



**Request for Proposal (RFP)**

Ref. no. **RfP 11/00484**

Date: **30 December 2011**

Dear Sir/Madam,

**Subject: RFP for audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project.**

1. You are requested to submit a proposal for audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project, as per enclosed Terms of Reference (TOR).
2. To enable you to submit a proposal, attached are:
  - i. Instructions to Offerors (Annex I)
  - ii. General Conditions of Contract (Annex II)
  - iii. Terms of Reference (TOR) (Annex III)
  - iv. Proposal Submission Form (Annex IV)
  - v. Price Schedule/Financial Proposal (Annex V)
3. Your offer comprising of technical proposal and price schedule/financial proposal, in separate sealed envelopes, marked with “**RFP: Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project**” should reach the UNDP office no later than **13 January 2012 16:30 hours**, local time.

Offers can be submitted either in hard copy or electronically.

a) Documents/offers in hard copy need to be addressed to:

**UNDP Moldova,  
131, 31 August 1989 Street, MD-2012 Chisinau, Republic of Moldova  
Attention: Registry Office/Service Center**

b) Offers sent electronically need to be addressed to the following e-mail address:


**tenders-Moldova@undp.org**

Offers shall be clearly marked with “**RFP: Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project**”

Contact person for clarifications: **Stanislav Djandjgava**, Operations Manager  
([stanislav.djandjgava@undp.org](mailto:stanislav.djandjgava@undp.org)).

4. If you request additional information, we would endeavour to provide information expeditiously, but any delay in providing such information will not be considered a reason for extending the submission date of your proposal.
5. You are requested to acknowledge receipt of this letter and to indicate whether or not you intend to submit a proposal.

Yours sincerely,



Stanislav Djandjgava  
Officer in Charge

**Instructions to Offerors****A. Introduction****1. General**

The purpose of this Request for Proposal (RFP) is to solicit proposals from qualified companies that have the necessary expertise to provide audit services in accordance with International Standards for Audit (ISA). The audit shall cover the overall management of the project's implementation, monitoring and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets.

**2. Cost of proposal**

The Offeror shall bear all costs associated with the preparation and submission of the Proposal, the UNDP will in no case be responsible or liable for those costs, regardless of the conduct or outcome of the solicitation.

**B. Solicitation Documents****3. Contents of solicitation documents**

Proposals must offer services for the total requirement. Proposals offering only part of the requirement will be rejected. The Offeror is expected to examine all corresponding instructions, forms, terms and specifications contained in the Solicitation Documents. Failure to comply with these documents will be at the Offeror's risk and may affect the evaluation of the Proposal.

**4. Clarification of solicitation documents**

A prospective Offeror requiring any clarification of the Solicitation Documents may notify the procuring UNDP entity in writing at the organisation's mailing address or fax number indicated in the RFP. The procuring UNDP entity will respond in writing to any request for clarification of the Solicitation Documents that it receives earlier than two weeks prior to the deadline for the submission of Proposals. Written copies of the organisation's response (including an explanation of the query but without identifying the source of inquiry) will be sent to all prospective Offerors that has received the Solicitation Documents.

**5. Amendments of solicitation documents**

At any time prior to the deadline for submission of Proposals, the procuring UNDP entity may, for any reason, whether at its own initiative or in response to a clarification requested by a prospective Offeror, modify the Solicitation Documents by amendment.

All prospective Offerors that have received the Solicitation Documents will be notified in writing of all amendments to the Solicitation Documents.

In order to afford prospective Offerors reasonable time in which to take the amendments into account in preparing their offers, the procuring UNDP entity may, at its discretion, extend the deadline for the submission of Proposals.

**C. Preparation of Proposals****6. Language of the proposal**

The Proposals prepared by the Offeror and all correspondence and documents relating to the Proposal exchanged by the Offeror and the procuring UNDP entity shall be written in the English language. Any printed literature furnished by the Offeror may be written in another language so long as accompanied by an English translation of its pertinent passages in which case, for purposes of interpretation of the Proposal, the English translation shall govern.

## 7. Documents comprising the proposal

The Proposal shall comprise the following components:

- (a) Proposal submission form (Annex IV);
- (b) Operational and technical part of the Proposal, including documentation to demonstrate that the Offeror meets all requirements;
- (c) Price schedule/financial proposal completed in accordance with clauses 9 and 10 (Annex V).

## 8. Operational and technical documentation

The *operational and technical part of the Proposal* shall contain the following documents:

- A copy of the entity registration documents (licence, certificates, etc);
- Brief Company Profile and portfolio of clients;
- Brief outline of similar activities undertaken in the past;
- Detailed description of the Proposed Work Plan and Approach;
- CVs of Task Manager and other Task Force experts;
- Implementation Timeline (from the moment of contract signing);
- Description of Quality Assurance Procedures;
- Description of Litigation and Arbitration history (if any);
- Detailed Budget (presented in a separate envelope, as described in the 'Instructions to Offerors' Section).

## 9. Proposal form

The Offeror shall structure the operational and technical part of its Proposal as follows:

### (a) Management plan

This section should provide corporate orientation to include the year and state/country of incorporation and a brief description of the Offeror's present activities. It should focus on services related to the Proposal.

This section should also describe the organisational unit(s) that will become responsible for the contract, and the general management approach towards a project of this kind. The Offeror should comment on its experience in similar projects and identify the person(s) representing the Offeror in any future dealing with the procuring UNDP entity.

### (b) Resource plan

This should fully explain the Offeror's resources in terms of personnel and facilities necessary for the performance of this requirement. It should describe the Offeror's current capabilities/facilities and any plans for their expansion.

### (c) Proposed methodology

This section should demonstrate the Offeror's responsiveness to the specification by identifying the specific components proposed, addressing the requirements, as specified, point by point; providing a detailed description of the essential performance characteristics proposed warranty; and demonstrating how the proposed methodology meets or exceeds the specifications.

The operational and technical part of the Proposal should not contain any pricing information whatsoever on the services offered. Pricing information shall be separated and only contained in the appropriate Price Schedules.

It is mandatory that the Offeror's Proposal numbering system corresponds with the numbering system used in the body of this RFP. All references to descriptive material and brochures should be included in the appropriate response paragraph, though material/documents themselves may be provided as annexes to the Proposal/response.

Information which the Offeror considers proprietary, if any, should be clearly marked "proprietary" next to the relevant part of the text and it will then be treated as such accordingly.

#### 10. Proposal prices

The Offeror shall indicate on an appropriate Price Schedule/Financial Proposal, an example of which is contained in these Solicitation Documents, the prices of services it proposes to supply under the contract.

#### 11. Proposal currencies

All prices shall be quoted in **Moldovan Lei** and shall be exclusive of VAT. For comparison purposes, all other currencies shall be converted into **Moldovan Lei** using the UN Operational Rate of Exchange on the day of the competition deadline.

#### 12. Period of validity of proposals

Proposals shall remain valid for sixty (60) days after the date of Proposal submission prescribed by the procuring UNDP entity, pursuant to the deadline clause. A Proposal valid for a shorter period may be rejected by the procuring UNDP entity on the grounds that it is non-responsive.

In exceptional circumstances, the procuring UNDP entity may solicit the Offeror's consent to an extension of the period of validity. The request and the responses thereto shall be made in writing. An Offeror granting the request will not be required nor permitted to modify its Proposal.

#### 13. Format and signing of proposals

The Offeror shall prepare two copies of the Proposal, clearly marking each "Original Proposal" and "Copy of Proposal" as appropriate. In the event of any discrepancy between them, the original shall govern.

The two copies of the Proposal shall be typed or written in indelible ink and shall be signed by the Offeror or a person or persons duly authorised to bind the Offeror to the contract. The latter authorisation shall be indicated by written power-of-attorney accompanying the Proposal.

A Proposal shall contain no interlineations, erasures, or overwriting except, as necessary to correct errors made by the Offeror, in which case such corrections shall be initialled by the person or persons signing the Proposal.

#### 14. Payment

UNDP shall effect payments to the Contractor after acceptance by UNDP of the invoices submitted by the contractor, upon achievement of the corresponding milestones.

#### D. Submission of Proposals

##### 15. Sealing and marking of proposals

The Offeror shall seal the Proposal in one outer and two inner envelopes, as detailed below.

(a) The outer envelope shall be:

- addressed to –

**UNDP Moldova  
131, 31 August 1989 Street, MD-2012 Chisinau, Republic of Moldova  
Attention: UNDP Registry Office/Procurement**

and,

- marked with –

**“RFP: Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project”**

(b) Both inner envelopes shall indicate the name and address of the Offeror. The first inner envelope shall contain the information specified in Clause 8 (*Operational and technical documentation*) and in Clause 9 (*Proposal form*) above, with the copies duly marked “Original” and “Copy”. The second inner envelope shall include the price schedule/financial proposal duly identified as such.

Note, if the inner envelopes are not sealed and marked as per the instructions in this clause, the procuring UNDP entity will not assume responsibility for the Proposal’s misplacement or premature opening.

(c) In case of electronic submission, the Offeror shall send two messages by e-mail to the following address: [tenders-Moldova@undp.org](mailto:tenders-Moldova@undp.org)

Having prepared the Proposal in paper format as specified in Clause “D. Submission of Proposals”, hereof, the entire Proposal should be scanned or otherwise converted into one or more electronic .pdf (Adobe Acrobat) format files and attached to two e-mail messages. The first e-mail message shall contain the information specified in Clause 8 (*Operational and technical documentation*) and Clause 9 (*Proposal form*) above and shall have the following subject: **“Technical Proposal for RFP: Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project”**. The second e-mail message shall include the price schedule/financial proposal and shall have the following subject: **“Financial Proposal for RFP: Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project” - DO NOT OPEN IN ADVANCE**. The opening of the financial proposal must be secured with the password protected ZIP archive by the Offeror, which will be given to the procuring UNDP entity upon its request after the completion of the technical proposal evaluation.

To assist procuring UNDP entity in the assurance of transparency, it is recommended that, prior to sending the Email(s), Offerors should open “Options”, then “Voting and Tracking Options” and select “Request a delivery receipt for this message” AND “Request a read receipt for this

message". This option path is for Microsoft Office Outlook software. Other software should offer similar options, although the path and wording might be somewhat different.

#### **16. Deadline for submission of proposals**

Proposals must be received by the procuring UNDP entity at the address or e-mail address specified under clause *Sealing and marking of Proposals* no later than **13 January 2012, 16:30 hours**, local time.

The procuring UNDP entity may, at its own discretion extend this deadline for the submission of Proposals by amending the solicitation documents in accordance with clause *Amendments of Solicitation Documents*, in which case all rights and obligations of the procuring UNDP entity and Offerors previously subject to the deadline will thereafter be subject to the deadline as extended.

#### **17. Late Proposals**

Any Proposal received by the procuring UNDP entity after the deadline for submission of proposals, pursuant to clause *Deadline for the submission of proposals*, will be rejected.

#### **18. Modification and withdrawal of Proposals**

The Offeror may withdraw its Proposal after the Proposal's submission, provided that written notice of the withdrawal is received by the procuring UNDP entity prior to the deadline prescribed for submission of Proposals.

The Offeror's withdrawal notice shall be prepared, sealed, marked, and dispatched in accordance with the provisions of clause *Deadline for Submission of Proposals*. The withdrawal notice may also be sent by telex or fax but followed by a signed confirmation copy.

No Proposal may be modified subsequent to the deadline for submission of proposals.

No Proposal may be withdrawn in the Interval between the deadline for submission of proposals and the expiration of the period of proposal validity specified by the Offeror on the Proposal Submission Form.

### **E. Opening and Evaluation of Proposals**

#### **19. Opening of proposals**

The procuring entity will open the Proposals in the presence of a Committee formed by the Head of the procuring UNDP entity.

#### **20. Clarification of proposals**

To assist in the examination, evaluation and comparison of Proposals, the Purchaser may at its discretion, ask the Offeror for clarification of its Proposal. The request for clarification and the response shall be in writing and no change in price or substance of the Proposal shall be sought, offered or permitted.

#### **21. Preliminary examination**

The Purchaser will examine the Proposals to determine whether they are complete, whether any computational errors have been made, whether the documents have been properly signed, and whether the Proposals are generally in order.

Arithmetical errors will be rectified on the following basis: If there is a discrepancy between the unit price and the total price that is obtained by multiplying the unit price and quantity, the unit price shall prevail and the total price shall be corrected. If the Offeror does not accept the correction of errors, its Proposal will be rejected. If there is a discrepancy between words and figures the amount in words will prevail.

Prior to the detailed evaluation, the Purchaser will determine the substantial responsiveness of each Proposal to the Request for Proposals (RFP). For purposes of these Clauses, a substantially responsive Proposal is one which conforms to all the terms and conditions of the RFP without material deviations. The Purchaser’s determination of a Proposal’s responsiveness is based on the contents of the Proposal itself without recourse to extrinsic evidence.

A Proposal determined as not substantially responsive will be rejected by the Purchaser and may not subsequently be made responsive by the Offeror by correction of the non-conformity.

## 22. Evaluation and comparison of proposals

A two-stage procedure will be utilised in evaluating the proposals, with evaluation of the technical proposal being completed prior to any price proposal being opened and compared. The price schedule/financial proposal of the Proposals will be opened only for submissions that passed the minimum technical score of 70% of the obtainable score of 700 points in the evaluation of the technical proposals.

The technical proposal is evaluated on the basis of its responsiveness to the Term of Reference (TOR) and the Instructions to Offerors (Annex I).

In the Second Stage, the price proposal of all contractors, who have attained minimum 70% score in the technical evaluation, will be compared. The **cumulative analysis scheme** will be applied with a total score being obtained upon the combination of weighted technical and financial attributes. An Offeror’s response to the solicitation document is evaluated and points are attributed based on how well they meet the defined desirable criteria. Cost under this method of analysis is rendered as an award criterion, which will be 30% out of a total score of 1000 of all the desirable factors of the RFP. The contract will be awarded to the Offeror obtaining the highest cumulative score. The following formula will be applied in calculating the cumulative score:

$$B = T + \frac{C_{low}}{C} \times 300,$$

where

*T* – is the total technical score awarded to the evaluated proposal;

*C* – is the price of the evaluated proposal; and

*C<sub>low</sub>* – is the lowest of all evaluated proposal prices among responsive proposals.

### **Technical Evaluation Criteria**

Summary of Technical Proposal Evaluation Forms		Score Weight	Points Obtainable	Company / Other Entity				
				A	B	C	D	E
1.	Expertise of Firm / Organisation submitting Proposal	30%	210					
2.	Proposed Work Plan and Approach	30%	210					
3.	Personnel	40%	280					
<b>Total</b>			<b>700</b>					

Evaluation forms for technical proposals follow on the next two pages. The obtainable number of points specified for each evaluation criterion indicates the relative significance or weight of the item in the overall evaluation process. The Technical Proposal Evaluation Forms are:

Form 1: Expertise of Firm / Organisation Submitting Proposal

Form 2: Proposed Work Plan and Approach

Form 3: Personnel

Technical Proposal Evaluation Form 1		Points obtainable	Company / Other Entity					
			A	B	C	D	E	
<b>Expertise of firm / organisation submitting proposal</b>								
1.1	Reputation of Organisation and Staff (Competence / Reliability)	50						
1.2	General Organisational Capability which is likely to affect implementation (i.e. loose consortium, holding company or one firm, size of the firm / organisation, strength of project management support e.g. project financing capacity and project management controls), Management Arrangements Plan	35						
1.3	Quality Assurance Procedures, Warranty ( <i>lack of the Quality Assurance Procedures description – 0 pts</i> )	15						
1.4	Litigation and Arbitration history ( <i>lack of the Litigation and Arbitration history description – 0 pts</i> )	10						
1.5	Relevance of:	100						
	- Specialised Knowledge							40
	- Experience on similar assignments							40
	- Work for UN/ major multilateral/ or bilateral programmes							20
		<b>210</b>						

Technical Proposal Evaluation Form 2		Points Obtainable	Company / Other Entity				
			A	B	C	D	E
<b>Proposed Work Plan and Approach</b>							
2.1	To what degree does the Offeror understand the task?	30					
2.2	Is the scope of task well defined and does it correspond to the TOR?	50					
2.3	Have the important aspects of the task been addressed in sufficient detail? Are the different components of the project adequately weighted relative to one another?	50					
2.4	Is the proposal based on a preliminary research concerning the assignment and was this data input properly used in the preparation of the proposal?	30					
2.5	Is the presentation clear and is the sequence of activities and the planning logical, realistic and promise efficient implementation to the project?	50					
		<b>210</b>					



Technical Proposal Evaluation Form 3			Points Obtainable	Company / Other Entity				
				A	B	C	D	E
<b>Personnel</b>								
3.1	<i>Task Manager</i>		Sub-Score	<b>110</b>				
	<b>General Qualification</b>							
	Education and general qualifications	30						
	Prior experience of team/group leader in undertaking similar tasks	10						
	Professional experience in providing specialized services	40						
	Experience in reports writing	20						
	Language Qualifications	10						
3.2	<i>Team members/experts</i>		Sub-Score	<b>170</b>				
	<b>General Qualification</b>							
	Education and general qualifications	40						
	Professional experience in providing specialized services	40						
	Combined Team professional competence / expertise (capacities to cover all required areas as per the TOR)	50						
	Experience in working with UN or other international organizations and donor agencies	30						
	Language Qualifications	10						
<b>Total Part 3</b>				<b>280</b>				

## F. Award of Contract

### 23. Award criteria, award of contract

The procuring UNDP entity reserves the right to accept or reject any Proposal, and to annul the solicitation process and reject all Proposals at any time prior to award of contract, without thereby incurring any liability to the affected Offeror or any obligation to inform the affected Offeror or Offerors of the grounds for the Purchaser's action.

Prior to expiration of the period of proposal validity, the procuring UNDP entity will award the contract to the qualified Offeror whose Proposal after being evaluated is considered to be the most responsive to the needs of the organisation and activity concerned.

### 24. Purchaser's right to vary requirements at time of award

The Purchaser reserves the right at the time of award of contract to vary the quantity of services and goods specified in the RFP without any change in price or other terms and conditions.

### 25. Signing of the contract

Within 30 days of receipt of the contract the successful Offeror shall sign and date the contract and return it to the Purchaser.

Failure of the successful Offeror to comply with the requirement of Clause 25 shall constitute sufficient grounds for the annulment of the award and forfeiture of the Proposal security if any, in which event the Purchaser may make the award to the next lowest evaluated Offeror or call for new Proposals.

**General Conditions of Contract****1. LEGAL STATUS**

The Contractor shall be considered as having the legal status of an independent contractor vis-à-vis UNDP. The Contractor's personnel and sub-contractors shall not be considered in any respect as being the employees or agents of UNDP or the United Nations.

**2. SOURCE OF INSTRUCTIONS**

The Contractor shall neither seek nor accept instructions from any authority external to UNDP in connection with the performance of its services under this Contract. The Contractor shall refrain from any action which may adversely affect UNDP or the United Nations and shall fulfil its commitments with the fullest regard to the interests of UNDP.

**3. CONTRACTOR'S RESPONSIBILITY FOR EMPLOYEES**

The Contractor shall be responsible for the professional and technical competence of its employees and will select, for work under this Contract, reliable individuals who will perform effectively in the implementation of this Contract, respect the local customs, and conform to a high standard of moral and ethical conduct.

**4. ASSIGNMENT**

The Contractor shall not assign, transfer, pledge or make other disposition of this Contract or any part thereof, or any of the Contractor's rights, claims or obligations under this Contract except with the prior written consent of UNDP.

**5. SUB-CONTRACTING**

In the event the Contractor requires the services of sub-contractors, the Contractor shall obtain the prior written approval and clearance of UNDP for all sub-contractors. The approval of UNDP of a sub-contractor shall not relieve the Contractor of any of its obligations under this Contract. The terms of any sub-contract shall be subject to and conform with the provisions of this Contract.

**6. OFFICIALS NOT TO BENEFIT**

The Contractor warrants that no official of UNDP or the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.

**7. INDEMNIFICATION**

The Contractor shall indemnify, hold and save harmless, and defend, at its own expense, UNDP, its officials, agents, servants and employees from and against all suits, claims, demands, and liability of any nature or kind, including their costs and expenses, arising out of acts or omissions of the Contractor, or the Contractor's employees, officers, agents or sub-contractors, in the performance of this Contract. This provision shall extend, inter alia, to claims and liability in the nature of workmen's compensation, products liability and liability arising out of the use of patented inventions or devices, copyrighted material or other intellectual property by the Contractor, its employees, officers, agents, servants or sub-contractors. The obligations under this Article do not lapse upon termination of this Contract.

**8. INSURANCE AND LIABILITIES TO THIRD PARTIES**

- 8.1 The Contractor shall provide and thereafter maintain insurance against all risks in respect of its property and any equipment used for the execution of this Contract.
- 8.2 The Contractor shall provide and thereafter maintain all appropriate workmen's compensation insurance, or its equivalent, with respect to its employees to cover claims for personal injury or death in connection with this Contract.

- 8.3 The Contractor shall also provide and thereafter maintain liability insurance in an adequate amount to cover third party claims for death or bodily injury, or loss of or damage to property, arising from or in connection with the provision of services under this Contract or the operation of any vehicles, boats, airplanes or other equipment owned or leased by the Contractor or its agents, servants, employees or sub-contractors performing work or services in connection with this Contract.
- 8.4 Except for the workmen's compensation insurance, the insurance policies under this Article shall:
- (i) Name UNDP as additional insured;
  - (ii) Include a waiver of subrogation of the Contractor's rights to the insurance carrier against UNDP;
  - (iii) Provide that UNDP shall receive thirty (30) days written notice from the insurers prior to any cancellation or change of coverage.
- 8.5 The Contractor shall, upon request, provide UNDP with satisfactory evidence of the insurance required under this Article.

## **9. ENCUMBRANCES/LIENS**

The Contractor shall not cause or permit any lien, attachment or other encumbrance by any person to be placed on file or to remain on file in any public office or on file with UNDP against any monies due or to become due for any work done or materials furnished under this Contract, or by reason of any other claim or demand against the Contractor.

## **10. TITLE TO EQUIPMENT**

Title to any equipment and supplies that may be furnished by UNDP shall rest with UNDP and any such equipment shall be returned to UNDP at the conclusion of this Contract or when no longer needed by the Contractor. Such equipment, when returned to UNDP, shall be in the same condition as when delivered to the Contractor, subject to normal wear and tear. The Contractor shall be liable to compensate UNDP for equipment determined to be damaged or degraded beyond normal wear and tear.

## **11. COPYRIGHT, PATENTS AND OTHER PROPRIETARY RIGHTS**

UNDP shall be entitled to all intellectual property and other proprietary rights including but not limited to patents, copyrights, and trademarks, with regard to products, or documents and other materials which bear a direct relation to or are produced or prepared or collected in consequence of or in the course of the execution of this Contract. At the UNDP's request, the Contractor shall take all necessary steps, execute all necessary documents and generally assist in securing such proprietary rights and transferring them to UNDP in compliance with the requirements of the applicable law.

## **12. USE OF NAME, EMBLEM OR OFFICIAL SEAL OF UNDP OR THE UNITED NATIONS**

The Contractor shall not advertise or otherwise make public the fact that it is a Contractor with UNDP, nor shall the Contractor, in any manner whatsoever use the name, emblem or official seal of UNDP or the United Nations, or any abbreviation of the name of UNDP or the United Nations in connection with its business or otherwise.

## **13. CONFIDENTIAL NATURE OF DOCUMENTS AND INFORMATION**

- 13.1 All maps, drawings, photographs, mosaics, plans, reports, recommendations, estimates, documents and all other data compiled by or received by the Contractor under this Contract shall be the property of UNDP, shall be treated as confidential and shall be delivered only to UNDP authorized officials on completion of work under this Contract.
- 13.2 The Contractor may not communicate at any time to any other person, Government or authority external to UNDP, any information known to it by reason of its association with UNDP which has not been made public except with the authorization of UNDP; nor shall the Contractor at any time use such information to private advantage. These obligations do not lapse upon termination of this Contract.

## **14. FORCE MAJEURE; OTHER CHANGES IN CONDITIONS**

- 14.1 Force majeure, as used in this Article, means acts of God, war (whether declared or not), invasion, revolution, insurrection, or other acts of a similar nature or force which are beyond the control of the Parties.

- 14.2 In the event of and as soon as possible after the occurrence of any cause constituting force majeure, the Contractor shall give notice and full particulars in writing to UNDP, of such occurrence or change if the Contractor is thereby rendered unable, wholly or in part, to perform its obligations and meet its responsibilities under this Contract. The Contractor shall also notify UNDP of any other changes in conditions or the occurrence of any event which interferes or threatens to interfere with its performance of this Contract. The notice shall include steps proposed by the Contractor to be taken including any reasonable alternative means for performance that is not prevented by force majeure. On receipt of the notice required under this Article, UNDP shall take such action as, in its sole discretion, it considers to be appropriate or necessary in the circumstances, including the granting to the Contractor of a reasonable extension of time in which to perform its obligations under this Contract
- 14.3 If the Contractor is rendered permanently unable, wholly, or in part, by reason of force majeure to perform its obligations and meet its responsibilities under this Contract, UNDP shall have the right to suspend or terminate this Contract on the same terms and conditions as are provided for in Article 15, "Termination", except that the period of notice shall be seven (7) days instead of thirty (30) days.

## **15. TERMINATION**

- 15.1 Either party may terminate this Contract for cause, in whole or in part, upon thirty days notice, in writing, to the other party. The initiation of arbitral proceedings in accordance with Article 16 "Settlement of Disputes" below shall not be deemed a termination of this Contract.
- 15.2 UNDP reserves the right to terminate without cause this Contract at any time upon 15 days prior written notice to the Contractor, in which case UNDP shall reimburse the Contractor for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.
- 15.3 In the event of any termination by UNDP under this Article, no payment shall be due from UNDP to the Contractor except for work and services satisfactorily performed in conformity with the express terms of this Contract. The Contractor shall take immediate steps to terminate the work and services in a prompt and orderly manner and to minimize losses and further expenditures.
- 15.4 Should the Contractor be adjudged bankrupt, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed on account of the insolvency of the Contractor, UNDP may, without prejudice to any other right or remedy it may have, terminate this Contract forthwith. The Contractor shall immediately inform UNDP of the occurrence of any of the above events.

## **16. SETTLEMENT OF DISPUTES**

### **16.1. Amicable Settlement**

The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of, or relating to this Contract or the breach, termination or invalidity thereof. Where the parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules then obtaining, or according to such other procedure as may be agreed between the parties.

### **16.2. Arbitration**

Unless, any such dispute, controversy or claim between the Parties arising out of or relating to this Contract or the breach, termination or invalidity thereof is settled amicably under the preceding paragraph of this Article within sixty (60) days after receipt by one Party of the other Party's request for such amicable settlement, such dispute, controversy or claim shall be referred by either Party to arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining, including its provisions on applicable law. The arbitral tribunal shall have no authority to award punitive damages. The Parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy, claim or dispute.

## **17. PRIVILEGES AND IMMUNITIES**

Nothing in or relating to this Contract shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including its subsidiary organs.

## **18. TAX EXEMPTION**

18.1 Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter-alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for public utility services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. In the event any governmental authority refuses to recognize the United Nations exemption from such taxes, duties or charges, the Contractor shall immediately consult with UNDP to determine a mutually acceptable procedure.

18.2 Accordingly, the Contractor authorizes UNDP to deduct from the Contractor's invoice any amount representing such taxes, duties or charges, unless the Contractor has consulted with UNDP before the payment thereof and UNDP has, in each instance, specifically authorized the Contractor to pay such taxes, duties or charges under protest. In that event, the Contractor shall provide UNDP with written evidence that payment of such taxes, duties or charges has been made and appropriately authorized.

## **19. CHILD LABOUR**

19.1 The Contractor represents and warrants that neither it, nor any of its suppliers is engaged in any practice inconsistent with the rights set forth in the Convention on the Rights of the Child, including Article 32 thereof, which, inter alia, requires that a child shall be protected from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

19.2 Any breach of this representation and warranty shall entitle UNDP to terminate this Contract immediately upon notice to the Contractor, at no cost to UNDP.

## **20. MINES**

20.1 The Contractor represents and warrants that neither it nor any of its suppliers is actively and directly engaged in patent activities, development, assembly, production, trade or manufacture of mines or in such activities in respect of components primarily utilized in the manufacture of Mines. The term "Mines" means those devices defined in Article 2, Paragraphs 1, 4 and 5 of Protocol II annexed to the Convention on Prohibitions and Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects of 1980.

20.2 Any breach of this representation and warranty shall entitle UNDP to terminate this Contract immediately upon notice to the Contractor, without any liability for termination charges or any other liability of any kind of UNDP.

## **21. OBSERVANCE OF THE LAW**

The Contractor shall comply with all laws, ordinances, rules, and regulations bearing upon the performance of its obligations under the terms of this Contract.

## **22. AUTHORITY TO MODIFY**

No modification or change in this Contract, no waiver of any of its provisions or any additional contractual relationship of any kind with the Contractor shall be valid and enforceable against UNDP unless provided by an amendment to this Contract signed by the authorized official of UNDP.

**TERMS OF REFERENCE FOR AUDITS OF NGO AND NIM PROJECTS**

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## **A. Background**

The “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project was initiated in 2008 to respond to the needs of the Government and the Ministry of Foreign Affairs and European Integration (MFAEI) in implementing institutional reforms but also to assist in the process of regional cooperation and European integration. The intervention logic was based on the Central Public Administration Reform strategy, the 2008-2011 National Development Strategy and the development assistance frameworks of the project main donors.

The objective was to strengthen the institutional capacity of the Ministry of Foreign Affairs and European Integration so that it can exercise its functions in a more efficient manner, operate transparently and fulfil its European Integration commitments. In 2010 the project was expanded in order to provide an enhanced assistance to the Moldovan institutions involved in negotiating the Association Agreement between the European Union and the Republic of Moldova. A summary of project achievements to date is described below in the results section.

The current Government of Moldova has increased the attention to the European Integration area and, through its new Programme for 2010 – 2014, has placed it as the key priority. It regards the European integration as a fundamental priority of the domestic and foreign policy. The assumption behind this was that the responsible implementation of commitments, deriving from the European course, is the most efficient way to achieve political, economic and social modernization. European integration provides a strong context for reforms in a number of areas.

The project has been running between 2008 and 2011, primarily focusing on the institutional (A) aspects of the MFAEI, with a particular focus on an in-depth capacity assessment, as well as strategy design and policy management. The project was also supporting an enhanced participation of Moldova in the regional cooperation (B) processes ultimately aimed to bring the country closer to the European standards. Targeted assistance was offered, as well, to improve the way the MFAEI communicates (C) its work to the public. In 2010, the project has expanded to include a European Integration (D) specific component in order to deploy rapid support to the MFAEI and other institutions when the AA negotiations were launched.

The budget for this period was USD 3.5 million funded by Sweden through Sida (Swedish International Development Cooperation Agency), Austrian, Norwegian, Estonian Governments, UNDP and the Open Society Institute.

The project is implemented under the National Implementation Mechanism (NIM). The Government of Moldova through the project implementing agency - the Ministry of Foreign Affairs and European Integration – is responsible for decision-making and implementation of Project activities; UNDP is providing quality assurance, project inputs and, when necessary, support services. The overall supervision is provided by the Project Board (Steering Committee). It includes representatives of the Ministry of Foreign Affairs and European Integration, the State Chancellery, other line ministries, UNDP and project donors. EU Delegation are invited to the PB as the lead organization in the EU integration work. The Deputy Minister of Foreign Affairs and European Integration (Chief Negotiator of the Association Agreement between European Union and Republic of Moldova) was appointed as the National Coordinator (NC), responsible for supporting the implementation of this project, and is serving as a focal point on the part of the designated institutions. This includes primary responsibility for engaging in continuous and effective dialogue with the main stakeholders (namely the MFAEI's representatives, other line ministries and Governmental agencies, CSOs, Donor community and the general public) during the implementation period, as well as ensuring effective monitoring and evaluation of the project progress and respectively its results as per under UNDP M&E rules. The Director of the European Integration Department of the MFAEI is acting with delegated authority from the NC to engage in more operational activities and to ensure the smooth functioning of the project.

UNDP Moldova is supporting the MFAEI with implementation support services according to the Agreement between the Government of Moldova and UNDP for provision of support services for the National Execution Modality of May 27, 2003. UNDP is providing narrative and financial reporting to the donors of the project on a regular basis as determined by the specific cost-sharing agreements. In its projects, UNDP follows the internationally recognized standards reflected in its Programme and Operations Policies and Procedures.

The Project Board is appointed to provide overall direction and management project and is responsible for ensuring that the project remains on stream to deliver products of the required quality to meet the expected

outcomes defined in the Project Document. Furthermore, the Board is accountable for the success of the Project and has responsibility and authority for the Project within the instructions set by UNDP programme management.

The Project Board approves all major plans and authorizes any major deviation from agreed Project work plans. It ensures that required resources are committed and arbitrates on any conflicts within the project or negotiates a solution to any problems between the project and any parties beyond the scope of the project. In addition, it approves the appointment and responsibilities of the Project Manager and subsequently of the team, who, in current the arrangement are located in the MFAEI and contracted by the UNDP.

The project has adopted the Harmonized Approach to Cash Transfer (HACT) modality as part of the joint efforts by the UN agencies towards greater ownership of project activities and results by the national counterparts. Hence some project components have been managed through direct cash transfer modality, specifically:

1. Renovation of the MFAEI Conference Hall;
2. Support to Republic of Moldova Mission to Brussels.

Adoption of the new harmonized approach by UNDP was a further step in implementing the Rome Declaration on Harmonization and Paris Declaration on Aid Effectiveness that call for a closer alignment of development aid with national priorities and needs. The approach allows development efforts to focus more on strengthening of the national capacities for management and accountability, with a view to gradually shift to utilizing national systems. It is envisaged that HACT will help further shape the capacity development interventions and provide support to new aid modalities. Before applying the modality, a HACT micro-assessment of the MFAEI had been conducted in order to evaluate the adequacy of the implementing partner's financial management systems and internal controls. It also indicated strengths & weaknesses of financial management practices, and identified possible areas for capacity development.

The following priority actions have been recommended to ensure the strengthening and harmonization of the financial management areas:

1. The internal procedure for the process of budgeting to be more elaborated, formally approved and implemented in order to allow for adequate and efficient management of donor funds and reporting;
2. Elaboration of the staff management policy should be done and implemented;
3. The internal policies and procedures at the Budget & Finance Direction in relation to the conflict of interest and related party transactions, insurance policy, cash and bank operations should be elaborated and implemented;
4. Elaboration and approval of the internal regulations for accounting and financial management processes of the subordinated missions;
5. Establish adequate internal audit function covering all areas, including operational, financial, information technology;
6. Procure and implement an information system, which allows for better accounting, monitoring, consolidating financial and management information for better decision making and for the assurance of integrity, completeness and confidentiality of data.

This ToR is directed to the audit of special purpose financial statements, which are referred to as Combined Delivery Reports (CDR), Funding Authorization and Certificate of Expenditures (FACE form).

The list of projects identified for auditing:

- The "Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration" project



## B. Project Management

The Ministry of Foreign Affairs and European Integration is the central body which promotes the State's policy in the area of foreign relations and conducts its activity in conformity with the Moldovan Constitution and Laws, Parliament Resolutions, President Decrees, Government Resolutions, and other normative documents, international treaties and agreements to which the Republic of Moldova is a party. The entity is subordinated directly to the Moldovan Government.

*Contact details of the Ministry are as follows:*

physical address: 80, 31 August str., Chisinau MD2012, Republic of Moldova;

phone numbers: (+373 22) 57 82 07, 57 82 06, 57 82 05;

fax numbers: (+373 22) 23 23 02;

web site: [www.mfa.gov.md](http://www.mfa.gov.md)

general e-mail addresses: [secdep@mfa.md](mailto:secdep@mfa.md)

Leadership of the MFAEI:

1. Iurie LEANCA, Deputy Prime Minister, Minister of Foreign Affairs and European Integration - (+373 22) 57 82 05;
2. Natalia GHERMAN, Deputy Minister of Foreign Affairs and European Integration (+373 22) 57 82 06
3. Andrei POPOV, Deputy Minister of Foreign Affairs and European Integration (+373 22) 57 82 07

The contact persons responsible for accounting, financial management and internal audit together with phone numbers and email addresses:

Mihai CAPATINA, Secretary General of the Ministry of Foreign Affairs and European Integration, (+373 22) 57 83 21;

<b>Direction</b>		<b>Staff</b>
<b><i>Budget &amp; Finance Direction</i></b>		
Head of Direction, Chief Accountant	Tatiana Gulea	578 221, email: <a href="mailto:Tatiana.Gulea@mfa.md">Tatiana.Gulea@mfa.md</a>
Deputy Head	Ludmila Veverita	578 286, Email: <a href="mailto:Ludmila.Veverita@mfa.md">Ludmila.Veverita@mfa.md</a>
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Head of Direction	Iurie Terzi	578 208, email: <a href="mailto:Iurie.Terzi@mfa.md">Iurie.Terzi@mfa.md</a>
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Senior Specialist	Burduja Vladimir	578 289
<b><i>Internal Audit Division</i></b>		
Head of Division	Efim Chilari	578 283, email: <a href="mailto:Efim.Chilari@mfa.md">Efim.Chilari@mfa.md</a>

### **C. Consultations with concerned parties**

The consultations within the process of audit are mandatory. The requirements for consultations are the following:

- Prior to the start of work, the auditor should meet with the UNDP Office to hear their concerns/proposals/recommendations;
- Prior to the start of work, the auditor should meet with senior officials of the Implementing Partner (Ministry of Foreign Affairs and European Integration), to understand how cooperation with the Agencies is managed, and any issues of concern they may have.
- Upon completion of the draft report, the auditor should first hold a debriefing meeting with the Implementing Partner, to discuss findings and recommendations for future improvements, as well as to seek their feedback thereon.
- The auditor will then meet with the Agencies to discuss the draft report prior to its finalization.

Special checklist may be utilized (Financial Management Questionnaire e.g.). The auditor should have full and complete access at any time to all records and documents (books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts, etc.) and all employees of the Implementing Partner. The auditor should be advised that he/she has a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the partner/project. If the consultant may have restricted access to any records, person or location during the course of the assessment, this restriction should be clearly defined, with reasons, in the report.

### **D. Description of Financial Reports (UNDP CDR) to be audited**

#### *Description of the Combined Delivery Report and Supporting Schedules*

The report to be audited is referred to as the Combined Delivery Report (CDR). This report is prepared by UNDP, using an in-house accounting software package called ATLAS. The CDR serves as the official financial statement that must be certified by the auditors. Project financial statements, if certified, must reconcile to the expenditure appearing in the CDR and must be attached to the audit report. As described in more detail below, the CDR combines expenditures from three disbursement sources for a calendar year. The three disbursement sources include:

#### *1. Implementing partner (either Government or NGO)*

UNDP procedures require that where funds are advanced to the executing agency, the agency must submit to the UNDP country office, on a quarterly basis, a financial report including: (1) the status of the advance; (2) a list of the disbursements made since the previous financial report; and (3) a request for a new advance. The UNDP country office enters the disbursements in ATLAS through the year as the financial reports are received. These implementing partner disbursements are recorded in the Government expenditure column in the CDR.

#### *2. UNDP (country office, headquarters and other country offices)*

Disbursements made by UNDP from its own bank accounts are entered in ATLAS by the UNDP country office. These UNDP disbursements are recorded in the UNDP expenditure columns in the CDR. These disbursements may be classified as either direct payments or UNDP support services. This distinction, while very important for audit purposes, is not apparent from the CDR and can only be provided by the UNDP country office as a supporting schedule. A brief description of each category is provided below.

a) Direct Payments - This is where the implementing partner is responsible for the expenditure but requested UNDP to effect payment to the vendor/consultant on its behalf. The implementing partner is accountable for the disbursement and maintains all supporting documentation. UNDP simply effects payments on the basis of properly authorised requests and gives the implementing partner a copy of the related disbursement voucher as evidence that payment was made.

b) UNDP Support Services - This is where the government and UNDP have agreed that UNDP will provide support services to the project and signed a Letter of Agreement. These support services must be described in the Letter of Agreement. UNDP is fully responsible and accountable for these expenditures and, accordingly, maintains all supporting documentation for the disbursement. This expenditure is outside the scope

of audit and, therefore, will not be reviewed by the auditors. This scope limitation should not be used as a reason for issuing a qualified audit opinion on the CDR. Where there is no signed Letter of Agreement for UNDP Support Services or a CPAP with the respective clauses of the LOA for UNDP Support Services, the audit should also cover the UNDP expenditures under CO support. The CO must include this information in the TOR/contract for the auditors.

### 3. UN agencies

The UN agency reports its expenditures to UNDP and to the government. The UNDP country office enters the expenditures in ATLAS. These UN agency expenditures are recorded in the UN Agencies expenditure column in the CDR.

At the end of the year, after receiving the fourth quarter financial report from the implementing partner and the year-end expenditure report from the UN agency, UNDP prepares the CDR and submits it to the implementing partner for signature. UNDP will provide the auditor with the signed CDR together with the following supporting documentation.

1. The quarterly financial reports submitted by the implementing partner.
2. A list of the direct payments processed by UNDP at the request of the implementing partner.
3. A list of the disbursement made by UNDP as part of support services provided to the implementing partner.
4. The UN agency expenditure statement for the year.
5. Relevant financial reports that show expenditure of GFATM sub-recipients for the year which need to be reconciled to the CDR expenditure
6. Letter of Agreement for UNDP support services signed between UNDP and the Government (or CPAP with relevant clauses regarding UNDP support services)
7. Relevant financial reports that show expenditures of UNDP CO support, if there is no Letter of Agreement.

## E. Audit Services Required

The scope of the audit services required is to audit the “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” Project, located within MFAEI premises, 80, 31 August 1989 Str., off. 224, Chisinau, MD 2001, Moldova

The auditor will take into consideration the following:

- The audit will be carried out in accordance with either ISA (International Standards of Auditing (ISA) published by the International Auditing Practices Committee of the International Federation of Accountants) or INTOSAI (International Organization of Supreme Audit Institutions) auditing standards.
- The audit period is 1 January to 31 December of the year 2011.
- The scope of the audit is limited to the implementing partner expenditures, which are defined as including: (1) all disbursements listed in the quarterly financial reports submitted by the implementing partner; and (2) the direct payments processed by UNDP at the request of the implementing partner.
- The auditor is required to verify the mathematical accuracy of the CDR by ensuring that the expenditures described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the request of the government) are reconciled to the expenditures, by disbursing source, in the CDR.
- The auditor is required to state in the audit report the amount of expenditures excluded from the scope of the audit because they were made by UNDP as part of direct support services and the amount of total expenditures excluded because they were made by a UN agency. (Please refer to Section D-2(b) above. This scope limitation is not a valid reason for the auditors to issue a qualified audit opinion on the CDR.)
- The auditor is required to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.
- The auditor is required to express an opinion as to the overall financial situation of the project for the period 1 January to 31 December 2011 and will certify:
  1. The statement of expenditure (the CDR) for the period from 1 January to 31 December 2011;

2. The statement of cash position (cash and bank balances of the project) reported by the projects as at 31 December 2011; and
  3. The statement of assets and equipment held by the project as at 31 December 2011.
- The auditor is required to, as applicable, report in monetary value, the net financial impact of any modified audit opinion (modified opinions can be qualified, adverse, or disclaimer) on the statement of expenditure (Combined Delivery Report (CDR)) where applicable.
  - The auditor/audit firm is required to submit a draft audit report by 30/03/2011 and a final signed audit report with signed UNDP statements by 30/04/2011.

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**Note:** Audit opinions must be one of the following: (a) qualified (negative), (b), unqualified (favorable), (c) adverse (negative), or (d) disclaimer (negative). If the audit opinion is other than "unqualified" (favorable) the audit report must describe both the nature and amount of the possible effects on the financial statements.

The report should also make a reference to the section of the management letter with regard to the related audit observation number and the action taken or planned to be taken to address and conclusively correct the issues underlying the qualification. A definition of audit opinions is provided in Annex 4.

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## **F. The Audit Report and Management Letter**

### Audit Report

The audit report should clearly indicate the auditor's opinion (Refer to Annex 3 for a sample Audit Report). This would include at least the following:

- That it is a special purpose and confidential report.
- The audit standards that were applied (ISAs, or national standards that comply with one of the ISA in all material respects).
- The period covered by the audit opinion
- The amount of expenditure audited
- The amount of the net financial impact of the modified audit opinion on the CDR, if modified.
- The reason(s) resulting in the issuance of a modified audit opinion, qualified, adverse or disclaimer opinion (the reason(s) must be also included in the management letter as an audit observation(s)
- The scope limitation (description and value) for those transactions that are the responsibility of UNDP (as part of direct CO support services to NIM) or a UN agency. Important to note: Such scope limitation should not be reason for a qualified audit opinion as such transactions would be, in general, excluded from the audit scope.
- Whether the UNDP Combined Delivery Report (CDR) - for the period from 1 January to 31 December 2011 is adequately and fairly presented and whether the disbursements are made in accordance with the purpose for which funds have been allocated to the project;

A: A Financial Audit to express an opinion on the project's financial statements<sup>1</sup> that includes

1. Expression of an opinion on whether the statement of expenditure presents fairly the expenditure incurred by the project over a specified period in accordance with UNDP accounting policies and that the expenditures incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of the Government or UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) is the mandatory and official statement of expenditure to be certified. Other forms of statement of expenditure that may be prepared by a project office are not accepted.)

2. Whether the result of the prior year's audits resulting in modified audit opinions on the UNDP CDR had conclusive actions to properly address an audit qualification in the previous year audit and the related Net Financial Impact (NFI). If there is a lack of conclusive actions, the auditors must take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

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<sup>1</sup> Financial Statements of a UNDP project include: the statement of expenditure with related annexes as well as, where applicable, the statement of assets and equipment and the statement of cash position.

**Note:** Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years

3. Expression of an opinion on the value and existence of the project's statement of assets and equipment as at a given date. This statement must include all assets and equipment available as at 31 December 2011 and not only those purchased in a given period. Where a NGO/NIM project does not have any assets or equipment, it will not be necessary to express such an opinion, however, this should be disclosed in the audit report.

4. Express an opinion on the value and existence of the cash held by the project as at a given date, i.e. 31 December 2011. Where a dedicated project bank account is opened and used solely for the cash transactions of a NGO/NIM project, e.g. if the project is in a remote location. The Audit Firm is required to express an opinion on the Statement of Cash Position where a dedicated bank account for the NGO/NIM project has been established and/or the project holds petty cash. Where the project does not hold any cash, this should be disclosed in the audit report.

The Financial Audit will be conducted in accordance with International Standards of Auditing (ISA).

B: An audit to assess and express an opinion on the project's internal controls and systems.

The deliverable will be an audit report similar to a long form management letter that covers the internal control weaknesses identified and the audit recommendations to address them.

The management letter should be attached to the audit report and cover the following topics/issues:

- A general review of a project's progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the project document or Annual Work Plan (AWP). This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However, general compliance with broad covenants such as implementing the project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.
- An assessment of a project's internal control system with equal emphasis on: (i) the effectiveness of the system in providing the project management with useful and timely information for the proper management of the project; and (ii) the general effectiveness of the internal control system in protecting the assets and resources of the project.
- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.

The audit of internal controls and systems will be conducted in accordance with the International Standards for Audit (ISA).

The management letter should also include the following:

- Effective audit observations/recommendations (guidelines in Annex 10)
- The categorization of audit observations by risk severity: High, Medium, or Low. Definitions of these categories are given in Annex 6.
- The classification of possible causes of the audit observations. Definitions of these causes are given in Annex 7.
- Management comments/response to audit observations and recommendations (project management and/or UNDP, as applicable).
- Indication of observations that affect the audit opinion (when qualified, adverse or disclaimer opinion is given)

More detailed guidance for the above general categories is provided below.

#### *Review of project progress*

As part of the general review of project progress, specific steps could include the following:

- Review annual and quarterly work plans, quarterly and annual financial reports, and requests for direct payments and assess in terms of their timeliness and their compliance with the project document or the AWP, and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management.
- Review the annual project report prepared by the implementing partner and assess in terms of compliance with UNDP guidelines and whether the implementing partner met its responsibilities for monitoring described in the project document or AWP.
- Review whether the decisions and/or recommendations of the above activities have been followed through by the implementing partner.
- Review the pace of project progress and comment on the causes for delays.
- Comment on whether implementation services of the UN Agency(s) were provided in line with the project document or AWP.

#### *Assessment of internal control*

The auditor is required to conduct a general assessment of internal controls according to established internal control standards. An example of established internal control standards is available from the Organization of Supreme Audit Institutions (INTOSAI). The INTOSAI standards are intended for use by government managers to use as a framework to establish effective internal control structures. For further information, the INTOSAI Guidelines for Internal Control Standards can be found on the INTOSAI Web site [www.intosai.org](http://www.intosai.org). An overview of the standards can be found in the UN DP Contact tool (Chapter 6).

In addition to the above general assessment, additional specific steps could include the following:

- Review expenditures made by the implementing partner and assess whether they are in accordance with the project document, AWP and budgets; and are in compliance with the UNDP POPP on Results Management.
- Review the process for procurement/contracting activities and assess whether it was transparent and competitive.
- Review the use, control and disposal of non-expendable equipment and assess whether it is in compliance with UNDP POPP on Results Management; and also whether the equipment procured met the identified needs and whether its use was in line with intended purposes.
- Review the process for recruiting project personnel and consultants and assess whether it was transparent and competitive.
- Review the implementing partner accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements of cash; and for supporting the preparation of the quarterly financial report.
- Review the records of requests for direct payments and ensure that they were signed by authorized government officials.

#### *Recommendations for improvement*

Recommendations should be directed to a specific entity so there is no confusion regarding who is responsible for implementation. The response of the entity should be included in the management letter, immediately following the recommendation.

Also, the auditor may wish to comment on "good practices" (if any) that were developed by the implementing partner that should be shared with other project personnel.

#### *Available Facilities and Right of Access*

There should be a description of the nature and the location of all records belonging to the project. This list should specify those records kept at the implementing partner's headquarters and those that are located at other offices.

The TOR should state that the auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor should be advised that he/she has a right of access to banks, consultants, contractors and other persons or firms engaged by the project management. If an auditor may not have unrestricted access to any records, person or location during the course of the audit, this restriction should be clearly defined, with reasons, in the TOR.

## ANNEX 1: AUDIT SERVICES REQUIRED

The scope of audit services shall be in accordance with International Standards for Audit (ISA) and cover the overall management of the project's implementation, monitoring and supervision. The audit work should include the review of work plans, progress reports, project resources, project budgets, project expenditure, project delivery, recruitment, operational and financial closing of projects (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the following areas as they are performed at the level of the project:

### Human resources

The audit work shall cover the competitiveness, transparency and effectiveness of the recruitment and hiring of personnel and include performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records.

### Finance

The audit work shall cover the adequacy of the accounting and financial operations and reporting systems. These include budget control, cash management, certification and approving authority, receipt of funds, and disbursement of funds, recording of all financial transactions in expenditure reports, records maintenance and control.

### Procurement

The audit work shall cover the competitiveness, transparency and effectiveness of the procurement activities of the project in order to ensure that the equipment and services purchased meet the requirement of either the government (or NGO) or UNDP and include the following:

- As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders
- Receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment
- Evaluation of the procedures established to mitigate the risk of purchasing equipment that do not meet specifications or is later proven to be defective
- Management and control over the variation orders.

The audit work in the area of procurement shall also cover the use of consulting firms and the adequacy of procedures to obtain fully qualified and experienced personnel and assessment of their work before final payment is made.

### Asset Management

The audit work shall cover equipment (typically vehicles and office equipment) purchased for use of the project. The procedures for receipt, storage, and disposal shall also be reviewed.

### Cash Management

The audit work shall cover all cash funds held by the project and review procedures for safeguarding of cash.

### General Administration

The audit work shall cover travel activities, vehicle management, shipping services, office premises and lease management, office communications and IT systems, and records maintenance.

**Note:** The above scope shall cover those transactions performed at the level of the project to include direct payments made by the UNDP country office at the request of the project.

### Scope Limitation

Transactions/actions that are performed by the UNDP office at the request and on behalf of the project (i.e. UNDP direct support services to NIM) where there is a signed Letter of Agreement (LOA) are not to be included in the audit scope. Important note: Such scope limitation should not be a reason for issuing a modified audit opinion by the auditors. Please refer to Section D., 2(b) for additional information.

## ANNEX 2: QUALIFICATIONS OF AN AUDITOR

The auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the entity. It may be appropriate to remind an auditor of any existing statutory requirements relating to independence and to require an auditor to disclose any relationship that might possibly compromise his/her independence.

The auditor should be experienced in applying either ISA or INTOSAI audit standards, whichever is applicable for the audit. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited.

Curriculum vitae (CVs) should be provided to the client by the principal of the firm of auditors who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. It would be appropriate to indicate required/minimum professional qualifications necessary for the senior auditors/principals responsible for the audit. CVs should include details on audits carried out by the applicable staff, including on-going assignments indicating capability and capacity to undertake the audit.



## ANNEX 3: SAMPLE AUDIT

### **Auditor's report to:**

#### **The National Project Director and The Resident Representative**

Format for Financial Certifications

### **I. Sample Certification for Statement of Expenditure**

REPORT OF THE INDEPENDENT AUDITORS TO UNDP [insert project name] (Refer to ISA 700)

We have audited the accompanying Statement of expenditure ("the statement") of the project [insert award and project number(s)], [insert official title of project] for the period [insert period covered].

Management is responsible for the preparation of the statement for <name/title> project 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.

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 statements are 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 the project's preparation of the statements 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

#### **Clean Opinion: Option 1: (Unmodified)**

In our opinion, the attached statement of expenditure presents fairly, in all material respects, the expenditure of [insert amount in US\$] incurred by the project [insert official title of project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add - and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

#### **Modified Opinions (Refer to ISA 705)**

##### **Option 2: (Qualified opinion)**

In our opinion, the attached statement of expenditure, 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] presents fairly in all material respects the expenditure of [insert amount in US\$] incurred by the project [insert official title of project] for the period [insert period covered] in accordance with UNDP 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] the statement of expenditure does not give a true and fair view of the expenditure of [insert amount in US\$] incurred by the project [insert official title of project] for the period from [insert period covered]

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] 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 expenditure of [insert amount in US\$] incurred by the project [insert official title of project] and audited by us for the period from [insert period covered].

**Emphasis of Matter** [if applicable] (Referto ISA 706)

We draw attention to Note [insert number] to the statement of expenditure 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

**II. Sample Certification for Statement of Assets** (Refer to ISA 700)

We have audited the accompanying statement of assets ("the statement") of the project number [insert award and project number(s)], [insert official title of project] as at [insert date].

Management is responsible for the preparation of the statement for <name/title> project 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.

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 the project'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

Option 1: (Unmodified)

In our opinion, the attached statement of assets presents fairly, in all material respects, the balance of inventory of the project [insert official title of project] amounting to [insert amount in \$US] as at [insert date].in accordance with UNDP accounting policies [if needed add: set out in the note to the schedule].

Modified Opinions (Referto ISA 705)

Option 2: (Qualified opinion)

In our opinion, the attached statement of assets, 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] presents fairly in all material respects the balance of inventory of [insert amount in US\$] incurred by the project [insert official title of project] as at [insert date], in accordance with agreed upon 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] the

statement of assets does not give a true and fair view of the expenditure of [insert amount in US\$] incurred by the project [insert official title of project] and audited by us as at [insert date].

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] 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 project [insert official title of project] and audited by us as at [insert date].

**Emphasis of Matter** [if applicable] (Referto ISA 706)

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

**III. Sample Certification of Statement of Cash Position (Statement of Cash Position is required only if there is separate bank account for each of the projects and/or petty cash)** (Refer to ISA 700)

We have audited the accompanying statement of cash ("the statement") of the project number [insert award and project number(s)], [insert official title of project] as at XXX.

Management of <project name/title> project is responsible for the preparation of the statement for project 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.

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 the project'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

Option 1: (Unmodified)

In our opinion, the attached Statement of cash position presents fairly, in all material respects, the cash and bank balance of the UNDP project [insert official title of project] amounting to [insert amount in \$US] as at [insert date] in accordance with the UNDP accounting policies [if needed add: set out in the note to the statement].

Modified Opinions (Referto ISA 705)

Option 2: (Qualified opinion)

In our opinion, the attached statement of cash, 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 Qualifiedopinion is clearly explained] presents fairly in all material respects the cash and bank balance amounting to [insert amount in US\$] as at [insert date] in accordance with the UNDP 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] the statement of cash does not give a true and fair view of the cash and bank balance of [insert amount in US\$] audited by us as at [insert date].

**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] 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] (Refer to ISA 706)

We draw attention to Note X to the statement of cash which describe 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

This report is intended solely for the information and use of UNDP and the Government of XYZ Country (or NGO).

Date of issuance:

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 UNDP financial statement (CDR) (Amount of qualification/**Net Financial Impact**). A definition of audit opinions is provided in Annex 4.

## ANNEX 4: 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 opinion should 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 (UNDP CDR, 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.

ANNEX 5: International Standard for Audit (ISA) 450 and 710 Guidance on  
Reporting Prior Year Modified opinion not corrected

Following the International Audit Standard (ISA) 450 and ISA 710 that came into effect on December 2010 there is a new requirement regarding a previous year modified audit opinion<sup>5</sup> This audit standard requires that auditors, when expressing an opinion on this year's statements, to take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years that would lead the UN BoA to issue a modified audit opinion on UNDP financial statements.

## ANNEX 6: CATEGORIZATION OF AUDIT FINDINGS BY RISK SEVERITY

**High** - Action that is considered imperative to ensure that UNDP 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 7: CLASSIFICATION OF POSSIBLE CAUSES OF AUDIT FINDINGS

1. Lack of/or inadequate policies/procedures/guidelines
2. Lack of/or inadequate guidance/supervision at the project level
3. Inadequate guidance/monitoring at UNDP country office level
4. Lack of/or insufficient resources (specify: financial, human or, technical resources)
5. Inadequate planning
6. Inadequate training
7. Human error
8. Intentional overriding of internal controls
9. Inadequate management structure



## ANNEX 8: GUIDANCE ON FORMULATING AUDIT OBSERVATIONS

Parts of the note that follows are from an article in the *Internal Auditor*, April, 1999 by Brian M.Schwartz. The purpose of this note is to provide guidance on formulating audit observations and recommendations that are effective.

Effective audit observations should consist of 5 common elements:

- 1) Condition;
- 2) Criteria;
- 3) Cause;
- 4) Effect, potential impact or Risk; and
- 5) Recommendation.

Items 1 to 4 must be part of what constitutes an audit observation. Below are helpful tips on each of these areas.

### CONDITION

The "Condition" refers to a conclusion, problem, or opportunity noted during the audit review. It directly addresses a control objective or some other standard of performance. Sample condition statements include:

- "The appropriate individual did not authorize this document."
- "The account has not been reconciled for three months."
- "The process can be streamlined to save six hours per day."

When documenting the condition, it is important to include the necessary level of detail in the description of the problem. Someone who has not participated in the audit, but has some basic understanding of the subject matter or function, should be able to comprehend any condition statement.

### CRITERIA

This element describes the standard being used as the benchmark for evaluation. In other words, it depicts the ideal condition. The criteria may reference a specific policy, procedure, or government regulation. At other times, the criteria may simply be a matter of common sense or prudent business practice. For example, a criteria statement might state that "Per policy #1234, all loans greater than \$100,000 must be approved by the board of directors;" or "Payroll processing responsibilities should be segregated to control the authorization of master file changes."

As the name suggests, the cause statement explains why the identified problem occurred in the first place. The cause is probably the most critical attribute of the finding form. Without determining why the condition occurred, the situation cannot be properly remedied.

In documenting the cause, the auditor should identify the underlying reason behind the problem. A surface explanation that fails to uncover the root cause will not lead to an effective recommendation.

In addition, a quote from an appropriate individual could serve as the cause statement, i.e. why the condition has occurred. Some audit managers consider only a cause statement from management as appropriate, while other prefer a statement from the individual who actually performs the respective task. It is usually preferred to obtain both points of view, since such an approach is more likely to identify the root cause of the problem.

### Possible Causes

In addition to explaining the and giving details about the "Cause" in the text of an audit observation, UNDP requires that the auditor also summarizes the cause statement in the audit report by using one of the following 9 pre-established cause statements:

1. Lack of/or inadequate policies/procedures/guidelines
2. Lack of/or inadequate guidance/supervision at the project level
3. Inadequate guidance/monitoring at UNDP country office level
4. Lack of/or insufficient resources (specify: financial, human or, technical resources)
5. Inadequate planning

6. Inadequate training
7. Human error
8. Intentional overriding of internal controls
9. Inadequate management structure

### EFFECT, POTENTIAL IMPACT OR RISK

The effect statement describes the particular risk that could exist (the potential impact or risk) or that has already existed (the effect) as a result of the condition or problem. Basically, it answers the question, "so what?" Effect statements often discuss the potential for loss, noncompliance, or customer dissatisfaction created by the problem.

Management is likely to zero in on the information provided in this aspect of the audit observation, as it allows them to see how the condition will negatively impact their activities. As a result, the effect statement often serves as the catalyst for a positive change.

One note of caution is in order - the risk suggested by the effect statement should not be overblown or exaggerated. While auditors are responsible for pointing out risks associated with control breakdowns, the effect statement should remain reasonable, plausible and should not be worded as if the world were coming to an end. If auditees are to take the audit observation seriously and respect what an auditor has to say, an auditor talks about risk in realistic, not exaggerated, terms.

### Risk Levels

In addition to explaining the and giving details about the "Effect, potential impact or risk" in the text of an audit observation, UNDP requires that the auditor also identifies the risk level in the audit report by using one of the following 3 pre-established risk levels:

**High** - Action that is considered imperative to ensure that UNDP 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.

### RECOMMENDATION

This aspect suggests how the situation might be remedied. An effective recommendation directly relates to and targets the cause. It isn't enough to state in general terms that management should fix the problem; the recommendation statement should also explain how remediation is to be achieved.

A good recommendation maintains the proper balance between the risk presented and the cost to control it. Before making a recommendation, the auditor should consider the following questions:

Does the recommendation solve the problem and eliminate or reduce the risk?

- Can the recommendation be implemented within the current environment?
- Is the recommendation cost-effective?
- Will the recommendation act as a temporary bandage or a permanent solution?

Examples of effective recommendations include monthly or quarterly physical inventories of all assets and equipment with reconciliation to appropriate records.

### ADDITIONAL TIPS

Whenever possible, similar findings should be combined into one form so that the case for implementing the recommendation is strengthened.

Playing devil's advocate can be an extremely helpful exercise. After completing the audit observation and recommendation, auditors should place themselves in the auditee's shoes and challenge/question the validity of the issue. If the issue cannot stand up to this exercise, it probably should not be included in the audit report.

## ANNEX 9: SAS 220 - GUIDANCE ON AUDIT MATERIALITY

Below are some highlights from the Statement of Auditing Standards (SAS) 220-Audit Materiality. These are meant to provide guidance to the auditors in determining the materiality of observations for reporting purposes and as they might affect the audit opinion. The auditors should refer to SAS 220 for more details.

The purpose of the SAS is to establish standards and provide guidance on the concept of materiality and its relationship with audit risk.

Auditors should consider materiality and its relationship with audit risk when conducting an audit (SAS 220.1)  
A matter is material if knowledge of the matter would reasonably influence the economic decisions of users taken on the basis of the financial statements. Materiality may be considered in the context of the financial statements as a whole, any individual statements within the financial statements or individual items included within the financial statements.

Materiality depends on the nature and size of the item or error judged in the particular circumstances. Since materiality has both qualitative and quantitative aspects, it is not capable of any general mathematical definition. Auditors should plan and perform the audit so as to provide them with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. (SAS 220.2)

The assessment of what is material is a matter of professional judgment.

Auditors would consider the possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial statements. For example, an error in a month end procedure could be an indication of a potential material misstatement if that error is repeated each month.

In evaluating the fair presentation of the financial statements, auditors should assess whether the aggregate of uncorrected misstatements that have been identified during the audit is material (SAS 220.4).

**PROPOSAL SUBMISSION FORM**

Dear Sir / Madam,

Having examined the Solicitation Documents, the receipt of which is hereby duly acknowledged, we, the undersigned, offer to provide Professional Consulting services (profession/activity for Project/programme/office) for the sum as may be ascertained in accordance with the Price Schedule attached herewith and made part of this Proposal.

We undertake, if our Proposal is accepted, to commence and complete delivery of all services specified in the contract within the time frame stipulated.

We agree to abide by this Proposal for a period of sixty (60) days from the date fixed for opening of Proposals in the Invitation for Proposal, and it shall remain binding upon us and may be accepted at any time before the expiration of that period.

We understand that you are not bound to accept any Proposal you may receive.

Dated this day /month \_\_\_\_\_ of year \_\_\_\_\_

Signature

(In the capacity of)

Duly authorised to sign Proposal for and on behalf of

## PRICE SCHEDULE/FINANCIAL PROPOSAL

The Contractor is asked to prepare the Price Schedule/financial proposal and submit it in a separate envelope from the rest of the RFP response as indicated in Section D paragraph 15 (b) of the Instruction to Offerors.

All prices/rates quoted must be exclusive of all taxes, since the UNDP is exempt from taxes as detailed in Annex II, Clause 18. '

The Price Schedule/financial proposal must provide a detailed cost breakdown. Provide separate figures for each functional grouping or category.

Estimates for cost-reimbursable items, if any, such as travel, and out of pocket expenses should be listed separately.

In case of an equipment component to the service provided, the Price Schedule should include figures for both purchase and lease/rent options. The UNDP reserves the option to either lease/rent or purchase outright the equipment through the Contractor.

The format shown on the following pages should be used in preparing the price schedule. The format includes specific expenditures, which may or may not be required or applicable but are indicated to serve as examples.

In addition to the hard copy, if possible please also provide the information in electronic format on CD.

<b>Price Schedule:</b>			
<b>Request for Proposals for Audit services for “Building Institutional Capacity of the Ministry of Foreign Affairs and European Integration” project”</b>			
<b>Description of Activity/Item</b>		<b>Total Fee per Assignment, MDL</b>	<b>Logistical expenses, (provide estimates in under point # 2)</b>
<b>1.</b>	<b>Remuneration</b>		
1.1.	Task Manager		
1.2.	Team members/Experts		
1.3.	Other		
	<i>Sub-total</i>	<b>MDL</b>	
<b>2.</b>	<b>Logistical expenses</b> (printing costs, transportation, rent, other costs associated with the assignment)		
2.1.	Communications		
2.2.	Transportation		
2.3.	Multiplication, reproduction and reports		
2.4.	Equipment and other items		
2.5.	Other		
	<i>Sub-total</i>		<b>MDL</b>
<b>3.</b>	<b>Other costs</b> (please specify)		
3.1.			
	<i>Sub-total</i>		<b>MDL</b>
<b>GRAND TOTAL (1 + 2 + 3)</b>			<b>MDL</b>