ repair <input type="checkbox"/> Others
Deadline for the Submission of Quotation	5:00PM, Tuesday, January 21, 2020 Nepal Standard Time
All documentations, including catalogs, instructions and operating manuals, shall be in this language	<input checked="" type="checkbox"/> English <input type="checkbox"/> French <input type="checkbox"/> Spanish <input type="checkbox"/> Others
Documents to be submitted ⁵	<input checked="" type="checkbox"/> Duly Accomplished Form as provided in Annex 2, and in accordance with the list of requirements in Annex 1; <input type="checkbox"/> A statement whether any import or export licenses are required in respect of the goods to be purchased including any restrictions on the country of origin, use/dual use nature of goods or services, including and disposition to end users; <input type="checkbox"/> Confirmation that licenses of this nature have been obtained in the past and an expectation of obtaining all the necessary licenses should the quotation be selected; <input type="checkbox"/> Quality Certificates (ISO, etc.), if applicable; <input checked="" type="checkbox"/> Business Registration Certificate; <input checked="" type="checkbox"/> Company profiles and documents confirming at least 3 years of relevant experience; <input checked="" type="checkbox"/> Latest VAT/PAN Registration Certificate; <input checked="" type="checkbox"/> Latest Tax Clearance Certificate; <input checked="" type="checkbox"/> Latest Audited Financial Statements (including Income Statement and Balance Sheet) together with Auditor's Report for the past 2 years having minimum average annual turnover of Nepalese Rupees 1,000,000/00 (One Million Rupees). Average turnover of last three years will be assessed. <input checked="" type="checkbox"/> Client list as an evidence of the past experience in auditing in private and international organizations including experience and knowledge on NGO/CBO Audit; <input checked="" type="checkbox"/> CVs of the proposed Team Members (at least 5 qualified Accountants e.g. CA/ACCA/CPA) <input type="checkbox"/> Manufacturer's Authorization of the Company as a Sales Agent (if Supplier is not the manufacturer); <input type="checkbox"/> Certificate of Exclusive Distributorship in the country (if applicable, and if Supplier is not the manufacturer); <input type="checkbox"/> Evidence/Certification of Environmental Sustainability ("Green" Standards) of the Company or the Product being supplied ; <input type="checkbox"/> Complete documentation, information and declaration of any goods classified or may be classified as "Dangerous Goods".

⁵ First 2 items in this list are mandatory for the supply of imported goods

	<input type="checkbox"/> Patent Registration Certificates (if any of technologies submitted in the quotation is patented by the Supplier); <input checked="" type="checkbox"/> Written Self-Declaration of not being included in the UN Security Council 1267/1989 list, UN Procurement Division List or other UN Ineligibility List; <input type="checkbox"/> Others
Period of Validity of Quotes starting the Submission Date	<input type="checkbox"/> 60 days <input type="checkbox"/> 90 days <input checked="" type="checkbox"/> 120 days In exceptional circumstances, UNDP may request the Vendor to extend the validity of the Quotation beyond what has been initially indicated in this RFQ. The Proposal shall then confirm the extension in writing, without any modification whatsoever on the Quotation.
Partial Quotes	<input checked="" type="checkbox"/> Not permitted <input type="checkbox"/> Permitted [Bidders can submit bid for any of the Package A or Package B or for both the packages. However partial bids within a package is not permissible]
Payment Terms ⁶	<input checked="" type="checkbox"/> As per Terms of Reference (ToR) – Annex 4 <input type="checkbox"/> Others
Liquidated Damages	
Evaluation Criteria	<input checked="" type="checkbox"/> Technical responsiveness/Full compliance to requirements and lowest price⁷ <input type="checkbox"/> Verification and acceptance of the submitted samples. <input checked="" type="checkbox"/> Full acceptance of the PO/Contract General Terms and Conditions <input type="checkbox"/> Earliest Delivery / Shortest Lead Time ⁸ <input type="checkbox"/> Others
UNDP will award to:	<input checked="" type="checkbox"/> One or more Supplier depending on the following factors: The LTA (s) will be awarded to the technically qualified lowest ranked bidders.
Type of Contract to be Signed	<input checked="" type="checkbox"/> Purchase Order and Long Term Agreement

⁶ UNDP preference is not to pay advanced amount upon signing of contract. If vendor strictly requires advanced payment, it will be limited only up to 20% of the total price quoted. For any higher percentage, or advanced payment of \$30,000 or higher, UNDP shall require the vendor to submit a bank guarantee or bank cheque payable to UNDP, in the same amount as the advanced payment made by UNDP to the vendor.

⁷ UNDP reserves the right not to award the contract to the lowest priced offer, if the second lowest price among the responsive offer is found to be significantly more superior, and the price is higher than the lowest priced compliant offer by not more than 10%, and the budget can sufficiently cover the price difference. The term “more superior” as used in this provision shall refer to offers that have exceeded the pre-determined requirements established in the specifications.

⁸ This shall be used for time-critical and/or exigent requirements (e.g., post-crisis emergencies, elections, etc.).

	<input type="checkbox"/> Long-Term Agreement ⁹ (if LTA will be signed, specify the document that will trigger the call-off. E.g., PO, etc.) <input checked="" type="checkbox"/> Other Type/s of Contract: LTA
Special conditions of Contract	<input type="checkbox"/> Cancellation of PO/Contract if the delivery/completion is delayed by [indicate number of days] <input type="checkbox"/> Others [pls. specify]
Conditions for Release of Payment	<input type="checkbox"/> Passing Inspection [specify method, if possible] <input type="checkbox"/> Complete Installation <input type="checkbox"/> Passing all Testing [specify standard, if possible] <input type="checkbox"/> Completion of Training on Operation and Maintenance [specify no. of trainees, and location of training, if possible] <input checked="" type="checkbox"/> Written Acceptance of services based on full compliance with RFQ requirements <input type="checkbox"/> Others [pls. specify]
Annexes to this RFQ ¹⁰	<input checked="" type="checkbox"/> Requirement for the Services (Annex 1) <input checked="" type="checkbox"/> Form for Submission of Quotation (Annex 2) <input checked="" type="checkbox"/> General Terms and Conditions / Special Conditions (Annex 3). <input checked="" type="checkbox"/> Terms of Reference (ToR) for the Services Required (Annex 4) <input type="checkbox"/> Others [pls. specify, if any] Non-acceptance of the terms of the General Terms and Conditions (GTC) shall be grounds for disqualification from this procurement process.
Contact address for Inquiries (Written inquiries only) ¹¹	Procurement Unit, UNDP Nepal UN House, Pulchowk, Lalitpur, Nepal Email: query.procurement.np@undp.org Written inquiries must be submitted mentioning RFQ Ref: UNDP/RFQ/01/2020 (SPA) , on or before 5:00pm Nepal Standard Time on 15 January 2020 . UNDP shall post the compiled inquiries with the responses in UNDP Website: http://www.np.undp.org/content/nepal/en/home/operations/procurement.html . Inquiries received after the above date and time shall not be entertained. Any delay in UNDP's response shall be not used as a reason for extending the deadline for submission, unless UNDP determines that such an extension is necessary and communicates a new deadline to the Proposers.

⁹ Minimum of one (1) year period and may be extended up to a maximum of three (3) years subject to satisfactory performance evaluation

¹⁰ Where the information is available in the web, a URL for the information may simply be provided.

¹¹ This contact person and address is officially designated by UNDP. If inquiries are sent to other person/s or address/es, even if they are UNDP staff, UNDP shall have no obligation to respond nor can UNDP confirm that the query was received.

Goods offered shall be reviewed based on completeness and compliance of the quotation with the minimum specifications described above and any other annexes providing details of UNDP requirements.

The quotation that complies with all of the specifications, requirements and offers the lowest price, as well as all other evaluation criteria indicated, shall be selected. Any offer that does not meet the requirements shall be rejected.

Any discrepancy between the unit price and the total price (obtained by multiplying the unit price and quantity) shall be re-computed by UNDP. The unit price shall prevail and the total price shall be corrected. If the supplier does not accept the final price based on UNDP's re-computation and correction of errors, its quotation will be rejected.

After UNDP has identified the lowest price offer, UNDP reserves the right to award the contract based only on the prices of the goods in the event that the transportation cost (freight and insurance) is found to be higher than UNDP's own estimated cost if sourced from its own freight forwarder and insurance provider.

At any time during the validity of the quotation, no price variation due to escalation, inflation, fluctuation in exchange rates, or any other market factors shall be accepted by UNDP after it has received the quotation. At the time of award of Contract or Purchase Order, UNDP reserves the right to vary (increase or decrease) the quantity of services and/or goods, by up to a maximum twenty five per cent (25%) of the total offer, without any change in the unit price or other terms and conditions.

Any Purchase Order that will be issued as a result of this RFQ shall be subject to the General Terms and Conditions attached hereto. The mere act of submission of a quotation implies that the vendor accepts without question the General Terms and Conditions of UNDP herein attached as Annex 3.

UNDP is not bound to accept any quotation, nor award a contract/Purchase Order, nor be responsible for any costs associated with a Supplier's preparation and submission of a quotation, regardless of the outcome or the manner of conducting the selection process.

Please be advised that UNDP's vendor protest procedure is intended to afford an opportunity to appeal for persons or firms not awarded a purchase order or contract in a competitive procurement process. **In the event that** you believe you have not been fairly treated, you can find detailed information about vendor protest procedures in the following link:

<http://www.undp.org/content/undp/en/home/operations/procurement/protestandsanctions/>

UNDP encourages every prospective Vendor to avoid and prevent conflicts of interest, by disclosing to UNDP if you, or any of your affiliates or personnel, were involved in the preparation of the requirements, design, specifications, cost estimates, and other information used in this RFQ.

UNDP implements a zero tolerance on fraud and other proscribed practices, and is committed to identifying and addressing all such acts and practices against UNDP, as well as third parties involved in UNDP activities. UNDP expects its suppliers to adhere to the UN Supplier Code of Conduct found in this link : http://www.un.org/depts/ptd/pdf/conduct_english.pdf

Thank you and we look forward to receiving your quotation.

Sincerely yours,



Niraj Shrestha

Assistant Resident Representative (Operations), UNDP Nepal

January 7, 2020

Requirements for the Services

Items to be provided*	Total Quantity	Description of Services	Remarks
1	As and when required (estimated 25)	Services fee for Auditing for Low Value Grant (LVG) in accordance with the attached Terms of Reference (ToR) – Annex 4	

ADDITIONAL INFORMATION

Estimated number of Grants to be Audited in 2020	25
Average size of the grants to be audited	NRS 15,000,000 (high value US\$ 300,000 and low value \$ 20,000)
Districts to be visited for Audit where the books of Accounts are available	Mostly in Nuwakot, Gorkha, Kavre and Karnali Province. Grants are in all provinces.
Districts to be covered for Field visit	Mostly in Nuwakot, Gorkha, Kavre and Karnali Province. Grants are in all provinces.
Audit Fee to be Quoted	per grantee audit
Daily Subsistence Allowance (DSA) for Audit and field visit while visiting outside Kathmandu	Will be paid as per UNDP Rule
Transportation for travelling outside Kathmandu	Reimbursed as per actual basis upon submission of all original documents or Respective project may facilitate the transportation facility.

Niraj Shrestha
Assistant Resident Representative (Operations), UNDP Nepal
 January 7, 2020

FORM FOR SUBMITTING SUPPLIER'S QUOTATION¹²

(This Form must be submitted only using the Supplier's Official Letterhead/Stationery¹³)

We, the undersigned, hereby accept in full the UNDP General Terms and Conditions, and hereby offer to provide the required Services for conducting physical verifications of assets/inventories for UNDP Nepal in conformity with the requirements of UNDP as per RFQ Reference No. **UNDP/RFQ/01/2020**:

TABLE 1 : Offer to Provide Services for Audit of Low Value Grant (LVG) of Recipients Institutions (NGOs/ CBOs) for UNDP Nepal in Compliant with the Requirements

Item No.	Description/Specification of Goods	Audit fee in NRs. for per grantee audit
1	Services fee for Audit of LVG in accordance with the attached Terms of Reference (ToR) – Annex 4	
	Total Price	
	13% VAT	
	TOTAL PRICE WITH VAT	

The LTAs will be awarded to the technically qualified lowest bidder(s) for the Package.

TABLE 2 : Estimated Operating Costs

01	Travel cost to the Districts	Will be reimbursed on Actual basis or respective project may support the transportation facility
02	DSA including Accommodation for travelling outside Kathmandu	Will be paid as per UNDP rule
03	Other Costs	Supplier's responsibility

¹² This serves as a guide to the Supplier in preparing the quotation and price schedule.

¹³ Official Letterhead/Stationery must indicate contact details – addresses, email, phone and fax numbers – for verification purposes

TABLE 3 : Offer to Comply with Other Conditions and Related Requirements

Other Information pertaining to our Quotation are as follows :	Your Responses		
	<i>Yes, we will comply</i>	<i>No, we cannot comply</i>	<i>If you cannot comply, pls. indicate counter proposal</i>
Delivery Lead Time			
Estimated weight/volume/dimension of the Consignment:	NA		
Country/ies Of Origin ¹⁴ :	NA		
Warranty and After-Sales Requirements			
a) Training on Operations and Maintenance	NA		
b) Minimum one (1) year warranty on both parts and labor	NA		
c) Service Unit to be Provided when the Purchased Unit is Under Repair	NA		
d) Brand new replacement if Purchased item is not working	NA		
e) Others	NA		
Validity of Quotation	120 days		
All Provisions of the UNDP General Terms and Conditions			
Other requirements <i>[pls. specify]</i>	NA		

All other information that we have not provided automatically implies our full compliance with the requirements, terms and conditions of the RFQ.

[Name and Signature of the Supplier's Authorized Person]
[Designation]
[Date]

¹⁴ *If the country of origin requires Export License for the goods being procured, or other relevant documents that the country of destination may require, the supplier must submit them to UNDP if awarded the PO/contract.*

General Terms and Conditions

1. ACCEPTANCE OF THE PURCHASE ORDER

This Purchase Order may only be accepted by the Supplier's signing and returning an acknowledgement copy of it or by timely delivery of the goods in accordance with the terms of this Purchase Order, as herein specified. Acceptance of this Purchase Order shall effect a contract between the Parties under which the rights and obligations of the Parties shall be governed solely by the terms and conditions of this Purchase Order, including these General Conditions. No additional or inconsistent provisions proposed by the Supplier shall bind UNDP unless agreed to in writing by a duly authorized official of UNDP.

2. PAYMENT

- 2.1 UNDP shall, on fulfillment of the Delivery Terms, unless otherwise provided in this Purchase Order, make payment within 30 days of receipt of the Supplier's invoice for the goods and copies of the shipping documents specified in this Purchase Order.
- 2.2 Payment against the invoice referred to above will reflect any discount shown under the payment terms of this Purchase Order, provided payment is made within the period required by such payment terms.
- 2.3 Unless authorized by UNDP, the Supplier shall submit one invoice in respect of this Purchase Order, and such invoice must indicate the Purchase Order's identification number.
- 2.4 The prices shown in this Purchase Order may not be increased except by express written agreement of UNDP.

3. TAX EXEMPTION

- 3.1 Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for utilities services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. In the event any governmental authority refuses to recognize UNDP's exemption from such taxes, duties or charges, the Supplier shall immediately consult with UNDP to determine a mutually acceptable procedure.
- 3.2 Accordingly, the Supplier authorizes UNDP to deduct from the Supplier's invoice any amount representing such taxes, duties or charges, unless the Supplier has consulted with UNDP before the payment thereof and UNDP has, in each instance, specifically authorized the Supplier to pay such taxes, duties or charges under protest. In that event, the Supplier shall provide UNDP with written evidence that payment of such taxes, duties or charges has been made and appropriately authorized.

4. RISK OF LOSS

Risk of loss, damage to or destruction of the goods shall be governed in accordance with Incoterms 2010, unless otherwise agreed upon by the Parties on the front side of this Purchase Order.

5. EXPORT LICENCES

Notwithstanding any INCOTERM 2010 used in this Purchase Order, the Supplier shall obtain any export licences required for the goods.

6. FITNESS OF GOODS/PACKAGING

The Supplier warrants that the goods, including packaging, conform to the specifications for the goods ordered under this Purchase Order and are fit for the purposes for which such goods are ordinarily used and for purposes

expressly made known to the Supplier by UNDP, and are free from defects in workmanship and materials. The Supplier also warrants that the goods are contained or packaged adequately to protect the goods.

7. INSPECTION

7.1 UNDP shall have a reasonable time after delivery of the goods to inspect them and to reject and refuse acceptance of goods not conforming to this Purchase Order; payment for goods pursuant to this Purchase Order shall not be deemed an acceptance of the goods.

7.2 Inspection prior to shipment does not relieve the Supplier from any of its contractual obligations.

8. INTELLECTUAL PROPERTY INFRINGEMENT

The Supplier warrants that the use or supply by UNDP of the goods sold under this Purchase Order does not infringe any patent, design, trade-name or trade-mark. In addition, the Supplier shall, pursuant to this warranty, indemnify, defend and hold UNDP and the United Nations harmless from any actions or claims brought against UNDP or the United Nations pertaining to the alleged infringement of a patent, design, trade-name or trade-mark arising in connection with the goods sold under this Purchase Order.

9. RIGHTS OF UNDP

In case of failure by the Supplier to fulfil its obligations under the terms and conditions of this Purchase Order, including but not limited to failure to obtain necessary export licences, or to make delivery of all or part of the goods by the agreed delivery date or dates, UNDP may, after giving the Supplier reasonable notice to perform and without prejudice to any other rights or remedies, exercise one or more of the following rights:

- 9.1 Procure all or part of the goods from other sources, in which event UNDP may hold the Supplier responsible for any excess cost occasioned thereby.
- 9.2 Refuse to accept delivery of all or part of the goods.
- 9.3 Cancel this Purchase Order without any liability for termination charges or any other liability of any kind of UNDP.

10. LATE DELIVERY

Without limiting any other rights or obligations of the parties hereunder, if the Supplier will be unable to deliver the goods by the delivery date(s) stipulated in this Purchase Order, the Supplier shall (i) immediately consult with UNDP to determine the most expeditious means for delivering the goods and (ii) use an expedited means of delivery, at the Supplier's cost (unless the delay is due to Force Majeure), if reasonably so requested by UNDP.

11. ASSIGNMENT AND INSOLVENCY

- 11.1. The Supplier shall not, except after obtaining the written consent of UNDP, assign, transfer, pledge or make other disposition of this Purchase Order, or any part thereof, or any of the Supplier's rights or obligations under this Purchase Order.
- 11.2. Should the Supplier become insolvent or should control of the Supplier change by virtue of insolvency, UNDP may, without prejudice to any other rights or remedies, immediately terminate this Purchase Order by giving the Supplier written notice of termination.

12. USE OF UNDP OR UNITED NATIONS NAME OR EMBLEM

The Supplier shall not use the name, emblem or official seal of UNDP or the United Nations for any purpose.

13. PROHIBITION ON ADVERTISING

The Supplier shall not advertise or otherwise make public that it is furnishing goods or services to UNDP without specific permission of UNDP in each instance.

14. CHILD LABOUR

The Supplier represents and warrants that neither it nor any of its affiliates is engaged in any practice inconsistent with the rights set forth in the Convention on the Rights of the Child, including Article 32 thereof, which, inter alia, requires that a child shall be protected from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

Any breach of this representation and warranty shall entitle UNDP to terminate this Purchase Order immediately upon notice to the Supplier, without any liability for termination charges or any other liability of any kind of UNDP.

15. MINES

The Supplier represents and warrants that neither it nor any of its affiliates is actively and directly engaged in patent activities, development, assembly, production, trade or manufacture of mines or in such activities in respect of components primarily utilized in the manufacture of Mines. The term "Mines" means those devices defined in Article 2, Paragraphs 1, 4 and 5 of Protocol II annexed to the Convention on Prohibitions and Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects of 1980.

Any breach of this representation and warranty shall entitle UNDP to terminate this Purchase Order immediately upon notice to the Supplier, without any liability for termination charges or any other liability of any kind of UNDP.

16. SETTLEMENT OF DISPUTES

16.1 Amicable Settlement. The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of, or relating to this Purchase Order or the breach, termination or invalidity thereof. Where the Parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules then obtaining, or according to such other procedure as may be agreed between the Parties.

16.2 Arbitration. Unless, any such dispute, controversy or claim between the Parties arising out of or relating to this Purchase Order or the breach, termination or invalidity thereof is settled amicably under the preceding paragraph of this Section within sixty (60) days after receipt by one Party of the other Party's request for such amicable settlement, such dispute, controversy or claim shall be referred by either Party to arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining, including its provisions on applicable law. The arbitral tribunal shall have no authority to award punitive damages. The Parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy, claim or dispute.

17. PRIVILEGES AND IMMUNITIES

Nothing in or related to these General Terms and Conditions or this Purchase Order shall be deemed a waiver of any of the privileges and immunities of the United Nations, including its subsidiary organs.

18. SEXUAL EXPLOITATION:

18.1 The Contractor shall take all appropriate measures to prevent sexual exploitation or abuse of anyone by it or by any of its employees or any other persons who may be engaged by the Contractor to perform any services under the Contract. For these purposes, sexual activity with any person less than eighteen years of age, regardless of any laws relating to consent, shall constitute the sexual exploitation and abuse of such person. In addition, the Contractor shall refrain from, and shall take all appropriate measures to prohibit its employees or other persons engaged by it from, exchanging any money, goods,

services, offers of employment or other things of value, for sexual favors or activities, or from engaging in any sexual activities that are exploitive or degrading to any person. The Contractor acknowledges and agrees that the provisions hereof constitute an essential term of the Contract and that any breach of this representation and warranty shall entitle UNDP to terminate the Contract immediately upon notice to the Contractor, without any liability for termination charges or any other liability of any kind.

- 18.2 UNDP shall not apply the foregoing standard relating to age in any case in which the Contractor's personnel or any other person who may be engaged by the Contractor to perform any services under the Contract is married to the person less than the age of eighteen years with whom sexual activity has occurred and in which such marriage is recognized as valid under the laws of the country of citizenship of such Contractor's personnel or such other person who may be engaged by the Contractor to perform any services under the Contract.

19.0 OFFICIALS NOT TO BENEFIT:

The Contractor warrants that no official of UNDP or the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.

20. AUTHORITY TO MODIFY:

Pursuant to the Financial Regulations and Rules of UNDP, only the UNDP Authorized Official possess the authority to agree on behalf of UNDP to any modification of or change in this Agreement, to a waiver of any of its provisions or to any additional contractual relationship of any kind with the Contractor. Accordingly, no modification or change in this Contract shall be valid and enforceable against UNDP unless provided by an amendment to this Agreement signed by the Contractor and jointly by the UNDP Authorized Official.

UNITED NATIONS DEVELOPMENT PROGRAMME

Terms of Reference

A. Background

UNDP provides grant to the Recipient Institution for the following types of activities to support for non-credit purposes:

- a. Strengthening the institutional capacity of local NGOs and CBOs;
- b. Supporting community-based self-help initiatives, which may include income-generating activities designed to alleviate poverty;
- c. Promoting advocacy activities and networking between civil society organizations (CSOs), government and donors; and
- d. Supporting NGOs and CBOs involved with local environmental protection and poverty eradication activities.

UNDP would identify the Recipient Institution/ grantee for the grant audit to be conducted under this TOR.

B. Management of Input: Micro-capital grants/Low value Grants

UNDP signs standard grant agreement with the designated Recipient Institution . The Agreement generally includes:

- the responsibilities of each party;
- the activities to be undertaken;
- the outputs to be produced;
- the performance criteria for the release of future tranches of funding;
- duration of activities;
- reporting arrangements.

C. Consultations with concerned parties

This section should describe the requirements for consultations. For example, prior to the start of grant audit work the auditor will be required to consult with the UNDP country office and the recipient institution. 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 Recipient Institution to debrief on its major findings from the grant audit and its recommendations for future improvements as well as to seek their feedback thereon.

D. Financial Reports to be audited

The Recipient Institution are expected to maintain clear, accurate and complete records in respect of the funds received under the Grant Agreement. Recipient Institution prepares the financial report with respect to all expenditures made from grants and indicating the progress made toward the goals of the activities undertaken, utilizing the reporting format contained in annexes of the grant agreement. Such Financial report including the residual balance of the grant must be certified by the grant auditor as described in this TOR. Recipient Institution will provide the grant auditor with the signed Financial Report together with the following supporting documentation.

1. Progress report
2. Work plan relating to grant component
3. Financial recording including Vouchers and supporting documents relating to grant

E. Audit Services Required

The grant auditor is required to express an opinion as to the financial situation of the Recipient Institution for the grant period agreed in the Grant Agreement:

1. Financial Report for the **Grant Period (until last date of the grant period)**
2. Certify the residual Bank/ Cash balance at the end of **grant period (as at last date of the grant period)**
3. The statement of assets and equipment held by Recipient Institution at the end of **grant period(as at last date of the grant period)**

That the auditor is required to, as applicable, report in monetary value, the net financial impact of any modified audit opinion (modified opinions can be qualified, adverse, or disclaimer) on the financial report where applicable.

The grant auditor/audit firm is required to submit a draft audit report by DD/MM/YYYY and a final signed audit report by DD/MM/YYYY

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.

F. Audit Report

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

- That it is a special purpose and confidential report
- The audit standards that were applied
- The period covered by the audit opinion
- The amount of expenditure audited
- The amount of the net financial impact of the modified audit opinion on the Financial Report, if modified.
- The reason(s) resulting in the issuance of a modified audit opinion, qualified, adverse or disclaimer opinion (the reason(s) must also be included in the management letter as an audit observation(s))
- Whether the Recipient Institution Financial Report for the grant period is adequately and fairly presented and whether the expenditure are made in accordance with the purpose for which funds have been allocated to the Recipient Institution;

The audit to express an opinion on the Recipient Institution financial statements includes:

- Expression of an opinion on whether the Financial Report presents fairly the expenditure incurred by the Recipient Institution over a specified period in accordance with grant agreement and approved work plan and budgets;
- In compliance with the relevant regulations and rules, policies and procedures of the Recipient Institution and Grant Agreement
- Supported by properly approved vouchers and other supporting documents for the Financial report prepared by Recipient Institution
- Expression of an opinion on the value and existence of assets/ equipment procured from the grant fund.
- Express an opinion on the value and existence of the bank balance and cash held by the Recipient Institution as at the end of grant period

The audit should assess and express an opinion on the Recipient Institution internal controls and systems relating to the management of the grant fund. 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 progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the Grant Agreement and Work Plan. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs.
- An assessment of a Recipient Institution internal control system with equal emphasis on the effectiveness of the system and timely information for the proper management of the grant;
- A description of any specific internal control weaknesses noted in the financial management of the grant.
- The audit of internal controls and systems will be conducted in accordance with the applicable auditing standards.

The management letter should also include the following:

- Effective audit observations/recommendations
- The categorization of audit observations by risk severity: High, Medium, or Low
- The classification of possible causes of the audit observations
- Management comments/response to audit observations and recommendations
- Indication of observations that affect the audit opinion (when qualified, adverse or disclaimer opinion is given)
In addition to the above general assessment, additional specific steps could include the following:
- Review expenditures made by the Recipient Institution and assess whether they are in accordance with the grant Agreement
- 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 grant agreement
- Review the process for recruiting Recipient Institution personnel and consultants and assess whether it was transparent and competitive.
- Review the Recipient Institution 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 financial report.

G. Qualifications of an Auditor

The Audit Firm should be registered with the Institute of the Chartered Accountants of Nepal (ICAN). The Principal of the audit firm should have development field audit experience. The audit of the each Recipient Institution shall be led by Professional Accountants such as Chartered Accountant (CA), Chartered Certified Accountant (CCA) or Certified Public Accountant (CPA).

The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. The auditor should not, during the period covered by the audit nor 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. It may be appropriate to remind an auditor of any existing statutory requirements relating to independence and to require an auditor to disclose any relationship that might possibly compromise his/her independence.

The auditor should be experienced in applying either ISA or INTOSAI audit standards, whichever is applicable for the audit. The auditor 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.

Curriculum vitae (CVs) should be provided to the client 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. It would be appropriate to indicate required/minimum professional qualifications necessary for the senior auditors/principals responsible for the audit. CVs should include details on audits carried out by the applicable staff, including on-going assignments indicating capability and capacity to undertake the audit.

H. Sample Audit Report

The Resident Representative UNDP

Format for Financial Certifications

I. Sample Certification for Statement of Expenditure

REPORT OF THE INDEPENDENT AUDITORS TO UNDP [insert Recipient Institution]

We have audited the accompanying Statement of Financial Report ("the statement") of the Recipient Institution for the period [insert period covered].

Management is responsible for the preparation of the statement for <name/title> Recipient Institution 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 applicable Standards on Auditing. 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 Recipient Institution'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 Recipient Institution'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

Clean Opinion: Option 1: (Unmodified)

In our opinion, the attached statement of expenditure presents fairly, in all material respects, the expenditure of [insert amount in NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] 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 Recipient Institution budgets; (ii) for the approved purposes of the Recipient Institution ; (iii) in compliance with the relevant 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 expenditure, 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 expenditure of [insert amount in NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] for the period [insert period covered] in accordance with 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 expenditure does not give a true and fair view of the expenditure of [insert amount in NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] 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 expenditure of [insert amount in NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] and audited by us for the period from [insert period covered].

Emphasis of Matter [if applicable]

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

Auditor's Signature

Date of the auditor's report

Auditor's address

II. Sample Certification for Statement of Assets (If applicable)

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

Management is responsible for the preparation of the statement for <name/title> Recipient Institution 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 applicable Standards on Auditing. 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 Recipient Institution'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 Recipient Institution'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 Recipient Institution [insert official title of Recipient Institution] amounting to [insert

amount in NPR] as at [insert date].in accordance with accounting policies [if needed add: set out in the note to the schedule].

Modified Opinions

Option 2: (Qualified opinion)

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 NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] 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 expenditure of [insert amount in NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] 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 NPR] incurred by the Recipient Institution [insert official title of Recipient Institution] and audited by us as at [insert date].

Emphasis of Matter [if applicable]

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 Signature

Date of the auditor's report

Auditor's address

III. Sample Certification of Cash/ Bank Balance

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

Management of <Recipient Institution name/title> Recipient Institution is responsible for the preparation of the statement for Recipient Institution 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 applicable Standards on Auditing. 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 Recipient Institution'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 Recipient Institution'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 Recipient Institution [insert official title of Recipient Institution] amounting to [insert amount in NPR] as at [insert date] in accordance with the UNDP accounting policies [if needed add: set out in the note to the statement].

Modified Opinions

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 NPR] as at [insert date] in accordance with the 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 NPR] 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 cash in the amount of [insert amount in NPR] audited by us as at [insert date].

Emphasis of Matter [if applicable]

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 Signature

Date of the auditor's report

Auditor's address

This report is intended solely for the information and use of UNDP and the Recipient Institution.

Date of issuance: _____

AUDITOR'S NAME (Please print): _____

AUDITOR'S SIGNATURE: _____

STAMP AND SEAL OF AUDIT FIRM: _____

AUDIT FIRM ADDRESS: _____

AUDIT FIRM TEL. NO. _____

I. 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 expenditure incurred and reported in the financial statements

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.

J. Guidance on Formulating Audit Observations

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 5 common elements:

- 1) Condition;
- 2) Criteria;
- 3) Cause;
- 4) Effect, potential impact or Risk; and
- 5) Recommendation.

Items 1 to 4 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."

CAUSE

As the name suggests, the cause statement explains why the identified problem occurred in the first place. The cause is probably the most critical attribute of the finding form. Without determining why the condition occurred, the situation cannot be properly remedied.

In documenting the cause, the auditor should identify the underlying reason behind the problem. A surface explanation that fails to uncover the root cause will not lead to an effective recommendation.

In addition, a quote from an appropriate individual could serve as the cause statement, i.e. why the condition has occurred. Some audit managers consider only a cause statement from management as appropriate, while others prefer a statement from the individual who actually performs the respective task. It is usually preferred to obtain both points of view, since such an approach is more likely to identify the root cause of the problem.

Possible Causes

In addition to explaining the and giving details about the "Cause" in the text of an audit observation, UNDP requires that the auditor also summarizes the cause statement in the audit report by using one of the following 9 pre-established cause statements:

1. **Lack of/or inadequate policies/procedures/guidelines**
2. **Lack of/or inadequate guidance/supervision at the Recipient Institution level**
3. **Inadequate guidance/monitoring at UNDP country office level**
4. **Lack of/or insufficient resources (specify: financial, human or, technical resources)**
5. **Inadequate planning**
6. **Inadequate training**
7. **Human error**
8. **Intentional overriding of internal controls**
9. **Inadequate management structure**

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:

RECOMMENDATION

- | | |
|---------------|--|
| 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. |

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 auditee's 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.