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Audit • Tax • Advisory

United Nations Office for Project Services (UNOPS)

Final Financial Audit of the Nile Basin Initiative (NBI)
project

Management Report for the Project Support Unit (PSU)
for the Year Ended 31st December 2012

Project Number 00054943

April 2013



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Annex 1: Definitions of Standard Audit Ratings, Priorities and Causes

Glossary

Acronym	Definition
UNOPS:	United Nations for Project Services
PSU:	Project Support Unit
PMU:	Project Management Unit
FMR:	Financial Management Report
NBI:	Nile Basin Initiative
SVP:	Shared Vision Program
NBTF:	Nile Basin Trust Fund
MSA:	Management Services Agreement
RPM:	Regional Project Manager

1 EXECUTIVE SUMMARY

1.1 Background

The Internal Audit and Investigations Group conducted an audit of Nile Basin Initiative (NBI) Project Support Unit (PSU) bearing project ID number 00054943 in February 2013. The audit was carried out with the assistance of the audit firm, RSM Ashvir.

The purpose of the audit was to assess the extent to which operational processes have been effected to provide reasonable assurance with regard to the following areas: efficient and economic use of resources; reliability of operational and financial reporting and compliance of activities and transactions with applicable regulations, rules and procedures.

The audit focused more on compliance to the agreement and the efficiency in the use of resources. The audit also included in its scope the following aspects of the project:

- Assess the key operational processes and management practices relating to programme/project management portfolio and other related services provided;
- Review selected procurement cases to check compliance with established rules;
- Assess the adequacy of the financial operations and controls (including administrative budget management);
- Compliance of system of contracts for procurement of goods and services;
- Asset/property management;
- Cash management;
- Staffing and management of human resources; and
- Review any other issues that may emerge during the audit, including specific issues which UNOPS contemplates could be considered as part of the audit.

The audit reviewed the transactions for the period 1st January 2012 to 31st December 2012.

1.2 Overall assessment

Based on the work that we have carried out on internal controls, the overall level of internal control process is rated as satisfactory.

The table below shows the summary of our basis and rating of the project areas

RATING SUMMARY BY FUNCTIONAL AREA		
Area	Rating	
Project management	Satisfactory	
Finance	Satisfactory	
Human resources	Satisfactory	
Procurement and supply chain	Satisfactory	
General administration (incl. Assets Management)	Satisfactory	
Overall Rating	Satisfactory	

1.3 Audit highlights

The projects books of accounts are well maintained and there are no gaps identified during our audit.

1.4 Good Practices observed

- There was compliance with the International Public Sector Accounting Standards (IPSAS).
- Adequate systems of accounting and financial operations and reporting.
- There is clear segregation of duties within the program and support staff for the Nile Basin Project Support Unit with defined approval procedures and controls in the ERP Atlas system.
- Timely monthly and annual reporting.

2 AUDIT OBJECTIVES, SCOPE AND OPERATIONAL OVERVIEW

2.1 Audit objectives and scope

We conducted a financial audit of the Project Support Unit for period ended 31st December 2012. Based on a preliminary survey and in consultation with the UNOPS office in Nairobi and Addis Ababa, below are our objectives.

2.1.1 Audit objectives

The overall objective of the audit was to assess the management of the project operations with the view of obtaining reasonable assurance towards the achievement of the project objectives.

The audit objectives were to:

- Ascertain the project's expenditure are properly accounted for and incurred in accordance with the provisions of UNOPS services under the legal agreement and are supported by adequate documentations;
- Ascertain the project's expenditure are in conformity with the approved budget;
- Determine whether the procurement process was in line with UNOPS and World Bank guidelines;
- To determine the controls over the process of receiving and accounting for Advances Recoverable Locally (ARL);
- Determine the adequacy of the process of acquiring and managing fixed assets (non-expendable assets); and
- Determine if financial and technical reporting on the project progress is in accordance with the MSA and the work plan.

The overall objective of the audit was to assess the management of the project operations with the view of obtaining reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

- Effective, efficient and economical use of resources;
- Reliability of reporting;
- Safeguarding of assets; and
- Compliance with applicable legislation.

2.1.2 Audit Scope

The scope of the audit included:

- Review of the budget and expenditure process and ascertaining if the expenditure are in line with the objectives and activities;
- Ascertaining whether the funds shown in the account as having been charged to the project were available for and applicable to the services or purpose to which they have been charged; and
- Reviewing project's reports and records.

The audit focused on the following areas:

- Accuracy of the opening balance and receipts reported in the annual certified financial report;
- Accuracy and authenticity of the reported expenditure and value of outstanding commitments (Service or Purchase Orders or Contracts Issued as at the reporting date for which payments were yet to be made);
- Variance between the project budget and actual expenditure;
- Accuracy of the closing fund balance as reported in the annual certified financial report; and
- Existence and proper recording of the non-expendable equipment purchased.

2.2 Operational Overview

The Nile Basin Initiative (NBI), through its executive arm, the NBI Secretariat (NBI-SEC), is implementing the Shared Vision Program (SVP). The SVP is a series of eight basin-wide technical assistance projects primarily funded through the Nile Basin Trust Fund (NBTF). The

NBTF is a multi-donor trust fund managed by the World Bank. The SVP includes eight projects: all projects have now been closed, Closure will be completed on or before 31 March 2013.

The Nile Council of Ministers (Nile-COM) has contracted the United Nations Office for Project Services (UNOPS) to act as its project services agency to support the NBI Secretariat in the implementation of the SVP projects. The NBI engaged UNOPS as its project services agency through the Management Services Agreement (MSA) signed for each of the 8 SVP projects to support the NBI Secretariat in the implementation of the SVP projects through the provision of project services, in carrying out standard project management activities.

The main roles of the PSU under the MSA are to:

- ✓ Ensure timely and efficient preparation of quarterly Financial Management Reports in accordance with agreed format;
- ✓ Set-up and maintain clear procedures for management of imprest accounts and for the operation of the Atlas system including level of imprest accounts, PO request and authorisations;
- ✓ Set-up and maintain efficient system for timely transfer and management of operational funds at national level;
- ✓ Monitor projects to ensure Regional Project Managers (RPMs) properly implement internal controls, as specified in the Project Implementation Manuals at the PMUs;
- ✓ Ensure that RPMs prepare annual financial reports in accordance with agreed format;

The Nile Programme Support Unit (PSU) is based in Nairobi, Kenya . The table below gives the financial summary of the PSU for the period ended 31st December 2012.

Project ID.	Project description	Budget USD	Actual expenditure USD	% Utilization
00054943	Nile Programme Support Unit	682,552	651,150	95.40%
Total		682,552	651,150	95.40%

2.3 Office Management

The management of the NBI PSU project at the time of audit consisted of:

- [REDACTED]
- [REDACTED]

The audit team extends its appreciation to the management and staff members of UNOPS office especially [REDACTED] and the Nile PSU project for their full co-operation during the audit.

3 DETAILED ASSESSMENT

The details of the audit findings are contained in the subsequent audit subject A to E of this report.

A. PROJECT MANAGEMENT

3.	Observation	Recommendation	Responsible Manager	Management reply and Action Plan	Due Date	Priority	Further audit Comments (if any)
FUNCTIONAL AREA: PROJECT MANAGEMENT							
1	<p>Good practices observed:</p> <p>The following good practice were observed based on our review of project documents:</p> <ul style="list-style-type: none"> √ Approval of project documents and work plans were properly done. √ Payments to contractors were made per terms of contract. √ Project's Progress reports adequately prepared and reviewed. √ Timely monthly and annual reporting. √ We reviewed the administration and support to the project and noted that PMU had submitted in time monthly reports, annual performance reports, FMR and progress reports and held project management meetings as stipulated in the MSA. 	N/A	N/A	N/A	N/A	N/A	N/A

B. FINANCE

3.	Observation	Recommendation	Responsible Manager	Management reply and Action Plan	Due Date	Priority	Further audit Comments (if any)
FUNCTIONAL AREA: FINANCE							
1	<p>The following compliance and good practices were observed:</p> <ul style="list-style-type: none"> √ There was compliance to the International Public Sector Accounting Standards (IPSAS). √ Receipts and payments were recorded on time. √ Adequate cash management controls were in place with clear segregation of duties in payment approval process. √ There were adequate systems of accounting and financial operations and reporting. √ Bank reconciliation statements were prepared and approved on a monthly basis; and 	N/A	N/A	N/A	N/A	N/A	N/A

C. HUMAN RESOURCE

3.	Observation	Recommendation	Responsible Manager	Management reply and Action Plan	Due Date	Priority	Further audit Comments (if any)
FUNCTIONAL AREA: HUMAN RESOURCES							
1	<p>We reviewed a sample of cases of engagement of staff members and consultants in NBI-PSU project.</p> <p>There was compliance in the staffing and management of human resources as follows:</p> <ul style="list-style-type: none"> √ Remunerations and other benefits were made to the program staff as per the MSA. √ Recruitments of project consultants are done competitively. √ Each of the employees had a signed contract. √ There is segregation of duties with each employee having defined roles. 	N/A	N/A	N/A	N/A	N/A	N/A

D. PROCUREMENT AND SUPPLY CHAIN

3.	Observation	Recommendation	Responsible Manager	Management reply and Action Plan	Due Date	Priority	Further audit Comments (if any)
FUNCTIONAL AREA: PROCUREMENT AND SUPPLY CHAIN							
1	<p>There were no major procurements in the period under review, however we reviewed a sample of a service that was procured and no exception was noted.</p> <p>The following compliance and good practices were observed in the procurement process:</p> <ul style="list-style-type: none"> √ Compliance with the Procurement Manual and Management Service Agreement in the procurement of goods and services. √ Adequate segregation of duties in the procurement process. √ Quotations were obtained for procurements and for single sourcing, there was a clear reference made to the Procurement Manual for justification with complete support documentation. 	N/A	N/A	N/A	N/A	N/A	N/A

E. ASSET MANAGEMENT

3.	Observation	Recommendation	Responsible Manager	Management reply and Action Plan	Due Date	Priority	Further audit Comments (if any)
FUNCTIONAL AREA: ASSET MANAGEMENT							
1	The following compliance and good practices were observed: ✓ The asset register was complete and updated, however we observed that assets written off and disposed over the years have remained in the register. ✓ Project’s assets were properly tagged and clearly marked. Existence of well defined asset disposal guideline (SVP Asset Disposal Guidelines).	N/A	N/A	N/A	N/A	N/A	N/A

Annex 1: Definitions of Standard Audit Ratings, Priorities, Causes and Functional Areas for Management Report

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

A. Standard Audit Ratings for overall performance of internal control system:

The harmonised rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1st January 2010 is based on the following principles:

There are three categories: (a) satisfactory, (b) partially satisfactory, and (c) unsatisfactory.

The elements of the rating system will take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are as follows:

Standard Rating	Definition
<i>Satisfactory</i>	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited party.
<i>Partially Satisfactory</i>	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
<i>Unsatisfactory</i>	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the overall objectives of the audited entity could be seriously compromised.

B. Rating for priorities of audit recommendations, possible causes and functional areas

The audit observations are categorised according to the priority of the audit recommendations and the possible causes of the issues. The categorised audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of priorities are used:

Rating	Definition
High	Action is considered imperative to ensure that UNOPS is not exposed to high risks (that is where failure to take action could result in critical or major consequences for the organisation).
Medium	Action is considered necessary to avoid exposure to significant risks (that is where failure to take action could result in significant consequences).
Low	Action is considered desirable and should result in enhanced control or better value for money.

C. Possible causes

The following categories of possible causes are used:

Compliance Failure to comply with prescribed UNOPS regulations, rules and procedures.

Guidelines Absence of written procedures to guide staff in the performance of their functions.

Guidance Inadequate or lack of supervision by supervisors.

Human error Mistakes committed by staff entrusted to perform assigned functions.

Resources Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function.

The following categories of functional areas are used:

- General policy;
- Project/Programme activities;
- Finance;
- Human resources;
- Procurement;
- Information technology; and
- General administration.