**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 2021 audit results is presented in figure 1 in document DP/2022/15, which shows the distribution of the number of audit reports that were issued by OAI in 2021 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 2021. 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 (2021)****%** | **Prior year Distribution (2020)****%** |
| Fully Satisfactory\* | *308,227,723* | *19.8* | *12.9* |
| Satisfactory/some\*\* improvement needed | *717,497,762* | *46.0* | *34.7* |
| Partially satisfactory/major improvement needed | *496,725,743* | *31.8* | *52.4* |
| Unsatisfactory | *37,900,000* | *2.4* | *0.0* |
| ***Total*** | ***1,560,351,228*** | ***100*** | ***100*** |

\*Prior to 2021 the equivalent rating was ‘Satisfactory’

\*\*Prior to 2021 the equivalent rating was ‘Partially satisfactory/some improvement needed’

* Audits with ‘partially satisfactory/major improvement needed’ rating: There was a substantial decrease of audited expenditures with ‘partially satisfactory/major improvement needed’ rating when comparing with the figures from the prior year. The county offices of UNDP Ukraine, Sudan and Lebanon with a combined audited expenditure of $404,000,000 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. Therefore, 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[[2]](#footnote-3) and estimated that the results of the DIM financial audits provide 50 per cent assurance UNDP GRC. The calculated total net financial misstatement in 2021 was $35.3 million or 5.2 per cent of the total audited expenditure ($674.8 million) compared to $14.4 million in 2020 or 2.3 per cent of the total audited expenditure ($636.3 million).

**Table 2: Distribution of ratings per DIM audited expenditure (weighted at 50 per cent) in 2021[[3]](#footnote-4) audits**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rating** | **DIM** **adjusted audited expenditure****$** | **Distribution****(2021)****(%)** | **Prior year Distribution****(2020)[[4]](#footnote-5)****(%)** |
| Fully satisfactory | 215,569,065 | 65.6 | 53.5 |
| Satisfactory/some improvement needed | 0 | 0 | 0 |
| Partially satisfactory/major improvement needed | 0 | 0 | 0 |
| Unsatisfactory | 112,829,415[[5]](#footnote-6) | 34.4 | 46.5 |
| ***Total*** | ***328,398,480*** | ***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****(%)** | **Prior year Distribution** **(%)** |
| Fully satisfactory | 156,139,592 | 69.5[[6]](#footnote-7) | 89.3 |
| Satisfactory/some improvement needed[[7]](#footnote-8) | 18,759,627 | 8.4 | 3.4 |
| Partially satisfactory/major improvement needed | 18,759,627 | 8.3 | 3.4 |
| Unsatisfactory | 30,895,078 | 13.8 | 3.9 |
| ***Total*** | ***224,553,925*** | ***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 the targets for distribution of audit reports according to rating as set in the UNDP Integrated Results and Resources Framework, the tool that has been implemented by UNDP to monitor the progress in achieving its 2018-2021 Strategic Plan. These targets are considered an expression of UNDP risk tolerance in respect of internal audit results (refer to table 4).

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

**by number of audit reports issued in 2020 and 2021 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** |
| **2020** | **2021** | **2020** | **2021** | **2020-2021** |
| Fully satisfactory | 20.4% | 32.2% | 23.9% | 29.2% | More than 30% |
| Satisfactory/some improvement needed | 30.2% | 34.8% | 56.5% | 52.1% | More than 30% |
| Partially satisfactory/major improvement needed | 45.6% | 24.4% | 19.6% | 16.7% | Less than 35% |
| Unsatisfactory | 3.8% | 8.6 % | 0.0% | 2.0% | 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 2021 is higher than the corporate target. The combined rates of audits with ‘fully satisfactory’ and ‘satisfactory/some improvement needed’ ratings increased from 50.6 per cent in 2020 to 67.0 per cent in 2021. This combined rate was 53.3 per cent in 2019. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings decreased from 49.4 per cent in 2020 to 33.0 per cent in 2021. This combined rate was 46.6 per cent in 2019 (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 slightly lower than the corporate target. The combined rates of audits with ‘fully satisfactory’ and ‘satisfactory/some improvement needed’ ratings slightly increased from 80.4 per cent in 2020 to 81.3 per cent in 2021. Additionally, the combined rates of audits with ‘partially satisfactory/major improvement needed’ and ‘unsatisfactory’ ratings slightly decreased from 19.6 per cent in 2020 to 18.7 per cent in 2021 (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 2018-2021 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 2021, compared to corporate targets, three of the four rates were aligned to the corporate targets (‘satisfactory/some improvement’, ‘partially satisfactory/major improvements’ and ‘unsatisfactory’). Regarding the ‘fully satisfactory’ rating, it nearly reached the corporate target in 2021..
2. The implementation rate for internal audit recommendations remained unchanged, while the number of long-outstanding recommendations increased in 2021.
* Implementation rate of audit recommendations: The implementation rate as of 31 December 2021 of 95.3 was the same as the prior year.
* Long-outstanding recommendations: There were six long-outstanding recommendations as of 31 December 2021 compared to no long-outstanding recommendations as of 31 December 2020. There were ten long-outstanding recommendations as of 31 December 2019.
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 2021 were, in aggregate, ‘satisfactory/some improvement needed’, which means that, in the majority of business units or projects audited in 2021 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. 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-3)
3. DIM audits were conducted in 2021 of project expenditures incurred in 2020. [↑](#footnote-ref-4)
4. DIM audits were conducted in 2020 of project expenditures incurred in 2019. [↑](#footnote-ref-5)
5. The audit of the DIM project ‘Funding Facility for stabilization’ of UNDP Iraq accounted for 86.8 per cent of the adjusted audit expenditure with ‘unsatisfactory’ rating, with a net financial misstatement of $28.3 million, 80 per cent of the total net financial misstatement in 2021 ($35.3 million). [↑](#footnote-ref-6)
6. The decrease in the percentage of adjusted audited expenditures with fully satisfactory rating in 2021 compared to 2020 was due to the decrease of audited expenditures amounts with unqualified opinion and the increase of audits with qualified, disclaimer and adverse opinions. The calculated total net financial misstatement in the fiscal year 2020 was $1.3 million or 0.1 per cent of the total audited expenditures ($898 million) compared to $0.5 million in 2019, which represented 0.05 per cent of the total audited expenditure ($948 million). The total net financial misstatement in 2020 resulted from an overstatement of the Combined Delivery Report expenses by $7.5 million and an understatement of the Combined Delivery Report expenses by $6.2 million. [↑](#footnote-ref-7)
7. 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-8)