

Implementing Partnership Management Guidance Note No. 5

Risk-based Audit of UNHCR-Funded Projects (May 2015)

Subject:	Risk-based Audit of UNHCR-Funded Projects
Reference Documents	– Chapter 4 of the UNHCR Manual – Enhanced UNHCR Framework for Implementing with Partners
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This Guidance Note informs Partners of UNHCR provisions related to UNHCR's Policy and Procedures on Risk-based Project Audit Approach.

This Policy requires:

- UNHCR Offices to share with the Partners this Guidance Note on the policy and its procedures on Risk-based Project Audit Approach.
- UNHCR Offices and Partners to fully understand the policy and its correct application before entering into a Project Partnership Agreement, and to comply with its requirements.

CONTENTS

A.	Purpose	3
B.	Project Audit	3
C.	Main Provisions and Procedures on Risk-based Audit.....	4
	<i>C.1. Risk-Based Project Audit Approach</i>	4
	<i>C.2. Objective of Assurance</i>	5
	<i>C.3. Identification of Projects Subject to Audit</i>	6
	<i>C.4. Designation of Project Auditor(s)</i>	7
	<i>C.5. Obligation towards Partners</i>	7
	<i>C.6. Audit Field Work and Report Submissions</i>	8
	<i>C.7. Timeline of Audit Process</i>	9
	<i>C.8. Audit Follow-up</i>	10
	<i>C.9. Budgetary Provisions</i>	10
	Annex A: Main Changes.....	11

UNHCR Policy and Procedures on Risk-based Project Audit Approach

A. Purpose

1. The purpose of this policy is to revise the current Project audit policy to achieve overall enhancement of accountability and assurance over the appropriate use of funds spent through partnerships.
2. UNHCR provides funds to Partner(s) for undertaking Project(s) under a Project Partnership Agreement (PPA) and remains accountable for the funds to its stakeholders. According to UNHCR's Financial Rules, The United Nations Board of Auditors (UN BoA) is mandated to audit the overall UNHCR funds and its annual financial statements. Hence, UNHCR funds – including the funds spent through partnerships – are also subject to audit in order to provide reasonable assurance over the appropriate use of these funds. The audits of these Projects are performed by external, independent and certified audit service firms (“Auditor”) and reported to the senior management, UN BoA and other oversight bodies.
3. Under the revised policy, this assurance will be provided through complementary due diligence measures including audit, verification of reports, physical and spot checks of performance and strengthened internal control environments.
4. A risk-based approach to audit will be adopted, and the methodology for assessment of Project(s) subject to audit will be shifted from the threshold based solely on the financial value of a Project to risks associated with a Project. In addition, a centralized procurement and engagement of audit services by UNHCR Headquarters for performing Project Audits will be adopted in order to ensure a consistently high quality of Project Audits in a timely manner.
5. This policy applies to all types of PPAs entered into by UNHCR with Partners and compliance is mandatory. UNHCR oversight entities may assess the extent of the application of this policy and the use of funds for the intended purposes by UNHCR and its Partners.

B. Project Audit

6. UNHCR and Partner(s) that enter into a PPA are required to establish appropriate controls to mitigate risks, ensure appropriate and proper utilization of funds, and submit periodic and end-of-Project-period, reports, including the Partner Project Financial Report (PFR), demonstrating accurate expenditures against the Project Budget and performance delivery under the PPA.
7. Provisions and terms for Project Audit are stipulated in the applicable PPA. These include the Partner's obligation to maintain relevant Project documents up to seven years, to provide unfettered and timely access to all information, documents, books, records, transactions, sites, persons and other necessary subjects for audit purposes to UNHCR authorized staff or agents, such as auditors, and to undertake timely and appropriate measures to address and resolve audit observations and recommendations.

8. The Project Audit for a given financial period is typically performed by an external certified auditor assigned by UNHCR as required by UNHCR's Financial Rules. The Audit is predominately undertaken upon the completion of the annual Project Implementation and the submission of the final PFR by the Partner (the timeline is provided under Section C.7). However, in some exceptional cases, audit and subsequent reviews may take place during the Project Implementation period or up to six years following the completion of the Project.

9. Projects implemented through a PPA by Governmental Partners, Non-Governmental Organizations, Academic Institutions, Red Cross Red Crescent Societies and other non-for-profit Partners will be audited by the certified external Auditor assigned by UNHCR. Projects undertaken by certain Governmental Partners that are audited by their national audit offices will continue to be audited by these entities.

10. Financial statements of National Fundraising Partners are also subject to audit as stipulated under the Framework Partnership Agreement/Annual PPA.

11. Projects implemented by United Nations system organizations and the International Organization for Migration (IOM) are required to make sufficient disclosure of UNHCR's contributions in their audited financial reports, and the audit is covered by the Single Audit Principle.¹

C. Main Provisions and Procedures on Risk-based Audit

C.1. Risk-Based Project Audit Approach

12. UNHCR provides funds to Partner(s) for undertaking Project(s) under a PPA and remains accountable to its stakeholders for the funds spent through partnerships. This policy is introduced to enhance the management, stewardship and accountability of funds spent through partnerships, as well as the assurance provided to UNHCR senior management, the UN BoA, donors, governing bodies and other stakeholders through the alignment of Project Audit and verifications with principles of risk management and audit compliance, in particular:

- a) resources spent through partnerships are appropriately utilized for the intended purposes and in accordance with the terms of the PPA;
- b) risks inherent to implementing Projects through partnerships are reduced;
- c) the quality of audit is improved through centralized selection and contracting of a limited number of qualified external audit service providers following a rigorous selection procedure;
- d) the quality of audit reports is consistent and improved;

¹ The Single Audit Principle is part of a common internal control and audit framework in the United Nations system organizations. The Single Audit Principle foresees a control system, where the control and audit functions are based on common methods enabling auditors of one institution to rely on the work of auditors from another institution instead of re-performing the audit themselves. As per [IOM/065 – FOM/65/2010](#), the Single Audit Principle adopted by the United Nations, allows one audit entity, for UN system organizations and IOM, in this case the United Nations Board of Auditors.

- e) the compliance and timeliness of submission of reports is improved (contracting audit service providers, engaging Partners, submission and recording of audit reports, follow-up of audit outcomes, and timely and appropriate resolution of audit recommendations);
- f) due diligence of audit procedures is strengthened through segregation of duties; and
- g) the administrative burden on field operations is reduced, while the efficiency of the audit processes is enhanced.

13. This policy discontinues the existing policies on the basis of which a Project Audit was required to be performed when the financial value of a single Project (or aggregate of Projects with a Partner) in a country operation reached the mandatory audit threshold amount of US\$ 100,000 for national Partners such as Non-Governmental Organizations (NGOs) and governmental institutions, and US\$ 300,000 for international NGOs. The previous approach did not focus sufficiently on risk exposure and resulted in a significant and increasing number of audits to be undertaken every year (approximately 1,000 in 2014).

14. Previously, external Project Auditor(s) were contracted by each Representative or Division Director at Headquarters, who signed a PPA(s) on UNHCR's behalf. This was inefficient and cumbersome at critical periods of operation and accounting, resulting in having hundreds of audit contracts, uneven quality of audit reports, and significant delays in the submission of audit reports for the review of UNHCR's financial statements by the UN BoA. That approach is now discontinued and replaced by centralized procurement and engagement of audit services.

C.2. Objective of Assurance

15. Assurance is an essential component of the Enhanced Framework of Implementing with Partners. Under the new policy, in addition to Project Audit, assurance is provided through complementary due diligence measures including vetting and selection of Partners, monitoring Project Progress, verification of reports, spot checks of performance audit and enhancements of the internal control environments.

16. The Auditor will perform the audit to obtain reasonable assurance about whether the Project Financial Report (PFR) submitted by the Partner is free from material misstatement and in accordance with the terms of the PPA. The Auditor will provide an Audit Certificate in summary form, consisting of the following:

- a) an Audit Report with a clear audit opinion on the Final PFR for each Project, according to generally accepted auditing standards² and formats,
- b) a Management Letter reporting on matters related to compliance with the PPA; and
- c) an Internal Control Questionnaire (ICQ) as applicable, to assess the level of internal control systems maintained by the Partner(s). The ICQ will cover various

² Generally Accepted Auditing Standards or GAAS are sets of standards against which the quality of audits is performed and may be judged. Several institutions have developed such sets of principles, which vary by country and/or territory.

control areas such as cash management, procurement, sub-contracting, personnel, managing misconduct, financial and budgetary matters, and compliance with other terms of the PPA. The area of assessment in a given year may vary as needed.

17. The conduct of the audit and the format/content of the Audit Report will be in accordance with the International Standards on Auditing (ISA).³ The Auditor will be required to present the audit reports in a standard template designed by UNHCR to ensure high quality and consistency.

18. The findings of audit and other assurance activities will provide useful information on the strengths and weaknesses of the internal control environments of the Project(s) that could be used as a means to further enhance the Partner's capacity and Project management.

C.3. Identification of Projects Subject to Audit

19. Projects subject to audit will be identified by UNHCR Headquarters based on risk-based criteria and methodology.

20. Under the new approach, Projects subject to audit will be identified by the Division of Financial and Administrative Management (DFAM/IPMS) based on a risk-based methodology. The Projects will be assessed and ranked through a composite of risk criteria, on an annual basis. The criteria include the following risks;

- a) Operational risks;
- b) Project profile and Partner performance risks; and
- c) Specific UNHCR management needs and donor requirements (as applicable).

21. These criteria will factor a wide range of considerations related to UNHCR, Partners and Projects such as performance, internal controls, financial management capacities, Project profile and value, type of operations, length of partnerships, previous audit findings, outstanding recommendations, etc.

22. Regardless of their Project risk-ranking in a given year, all Projects implemented by new Partner(s) will be audited in their first year of operation. All Partners will be covered at least once in every four-year operational cycle. The overall number of Projects to be audited organization-wide in a given year will take due consideration both the threshold of risk exposure/risk tolerance and the materiality aspects. In principle, the total number of Projects audited annually is expected to gradually decrease, as the Enhanced Framework of Implementing with Partners and improvements in Project management, Partner performance and control systems will be taking effect.

³ International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information. These standards are issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

23. UNHCR will conduct periodic reviews and improvements of the audit approach, methodology for identification of Projects subject to audit risk-rating, indicators and weighing systems and make adjustments to align with emerging information and risk exposure, as deemed necessary.

C.4. Designation of Project Auditor(s)

24. Project Audits will be undertaken by a limited number of qualified Auditors (three to four global/regional audit firms) centrally contracted for multiple years by Headquarters. The Auditors will be selected through an open call for tenders and a thorough assessment based on qualifications and the Audit ToR. The competitive bidding process will be conducted in accordance with UNHCR procurement and contractual procedures.

25. The Auditors will be required to have proven experience in applying the ISA, and have an adequate number of certified professional auditors with appropriate professional qualifications and suitable experience with ISA, including experience in auditing entities comparable in size and complexity to the entity and Project being audited. The Auditors will be engaged in accordance with the Audit ToR and in conformity with the ISA (ISA 800, and 700/705/706). They will be obliged to remain independent and free from conflict of interest during the whole process.

26. UNHCR will assign an Auditor to each Project/location, and will inform the relevant UNHCR Office accordingly. The UNHCR Office will remain responsible for the coordination of audit field work with the assigned Auditor and the respective Partner(s) within the established deadlines and deliverables stipulated in this policy.

27. The Auditor will require from UNHCR and Partner full cooperation and unhindered access to original documentary evidence, sites, persons, and other necessary subjects in connection with the audit engagement. As part of the audit process, the Auditor will request from the management of the Partner a written confirmation of management representations made to the Auditor in connection with the audit.

C.5. Obligation towards Partners

28. The audit exercise must be conducted by UNHCR Offices and the Auditor in an ethical and professional manner.

29. UNHCR Offices must ensure the proper engagement, smooth coordination and timely communication with the Partners and Auditors throughout all stages of the planning and audit process. Upon the assignment of an Auditor by Headquarters, UNHCR Offices must immediately notify in writing their respective Partners of the assignment of an Auditor. Partner(s) must be invited to the meetings with the Auditor, at the onset of the audit field work, such as entry meetings for planning of audit work and exit/closing meetings at the end of field work. At the end of the audit process, UNHCR must send a closure letter to the Partner(s) informing of the completion of the audit, the required follow-up actions, recoveries (if any) and UNHCR's position on any outstanding disagreements between the Auditor and Partner.

30. The assigned Auditor(s) is required to abide by the International Standards on Quality Control for the Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Service Engagements.

31. The Auditor will provide briefings at the entry and exit sessions to respective UNHCR Office and Partner(s) and will conduct the audit field work efficiently and in line with an agreed schedule to meet the deadlines and achieve the deliverables. Upon the start of the audit work, the Auditor must issue a formal letter to the relevant UNHCR Office and to the Partner(s) outlining the schedule of audit, required documentation, a copy of the ICQ, etc. Thereafter, the communication with the Partner(s) will be direct until the draft report is issued to UNHCR and Partner(s).

C.6. Audit Field Work and Report Submissions

32. The Auditor(s) is required to prepare and submit an Audit Certificate, consisting of an Audit Report for each Project providing an audit opinion⁴ and a Management Letter including an ICQ with assessment and rating for each audited Partner.

33. A draft of the Audit Certificate will be presented to the respective Partner for review, comments on the findings, factual corrections and necessary resolutions, before the completion of the field audit work. Subsequently, Partner may submit comments directly to the Auditor, within a limited period set by the Auditor (about seven days), before the final Audit Certificate is issued. The Auditor may disagree with the Partner's responses but is obliged to include these responses and explain eventual disagreements in the report together with any additional comments as necessary.

34. The Auditor will issue the final Audit Certificate to the respective UNHCR Office and a copy to the Partner within 15 days of completion of field audit work. The UNHCR Office must ensure that the Partner receives the report in a timely manner. These documents are confidential and internal to UNHCR. All parties (UNHCR, Partners and Auditors) are obliged to maintain them confidentially and not share them with an external entity.

35. Significant audit observations such as fraud, misconduct, misappropriation and other risks observed through the audit exercise must be immediately referred to the Bureaux, the Controller/IPMS and the Inspector General's Office, as relevant and as appropriate based on UNHCR's Strategic Framework for the Prevention of Fraud and Corruption.⁵ Similarly, any significant audit observations and non-compliance may be reported at any time during the course of the audit exercise as deemed necessary.

36. Any difficulties and challenges encountered that could affect the conduct of audit must be immediately brought to the attention of the UNHCR country representative/head of office and to DFAM/IPMS to seek advice and resolutions. These may include security concerns, unforeseen events that hamper access to original documents and audit evidence,

⁴ Definitions of the various types of audit opinion are provided in the Audit.

⁵ [IOM/044 – FOM/044/2013](#), *Strategic Framework for the Prevention of Fraud and Corruption* dated 8 July 2013

Partner or UNHCR non-compliance, Auditor misconduct, and disputes among the three parties.

37. The performance of the Auditors, quality of the audit reports and their compliance with the contractual terms will be assessed by UNHCR and its oversight bodies for achieving timely, credible, consistent and high quality assurance of work done. Should the performed audit be found inadequate and lead to further observations and requirements of recovery of funds, the Partner will be informed and required to abide with the outcome.

38. Feedback from UNHCR Offices and Partners on the performance and the quality of the audit field work and services provided by the assigned Auditor in their respective areas will also be sought by UNHCR Headquarters.

C.7. Timeline of Audit Process

39. Project Audits predominantly take place on an annual basis during the closure and audit of UNHCR's financial statements. A Project is subject to audit upon the completion of the Project period and the submission of Project reports by Partner(s). Exceptions may be granted for extension of Project Implementation and Liquidation periods. Considerations for such cases will be made when scheduling the audit. As of the 2014 Project Audit, an interim audit will be initiated in the third quarter of the year in certain operations in order to expedite the process and comply with the deadline. The results of the interim audit are carried forward onto the final Project audit reports.

40. UNHCR compliance with timely submission of the audit reports to the UN BoA is essential for the BoA to draw its opinion on UNHCR's financial statements. The permissible period is very limited. Hence, the following schedule must be strictly respected:

- a) 30 September: The preliminary indicative lists of Projects subject to audit are issued by UNHCR Headquarters.
- b) 30 November: Auditors are assigned to each Project and location, and contacts between UNHCR focal persons, Auditors and Partner(s) are established to prepare the audit schedule.
- c) 10 January: The final list of Projects subject to audit, including those with extended Project Period, is issued by UNHCR Headquarters.
- d) 15 February: The Final Project Financial and Performance Reports are submitted by respective Partners (except for those authorized for extension).
- e) March-April: Audit field work by the assigned Auditors is undertaken and Audit Certificates are issued.
- f) May-June: Audit field work for exceptional extensions and all audits (if outstanding) are completed and final Audit Certificates are issued by the Project Auditors to UNHCR and copied Partners.
- g) 30 June: The UN Board of Auditors issues its Annual Audit Report, including its assessment of the Project audit reports.

C.8. Audit Follow-up

41. UNHCR Offices must conduct an analysis of their respective Project Audit Certificates, ensure that these reports identify the reasons for qualification (if any) and clearly quantify the corresponding net financial impact on the audit opinion page, before officially accepting the Audit Certificates from the Auditors.

42. UNHCR and Partners are obliged to take timely and appropriate course of action to address any audit observations and recommendations. UNHCR retains the right to request a refund from the Partner of any ineligible expenditure other than those in accordance with the terms of the PPA that might be identified not only by the external Project Auditor(s) but also any review by UNHCR and other oversight bodies. Concerned UNHCR Offices must establish the amount to be recovered by analyzing the Audit Certificates and consulting their Bureaux/Divisions.

C.9. Budgetary Provisions

43. The cost of the Project Audit will be borne by UNHCR and will be paid from the centrally allocated funds directly to the Project Auditors.

Annex A: Main Changes

The following table provides a summary of the main changes relating to UNHCR's Policy and Procedures on the Risk-based Project Audit Approach.

Changes reflected in the new Policy	Applicable to Projects prior to financial period 2014 (superseded provisions, Chapter 4)	Effective as of Projects in financial period 2014. Current Reference (UNHCR/HCP/2015/5)
Methodology for Identification of Projects subject to audit	<ul style="list-style-type: none"> Based on financial value threshold and whether national or international Partner organization. 	<ul style="list-style-type: none"> Risk-based and materially significant number of audited Projects.
Contracting external Project auditors	<ul style="list-style-type: none"> Audit service providers identified and contracted through individualized and annual contracts by respective UNHCR Offices/PPA Holders. 	<ul style="list-style-type: none"> Centralized identification, contact and assignment of 3-4 global audit service providers for multi-year Framework Agreement, vetted and selected through stringent process and in accordance with Headquarters procurement procedures.
Assigning auditors	<ul style="list-style-type: none"> Auditors are assigned by respective UNHCR Offices/PPA Holders. 	<ul style="list-style-type: none"> Auditors will be assigned to each location by DFAM/IPMS.
Coordination among auditors and Partners during the auditing process	<ul style="list-style-type: none"> Field liaison among Auditor(s) and Partner(s) by respective UNHCR Offices/PPA Holders Support and oversight of Bureaux 	<ul style="list-style-type: none"> No change.
Terms of Reference and Outcome of Audit	<ul style="list-style-type: none"> ISA 800, and 700/705/706 Audit Certificate (Audit Report with clear Opinion and Management Letter) Internal Control Questionnaires (ICQ). 	<ul style="list-style-type: none"> Same standard applicable. No major changes except for the refinement in the ToR and the enhancements of ICQ.
Partner obligations towards audit compliance	<ul style="list-style-type: none"> In accordance with terms of the PPA. 	<ul style="list-style-type: none"> No change.
Timeline for	<ul style="list-style-type: none"> Submit PFR by 	<ul style="list-style-type: none"> No change with regard to responsibility

<p>submission of reports and uploading onto MSRP/e-Safe/GRA</p>	<p>Partner(s).</p> <ul style="list-style-type: none"> • Issue Audit Certificate by Auditor(s). • File PFR and Audit Certificates by Respective Offices/PPA Holders. 	<p>for issuing the Audit Certificate and filing the reports.</p> <ul style="list-style-type: none"> • Innovations in the electronic filing/archiving might be introduced.
<p>Project audit analysis, follow-up with Partners and resolution of audit recommendations, reporting and references to Headquarters</p>	<ul style="list-style-type: none"> • Respective Offices/PPA Holders/Bureaux/Divisions 	<ul style="list-style-type: none"> • No change
<p>Obligation for remedial actions as a result of an audit</p>	<ul style="list-style-type: none"> • Respective Offices/PPA Holders/Bureaux/Divisions and Partner(s). 	<ul style="list-style-type: none"> • No change
<p>Monitoring compliance and global compilation of the outcome of Audit Certificates, submission to UN BoA, and reporting to senior management and oversight bodies</p>	<ul style="list-style-type: none"> • DFAM/IPMS. 	<ul style="list-style-type: none"> • No change