**Annex 6: Criteria supporting OAI opinion**

1. In accordance with Executive Board decisions 2015/13 of June 2015, 2016/13 of June 2016, and 2019/2 of October 2018, OAI provides an opinion in its annual report, based on the scope of work undertaken, on the adequacy and effectiveness of the organization’s framework of governance, risk management and control (GRC). The summary of the audit work performed is provided in the body of the annual report, under chapter IV. This annex provides a description of the criteria used and analysis to support the OAI opinion.
2. The OAI opinion is based on the following results:
   1. audits of UNDP country offices;
   2. advisory services;
   3. audits of UNDP headquarters functions or units;
   4. audits of UNDP activities funded by the Global Fund;
   5. audits of UNDP directly implemented projects (DIMs);
   6. OAI’s review of audits of UNDP projects executed by non-governmental organizations and/or national governments (NGO/NIM);
   7. the implementation rate for internal audit recommendations, including long-outstanding recommendations; and
   8. Management Letters relating to investigations.
3. The distribution of 2022 audit results is presented in figure 1 in document DP/2023/xx, which shows the distribution of the number of audit reports that were issued by OAI in 2022 by type of audit rating[[1]](#footnote-2): ’fully satisfactory’, ‘satisfactory/some improvement needed’, ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’.
4. In addition, the audit results are aggregated using the amount of expenditure reported in the audit reports issued in 2022. The result of this aggregation is then grouped by the four levels of audit ratings used by OAI: ‘fully satisfactory’, ‘satisfactory/some improvement needed’, ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’.

**Table 1: Distribution of ratings per audited expenditure for Country Office, HQ and Global Fund audits**

**(Excluding DIMs and Other audited expenditure)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rating** | **Audited expenditure**  **$** | **Distribution (2022)**  **%** | **Prior year Distribution (2021)**  **%** |
| Fully Satisfactory | *167,950,369* | *11.5* | *19.8* |
| Satisfactory/some improvement needed | *738,372,402* | *50.6* | *46.0* |
| Partially satisfactory/major improvement needed | *533,321,862* | *36.6* | *31.8* |
| Unsatisfactory | *18,200,000* | *1.3* | *2.4* |
| ***Total*** | ***1,457,844,633*** | ***100*** | ***100*** |

* Audits with ‘partially satisfactory/major improvement needed’ rating: There was an increase of audited expenditures with ‘partially satisfactory/major improvement needed’ rating when comparing with the figures from the prior year. The county offices of UNDP Democratic Republic of Congo, Somalia and Yemen with a combined audited expenditure of $383.1 million made up the majority of this category.

1. Adjustments were made in the aggregation of expenditure for the DIM projects and the review of audits of projects executed by NGOs/NIM. The adjustments were as follows:
   1. The scope of the DIM audits focused mainly on the financial certification of expenditures[[2]](#footnote-3). Therefore, most of the audits do not directly assess the Governance, Risk and Control (GRC) aspects of projects in UNDP. Nonetheless, they do give indirect assurance about GRC within UNDP. To this effect, OAI converted the audit opinions rendered into OAI ratings using defined criteria[[3]](#footnote-4) and estimated that the results of the DIM financial audits provide 50 per cent assurance UNDP GRC. The calculated total net financial misstatement in 2022 was $24.1 million[[4]](#footnote-5) or 3.4 per cent of the total audited expenditure ($704.7 million) compared to $35.3 million in 2021 or 5.2 per cent of the total audited expenditure ($674.8 million).

**Table 2: Distribution of ratings per DIM audited expenditure (weighted at 50 per cent) in 2022[[5]](#footnote-6) audits**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rating** | **DIM**  **adjusted audited expenditure**  **$** | **Distribution**  **(2022)**  **(%)** | **Prior year Distribution**  **(2021)[[6]](#footnote-7)**  **(%)** |
| Fully satisfactory | 327,058,246 | 94.2 | 65.6 |
| Satisfactory/some improvement needed | 5,721,099 | 1.6 | 0 |
| Partially satisfactory/major improvement needed | 1,669,759 | 0.5 | 0 |
| Unsatisfactory | 12,761,150[[7]](#footnote-8) | 3.7 | 34.4 |
| ***Total*** | ***347,210,254*** | ***100*** | ***100*** |

* 1. OAI’s review of audits of UNDP projects executed by NGO/NIM

The NGO/NIM audits focus, like the DIM financial audits, was on the financial certification of expenditure. They primarily reflect the management of financial resources by the implementing partner. Nonetheless, the NGO/NIM audits indirectly offer partial assurance regarding how UNDP monitors these implementing partners, and therefore how UNDP GRC is managed in regard to NGO/NIM implementing partners. Consequently, OAI estimated that the results of the NGO/NIM financial audits offer 25 per cent assurance for UNDP GRC (refer to table 3).

**Table 3: Distribution per NGO/NIM audited expenditure (weighted at 25 per cent)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rating** | **NGO/NIM adjusted audited expenditure**  **$** | **Distribution**  **(2022)[[8]](#footnote-9)**  **(%)** | **Prior year Distribution**  **(2021)[[9]](#footnote-10)**  **(%)** |
| Fully satisfactory | 129,391,535 | 81.8[[10]](#footnote-11) | 69.5 |
| Satisfactory/some improvement needed[[11]](#footnote-12) | 11,895,607 | 7.5 | 8.4 |
| Partially satisfactory/major improvement needed | 11,895,606 | 7.5 | 8.3 |
| Unsatisfactory | 5,046,480 | 3.2 | 13.8 |
| ***Total*** | ***158,229,228*** | ***100*** | ***100*** |

1. This leads to two different distributions by audit rating: one presented by number of audit reports issued (which includes country office, headquarters and Global Fund audits conducted and rated by OAI); and the second by amount of expenditure covered by the audits (which includes country office, headquarters, Global Fund, DIM and NIM audits). The two are then compared with referential targets for distribution of audit reports according to ratings set in the UNDP Integrated Results and Resources Framework, the tool used by UNDP to monitor the progress of its 2018-2021 Strategic Plan (refer to table 4).

**Table 4:** **Comparison of distribution of audit ratings by audited expenditure and**

**by number of audit reports issued in 2021 and 2022 with UNDP targets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Rating** | **By audited expenditure**  **(combined CO, GF, HQ, DIM, NGO/NIM)** | | **By number of audit reports issued\***  **(Rated by the Office)** | | **UNDP**  **targets[[12]](#footnote-13)** |
| **2021** | **2022** | **2021** | **2022** | **2021-2022** |
| Fully satisfactory | 32.2% | 31.8% | 29.2% | 20.9% | More than 30% |
| Satisfactory/some improvement needed | 34.8% | 38.5% | 52.1% | 41.9% | More than 30% |
| Partially satisfactory/major improvement needed | 24.4% | 27.9% | 16.7% | 34.9% | Less than 35% |
| Unsatisfactory | 8.6% | 1.8% | 2.0% | 2.3% | Less than 15% |
| ***Total*** | ***100%*** | ***100%*** | ***100%*** | ***100%*** | ***N/A*** |

*CO = country office; GF = Global Fund; HQ = headquarters; DIM = directly implemented; NGO/NIM = non-governmental organization/nationally implemented*

* By audited expenditure: The rate of audit expenditure with fully satisfactory rating in 2022 is higher than the corporate target. The combined rates of audits with ‘fully satisfactory’ and ‘satisfactory/some improvement needed’ ratings increased from 67.0 per cent in 2021 to 70.3 per cent in 2022. This combined rate was 50.6 per cent in 2020. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings decreased from 33.0 per cent in 2021 to 29.7 per cent in 2022. This combined rate was 49.4 per cent in 2020 (see blue-coloured columns in Table 4).
* By number of audit reports issued: The rate of audit reports with fully satisfactory rating in 2021 is lower than the corporate target. The combined rates of audits with ‘fully satisfactory’ and ‘satisfactory/some improvement needed’ ratings decreased from 81.3 per cent in 2021 to 62.8 per cent in 2022. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings increased from 18.7 per cent in 2021 to 37.2 per cent in 2022 (see yellow-coloured columns in Table 4).

1. The UNDP targets for audit ratings were set in the UNDP Integrated Results and Resources Framework, a tool used to monitor the progress in achieving its 2022-2025 Strategic Plan. The targets pertained to the number of audit reports that should be allocated to the various audit rating categories. As previously mentioned, in 2022, the percentage of ‘fully satisfactory’ ratings based on the number of audit reports was below (20.9 per cent) the UNDP target of more than 30 per cent. The percentages of the remaining three ratings of audit reports (‘satisfactory/some improvement’, ‘partially satisfactory/major improvements’ and ‘unsatisfactory’) were aligned to the corporate targets.
2. The implementation rate for internal audit recommendations decreased, while the number of long-outstanding recommendations remained unchanged in 2022.

* Implementation rate of audit recommendations: The implementation rate as of 31 December 2022 of 85.08 per cent compared to 95.3 per cent as of 31 December 2021.
* Long-outstanding recommendations: There were six long-outstanding recommendations as of 31 December 2022 the same number of long-outstanding recommendations as of 31 December 2021. There were no long-outstanding recommendations as of 31 December 2020.

1. The qualitative nature of the audit, advisory services and the investigations results was also given due consideration, and these have been included in the annual report.
2. Based on the scope of work undertaken and the adequacy and effectiveness of the UNDP framework of governance, it is the opinion of OAI that the elements of risk management and control covered in the audit reports issued in 2022 were, in aggregate, ‘satisfactory/some improvement needed’, which means that, in the majority of business units or projects audited in 2022 they were adequately established and functioning, but need some improvement.

1. **Audit rating definitions**

   |  |  |
   | --- | --- |
   | Fully Satisfactory | The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area. |
   | Satisfactory / Some Improvement Needed | The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area. |
   | Partially Satisfactory / Major Improvement Needed | The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area. |
   | Unsatisfactory | The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. |

   [↑](#footnote-ref-2)
2. Of the 54 DIM audits conducted in 2022 (FY2021), 17 audits included the review of governance, risk and controls. [↑](#footnote-ref-3)
3. Net financial misstatement (NFM) (%) converted to OAI Rating:

   Unqualified or Qualified and NFM is less < 1% = Satisfactory

   Qualified and NFM is from 1% - 1.5% = Partially satisfactory/some improvement needed

   Qualified and NFM is from 1.6%-2% = Partially satisfactory/major improvement needed

   Qualified and NFM is > 2% or Adverse/Disclaimer opinion = Unsatisfactory [↑](#footnote-ref-4)
4. The audit of DIM project ‘One UN COVID Basket Fund’ of UNDP Nigeria with a net financial misstatement of $22.9 million, accounted for 94.7 per cent of the total net financial misstatement in 2022 ($24.1 million) [↑](#footnote-ref-5)
5. DIM audits were conducted in 2022 of project expenditures incurred in 2021. [↑](#footnote-ref-6)
6. DIM audits were conducted in 2021 of project expenditures incurred in 2020. [↑](#footnote-ref-7)
7. The audit of the DIM project ‘GAVI Phase II-Improving vaccination system’ of UNDP India accounted for 55.0 per cent of the adjusted audit expenditure with ‘unsatisfactory’ rating, with a net financial misstatement of $415,351, 1.7 per cent of the total net financial misstatement in 2022 ($24.1 million). [↑](#footnote-ref-8)
8. NIM audits conducted in 2022 of project expenditures incurred in 2021 (fiscal year 2021) [↑](#footnote-ref-9)
9. NIM audits conducted in 2021 of project expenditures incurred in 2020 (fiscal year 2020) [↑](#footnote-ref-10)
10. The increase in the percentage of adjusted audited expenditures with fully satisfactory rating in 2022 compared to 2021 was due to the increase of audited expenditures amounts with unqualified opinion and the decrease of audits with qualified, disclaimer and adverse opinions. However, the calculated total net financial misstatement in the fiscal year 2021 was $2.37 million or 0.4 per cent of the total audited expenditures ($632.9 million) compared to $1.3 million in fiscal year 2020, which represented 0.1 per cent of the total audited expenditure ($898 million). The total net financial misstatement in fiscal year 2021 resulted from an overstatement of the Combined Delivery Report expenses by $2,375,079 and an understatement of the Combined Delivery Report expenses by $6,831. [↑](#footnote-ref-11)
11. The NGO/NIM rating system uses three scales (‘satisfactory’, ‘partially satisfactory’, ‘unsatisfactory’). For the purposes of the overall audit opinion calculation, the ‘partially satisfactory’ rating is distributed evenly over ‘satisfactory/some improvement needed’ and ‘partially satisfactory/major improvement needed’. [↑](#footnote-ref-12)
12. These targets are referential since the 2022-2025 UNDP Strategic Plan did not set targets related to internal audit results. [↑](#footnote-ref-13)