REQUEST FOR PROPOSAL (RFP 010/21)

<table>
<thead>
<tr>
<th>NAME &amp; ADDRESS OF FIRM</th>
<th>DATE: January 26, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>REFERENCE: HACT Financial Audit of UNDP Armenia NIM Projects</td>
</tr>
</tbody>
</table>

Dear Sir / Madam:

We kindly request you to submit your Proposal for **HACT Financial Audit of UNDP Armenia NIM Projects (the detailed TOR is attached separately as Annex 1a)**.

Please be guided by the form attached hereto as Annex 2, in preparing your Proposal.

Proposals may be submitted on or before 9th of February 2021, 4:00 pm local Yerevan time (GMT +4) via email only: to the following e-mail address: 
tenders.armenia@undp.org

No hardcopies are accepted.

Please note that proposals received through any other e-mail address will not be considered. Your Proposal must be expressed in the English, and valid for a minimum period of 60 calendar days.

In the course of preparing your Proposal, it shall remain your responsibility to ensure that it reaches the address above on or before the deadline. Proposals that are received by UNDP after the deadline indicated above, for whatever reason, shall not be considered for evaluation. If you are submitting your Proposal by email, kindly ensure that they are signed and in the .pdf format, and free from any virus or corrupted files.

Services proposed shall be reviewed and evaluated based on completeness and compliance of the Proposal and responsiveness with the requirements of the RFP and all other annexes providing details of UNDP requirements.

The Proposal that complies with all of the requirements, meets all the evaluation criteria and offers the best value for money shall be selected and awarded the contract. Any offer that does not meet the requirements shall be rejected.
Any discrepancy between the unit price and the total price shall be re-computed by UNDP, and the unit price shall prevail and the total price shall be corrected. If the Service Provider does not accept the final price based on UNDP’s re-computation and correction of errors, its Proposal will be rejected.

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 Proposal. 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 Contract or Purchase Order that will be issued as a result of this RFP shall be subject to the General Terms and Conditions attached hereto. The mere act of submission of a Proposal implies that the Service Provider accepts without question the General Terms and Conditions of UNDP, herein attached as Annex 3.

Please be advised that UNDP is not bound to accept any Proposal, nor award a contract or Purchase Order, nor be responsible for any costs associated with a Service Providers preparation and submission of a Proposal, regardless of the outcome or the manner of conducting the selection process.

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 Service Provider to prevent and avoid 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, cost estimates, and other information used in this RFP.

UNDP implements a zero tolerance on fraud and other proscribed practices, and is committed to preventing, identifying and addressing all such acts and practices against UNDP, as well as third parties involved in UNDP activities. UNDP expects its Service Providers 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 Proposal.

Sincerely yours,

Procurement Unit
UNDP Armenia
## Description of Requirements

<table>
<thead>
<tr>
<th>Context of the Requirement</th>
<th>HACT Financial Audit of UNDP Armenia NIM Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Partner of UNDP</td>
<td>N/A</td>
</tr>
<tr>
<td>Brief Description of the Required Services</td>
<td>As per TOR (Annex 1a)</td>
</tr>
<tr>
<td>List and Description of Expected Outputs to be Delivered</td>
<td>According to the TOR (Annex 1a)</td>
</tr>
<tr>
<td>Person to Supervise the Work/Performance of the Service Provider</td>
<td>UNDP Operations Manager</td>
</tr>
<tr>
<td>Location of work</td>
<td>☒ 14 Petros Adamyan str. Yerevan, Armenia</td>
</tr>
<tr>
<td>Expected duration of work</td>
<td>35 days</td>
</tr>
<tr>
<td>Target start date</td>
<td>February 22, 2021</td>
</tr>
<tr>
<td>Latest completion date</td>
<td>March 31, 2021</td>
</tr>
<tr>
<td>Facilities to be Provided by UNDP (i.e., must be excluded from Price Proposal)</td>
<td>☒ Office space and facilities</td>
</tr>
<tr>
<td>Implementation Schedule indicating breakdown and timing of activities/sub-activities</td>
<td>☒ Required</td>
</tr>
</tbody>
</table>
| Names and curriculum vitae of individuals who will be involved in completing the services | ☒ Required
At least 5 ACCA Members |
| Currency of Proposal | ☒ United States Dollars
☒ Local Currency |
| Value Added Tax on Price Proposal¹ | ☒ must be exclusive of VAT and other applicable indirect taxes |
| Validity Period of Proposals (Counting for the last day of submission of quotes) | ☒ 60 days
In exceptional circumstances, UNDP may request the Proposer to extend the validity of the Proposal beyond what has been initially indicated in this RFP. The Proposal shall then confirm the extension in writing, without any modification whatsoever on the Proposal. |
| Partial Quotes | ☒ Not permitted |

¹ VAT exemption status varies from one country to another. Pls. check whatever is applicable to the UNDP CO/BU requiring the service.
<table>
<thead>
<tr>
<th>Payment Terms</th>
<th>100% upon submission of final reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person(s) to review/inspect/approve outputs/completed services and authorize the disbursement of payment</td>
<td>Artashes Darbinyan, Operations Manager, UNDP</td>
</tr>
</tbody>
</table>
| Type of Contract to be Signed | ☒ Institutional Contract  
☒ Long-Term Agreement² |
| Criteria for Contract Award | ☒ Highest Combined Score (based on the 70% technical offer and 30% price weight distribution)  
☒ Full acceptance of the UNDP Contract General Terms and Conditions (GTC). This is a mandatory criteria and cannot be deleted regardless of the nature of services required. Non acceptance of the GTC may be grounds for the rejection of the Proposal. |
| Criteria for the Assessment of Proposal | Technical Proposal (70 points)  
☒ Profile of the Firm (at least 5 years of general experience, experience in conducting similar assignments) **20 points**  
☒ Methodology, Its Appropriateness to the Condition and Timeliness of the Implementation Plan **15 points**  
☒ Management Structure and Qualification of Key Personnel (involvement of at least 5 ACCA members is a must) - **30 points**  
☒ The schedule of audit engagement, assessed in terms of its responsiveness to the schedule requirements of UNDP **5 points** |
| Financial Proposal (30 points) | Audit firm is required (mandatory) to present the price formulation methodology (see Annex 2 para D). The firms that have not presented the price formulation methodology will be disqualified. |
| UNDP will award the contract to: | ☒ One and only one Service Provider |
| Annexes to this RFP³ | ☒ Form for Submission of Proposal (Annex 2)  
☒ General Terms and Conditions (Annex 3)  
☒ Detailed TOR (Annex 1a) |

² Minimum of one (1) year period and may be extended up to a maximum of three (3) years subject to satisfactory performance evaluation. This RFP may be used for LTAs if the annual purchases will not exceed $100,000.00.  
³ Where the information is available in the web, a URL for the information may simply be provided.
| Contact Person for Inquiries (Written inquiries only) | Procurement Unit  
UNDP Armenia  
procurement.armenia@undp.org |
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>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.</td>
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</tbody>
</table>

\(^4\) 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.
Annex 1a

United Nations Development Programme
Office of Audit and Investigations

TERMS OF REFERENCE FOR HACT FINANCIAL AUDITS
of UNDP ARMENIA NIM Projects

January 2021
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INTRODUCTION

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

This TOR highlights requirements in the audit services required (Part E and Annex 1) as well as areas to be covered in the audit report and management letter (Part F and Annex 3), as follows:

- Auditors must certify, express an opinion, and quantify the Net Financial Misstatement (NFM) on each of the following:
  - UNDP Statement of Expenses - the Combined Delivery Report (CDR) - for the period 1 January to 31 December 2020. For projects included in the audit plan under ‘once in a lifetime’ category, the audit must cover cumulative expenses from the start of the project activities through 31 December 2020.
  - Statement of Cash Position reported by the project as at 31 December 2020
  - Statement of Assets and Equipment as at 31 December 2020

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

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

Follow-up to resolve Audit Observations

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

A Critical Audit Requirement

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

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

Under Annex 1a:

- **Annex 1** provides the audit services required and standard scope of audit.
- **Annex 2** describes the qualifications of an auditor and may help in the process of selecting auditors. Where the TOR is being supplied to a short list of firms as part of a request for proposals (RFP) and the firms short listed have been pre-qualified, then the list of qualifications would not be needed.

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5 A “modified” audit opinion means either a qualified opinion, a disclaimer of opinion or an adverse opinion.
Annex 3 provides a definition of audit opinions (ISA 700).
Annex 5 provides guidance on Reporting Prior Year Modified opinion not corrected (ISA 450 and 710).
Annex 6 defines the three risk categories of audit observations and recommendations.
Annex 7 provides a template sample of certified prior year updated action plan (FY2016) that needs to be uploaded in CARDS.
Annex 8 provides a template for audit data and observations for FY2019 audits that auditors need to submit and the CO copy paste in CARDS the information.
Annex 9 provides guidance on formulating audit observations and recommendations.
Annex 10 provides guidance on Audit Materiality (ISA 320 and 450).
A. Background

In accordance with the selection criteria of Articles IV and XVI of the United Nations Development Programme (UNDP) Financial Regulations and Rules, all projects with national implementation modality are subject to an audit at a certain period of their lifetime.

The Government of the Republic of Armenia and the UNDP Armenia Country Office signed a Country Programme Document (CPD) and a Country Programme Action Plan (CPAP) for 2016-2020, where mutual agreement is reached on the programme direction, development outcomes and outputs to be achieved with UNDP's support. The documents also lay the overall legal ground for UNDP activities in the country.

It has been agreed that the CPD and CPAP will be nationally executed under the overall coordination of the Ministry of Foreign Affairs (Government Coordinating Agency). Government ministries, NGOs, IGOs, UN agencies including UNDP can implement the programme activities. The Government Coordinating Agency nominates the Government Cooperating Agency directly responsible for the Government’s participation in each UNDP assisted project formalized in a project document or an Annual Workplan (AWP).

The project documents and AWPs describe the specific results to be achieved and form the basic agreement between UNDP and each implementing partner on the use of resources within the framework of a project.

The implementing partners are responsible and accountable for: a) managing programme activities; b) the effective use of resources; and c) achieving programme outputs. UNDP has to ensure that: a) activities undertaken by implementing partners within the framework of each project are conducted in line with AWPs; b) resources are managed in line with UNDP Financial Rules and Regulations and Programme and Operations Policies and Procedures, UNDP support to implementation is provided accordingly; and c) monitoring and evaluation is conducted on a regular basis.

TOR is directed to the audit of UNDP financial statements, which are referred to as Combined Delivery Reports (CDR). The following projects are included in the FY2020 audit plan (expenses in USD):

<table>
<thead>
<tr>
<th>Project Number and Title</th>
<th>Output Number</th>
<th>Selection Category</th>
<th>Prior Years Expenses</th>
<th>FY2020 expenses</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>00110246 – Women and Youth for Inclusive</td>
<td>00109273</td>
<td>OIL</td>
<td>81,018</td>
<td>289,404</td>
<td>369,422</td>
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<tr>
<td>TOTAL</td>
<td></td>
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B. Project Management

While the projects included in the audit plan are all nationally implemented, it has been agreed between UNDP and the Government of Armenia that the UNDP country office will provide support services in conducting procurement and recruitment activities. Hence, UNDP procurement and recruitment modalities are applied in all recruitment and procurement activities, contracts are signed by the UNDP country office and payments are made to vendors or third parties for obligations incurred by UNDP.

Details of the projects to be audited, with the mention of senior representatives of the implementing partner and project coordinator is presented below:
The three disbursement sources include:

1. Implementing partner (either Government or NGO)

UNDP procedures require that where funds are advanced to the executing agency, the agency must submit to the UNDP 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 through the year as the financial reports are received. These implementing partner disbursements are recorded in the Government expenses column in the CDR.

2. UNDP (country office, headquarters and 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 column in the CDR. These disbursements may be classified as either direct payments or UNDP support services. This distinction, while very important for audit purposes, is not apparent from the CDR and can only be provided by the UNDP country office as a supporting schedule. A brief description of each category is provided below.

C. Consultations with concerned parties

Prior to the start of audit work the auditor 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 to debrief on its major findings from the audit and its recommendations for future improvements as well as to seek feedback thereon.

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

The auditor is expected to audit the CDRs and supporting schedules (see below), statements of cash position, and the statements of assets and equipment.

Description of the Combined Delivery Report and Supporting Schedules

The report to be audited is referred to as the Combined Delivery Report (CDR). This report is prepared by UNDP, using an in-house accounting software package called 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 expenses from three disbursement sources for a calendar year. Refer to the section below on changes to the CDR since the adoption of the International Public Sector Accounting Standards (IPSAS) by UNDP effective 1 January 2012. The three disbursement sources include:

1. Implementing partner (either Government or NGO)

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

b) UNDP Support Services - This is where the government and UNDP have agreed that UNDP will provide support services to the project and signed a Letter of Agreement. These support services are described in the Letter of Agreement which makes part of the 2016-2020 Country Programme Action Plan (CPAP) between the Government of Armenia and UNDP, signed on 11 April 2016. UNDP is fully responsible and accountable for these expenses and, accordingly, maintains all supporting documentation for the disbursement. **These transactions 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.**

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 expense column in the CDR. Note: Any expenses under this column are outside the auditors’ scope of audit. UN entities are audited under their own audit arrangement, following the ‘Single Audit’ principle and are not covered by UNDP’s audit regime.

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

1. The quarterly financial reports submitted by the implementing partner.
2. A list of the direct payments processed by UNDP at the request of the implementing partner.
3. A list of the disbursement made by UNDP as part of support services provided to the implementing partner.
4. The UN agency expenses statement for the year.
5. Relevant financial reports that show 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 are responsible for validating certain areas of the information appearing in the second section of the CDR.

**Outstanding NEX advances** – If there is an amount appearing under this category, the auditors should reconcile it to the cash at hand at the project level. In principle, this amount should represent the balance of any advances transferred to the implementing partner minus the total expenses reported in the quarterly financial reports submitted by the implementing partner to UNDP.
Un-depreciated Fixed Assets – There could be cases where fixed assets that belong to or are used by the project are under UNDP’s control (i.e. in situations where UNDP is providing support services to the project and there is no signed Letter of Agreement, as an example). If there is an amount appearing on the CDR under this category, the auditors should investigate and determine that these assets are project related or not and, if project related, should perform the same audit procedures to validate the assets as those undertaken for the certification of the Statement of Assets and Equipment. Please refer to the Programme and Operations Policies and Procedures (POPP) section on “Administrative Services/Asset Management/Property Plan and Equipment/Furniture and Equipment Acquisition and Maintenance” for information regarding the custody/control/ownership of assets.

Inventory – Similar to the case of Un-depreciated Fixed Assets, there may be situations where certain items of inventory that were acquired for the project are temporarily under UNDP’s control/custody. If there is an amount under this category, the auditors should determine the nature of the inventory and whether or not it is intended for the project. If it is determined that the inventory is project related, then the same audit procedures fort the certification of the Statement of Assets and Equipment should be applied. Please refer to the aforementioned section of the POPP on asset management as well as the section on “Financial Resources/Inventory Management” for additional guidance as necessary.

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

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

E. Audit Services Required

The scope of the audit services required is the following:

- An entity that is subject to audit is the project office whether located in a government building, in the UN House, or in a separate location.
- The audit will be carried out in accordance with either ISA6 or INTOSAI7 auditing standards.
- The audit period is 1 January to 31 December of the year 2020. For projects included in the audit plan under ‘once in a lifetime’ category, the audit must cover cumulative expenses from the start of the project activities through 31 December 2020.
- The scope of the audit is limited to the implementing partner expenses, which are defined as including: (1) all disbursements listed in the quarterly financial reports submitted by the implementing partner; and (2) the direct payments processed by UNDP at the request of the implementing partner. UNDP support services provided to projects, e.g. procurement and recruitment processes, are outside the scope of the audit. The transactions related to payments for public utilities and IT, as well as for any common services, which UNDP has made on behalf of projects, also make part of support services and are outside the scope of the audit.
- The auditor is required to verify the mathematical accuracy of the CDR by ensuring that the expenses described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the request of the government) are reconciled to the expenses, by disbursing source, in the CDR.
- The auditor is required to state in the audit report the amount of expenses excluded from the scope of the audit because they were made by UNDP as part of direct support services and the amount of total expenses excluded because they were made by a UN agency. This scope limitation is not a valid reason for the auditors to issue a qualified audit opinion on the CDR.
- The auditor is required to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.
- 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 2020 and will certify:
  1. The statement of expenses (the CDR) for the period from 1 January to 31 December 2020;

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6 International Standards of Auditing (ISA) published by the International Auditing and Assurance Standards Board of the International Federation of Accountants
7 International Organization of Supreme Audit Institutions
2. The statement of cash position (cash and bank balances of the project) reported by the projects as at 31 December 2020;
3. The statement of assets and equipment held by the project as at 31 December 2020.

- 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 statement of expenses (Combined Delivery Report) where applicable. This should also include prior year non-resolved NFM.
- The auditor is required to submit a draft audit report by 26 March 2021 and a final signed audit report with signed UNDP statements by 02 April 2021.

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

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

**F. The Audit Report and Management Letter**

**Audit Report**

The audit report should clearly indicate the auditor’s opinion (Refer to Annex 3 for a sample Audit Report). This would include at least the following:

- That it is a special purpose and confidential report
- The audit standards that were applied (ISAs, or national standards that comply with one of the ISAs in all material respects)
- The period covered by the audit opinion
- The amount of expenses audited
- The amount of the net financial misstatement of the modified audit opinion on the CDR, if modified
- The reason(s) resulting in the issuance of a modified audit opinion, qualified, adverse or disclaimer of opinion (the reason(s) must be also included in the management letter as an audit observation(s))
- The scope limitation (description and value) for those transactions that are the responsibility of UNDP (as part of direct CO support services to NIM) or a UN agency. Important to note: Such scope limitation should not be reason for a qualified audit opinion as such transactions would be, in general, excluded from the audit scope
- Whether the UNDP Combined Delivery Report - for the period from 1 January to 31 December 2019 is adequately and fairly presented and whether the disbursements are made in accordance with the purpose for which funds were allocated to the project.

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

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

- Whether the result of the prior year’s audits resulting in modified audit opinions on the CDR had conclusive actions to properly address an audit qualification in the previous year audit and the related Net Financial Impact. 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.

- Expression of an opinion on the value and existence of the project’s statement of assets and equipment as at a given date. This statement must include all assets and equipment available as at 31 December 2020, and not only those purchased in a given period. Where a project does not have any assets or equipment, it will not be necessary to express such an opinion; however, this should be disclosed in the audit report.

- Express an opinion on the value and existence of the cash held by the project as at a given date, i.e. 31 December 2020. The Audit Firm is required to express and opinion on the Statement of Cash Position where a dedicated bank account for the 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 on Auditing (ISA).

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

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

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).

The management letter should also include the following:

- Audit observations/recommendations (guidelines in Annex 9)

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

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

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

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

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

- Review annual and quarterly work plans, quarterly and annual financial reports, and requests for direct payments and assess in terms of their timeliness and their compliance with the project document or the AWP, and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management.
- Review the annual project report prepared by the implementing partner and assess in terms of compliance with UNDP guidelines and whether the implementing partner met its responsibilities for monitoring described in the project document or AWP.
- Review whether the decisions and/or recommendations of the above activities have been followed through by the implementing partner.
- Review the pace of project progress and comment on the causes for delays.
- Comment on whether implementation services of the UN Agency were provided in line with the project document or AWP.

**Assessment of internal control**

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

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

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

**Recommendations for improvement**

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

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

**Available Facilities and Right of Access**

The auditor will be granted full access at any time to records and documents (including books of account, legal agreements, minutes of committee meetings, invoices and contracts etc.) and all employees of the entity.
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 UNDP and include the following:

- As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders
- Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment
- Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective
- Management and control over the variation orders

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

**Asset Management**

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

**Cash Management**

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

**General Administration**

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

**Note:** The above scope shall cover those transactions performed at the level of the project to include direct payments made by the UNDP 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) are **not** to be included in the audit scope.

**Important note:** Such scope limitation should not be a reason for issuing a modified audit opinion by the auditors. Please refer to Section D.
ANNEX 2: QUALIFICATIONS OF AN AUDITOR

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. The auditor is required to disclose any relationship that might possibly compromise their 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.
ANNEX 3: SAMPLE AUDIT REPORT

Independent Auditor’s report to:

The National Project Director and
The Resident Representative

I. Sample Independent Auditor’s Report on Statement of Expenses (UNDP CDR)

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

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

Opinion

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

Modified Opinions (Refer to ISA 705)

Option 2: (Qualified opinion)
In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the attached statement of expenses presents fairly in all material respects the expenses of [insert amount in US$] incurred by the project [insert official title of project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add: and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Option 3: (Adverse opinion)
In our opinion, based on the significance of the matter discussed in the Basis for opinion section of our report, the statement of expenses do not present fairly the expenses of [insert amount in US$] incurred by the project [insert official title of project] for the period from [insert period covered].

Option 4: (Disclaimer of opinion)
We do not express an opinion on the accompanying statement of expenses. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of expenses of [insert amount in US$] incurred by the project [insert official title of project] and audited by us for the period from [insert period covered].

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

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

Management responsibilities

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

Auditor’s responsibilities

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

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

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

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

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

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

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

__________________
Auditor’s Name and Signature

__________________
Date of the auditor’s report

__________________
Auditor’s address

II. Sample Independent Auditor’s Opinion on Statement of Assets and Equipment (Refer to ISA 700)
We have audited the accompanying statement of assets and equipment (“the statement”) of the project number [insert project and project number(s)], [insert official title of project] as at [insert date].

Opinion

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

Modified Opinions (Refer to ISA 705)

Option 2: (Qualified opinion)
In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of assets and equipment presents fairly, in all material respects, the balance of inventory of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Option 3: (Adverse opinion)
In our opinion, because of the significance of the matter discussed in the Basis for opinion section of our report, the accompanying statement of assets and equipment does not present fairly the assets status of the project [insert official title of the project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Option 4: (Disclaimer of opinion)
We do not express an opinion on the accompanying statement assets and equipment. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of assets and equipment amounting to [insert amount in US$] as at xxxx [insert date].

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

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

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

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

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

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

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

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

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

________________________
Auditor’s Name and Signature

________________________
Date of the auditor’s report

________________________
Auditor’s address

---

**III. Sample Independent Auditor’s Report on 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 position (“the statement”) of the project number [insert project and project number(s)], [insert official title of project] as at XXX.

**Opinion**

**Clean Opinion: Option 1: (Unmodified)**

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

**Modified Opinions (Refer to ISA 705)**

Option 2: (Qualified opinion)
In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of cash position presents fairly, in all material respects, the cash and bank balance of the project [insert official title of project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 3: (Adverse opinion)

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

Option 4: (Disclaimer of opinion)

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

Basis for opinion

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

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

Management responsibilities

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

Auditor’s responsibilities

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

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

- Identify and assess the risks of material misstatement of the statement of cash position, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization’s internal control.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Emphasis of Matter [if applicable (Refer to ISA 706)]**
We draw attention to Note X to the statement of cash position which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

__________________________
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) unmodified, (b) qualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than “unmodified” the audit report must describe both the nature and amount of the possible effects on the UNDP financial statement (CDR) (Amount of qualification). A definition of audit opinions is provided in Annex 4.
ANNEX 4: DEFINITION OF AUDIT OPINIONS

Unmodified (Clean) Opinion (ISA\(^8\) 700)
An unmodified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.
An unmodified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

Emphasis of Matter (ISA 706)
If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.
An emphasis of matter is not considered a modified opinion.

Qualified Opinion (ISA 705)
The auditor expresses a qualified opinion when:

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

Disclaimer of opinion (ISA 705)
The auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Adverse Opinion (ISA 705)
The auditor shall express an adverse opinion when, having obtained sufficient appropriate audit evidence, s/he concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

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

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

Following the International Standards on Auditing (ISA) 450 and ISA 710 that came into effect on December 2010 there is a requirement regarding a previous year modified audit opinion.\(^9\) This audit standard requires

\(^{8}\) ISA = International Standards on Auditing
\(^{9}\) A “modified” audit opinion means either a qualified opinion, a disclaimer of opinion or an adverse opinion.
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.

**ANNEX 6: Priority of Audit Observations and Recommendations**

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Prompt action is required to ensure that UNDP is not exposed to high risks, i.e. failure to take action could result in major negative consequences and issues.</td>
</tr>
<tr>
<td>Medium</td>
<td>Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.</td>
</tr>
<tr>
<td>Low</td>
<td>Action is desirable and should result in enhanced control or better value for money.</td>
</tr>
</tbody>
</table>
ANNEX 7  TEMPLATE FOR AUDITORS TO REVIEW AND SIGN THE UPDATED ACTION PLANS FOR PRIOR YEAR AUDIT OBSERVATIONS AND RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Award no.:</th>
<th>Output No.:</th>
<th>Opinion Type:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obs No</td>
<td>Observation</td>
<td>Recommendation</td>
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Implementing Partner (IP)  
UNDP Country Office  
Government Auditors/Audit Firm

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:  

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’s audit recommendation called for the need to perform monthly bank reconciliation. However the following year, the auditor notes that the bank account has been closed. “Withdrawn” would be used if there is an overall change in a project’s working environment that makes last year’s audit observation and recommendation no longer valid. “Withdrawn” is very rarely used.
ANNEX 8: TEMPLATE FOR AUDIT DATA AND OBSERVATIONS

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

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

<table>
<thead>
<tr>
<th>UNDP Combined Delivery Report (CDR) as at 31 December 2020</th>
</tr>
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<tbody>
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<td>1</td>
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</table>

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

<table>
<thead>
<tr>
<th>Statement of Cash Position</th>
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</thead>
</table>


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

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Output No.</th>
<th>Value of assets and equipment as at 31 December 2020 (cumulative from project start date) (US$)</th>
<th>Audit Opinion - Statement of Assets and Equipment</th>
<th>Total amount of qualification on the Statement of assets and equipment (US$)</th>
</tr>
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### Table 4 - Template for auditors to report on current year audit observations and recommendations

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Output No.</th>
<th>Observ. No</th>
<th>Audit Observation</th>
<th>Recommendation</th>
<th>Audit Area</th>
<th>Risk Severity</th>
<th>Project/CO Mgmt. Comments</th>
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</thead>
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</table>

Name and position of Auditor: ____________________________

Signature of Auditor: ____________________________ Date: ____________________________

Name and stamp of Audit Firm: ____________________________
ANNEX 9: GUIDANCE OF FORMULATING AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

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

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

CONDITION

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

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

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

CRITERIA

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

EFFECT, POTENTIAL IMPACT OR RISK

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

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

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

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

**High**
Prompt action is required to ensure that UNDP is not exposed to high risks, i.e. failure to take action could result in major negative consequences and issues.

**Medium**
Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

**Low**
Action is desirable and should result in enhanced control or better value for money.

RECOMMENDATION

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

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

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

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

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

ADDITIONAL TIPS

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

Playing devil’s advocate can be an extremely helpful exercise. After completing the audit observation and recommendation, auditors should place themselves in the auditees’ shoes and challenge/question the validity of the issue. If the issue cannot stand up to this exercise, it probably should not be included in the audit report.
ANNEX 10: GUIDANCE ON AUDIT MATERIALITY (ISA 320, 450)

ISA 320

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

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

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

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

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

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

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

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

ISA 450

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

Each individual misstatement is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.
The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

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

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

(This Form must be submitted only using the Service Provider’s Official Letterhead/Stationery)

To: UNDP Procurement Unit

Dear Sir/Madam:

We, the undersigned, hereby offer to render the following services to UNDP in conformity with the requirements defined in the RFP dated [specify date], and all of its attachments, as well as the provisions of the UNDP General Contract Terms and Conditions:

A. Qualifications of the Service Provider

The Service Provider must describe and explain how and why they are the best entity that can deliver the requirements of UNDP by indicating the following:

a) Profile – describing the nature of business, field of expertise, licenses, certifications, accreditations;
b) Business Licenses – Registration Papers, Tax Payment Certification, etc.
c) Latest Audited Financial Statement – income statement and balance sheet to indicate its financial stability, liquidity, credit standing, and market reputation, etc.;
d) Track Record – list of clients for similar services as those required by UNDP, indicating description of contract scope, contract duration, contract value, contact references;
e) Certificates and Accreditation – including Quality Certificates, Patent Registrations, Environmental Sustainability Certificates, etc.
f) Written Self-Declaration that the company is not in the UN Security Council 1267/1989 List, UN Procurement Division List or Other UN Ineligibility List.

B. Proposed Methodology for the Completion of Services

The Service Provider must describe how it will address/deliver the demands of the RFP; providing a detailed description of the essential performance characteristics, reporting conditions and quality assurance mechanisms that will be put in place, while demonstrating that the proposed methodology will be appropriate to the local conditions and context of the work.

C. Qualifications of Key Personnel

10 This serves as a guide to the Service Provider in preparing the Proposal.
11 Official Letterhead/Stationery must indicate contact details – addresses, email, phone and fax numbers – for verification purposes
the Service Provider must provide:

a) Names and qualifications of the key personnel that will perform the services **(at least 5 ACCA members)** indicating who is Team Leader, who are supporting, etc.;  
b) CVs demonstrating qualifications must be submitted if required by the RFP; and  
c) Written confirmation from each personnel that they are available for the entire duration of the contract.

D. **Price formulation methodology (mandatory requirement)**

**HACT Financial Audit financial proposal:**

Audit firm is required to present price formulation methodology, which takes as a base below sample list of projects to be audited to come up with the final audit amount.

Sample list of projects to be audited annually

<table>
<thead>
<tr>
<th>Project Number and Title</th>
<th>Output Number</th>
<th>Selection Category</th>
<th>Prior Years Expenses</th>
<th>FY2020 expenses</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>00110246 – Women and Youth for Inclusive</td>
<td>00109273</td>
<td>OIL</td>
<td>81,018</td>
<td>289,404</td>
<td>369,422</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>81,018</strong></td>
<td><strong>289,404</strong></td>
<td><strong>369,422</strong></td>
</tr>
</tbody>
</table>

For example price methodology may look like this:

t) Total Audit cost for a given year = a) Fixed Cost for total audit + b) Audit costs of Projects.  

b) Audit Cost for a project = c) Fixed Cost per Project + d) rate x amount of expenses audited.

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description/Specification of Goods</th>
<th>Quantity</th>
<th>Latest Delivery Date</th>
<th>Unit Price/currency/</th>
<th>Total Price per Item / currency /</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HACT Financial Audit</td>
<td>1</td>
<td>___ days</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Prices of Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>VAT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Final and All-Inclusive Price Quotation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

UNDP should be able to arrive at a final cost of a yearly audit using the formula presented.

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12 *Pricing of goods should be consistent with the INCO Terms indicated in the RFQ*
[Name and Signature of the Service Provider’s Authorized Person]
[Designation]
[Date]