UNDP has recently finalized the 2012 audit of NGO CHF and DCPSF projects conducted by Price Waterhouse Coopers Kenya. We are sharing a summary of the audit with partners for your information. The signed audit reports are available from the Fund Management Unit upon request.

**Audited Projects and Partners**

Total expenditures of $39.0 million were audited for 171 projects implemented by 67 NGOs. CHF funded projects accounted for 91% of audited expenditures, while DCPSF funded projects accounted for 9%. International NGOs implemented 92% of the projects selected for audit, with the balance of 8% implemented by national partners.

**Projects Selected for Audit**

CHF and DCPSF projects are selected for audit based on several criteria. These include NGOs or projects which raised the UNDP/OCHA team’s concern during the review of financial reports or CHF joint field monitoring visits, projects which closed during the year, projects not previously audited, and the threshold of project annual expenditures established by UNDP HQ.
Audit Purpose

The annual NGO project audit serves as an independent verification by certified public accountants of expenditures which have been reported by NGOs in their quarterly financial reports. The auditors also perform a detailed review of supporting documentation (vouchers, invoices, receipts, bank statements, time sheets, etc.) for the reported expenditures.

The Management Letter is a critical part of the audit, providing NGO management with an assessment of the internal financial controls and the strengths and weaknesses of the organization’s financial, human resources, and administrative systems.

The audit verifies NGO expenditures recorded on UNDP’s certified financial statements. UNDP also uses the audit results to ensure the consistency and quality of its financial monitoring.

2012 Audit Results

The overall results of the 2012 audit were very favorable, indicating a strong level of compliance by most CHF and DCPSF NGO partners. PWC issued an unqualified audit report for each of the 171 projects audited.

Of the $39.0 million in expenditures audited, 98% were fully compliant, with only 2% deemed ineligible. The related funds for these non-compliant expenditures will be refunded by the NGO to the CHF or DCPSF fund.

The one area for serious compliance concern was $662,000 of expenditures deemed ineligible due to missing or insufficient supporting documentation. Nearly all of this amount was related to South Sudan projects, with NGOs citing documentation lost during the transition from Sudan to South Sudan as the primary reason.

As an indication of overall compliance by NGOs, 85% of all ineligible expenses were concentrated in only six international NGOs. UNDP will work with these NGOs as described in the Audit Follow-Up Section.

National Partner Capacity and Compliance

Although national NGOs accounted for 8% of total 2012 audited expenditures, these partners were responsible for only 0.7% of ineligible expenses. UNDP attributes this to the amount of time the FMU Team spent with national NGOs providing feedback to bring their financial reports to compliance. This seems to indicate that the additional time and attention dedicated to national partners has strengthened their capacity and overall level of compliance.
Audit Follow Up

Partner Meetings
In the coming weeks, UNDP will meet with the Country Directors/Executive Directors of those NGOs with ineligible expenditures and compliance issues cited in the audit report Management Letter. Working together we will develop an action plan to address the audit findings. These partners will also receive additional financial monitoring attention throughout the year.

OCHA Coordinated CHF Project Monitoring
OCHA, as the lead for coordinating CHF joint project monitoring, will use the detailed partner and project level audit results to assist in prioritizing project monitoring visits. UNDP and OCHA will also incorporate the audit results into the system of assessing potential financial and programmatic risk which is currently under development.

DCPSF Project Monitoring
Recognizing the close link between strong financial management and strong programme management, the DCPSF Technical Secretariat will review the detailed project and partner audit results to identify any potential financial and programmatic risks. The results will also assist in determining if there are areas where monitoring needs to be enhanced.

The DCPSF project monitoring team conducts 4-5 project monitoring visits per month, and working together with FMU will incorporate the audit results in prioritizing project monitoring. These monitoring visits will continue the practice of reviewing partner program capacity and identifying those partners who may be in need of additional support.

Trainings and Capacity Support
With respect to trainings and capacity support, the audit results have highlighted areas, such as the allowable budget variance, where UNDP will conduct financial reporting trainings to improve compliance. Very importantly, as OCHA and UNDP are jointly determining the most appropriate vehicle to provide capacity support to NGO partners, the compliance issues detailed in the audit report Management Letters will assist in identifying those partners in need of additional financial and administrative capacity support.

Message to Compliant NGO Partners
The Fund Management Unit would like to acknowledge and thank those CHF and DCPSF Partners with excellent fully compliant audit results. We appreciate the close attention to financial reporting of the finance teams, and the strong management and oversight by the Country Directors and Executive Directors of these NGOs.