



YSLME

UNDP/GEF Yellow Sea
Large Marine Ecosystem

3rd Interim Commission
Council Meeting

12-14 MARCH 2019 • QINGDAO, PR CHINA

3.23

Project Audit





Introduction

As a mandatory requirement of monitoring and evaluation system of UNOPS projects, an external audit of the project will be conducted in 2019.

A standard Terms of Reference and scope/extent of work of the audit has been prepared and will be presented today. The template TOR was provided by UNOPS, contextualized to YSLME Phase II Project by the Secretariat.



Recommendation

The Secretariat recommends:

The 3rd Meetings of the MSTP and ICC: to review and approve the standard terms of reference and scope/extent of work as attached for UNOPS to initiate the audit of accumulated expenditure by an external auditing firm.

Standard Terms of Reference and Scope/Extent of work for Audit



A. Background Information on Project:

Implementing the Strategic Action Programme for the Yellow Sea Large Marine Ecosystem: Restoring the ecosystem goods and services and consolidation of a long-term regional environmental governance framework, Project ID: 91007

B. Audit Objectives

1. The overall objective of the audit is to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives. The areas of focus include:
 - (a) Effective, efficient and economical use of resources;
 - (b) Reliability of reporting;
 - (c) Safeguarding of assets; and
 - (d) Compliance with applicable legislation.

1. The purpose of the audit is to provide reasonable assurance that:
 - (a) Client/donor contributions and project expenditure are properly accounted for;
 - (b) Project expenditure were incurred in accordance with the contribution agreement, and are supported by adequate documentation; and
 - (c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

3. In particular, the auditors shall:

- (a) Express an opinion as to whether the project's financial statements present fairly, in all material respects and whether expenditures incurred on the project 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 UNOPS; (iv) in accordance with the legal agreement terms; and (v) were supported by properly approved vouchers and other supporting documents.
- (b) Express an opinion as to whether the project's "Statement of non-expendable property" fairly presents, in all material respects, the status of non-expendable property of the project at the end of the period under review.
- (c) Provide an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the projects objectives.

C. Audit Scope

The designated auditors are required to conduct the audit in accordance with the International Standards on Auditing issued by IAASB1 and UNOPS internal audit practices.

Certification of financial statements of projects will be carried out as per the UN System Accounting Standards (UNSAS)² and/or International Public Sector Accounting Standards (IPSAS)³.

D. Period covered by audit

January 2015 to December 2018

E. Location

Provinces of Liaoning, Jiangsu and Shandong, PR China

F. Audit Arrangement

1. To maintain the integrity of the United Nations “single audit principle”, the internal audit of the project [insert name]..... activities will be carried-out by the UNOPS Internal Audit and Investigations Group (IAIG) with the assistance of an audit consultant or a local audit firm. In practice, the responsibility to initiate the engagement of an audit firm to conduct a project audit lies with UNOPS management, as this constitutes a management obligation to its partners.
2. The responsibility to get the project audit conducted lies with UNOPS management, as this constitutes a management obligation to its clients/partners.
3. The audit firm will be responsible for the planning, fieldwork and reporting of the project audit. Furthermore, the audit firm will be responsible for data entry of audit recommendations arising out of final Internal Audit Report after the reports are issued to the UNOPS senior management in the web-based Audit recommendations follow-up system (e.g. Team Central Issue Track system).
4. The UNOPS Operations Centre Office for [insert name].....shall be responsible for the management, coordination and administering of the contracted audit services

5. The IAIG will provide technical support on matters relating to the audit, including a review of the terms of reference (TOR), the draft audit and the final report. IAIG will review the following:
 - a) At the end of the planning phase and before commencement of the audit fieldwork: The audit planning documents: these should include an audit risk assessment, a detailed audit work program, and a determination of the preliminary materiality;
 - b) At the end of the fieldwork stage: The draft audit report along with the completed work program and exit meeting notes

The audit firm will prepare and submit for IAIG review and approval the above mentioned documents.

6. The global audit firm will be responsible for the planning, fieldwork and reporting of the project audit and shall hold confidential the information obtained in connection with the audit services undertaken on behalf of the IAIG.
7. IAIG may seek feedback from the UNOPS project management team regarding the quality of the audit services rendered by the selected firm. It also may conduct a quality assurance review of the work done by the global audit firm.



G. Audit Reporting

The designated auditors shall submit their draft report to IAIG. They shall prepare:

- A **Financial Audit Report** providing an audit opinion on the overall financial situation of the project in accordance with the scope of audit, as well as the validity of the expenditure. The key deliverables are:
 - An opinion on the financial statement of the project for the audit period.
 - An opinion on the status of project's non-expendable property for the audit period.
- An **Internal Audit Report** which provides a detailed assessment of the internal controls and management of the project operations, as set forth in the Scope of Audit along with audit findings and recommendations for improvement. The definitions of standard audit ratings, priorities, causes and functional area should be used. This portion of the report should include a discussion of the following elements: criteria, condition, cause, risks or effects, and recommendation. Management comments and action plans should duly be obtained and incorporated in the Internal audit Report.

H. Data Entry of audit recommendations (To be done by the Global Audit Firm)

- **Data entry of audit recommendations** arising out of final Internal Audit Report after the report is issued to the UNOPS senior management in the web-based Audit recommendations follow-up system (e.g. Team Central Issue Track system).

I. Other important matters



1. Cases which indicate fraud or presumptive fraud will be brought to the immediate attention of IAIG as soon as possible, without waiting for the issue of the audit report.
2. The auditors shall ensure that management replies on audit observations and recommendations are obtained in writing and included in the draft audit report in a timely manner. In addition to conducting entry-briefing sessions, the designated auditors shall be required to discuss their observations and recommendations with Management during the audit and at exit-debriefing sessions.
3. The working papers are the property of IAIG but may be retained by the global audit firm and should be made available to IAIG for review upon request. The period of retention of audit working papers and report is seven years after issuance of reports. IAIG may request to review the working papers of the global audit firm at any stage during this period.
4. The draft audit report shall be submitted to IAIG within 30 days of completion of the audit fieldwork, duly incorporating the comments of management. IAIG shall reserve the right to perform quality assurance reviews of the audit work papers and related documentation pertaining to the audit. It also has the right to make such changes to the audit report or request for such further checks which it considers necessary.
5. Based upon IAIG's comments, the auditors will submit their final signed audit report in soft copy (including word file) and hard copy, to the following: **Director, IAIG, UNOPS, Copenhagen; Regional Director; and Director, Operation/Project Centre/Cluster**



6. The reports should be prepared in English. However, certain countries in the UNOPS portfolio operate in languages other than English. Therefore depending on the requirement, the global audit firm must have the ability to conduct its audits and prepare audit reports using multilingual staff where required.
7. IAIG will review the final audit report and shall issue to the UNOPS Executive Director.
8. The disclosure of the audit report to the client, donor or any other party, after it is issued by the IAIG to the Executive Director, will be governed by Administrative Instruction AI/IAIG/2010/01 (Rev.3) (Disclosure of Internal Audit Reports), as revised from time to time.
9. The Global audit firm and its staff shall maintain confidentiality regarding any information obtained in connection with the audit services undertaken on behalf of IAIG.
10. Any indication included in the audit report restricting its distribution and/or use will be deemed null and void.