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**Interoffice Memorandum**

To:	Ms. Katherine Grigsby Resident Representative UNDP, Bolivia	Date:	13 June 2014
From:	Guillermo Muñoz Chief OAI Regional Audit Center Latin America and the Caribbean Region Office of Audit and Investigations	Extension:	(507) 302-4527
Subject:	<b>Review of NGO/NIM Audits (FY2013)</b>	File:	Bolivia

I wish to thank the Country Office for its efforts to submit the audit reports by the 30 April 2014 deadline.

The detailed review of the NGO/NIM audit reports in Bolivia for the year 2013 is attached. Please note that the overall rating of the audit outcome for Bolivia is **"satisfactory"**.

A total of five projects were planned for audit and the auditors provided "unqualified" opinions for all the projects in respect of the FY2013 CDR. Additionally, as a result of unresolved observations that led to a modified audit opinion in the prior year, the NFI amount of \$14,516 was added by the NIM auditors. This matter is of utmost concern and must be resolved by the CO and project management so that this NFI amount will not be carried over to future audits.

With regard to the Statement of Cash Position, the auditors provided an "unqualified" opinion for one out of the five projects. An audit opinion was not applicable for the remaining four projects (57328, 72454, 63594, and 62429) since they did not maintain/hold any cash/petty cash or bank account.

The auditors provided an "unqualified" opinion in respect of the Statement of Assets and Equipment for three out of the five projects. For the remaining two projects (57328 and 63594), an audit opinion was not applicable since they did not have any non-expendable equipment.

Current year action plan received a rating of "partially satisfactory". The prior year action plan received a rating of "unsatisfactory" since none of the prior year action plans were completely implemented. Please ensure a complete updated current year action plan is provided to the auditors for certification during next year's audit exercise.

Kindly note that using the CARDS system, it is possible to keep track and update the status of implementation of NGO/NIM audit observations directly in the system. Please ensure the status of implementation is kept current as much as possible throughout the year.

Any clarifications required with respect to this report should be addressed to Ms. Carolina Valmaggia ([carolina.valmaggia@undp.org](mailto:carolina.valmaggia@undp.org)).

We look forward to continued good results in next year's audit exercise.

Thank you for your cooperation.

cc: Ms. Jessica Faieta, Regional Director, RBLAC  
Mr. Jens Wandel, Assistant Administrator and Director, BOM  
Mr. Darshak Shah, Deputy Assistant Administrator, Deputy Director, Chief Finance Officer, BOM  
Ms. Judith Karl, Director, Operations Support Group  
Mr. Alberic Kacou, Chief of Staff and Director, Executive Office, OA  
Mr. Francis Kitauli, Director of External Audit, UNBOA  
Mr. Guillermo Muñoz, Chief of the OAI Regional Audit Center, Latina America and the Caribbean (LAC)  
Mr. Jonathan Ng, Audit Advisor, BOM

## OAI REVIEW OF NGO/NIM AUDIT REPORTS UNDP COUNTRY OFFICE IN BOLIVIA– FY2013

### 1. Purpose and scope of OAI review

The purpose of the OAI review of the reports pertaining to the audit of projects implemented by NGOs or national institutions (NGO/NIM) is to:

- a) Determine the overall outcome of the audits of the NGO/NIM projects (or outputs);
- b) Identify the main and common weaknesses reported by the auditors;
- c) Assess whether the areas covered by the auditors are aligned with OAI requirements;
- d) Assess whether the audits were properly administered by the Country Office; and
- e) Assess if appropriate action has been taken or planned to be taken on the observations and recommendations arising from the audit.

For the financial year 2013, OAI received from the Country Office five audit reports and related documents representing five NGO/NIM projects and \$2.9 million of expenses. A summary of the audit reports received and outstanding is included in Annex A.

The scope of the OAI review of the NGO/NIM audit reports included an in-depth review of a sample of three audit reports, with expenses totaling \$2.5 million, including, as applicable:

- a) Certified Combined Delivery Reports (CDRs);
- b) Certified Statement of Cash Position; and
- c) Certified Statement of Assets and Equipment.

OAI did not review the underlying audit working papers but based its review on the audit reports and certifications as submitted to OAI by the Country Offices.

### 2. OAI rating of the NGO/NIM audit exercise

As a result of its review, OAI rates the overall outcome of the audit to be **“satisfactory”**. This overall rating is based on the individual ratings assigned to four specific areas as shown in the table below:

Section	NGO/NIM Areas Reviewed	Rating	
		FY 2013	FY 2012
3 and 4	Strength of existing internal controls including:		
	- Materiality of Net Financial Impact - Severity of audit observations	Satisfactory Satisfactory	Unsatisfactory Satisfactory
5	Timely follow-up of audit observations	Unsatisfactory	Satisfactory
6	Compliance with audit scope requirement	Partially Satisfactory	Satisfactory
7	Timely administration of audit exercise	Satisfactory	Unsatisfactory
	Overall rating	Satisfactory	Partially Satisfactory

Please refer to Annexes B and C for details on the computation of the overall rating.

### **3. Audit opinions issued by NGO/NIM auditors and financial impact**

#### *Audit opinion on the Combined Delivery Report*

The auditors provided an “unqualified” opinion for all five projects audited.

As will be noted in Annex A with respect to the prior year, out of the five projects received, for project 44296 (GFATM) the auditors provided a “qualified” opinion with a net financial impact of \$14,516 (page 58 of the report). This NFI relating to unresolved issues that resulted in a modified audit opinion during the **prior year** must be disclosed herein.

This qualification for **prior year** was due to the following:

#### *Project 44296 (GFATM)*

The CDR was overstated by \$107,095 due to an incorrect booking of cash advances as expenditures. Adjustments were booked but there is an unresolved amount of \$14,516.

The issues attributable to the modified opinions that remain unresolved will be carried forward until they are satisfactorily resolved. The project management and the UNDP Country Office should address these issues as a priority.

#### *Audit opinion on the Statement of Cash Position*

The auditors provided an “unqualified” opinion in respect of one out of five projects received. An audit opinion was not applicable for the remaining four projects (57328, 72454, 63594, and 62429) since they did not maintain/hold any cash/petty cash or bank account.

#### *Audit opinion on the Statement of Assets and Equipment*

The auditors provided an “unqualified” opinion in respect of three out of five projects received. For the remaining two projects (57328 and 63594) an audit opinion was not applicable since they did not have any non-expendable equipment.

Annex A provides a summary of all the reports received and also shows the audit opinions on the Combined Delivery Report (CDR), Statement of Cash Position and Statement of Assets and Equipment. The net financial impact of qualification related to the CDR, if any, is reported as well as the number of audit observations and their distribution by high and medium risk severity.

### **4. Significant Observations**

OAI reviewed three audit reports which included five high risk and three medium risk observations, most in the area of Financial Management. The overall rating with regards to the assessment of severity of the NGO/NIM audit observations is “satisfactory”. Annex D provides the details of OAI assessment.

### **5. OAI Assessment of actions planned or taken to address the audit observations**

Based on the action plans submitted by the Country Office, OAI also assessed whether appropriate actions have been taken or are proposed to be taken in respect of audit observations and recommendations raised in the NGO/NIM audit reports. The OAI rating of this effort is shown in the table below:

Action taken to address Audit Outcome	Rating	
	FY 2013	FY 2012
Completeness of action to implement prior year audit observations	Unsatisfactory	Partially Satisfactory
Adequacy of actions planned to address current year audit observations	Partially Satisfactory	Partially Satisfactory
Overall rating	Unsatisfactory	Partially Satisfactory

Further details relating to the above are provided in Annexes E and F.

## 6. OAI assessment of the NGO/NIM audit scope

Compliance with the specimen Terms of Reference established by OAI was mandatory for the FY2013 NGO/NIM audits. The overall rating on the assessment of the audit scope is "**partially satisfactory**".

In our review of 2013 audit reports, we noted the following shortcomings with regard to the NGO/NIM audit scope:

- For project 44296 (GFATM), auditors did not provide enough information on the assessment of the prior year action plan implementation status.
- The auditors did not provided information regarding the pace of the project progress for project 44296 (GFATM).
- For project 44296 (GFATM), the auditors did not quantified the impact of the internal control weaknesses even when high risk observations were raised.

Annex G provides the details of OAI assessment.

## 7. OAI Assessment of the timeliness of the audit exercise

The overall rating of the administration of this year's audit exercise is "**satisfactory**".

The rating is computed using a weighted sum of a score assigned to each of the following three attributes:

Assessment of the Administration of the Audit Exercise	Deadline	Submission Date(s)	Rating
1 Timeliness of Audit Reports	30 April 2014	27 April 14	Satisfactory
2 Timeliness of Certified Action Plan submitted to OAI – Prior Year	30 April 2014	27 April 2014	Satisfactory
3 Timeliness of CO Action Plan submitted to OAI – Current Year	N/A	01 May 14	Satisfactory
Overall rating of the assessment of 2013 NIM audit exercise is 5.0 out of a total score of 5.0			<b>Satisfactory</b>

## 8. Acknowledgement

OAI wishes to express its appreciation to the UNDP Country Office in Costa Rica for its assistance and cooperation during the NGO/NIM audit exercise.

List of Annexes:

- Annex A FY2013 NGO/NIM audit summary
- Annex B Review Methodology
- Annex C Overall rating for the administration of the NGO/NIM audit exercise
- Annex D Severity of observations and areas of operations impacted
- Annex E Action to address prior year audit observations - Certified prior year action plan
- Annex F Actions to address current year audit observations - Current year action plan
- Annex G OAI assessment of the NGO/NIM audit scope

## ANNEX A - FY2013 NGO/NIM audit summary – Bolivia

	Project	Output	Reviewed by OAI	CDR Amount	Actual Audited Expenses	Audit Opinion (CDR)	Net Financial Impact current year	Net Financial Impact carried over (prior year)	Cash Position Balance	Cash Position Opinion	Assets and Equipment Balance	Assets and Equipment Opinion	Number of Observations	
													High	Medium
1	00057328 - Integración Productores Andino	00084063 - Emprendimientos Productivos 00070779 - Programa Integración Productor	Yes	\$1,089,764	\$1,089,764	Unqualified	\$0	\$0	\$0	N/A	\$0	N/A	0	0
2	00072454 - Fortalecimiento al Min Planificación	00085528 - Fortalecimiento al Min. Planificación	Yes	\$539,311	\$539,311	Unqualified		\$0	\$0	N/A	\$53,169	Unqualified	1	0
3	00044296 - FONDO MUNDIAL *	00066001 - FONDO MUNDIAL- MALARIA 8va	Yes	\$1,981,472	\$875,595	Unqualified	\$0	\$14,516	\$0	Unqualified	\$244,699	Unqualified	4	3
<b>Sub-total reviewed by OAI</b>				<b>\$3,610,547</b>	<b>\$2,504,670</b>		<b>\$0</b>	<b>\$14,516</b>	<b>\$0</b>		<b>\$297,868</b>		<b>5</b>	<b>3</b>
4	00063594 - IP Gobernanza Climática	00080596 - Gobernanza Climática	No	\$55,364	\$55,364	Unqualified	\$0	\$0	\$0	N/A	\$0	N/A	0	0
5	00062429 - Bolivia - PIMS 4197 conservación **	00079912 - Protección de la biodiversidad	No	\$430,375	\$430,375	Unqualified	\$0	\$0	\$0	N/A	\$154,926	Unqualified	0	0
<b>Sub-total not reviewed by OAI</b>				<b>\$485,739</b>	<b>\$485,739</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$154,926</b>		<b>0</b>	<b>0</b>
<b>Total</b>				<b>\$4,096,286</b>	<b>\$2,990,409</b>		<b>\$0</b>	<b>\$14,516</b>	<b>\$0</b>		<b>\$452,794</b>		<b>5</b>	<b>3</b>

\* GFTAM project

\*\* GEF project

## **ANNEX B: Review Methodology**

OAI review can result in an overall rating of either "satisfactory", "partially satisfactory" or "unsatisfactory". This overall rating is based on the ratings assigned to four specific attributes outlined below:

### *The strength of existing internal controls (to include (a) the materiality of the net financial impact and (b) the severity of the audit observations)*

#### (a) The materiality of the net financial impact

This measures the net financial impact of the qualifications rendered by the auditors as a percentage of the audited expenses. The net financial impact is the sum of all over and understatements of expenses for each project. Once the net financial impact of each project is obtained, these amounts are consolidated to arrive at a net figure (over or understatement) for the Country Office. These net amounts are then assessed in absolute terms (i.e. ignoring the sign of the financial impact (overstatement or understatement)). A ratio of 2% of the CDR expenses is rated as "unsatisfactory", between 1% and 2% is rated as "partially satisfactory" and below 1% is "satisfactory".

Pursuant to the new International Standard on Auditing 450, uncorrected net financial impact from prior years is disclosed for information. It has no impact on the rating of the Country Office.

#### (b) The severity of the audit observations

This takes into account the number of "high" and "medium" risk observations raised by the auditors. The risk level resulting from an audit observation depends on the probability of the threat being created by the internal control weakness and the potential impact on the organization if that threat is carried out.

### *The timely follow-up of audit observations*

This measures whether appropriate actions have been taken or are proposed to be taken in respect of audit observations and recommendations raised in the NGO/NIM audit reports. With regard to the prior year, Project managers/Country Offices are required to submit a certified statement showing what action has been taken on last year's audit issues and recommendations. The OAI assessment is based entirely on the statements made. The actions taken to address the audit observations are rated as either "implemented", "in progress" or "not implemented".

The current year action plan is required to be submitted to OAI by the Country Offices by 30 April 2014. OAI reviews the plan and determines if the planned action is likely to resolve the deficiencies identified in the audit report. The actions taken to address the current year observations are assessed as either "address", "partly address" or "not address".

### *The compliance with the audit scope requirement*

This determines whether the auditors complied with the minimum requirements set out in the "Specimen TOR for NGO/NIM Auditors" posted on the OAI website. This is to ensure that main financial and operational areas involved in any NGO/NIM project are adequately covered in the audit by the local external auditors.

### *The administration of the audit exercise*

This basically assesses the way in which the Country Office administered the audit process, with particular reference to: (a) timeliness of audit reports; and (b) timeliness of submission to OAI of action plans for addressing the issues and recommendations identified in the audit reports in respect of the prior and current years.

It should be noted that the qualitative ratings (satisfactory, partially satisfactory, unsatisfactory) mentioned above, are based on points and weighted averages of the points related to a number of pre-identified criteria that were either met or not met. Wherever possible, narrations of the deficiencies noted are also provided.

**ANNEX C: Overall rating for the administration of the NGO/NIM audit exercise**

The overall rating is included in the Review letter and in the Balanced ScoreCard and measures the Country Office performance on the management of the NGO/NIM projects audit.

The overall rating measures the Country Office performance on the management of the NGO/NIM projects audit.

The following four dimensions are used to assess the NGO/NIM audit results:

- A. Strength of existing internal controls
- B. Timely follow-up of audit observations
- C. Compliance with audit scope requirement
- D. Timely administration of audit exercise

Each of the four dimensions mentioned above is assessed as “satisfactory”, “partially satisfactory” or “unsatisfactory” based on the factors described in review methodology. From that assessment, a numerical value is assigned to each sub-indicator as follows:

Unsatisfactory	Partially Satisfactory	Satisfactory
1	2	3

The lower the score is, the weaker the performance or higher the risk. Each of the four sub-indicators are assessed independently and assigned a value based on the table above. To obtain an overall score, the values of these sub-indicators are weighted as follows:

Sub-Indicator	Assigned weighting
Strength of existing internal controls	60%
Timely follow-up of audit observations	20%
Compliance with audit scope requirement	10%
Timely administration of audit exercise	10%
<b>Overall Rating</b>	<b>100%</b>

Overall score	Overall Rating
2.34 – 3.00	Satisfactory
1.67 – 2.33	Partially Satisfactory
1.00 – 1.66	Unsatisfactory

*Explanation of individual ratings*

The four areas are assessed individually based on the scales provided below:

- A. Strength of existing internal controls

The overall rating for the strength of existing internal controls is based on a 60:40 ratio of the following two indicators respectively; (1) the materiality of the net financial impact of audit qualifications and (2) the severity of the audit observations.

(1) Materiality of net financial impact of audit qualifications

Score	Rating
Less than 1%	Satisfactory
Less than or equal to 2%	Partially Satisfactory
Greater than 2%	Unsatisfactory

(2) Severity of audit observationsHigh observations

Rating	Score	# of High observations
Satisfactory	3	3 or less
Partially Satisfactory	2	6 or less
Unsatisfactory	1	More than 6

Medium observations

Rating	Score	# of High observations
Satisfactory	3	6 or less
Partially Satisfactory	2	12 or less
Unsatisfactory	1	More than 12

Overall audit observations score

The score from High observations + the score from Medium observations/2

Score	Rating
3.00	Satisfactory
1.51 - 2.99	Partially Satisfactory
1.00 – 1.50	Unsatisfactory

- B. Timely follow-up of audit observations
- C. Compliance with audit scope requirement
- D. Timely administration of audit exercise

Overall score	Rating
4.00 to 5.00	Satisfactory
2.50 to 3.99	Partially Satisfactory
0.00 to 2.49	Unsatisfactory

Based on the individual assessment of these four areas, the resulting ratings are then compiled to arrive at the final overall rating which will be reflected in the review letter and the Balanced ScoreCard.

**ANNEX D: Severity of observations and areas of operations impacted**

The audit observations were assessed in terms of their risk severity and the impact they are likely to have on the operations of a project. These are summarized in the table below in terms of “high” and “medium” risk.

- High - Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take immediate action could result in major consequences and issues.
- Medium - Action is considered necessary to avoid exposure to significant risks. Failure to take action in a timely manner could result in significant consequences.

The overall rating with regards to the assessment of the severity of the NGO/NIM audit observations is “**satisfactory**”, based on a point score of 2.5 out of a total possible score of 3.0.

The rating criteria is based on the risk severity as applied to the number of audit observations:

High Risk Observations		Medium Risk Observations		Total	
No.	%	No.	%	No.	%
5	63	3	37	8	100

The following table classifies the observations by the area of operations that is impacted:

Area	High		Medium		Total	
	No	%	No	%	No	%
Financial management	5	100	2	67	7	88
Project progress and rate of delivery	0	0	0	0	0	0
Procurement of goods and/or services	0	0	0	0	0	0
Human Resources selection and administration	0	0	1	33	1	12
Management and use of equipment/ inventory	0	0	0	0	0	0
Record keeping systems and controls	0	0	0	0	0	0
Management structure	0	0	0	0	0	0
Total	5	100	3	100	8	100

**Annex E – Action to address prior year audit observations - Certified prior year action plan**

Regarding the observations that are rated as having a “high” and a “medium” risk severity in last year’s NGO/NIM audit reports, we have obtained the following statistics based on the certified action plan submitted:

**High Risk Observations**

Audit Area	Total # of observations	Implemented		In Progress		Not Implemented	
		No.	%	No.	%	No.	%
Total no. of high observations	2	0	0	1	50	1	50

**Medium Risk Observations**

Audit Area	Total # of observations	Implemented		In Progress		Not Implemented	
		No.	%	No.	%	No.	%
Total no. of medium observations	2	0	0	0	0	2	100

**ANNEX F – Actions to address current year audit observations - Current year action plan**

Regarding the observations that are rated as having a “high” and a “medium” risk severity, we have obtained the following statistics based on your submission. The following assesses the extent to which the planned actions will serve to address the audit observations.

**High Risk Observations**

Audit Area	Total # of observations	Address		Partly address		Not address	
		No.	%	No.	%	No.	%
Total no. of high observations	5	2	40	2	40	1	20

**Medium Risk Observations**

Audit Area	Total # of observations	Address		Partly address		Not address	
		No.	%	No.	%	No.	%
Total no. of medium observations	3	2	67	1	33	0	N/A

## Annex G: OAI assessment of the NGO/NIM audit scope

Compliance with the specimen Terms of Reference established by OAI was mandatory for the FY2013 NGO/NIM audits. The overall rating on the assessment of the audit scope is "**partially satisfactory**".

The overall rating is a weighted sum of the score assigned to each of the following seven attributes.

Requirements of TOR		Rating
1	Contents of Audit Report Adequate	Partially Satisfactory
2	CDRs signed by UNDP, EA and signed and stamped with seal of Auditor/Audit Firm	Satisfactory
3	Cash Position Certified by Auditors	Satisfactory
4	Status of Assets and Equipment Certified by Auditors	Satisfactory
5	Project Progress & Timeliness in Relation to Planned Completion Dates	Partially Satisfactory
6	Effectiveness of the Internal Control System	Satisfactory
7	Description of Specific Internal Control Weaknesses noted	Partially Satisfactory
Overall rating for Adequacy of audit scope is 3.75 out of a total score of 5.0		<b>Partially Satisfactory</b>

In our review of the 2013 audit reports, we noted the following shortcomings:

### Contents of Audit Report Adequate

- For project 44296 (GFATM), the assessment of the prior year action plan implementation status did not follow the template proposed in the Specimen Terms of References for audits of NGO and NIM Projects. As a result, auditors provided an overall assessment of the observations instead of providing an assessment of each observation and its implementation status.
- The auditors did not provide explanation on the committed expenses as requested by the Specimen Terms of References for audits of NGO and NIM Projects, for project 44296 (GFATM).

### Project Progress & Timeliness in Relation to Planned Completion Dates

- The auditors did not provided information regarding the pace of the project progress for project 44296 (GFATM).

### Description of Specific Internal Control Weaknesses noted

- For project 44296 (GFATM), the auditors did not quantified the impact of the internal control weaknesses even when high risk observations were raised.