



AUDIT

OF

TUVALU COASTAL ADAPTATION PROJECT (TCAP)
(Directly Implemented Project No. 100068, Output No. 103205)

IN

UNDP PACIFIC OFFICE IN FIJI

Report No. 2660
Issue Date: 18 September 2023

**Report on the Audit of Tuvalu Coastal Adaptation Project (TCAP)
(Project No. 100068, Output No. 103205)
Implemented by UNDP Pacific Office in Fiji
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through BDO LLP (the audit firm), from 18 to 26 May 2023 conducted an audit of ‘Tuvalu Coastal Adaptation Project (TCAP)’ (Project No. 100068, Output No. 103205) (the Project), which is directly implemented and managed by the UNDP Pacific Office in Fiji (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit in accordance with the International Standards of Auditing (ISA), the 700 series, to express an opinion on whether the financial statements present fairly, in all material aspects, the Project’s operations. The audit covered the Project’s Combined Delivery Report, which includes expenses for the period from 1 January to 31 December 2022 and the accompanying Funds Utilization statement¹ as of 31 December 2022. The audit did not include activities and expenses incurred or undertaken at the “responsible party” level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters). In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenses*				Project Assets	
Amount (in \$ ‘000)	Opinion	NFM** (in \$ ‘000)	Impact on CDR	Amount (in \$ ‘000)	Opinion
9,743	Qualified	1,025	Overstatement	3.8	Unmodified

* Expenses recorded in the Combined Delivery Report were \$10,554,932. Excluded from the audit scope were expenses processed and approved by other UNDP offices outside of the country (\$429,436). Also excluded were expenses at the “responsible party” level (\$382,977).

** NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenses due to prepayments recorded as expenditures and their effect on the direct project costing charged to the project in 2022. The resulting financial impact was a material overstatement of the CDR in the amount of \$1,025,594, which represented 10.5 percent of the project expenditures directly incurred by the Office as of 31 December 2022. This also resulted in an understatement of the prepayment balance and Funds Utilization statement of \$941,192. The Funds Utilization statement was also understated by commitments not fully disclosed in the amount of \$12,831,418, resulting in a total understatement of the Funds Utilization statement of \$13,772,610.

Key recommendations: Total = 2, high priority = 2

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

The two recommendations aim to ensure the reliability and integrity of financial and operational information (Recommendations 1 and 2)

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. Both high (critical) priority recommendations are presented below:

Prepayments recorded as expenditures (Issue 1) The Office did not obtain prior approval from the Office of Financial Management (OFM) as required when prepayments exceeded the threshold of \$30,000 or 20 percent of the total contract amount. In addition, it recorded the advances as expenditures instead of prepayments. As a result, expenses were overstated and prepayments disclosed in the Funds Utilization Statement were understated by \$941,192, respectively, as at 31 December 2022.

Recommendation: The Office should obtain OFM approval for the prepayments that exceed \$30,000 or 20 percent of the contract, and ensure that prepayments are recorded in account 16065 at the time of payment.

Commitments not fully disclosed (Issue 2) The Office did not fully disclose the unliquidated commitment from a civil work contract. While the outstanding commitment for the contract, as of 31 December 2022 amounted to \$15,946,180, only \$3,114,762 was disclosed as commitments in the CDR. Consequently, \$12,831,418 was not disclosed and was therefore misstated.

Recommendation: The Office should record commitments in the financial information system so that they can be monitored, and ensure that payments are made correctly when they are due. It should also disclose commitments in the CDR in accordance with IPSAS.

Management comments and action plan

The Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.



Chris Taylor
Director
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