**Appendix XIII. Terms of Reference for Financial Audit**

This terms of reference (TOR) was developed to guide United Nations (UN) agencies, third party service providers and implementing partners through the development of objectives, scope, and deliverables of the financial audit.

**Background**

The background section includes a broad description of the purpose for which funds are provided to implementing partners in the context of their contribution to achieving the goals of the programme. The auditor should understand the "purpose for which the funds are intended" in the context of programme objectives as well as in terms of the specific budget for the programme.

The background section includes a general description of the roles of the UN entity (s), the government entity (as appropriate), and the implementing partner with respect to the management and oversight of the programme.

**Objective of the Audit**

The objective of the audit is to obtain reasonable assurance as to whether the financial statements[[1]](#footnote-2) are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

The auditor also expresses an opinion whether the funds were properly supported with approved documentation and used for the purpose intended in accordance with the approved budget, requirements of the applicable funding agreement and the organization’s policies and procedures.

**Standard**

The audit is conducted in accordance with International Auditing Standards (ISA) 800 *Special Considerations – Audit of Financial Statements Prepared in Accordance with Special Purpose Frameworks.*

The audit is conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) if the auditor is a supreme audit institution.

Where it is decided that the country’s Supreme Audit Institution (SAI) undertakes the audit of UN agencies’ government IPs, the UN agency commissioning the audit will make proper arrangements with the government to ensure that the audits are undertaken according to the ToR for HACT Financial Audit and delivered within the established deadlines.

**Selection of Implementing Partner/Project subject to Audit**

The UN agency commissioning the audit will provide a listing of implementing partner(s) and project(s) to be audited and clearly mark those IPs shared by two or more UN agencies.
The listing is based on the results of micro assessments and the assurance plan and consists of implementing partners where the risk rating is designated as “significant” or “high”.

**Scope of the Audit**

The scope of the audit must be sufficiently clear and properly define what is expected of the auditor. However, the scope must not, in any way, restrict the audit procedures or techniques the auditor may wish to use to form an opinion.

The scope includes a definition of the entity, or the portion of an entity, that is subject to audit. This is normally the programme counterpart unit whether located within the implementing partner or in a separate location.

The scope must specify, at a minimum, that the:

1. Auditor is required to express an opinion on financial statements related to the funds provided to the project or the implementing partner by the UN agency:
2. **If “project” based audit** – The Combined Delivery Report (CDR), or its UN agency equivalent prepared by the agency, serves as the official statement of expenses that will be subject to audit. The statement of assets and equipment, statement of cash position, and list of inventory as at 31 December XXXX (or on the date prescribed by the UN agency), as appropriate, may also be subject to audit based on UN agency specific requirements.
3. **If “IP” based audit -** Total expenses incurred by the implementing partner from funds provided by UN agencies (this can be the sum of CDRs or sum of CDR equivalent) that will be subject to audit. Also, based on UN agency specific requirements and as appropriate, the total assets and equipment for all projects implemented by the implementing partner through funds provided by the UN agencies, list of inventory and the cash position of funds provided by the UN agencies. The sample of expenses tested should be representative of resources provided by all the UN agencies.
4. **If the IP is shared by two or more UN agencies** - The audit report must include a separate opinion for each UN agency on the CDRs/  financial statements related to the funds provided by each UN agency to the IP(s) or project(s).
5. Audit period is 1 January to 31 December of the year XXXX, or as prescribed by the UN agency.
6. The audit will be carried out in accordance with International Auditing Standards (ISA) 800 *Special Considerations – Audit of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
7. Scope is limited to the implementing partner expenses incurred from funds provided by the UN agencies, which includes: (1) all expenses listed in the statement of expenses submitted by the implementing partner, and (2) the direct payments processed by the UN agencies at the request of the implementing partner (if any).
8. Auditor is required to verify that the expenses in the statement of expenses are in accordance with the approved budget (and work plan) and reconciled to appropriate supporting documentation.
9. Auditor is required to state in the audit report the amount of expenses excluded from the scope of the audit because they were made by UN agencies as part of direct services (if any) and the amount of total expenses excluded because they were made by UN agencies[[2]](#footnote-3).
10. Auditor is required to report the net financial impact of any modified opinion on the CDR (or its UN agency equivalent) to include prior year un-resolved net financial impact amount(s). The net financial impact is defined as any material misstatement that affects the financial statements as defined by the International Standards of Audit (710).
11. In case of auditing shared IP(s), the auditor is required to define the financial impact of any modified opinion for each UN agency separately.
12. Auditor is required to produce a management letter as further defined in the Deliverables section below.

**Deliverables**

The audit report must clearly indicate the auditor’s opinion on the financial statement (s) of the project(s). The audit report must also state, at a minimum:

1. That the audit report is a special purpose and confidential report;
2. The audit standard that was applied to carry out the audit;
3. Period covered by the audit opinion and the statement of expenses (CDR or its UN agency equivalent) is for the period 1 January to 31 December XXXX (or the period prescribed by the UN agency);
4. Total amount of expenses, assets, cash balance and inventory audited, to be reported separately for each UN agency, in case the IP(s) are shared by two or more UN agencies;
5. Scope limitation (if any) for those transactions that are the responsibility of the UN agency;
6. Amount of the net financial impact of the qualified audit opinion if qualified, to be reported separately for each UN agency, in case the IP(s) are shared by two or more UN agencies, and the reason(s) resulting in the issuance of a qualified, adverse or disclaimer opinion as per Annex 3; and
7. Management letter as described below and further detailed in Appendix XI. Terms of Reference for Management Letter which is relevant to the context of the financial audit.

The deadline for submitting the auditor’s opinion on the financial statements (s) will be prescribed by the commissioning UN agency.

Management Letter

The auditor is required to submit a management letter that takes into consideration the following:

1. General review of the project(s)’ progress and timeliness in relation to progress milestones and the planned completion date[[3]](#footnote-4);
2. An assessment of the implementing partner’s internal controls as related to the project(s) with equal emphasis on: (i) the effectiveness of the system of internal control in the areas of operations/finance/compliance management in providing programme management with useful and timely information for the proper management of programme; (ii) the general effectiveness of internal control system in protecting the assets and resources of the programme, and in preventing and detecting fraud; and (iii) the compliance with contractual documents between the implementing partner and UN agency/ies. These can be examined through the review of overall programme management, financial operations, controls and cash/fund management, contracting for procurement of goods and services, staffing and management of human resources, assets/property management, ICT and general services, and other observations. Sample categories of Internal, Compliance and other control findings are provided in Annex 3;
3. A description of any specific internal control weaknesses noted in the financial management of the programme and the audit procedures followed to address or compensate for the weaknesses, resulting in recommendations to resolve/eliminate the internal control weaknesses identified.

**Qualification of the Third Party Service Provider**

The third party service provider (auditor) is subject to the relevant ethical requirements, including those pertaining to independence and conflict of interest relating to financial audit engagements. Relevant ethical requirements ordinarily comprise of Parts A and B of the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements together with national requirements that may be more restrictive.

The third party service provider must have experience in conducting audits in accordance with ISA or INTOSAI standards. The audits must be undertaken by staff with professional qualifications and suitable experience with the applicable standard, including experience in conducting audits of similar size and nature.

CVs of all members of the audit engagement team must be provided to the commissioning UN agency. The CV of each team means must include details on relevant professional qualifications, education and experience in undertaking audits of similar size and nature. Work experience descriptions must include details on the responsibilities assumed for completed and ongoing audit engagements.

Where it is decided that the country’s Supreme Audit Institution (SAI) undertakes the audit of UN agencies’ government IPs, the UN agency commissioning the audit will make proper arrangements with the government to ensure that the audits are undertaken according to the ToR for HACT Financial Audit and delivered within the established deadlines.

**Documents to be provided to the Third Party Service Provider**

Documents to be provided by the UN agencies (coordinated by the UN commissioning agency) to the third party service provider in advance of the engagement are, at a minimum:

1. Country Programme Action Plan (CPAP/UNDAF)/Project Agreements/Project Documents/Letter of Agreements (or their equivalent as defined by UN specific guidelines) and any applicable amendments, if any;
2. Statement of expenses (Combined Delivery Report (CDR)) or its equivalent, as defined by the UN agency specific guidelines;
3. Statement of assets and equipment (as necessary and as defined by UN agency specific guidelines);
4. Statement of cash position (as necessary and as defined by UN agency specific guidelines);
5. Statement of inventory (as necessary and as defined by UN agency specific guidelines);
6. Work Plans (WP) and any other relevant reports;
7. Financial Authorization and Certification of Expenses (FACE) forms included in the statement of expenses (i.e., CDR or its equivalent), duly certified as to their accuracy and completeness;
8. Direct payment requests authorized by the implementing partner and included in the statement of expenses (i.e., CDR or its equivalent);
9. Spot check and field monitoring reports in the areas of finance/operations/compliance management of the implementing partner;
10. List of disbursements made by the UN agency (if applicable) as part of support services provided to the implementing partners; and
11. Previous audit reports and other relevant assessments (e.g., micro assessments)

The third party service provider is to review the information received from the UN commissioning agency and provide the implementing partner with a document request listing in advance of any programme site visits.

**Other Pertinent Matters**

Cases which indicate fraud or presumptive fraud will be brought to the immediate attention of the Investigation Services of the commissioning UN agency by the auditor and/or UN unit commissioning the audit without waiting for the issuance of the audit report.

Protocols on management replies, draft and submission of final signing audit reports will follow the guidance and rules of the commissioning UN agency. This includes requirements related to language of reports (and other documents) as well as file formats (e.g. PDF, doc etc.).

Final audit reports are to be issued by the auditor directly to the commissioning UN agency. The commissioning UN agency will share the final audit report(s) with the implementing partner and the other UN agencies. It is at the discretion of each agency whether the audit report received related to its funding provided to the implementing partner is shared with other parties (ex. donor providing funding for the specific project or programme).

Requirements for multilingual audit staff is to be specified by the commissioning UN agency.

Any indication included in the audit report restricting its distribution and/or use will be null and void.

The third party service provider is to maintain working papers supporting audit work at its premises. At the request of the UN commissioning agency, the third party service provider is to brief (or provide working papers) subsequent auditors on the details of audit results.

**Annexes**

Annex 1. Sample Audit Report (including format of audit observations to be drafted)

Annex 2. Definition of audit opinions and risk levels

**Annex 1: Sample audit report**

**Auditor’s report to**:

***The Implementing Partner and the Country Representative***

Format for financial certifications

1. **Sample certification for statement of expenses**

REPORT OF THE INDEPENDENT AUDITORS TO UN ENTITY [insert name of UN ENTITY] [insert project name]

We have audited the accompanying statement of expenses (“the statement”) of [insert name of entity] (the “recipient”), engaged by UN ENTITY under the agreement dated [insert date of agreement] (the “Agreement”), in connection with the project [insert award and project number(s)], [insert official title of project] for the period [insert period covered]. The statement has been prepared by management of UN ENTITY in accordance with the UN ENTITY accounting policies, as described in Note X.

***Management’s Responsibility for the Statement***

Management of the recipient of funds is responsible for the preparation of the statement in accordance with the UN ENTITY accounting policies and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UN ENTITY’s preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

**Clean opinion:** Option 1: (Unmodified)

In our opinion, the statement of expenses of the recipient under the Agreement for the period [insert period covered] is prepared, in all material respects, in accordance with the UN ENTITY accounting policies [if needed add: and the note to the statement].

**Modified opinions**

Option 2: (Qualified opinion)

In our opinion, the attached statement of expenses, except for the reasons indicated above in paragraphs (1), (2), (3) etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for qualified opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] is prepared, in all material respects, in accordance with UN ENTITY accounting policies [if needed add: and the note to the statement].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc., [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] the statement of expenses is not prepared, in all material respects, in accordance with the UN ENTITY accounting policies.

Option 4: (Disclaimer of opinion)

Because of the significance of the matter described in paragraph (1),(2), (3), etc., [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of expenses of [insert amount in US$] incurred by the recipient under the Agreement and audited by us for the period [insert period covered].

**Emphasis of matter** [if applicable]

We draw attention to Note [insert number] to the statement of expenses which describes the uncertainty related to the [insert the issue]. Our opinion is not qualified in respect of this matter.

Auditor’s signature

Date of the auditor’s report

Auditor’s address

1. **Sample certification for statement of assets, including equipment**

We have audited the accompanying statement of assets (“the statement”) of [insert name of entity] (the “recipient”), engaged by UN ENTITY under the agreement dated [insert date of agreement] (the “Agreement”), in connection with the project [insert award and project number(s)], [insert official title of project], as at [insert date]. The statement has been prepared by the recipient in accordance with the UN ENTITY accounting policies, as described in Note X.

***Management’s Responsibility for the Statement***

Management of the recipient of funds is responsible for the preparation of the statement in accordance with the UN ENTITY accounting policies and for such internal control as management determines is necessary to enable the preparation of the statement that is free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UN ENTITY’s preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

**Clean opinion:** Option 1: (Unmodified)

In our opinion, the statement of assets of the recipient under the Agreement as at [insert date], is prepared, in all material respects, in accordance with the UN ENTITY accounting policies [if needed add: set out in the note to the schedule].

**Modified opinions**

Option 2: (Qualified opinion)

In our opinion, the attached statement of assets of the recipient under the Agreement as at [insert date, except for the reasons indicated above in paragraphs (1), (2), (3) etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for qualified opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] is prepared, in all material respects, in accordance with the UN ENTITY accounting policies [if needed add: set out in the note to the schedule].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc., [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] the statement of assets of the recipient under the Agreement as at [insert date is not prepared, in all material respects, in accordance with the UN ENTITY accounting policies.].

Option 4: (Disclaimer of opinion)

Because of the significance of the matter described in paragraph (1),(2), (3), etc., [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of assets of [insert amount in US$] incurred by the recipient under the Agreement and audited by us as at [insert date].

**Emphasis of matter** [if applicable]

We draw attention to Note [insert number] to the statement of assets which describes the uncertainty related to the [insert the issue]. Our opinion is not qualified in respect of this matter.

Auditor’s signature

Date of the auditor’s report

Auditor’s address

1. **Sample certification of statement of cash position (statement of cash position is required only if there is a separate bank account for each of the projects and/or petty cash)**

We have audited the accompanying statement of cash (“the statement”) of [insert name of entity] (the “recipient”), engaged by UN ENTITY under the agreement dated [insert date of agreement] (the “Agreement”), in connection with the project [insert award and project number(s)], [insert official title of project], as at [insert date]. The statement has been prepared by the recipient in accordance with the UN ENTITY accounting policies, as described in Note X.

***Management’s Responsibility for the Statement***

Management of the recipient is responsible for the preparation of the statement in accordance with the UN ENTITY accounting policies and for such internal control as management determines is necessary to enable the preparation of a schedule that is free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UN ENTITY’s preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

**Clean opinion:** Option 1: (Unmodified)

In our opinion, the attached statement of cash position of the recipient under the Agreement as at [insert date] is prepared, in all material respects, in accordance with the UN ENTITY accounting policies [if needed add: set out in the note to the statement].

**Modified opinions**

Option 2: (Qualified opinion)

In our opinion, the attached statement of cash of the recipient under the Agreement as at [insert date], except for the reasons indicated above in paragraphs (1), (2), (3) etc., [there should be a separate Basis for Qualified Opinion Paragraph where the basis for qualified opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] is prepared, in all material respects, in accordance with the UN ENTITY accounting policies [if needed add: set out in the note to the statement].

Option 3: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in paragraph (1), (2), (3) etc., [there should be a separate Basis for Adverse Opinion Paragraph where the basis for adverse opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] the statement of cash of the recipient under the Agreement as at [insert date] is not prepared, in all material respects, in accordance with the UN ENTITY accounting policies.

Option 4: (Disclaimer of opinion)

Because of the significance of the matter described in paragraph (1),(2), (3) etc., [there should be a separate Basis for Disclaimer of Opinion Paragraph where the basis for disclaimer of opinion is clearly explained and the above paragraphs should be amended in accordance with ISA 800 to reflect the modification] we were unable to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we are unable to express an opinion on the statement of cash in the amount of [insert amount in US$] audited by us as at [insert date].

**Emphasis of matter** [if applicable]

We draw attention to Note [insert number] to the statement of cash which describes the uncertainty related to [give explanation of the uncertainty]. Our opinion is not qualified in respect of this matter.

Auditor’s signature

Date of the auditor’s report

Auditor’s address

Date of issue:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

AUDITOR'S NAME (Please print): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

AUDITOR’S SIGNATURE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

STAMP AND SEAL OF AUDIT FIRM: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

AUDIT FIRM ADDRESS: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

AUDIT FIRM TEL. NO. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |
| --- |
| **Note:** Audit opinions must be one of the following: (a) qualified, (b) unqualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than ‘unqualified’, the audit report must describe both the nature and amount of the possible effects on the UN ENTITY financial statement (Amount of qualification/Net Financial Impact). A definition of audit opinions is provided in Annex 2. Categorization of audit Financial, Internal Control, Compliance and Other Findings is provided in Annex 3. |

**Annex 2: Definition of audit opinions**

**Unqualified (clean or positive) opinion**

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

**Qualified opinion – a modified (negative) audit opinion**

A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being ‘except for’ the effects of the matter to which the qualification relates.

**Disclaimer of opinion – a modified (negative) audit opinion**

A disclaimer of opinionshould be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial statements.

**Adverse – a modified (negative) audit opinion**

An adverse opinion is expressed by an auditor when the financial statements are significantly misrepresented, misstated and do not accurately reflect the expenditure incurred and reported in the financial statements (statement of expenses, statement of cash, statement of assets and equipment).

An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

*Risk levels*

In addition to explaining the and giving details about the ‘effect, potential impact or risk’ in the text of an audit observation, UN ENTITY requires that the auditor also identifies the risk level in the audit report by using one of the following three pre-established risk levels:

|  |  |
| --- | --- |
| **High** | Action that is considered imperative to ensure that UN ENTITY is not exposed to high risks (i.e. failure to take action could result in major consequences and issues) |
| **Medium** | Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences). |
| **Low** | Action that is considered desirable and should result in enhanced control or better value for money |

Annex 3. C**ategorization of Audit Findings**

**Financial Findings (with Financial Impact and risk rating for each UN agency)**

No supporting documentation

Insufficient supporting documentation

Cut-off error

Expenditure not for project purposes

No proof of payment

No proof of goods / services received

VAT incorrectly claimed

DSA rates exceeded

Bank interest not reported

Support costs incorrectly calculated

Expenditure claimed but activities not undertaken

Advance claimed as expenditure

Commitments treated as expenditure

Ineligible salary cost

Other

**Internal Control Findings (with the risk rating for each UN agency if applicable. Financial impact** **is not required**)

Lack of audit trail

Inconsistent basis of accounting

Lack of financial control policies and procedures

Lack of procedures for verification of assets

Lack of procedures for disposal of assets

Lack of segregation of duties

Suppliers' invoices not approved

Lack of bank reconciliations

Lack of basis for allocating salary costs

Payments not approved

No competitive procedures for the award of contracts

Failure to implement prior year's audit recommendations

Poor record keeping

Excessive use of cash payments

Other

**Compliance Findings (with the risk rating for each UN agency if applicable. Financial impact** **is not required**)

Bank account different from that named in the LoU

Signatories on FACE forms different from those in the LoU

Fixed assets not marked with UN agency insignia

FACE forms not submitted quarterly

Other

**Other Findings (with the risk rating for each UN agency if applicable. Financial impact** **is not required**)

Fundamental project activities not completed

Other

1. As per UN agency specific requirements listed in section Deliverables. In this case, financial statements refer to the Statement of Expenses, and Statements of Cash Balance, Assets and Equipment, and List of Inventory, as applicable. [↑](#footnote-ref-2)
2. This scope limitation is not a valid reason for the auditors to issue a qualified audit opinion on the statement of expenses. [↑](#footnote-ref-3)
3. This is not a programmatic evaluation. Programmatic evaluation will be conducted separately based on participating UN agency’s programmatic guidelines and procedures. [↑](#footnote-ref-4)