

**United Nations Office for Project  
Services (UNOPS)**

**Rehabilitation of the Farasika-  
Maridi-Ibba-Yambio Road -  
Sudan Emergency Transport  
and Infrastructure  
Development Project (ATLAS  
ID 00056209)**

**Internal Audit Report for the  
period 1 January 2010 to 31 May  
2013**

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# 1 Executive summary

## 1.1 Background

The Internal Audit and Investigations Group (IAIG) conducted an limited scope audit of the Rehabilitation of the Farasika-Maridi-Ibba-Yambio Road - Sudan Emergency Transport and Infrastructure Development Project (the Project) (Atlas ID number 00056209). The audit was carried out with the assistance of an audit firm, KPMG Denmark, via, KPMG Kenya.

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:

- Effective, efficient and economical use of resources;
- Reliability of operational and financial reporting;
- Safeguarding of assets; and
- Compliance of activities and transactions with applicable regulations, rules and procedures.

In particular, the audit is aimed to provide reasonable assurance that:

- a) Project expenditures are properly accounted for;
- b) Project expenditures were incurred in accordance with the provisions of UNOPS services under the legal agreement, and are supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the period under review present a fair view of the operations.

The scope of the audit was initially to review transactions for the period for the period January 2010 to 30 June 2012. Subsequently, KPMG Kenya was requested by the management of UNOPS, Juba, South Sudan, to extend the period covered by the audit to 31 May 2013 in order to include payments made during the eleven-month period from 1 July 2012 to 31 May 2013.

## 1.2 Overall assessment

In our opinion, the overall level of internal control with respect to the Rehabilitation of the Farasika-Maridi-Ibba-Yambio Road - Sudan Emergency Transport and Infrastructure Development project's operations is considered to be **Satisfactory**. It should be noted, however, that we consider the level of internal control in the Programme/Project Management area to be **Partially Satisfactory**. Refer to Appendix 1 for details regarding the definition of this assessment.

The specific ratings for the main areas covered by the audit are as follows:

Area of review	Overall rating
Programme/Project Management	Partially satisfactory
Financial Operations, Controls and Cash/Funds Management	Satisfactory
Contracting for Procurement of Goods and Services	Satisfactory
Staffing and Management of Human Resources	Satisfactory
Asset/Property Management, ICT and General Issues	Satisfactory

Management should consider this rating within the context that UNOPS, South Sudan Operations Centre project management team should attempt to strengthen its management practices in the areas marked as *partially satisfactory*. Refer to Appendix 1 for details regarding the definition of this assessment.

### 1.3 Audit highlights

This internal audit report contains 4 recommendations, of which 100% are of medium priority. A summary of the matters noted during the audit and the priorities assigned to each of them is provided in the table below.

Area	Finding	Priority for implementation		
		High	Medium	Low
<b>Programme / Project Management</b>	Non compliance with reporting requirements and project implementation period.		✓	
	Failure to submit project work plans for approval.		✓	
	Failure to prepare and/or submit: <ul style="list-style-type: none"> <li>• Commitment Control and Cash Management Plan;</li> <li>• Procurement Plan; and</li> <li>• A Physical Progress Plan to the Government of Southern Sudan.</li> </ul>		✓	
	Lack of approval of budget reallocations.		✓	

Detailed findings and related management comments are presented in Section 2.

## **2 Audit objectives, scope and operational overview**

### **2.1 Audit objectives and scope**

#### **2.1.1 Audit objectives**

- 1 The overall objective was to assess the management of Project operations with a view to obtaining reasonable assurance towards the achievement of the Project's objectives. The areas of focus in achieving this objective were:
  - Effective, efficient and economical use of resources;
  - Reliability of reporting;
  - Safeguarding of assets; and
  - Compliance with applicable legislation.
- 2 To provide reasonable assurance that:
  - Project expenditure are properly accounted for;
  - Project expenditures were incurred in accordance with the provision of UNOPS services under the legal agreement, and the expenditure is supported by adequate documentation; and
  - The related financial statements prepared by UNOPS for the period under review present a fair view of operations.
- 3 In particular:
  - a. Express an opinion on whether the Project's financial statements present fairly, in all material respects, expenditures incurred by the Project and whether these expenditures were:
    - Incurred in conformity with the approved Project budgets;
    - For the approved purposes of the Project;
    - Incurred in compliance with the relevant regulations and rules, policies and procedures of UNOPS;
    - In accordance with the legal agreement terms; and
    - Supported by properly approved vouchers and other supporting documents.
  - b. Express an opinion on whether the Project's statement of non-expendable property presents fairly, in all material respects, the status of non-expandable property of the Project at the end of the period under review.
  - c. Provide an overall assessment of the operational and internal control system in place for management of the Project so that related transactions are processed in accordance with UNOPS policies and procedures and for the achievement of the Project objectives.

The opinion under objectives 2, 3a and 3b above are included in separate audit reports. The results of carrying out tasks under objectives 1 and 3c are set out in this report. The areas covered were:

- Programme/Project Management;
- Financial Operations, Controls and Cash/Funds Management;
- Contracting for Procurement of Goods and Services;
- Staffing and Management of Human Resources; and
- Asset/Property Management, ICT and General Issues.

### **2.1.2 Audit scope**

KPMG Kenya, via KPMG Denmark, was contracted to assist IAIG conduct a limited scope audit of the Rehabilitation of the Farasika-Maridi-Ibba-Yambio Road (the Project) under the Sudan Emergency Transport and Infrastructure Development Project (SETIDP) for the period 1 January 2010 to 30 June 2012. Subsequently, KPMG Kenya was requested by the management of UNOPS, Juba, South Sudan, to extend the period covered by the audit to 31 May 2013 in order to include payments made during the four-month period from 1 July 2012 to 31 May 2013. The audit fieldwork was undertaken from 17 July 2012 to September 2013. The audit was to be conducted in accordance with International Standards on Auditing and UNOPS Internal Audit Practices.

Although the terms of reference required us to review cash management, this was not deemed necessary as the Project did not have a separate bank account and cash transactions were handled under a shared cash kitty (i.e. petty cash account).

## **2.2 Operational overview**

The Multi Donor Trust Fund (MDTF) appointed the United Nations Office for Project Services (UNOPS) as the implementing agency for the rehabilitation of 170 Km of road from Farasika to Yambio in the Western Equatoria State of South Sudan (the Project). In April 2007, the Government of Southern Sudan (GoSS) represented by the Ministry of Transport and Roads, signed a Memorandum of Agreement with UNOPS for the implementation of the Project under the Sudan Emergency Transport and Infrastructure Development Project (SETIDP).

Due to numerous conflicts in the area, no substantial maintenance works had been carried out on the road since the late 1970s. As a result, there was moderate to severe erosion on the road's corridor and significant portions of the corridor were degraded with loss of pavement width. At the time, the travel speed of a passenger vehicle was less than thirty kilometres per hour.

The Project involved construction of a 170 Km Road from Farasika to Yambio in two packages namely Package 1 (construction of the Farasika-Maridi-Ibba Section – Km 0+00 to Km 85+000) and Package 2 (construction of the Ibba-Yambio Section – Km 85+000 to Km 170+000).

It was envisaged that rehabilitation of the road would result in reduced transport costs translating into savings for other humanitarian and developmental activities in the region, enhanced food security and stimulated economic development of the region, and would facilitate the return of Internally Displaced Persons (IDPs).

The scope of work under the Project included:

- i. Carrying out necessary initial intervention works i.e., rehabilitation and improvement works, including surveys to determine whether additional demining was required;
- ii. Carrying out feasibility and detailed design studies i.e., definition of performance parameters and approaches to maintenance of the road upon completion, and establishing baseline studies on the social and environmental impact of the rehabilitation and a mitigation plan for the impact;
- iii. Carrying out upgrading works on the road to turn it into a fully gravelled, properly drained, all weather road standard;
- iv. Construction works, construction supervision, and quality assurance of the works and activities necessary for rehabilitation of the road;
- v. Preparation of tender documents, tendering and award of contracts for the engagement of contractor(s) (including a supervising consultant) for maintenance of the road after its completion; and
- vi. Carrying out feasibility and the detailed design studies and baseline impact surveys for the Tambura-Wau Road, including required social, economic, and environmental studies.

Project activities were divided into the following inter-related components:

- Component 1: Initial intervention works;
- Component 2: Detailed design of the Farasika-Maridi-Yambio Road;
- Component 3: Construction works;
- Component 4: Construction supervision (including a defects liability period), quality assurance, and environmental and social impact monitoring;
- Component 5: Preparation of tender documents, tendering and award of contracts for the maintenance of completed works;
- Component 6: Detailed design of the Tambura-Wau Road; and
- Component 7: Community development activities.

## **2.3 Funding and implementation**

In April 2007, UNOPS and GoSS entered into a Memorandum of Agreement for the implementation of the Project (the MoA). UNOPS commenced implementation on 25 May 2007. Initially, the Project was to be completed on 31 July 2008. A time extension to 31 August 2010 was granted by MDTF through GoSS with a further extension granted to 15 December 2010 through Addendum 1 to the MoA. The Project completion date was later extended to 30 June 2011 through Addendum 2 and further to 31 December 2011 through Addendum 3. Subsequently, a supplementary agreement was signed between GoSS and UNOPS on 24 May 2012, which extended the project completion date to 30 June 2012.

The Project budget was initially US\$ 23,576,809. Subsequently, it was increased to US\$ 38,431,639 in December 2009 through Addendum 1 to the MoA and further to US\$ 38,902,845 through Addendum 3 to the MoA in May 2011.



### **3 Detailed assessment**

The detailed audit findings are as follows:

#### **3.1 Programme/Project Management**

##### **3.1.1 Compliance with contractual reporting requirements**

***Criteria***

Section 5 of the Memorandum of Agreement between UNOPS and the Government of Southern Sudan (GoSS or the Government) here in referred to as “the MoA” states that UNOPS undertake to provide timely and accurate information to the Government and MDTF through submission of:

- Monthly physical progress reports;
- Quarterly financial reports and physical progress reports;
- Semi annual reports, following consultation with the Government , the World bank, Ministry of Transport and Roads, and other relevant stakeholders on physical progress, issues affecting progress, expenditure and any other relevant issues; and
- Annual project financial statements.

***Condition***

In five instances, there was no evidence that progress reports were prepared by UNOPS and submitted to GoSS/MDTF, as required by the MOA. Details are as follows:

<b>Quarterly narrative reports</b>	<b>Quarterly financial and progress reports</b>	<b>Semi- annual minutes and reports</b>
1 April 2010 to 30 June 2010	1 April 2010 to 30 June 2010 1 July 2010 to 30 September 2011 1 October 2011 to 31 December 2011	1 July 2011 to 31 December 2011

***Impact***

Failure to comply with contractual reporting requirements may result in sanctions being imposed on the project.

***Cause***

Guidance – Lack of supervision

***Recommendation***

Management should ensure compliance with all contractual requirements/conditions set out in the MoA, including those relating to reporting.

***Priority***

Medium

***Management comments***

Improved reporting is a key priority under improving internal processes in the UNOPS South Sudan 2012-2013 strategic plan.

To ensure that all reporting requirements are met, the office intends to fully utilize the new reporting scheduling tool by the end of 2013. This will enable us to schedule reporting milestones, and get e-mail reminders in case a due report has not been uploaded.

To ensure that partners have received the reports UNOPS will also fully utilize its partner center which makes reports electronically accessible for its partners.

***Expected completion date***

December 2013

***Responsible manager***

Project manager

### **3.1.2 Project work plans**

#### ***Criteria***

Section 9 of the MoA stipulates that GoSS shall approve all work plans and other stipulated outputs (budgets and physical progress reports) and provide comments to UNOPS as appropriate.

#### ***Condition***

Project work plans for the period under review were not provided to us for review and we were, therefore, unable to ascertain if they were approved by GoSS, as required by the MoA.

#### ***Impact***

Without approved work plans, it is difficult to ascertain whether the activities carried out during the period under review were properly approved.

#### ***Cause***

Guidance – Lack of supervision

#### ***Recommendation***

In future, work plans should be prepared and approved to guide project activities for any given period of the project. In addition, management should ensure that work plans are retained as part of the project's accounting records. This will ensure compliance with the requirements / conditions set out in the MoA, as well as effective monitoring of project activities.

#### ***Priority***

Medium

#### ***Management comments***

This is part of the action plan mentioned above to better comply with the requirements under the agreement and should be implemented through the project document centre and scheduling tool by the end of 2013.

#### ***Expected completion date***

December 2013

#### ***Responsible manager***

Project manager

### **3.1.3 Planning and disbursement schedules**

#### *Criteria*

Section 3 (a) of the MoA requires UNOPS to, within 14 days of signature of the MoA, submit the following four documents to the Government for preparation of the planning and disbursement schedule.

- i. Commitment Control Plan (CCP);
- ii. Procurement Plan (PP);
- iii. Cash Management Plan (CMP); and
- iv. Physical Progress Plan (PPP).

The MoA further states that the documents shall be updated on a quarterly basis.

#### *Condition*

There was no evidence that during the period under review, UNOPS updated the CCP, PP, CMP and PPP on a quarterly basis and submitted the updated documents to GoSS, as required by the MOA.

#### *Impact*

- It is difficult to effectively monitor project budgets and commitments if appropriate CCPs and CMPs are not in place.
- Failure to submit PPs and PPPs to GoSS for approval makes it difficult to ascertain whether the activities carried out during the period under review were properly approved.
- Without a PPP, it is difficult to monitor project activities and ensure that activities carried out were budgeted for and approved. In addition, it is difficult to verify planned project activities and link them to expenditures incurred during the period under review.

#### *Cause*

Guidance – Inadequate or lack of supervision by supervisors in ensuring the preparation, submission, and updating (on a quarterly basis) of the CCPs, CMPs and PPPs.

#### *Recommendation*

Management should put in place processes to ensure that, in future:

- CCPs and CMPs are prepared and submitted to GoSS as required by the MoA. This will ensure preparation of the planning and disbursement schedule.
- PPs are submitted to GoSS as required by the MoA and evidence of their submission retained for verification purposes.
- PPPs are prepared and submitted to GoSS on a quarterly basis, as required under the MoA.

***Priority***

Medium

***Management comments***

Improved documentation of the different plans submitted is an integral part of the above mentioned action plan

***Expected completion date***

December 2013

***Responsible manager***

Project manager

### 3.1.4 Budgetary control

#### *Criteria*

Section 11 (b) of the MoA stipulates that all budget revisions that shift allocations among project budget categories specified in the MoA shall require the signature of GoSS before taking effect. The Government shall be responsible for obtaining the World Bank's no objection to the proposed budget revision and amendments before signature.

#### *Condition*

Although total cumulative expenditure as of 31 May 2013 was within budget, over-runs were observed on three components of the budget for which there was no evidence of approval of the budget re-allocations from the Government. Details are as follows:

	Project Budget	Total project costs	Variance	
	US\$	US\$	US\$	%
Activity 1	408,931	408,931	-	-
Activity 2	777,060	777,060	-	-
Activity 3	32,074,529	29,065,603	3,008,926	9%
Activity 4	4,678,848	7,474,703	(2,795,855)	-60%
Activity 5	58,052	585,388	(527,336)	-908%
Activity 6	268,596	268,596	-	0%
Activity 7	258,660	284,705	(26,045)	-10%
Interest	378,167	-	378,167	100%
<b>Total</b>	<b>38,902,843</b>	<b>38,864,986</b>	<b>37,857</b>	<b>0%</b>

#### *Impact*

Expenditure in excess of approved budget may be considered ineligible under the project.

#### *Cause*

Guidance – Inadequate or lack of supervision by supervisors in ensuring preparation and submission of budget re-allocations.

#### *Recommendation*

Management should ensure to put processes in place to ensure that expenditures are incurred in line with approved budget lines.

#### *Priority*

Medium

#### *Management comments*

UNOPS recognizes the importance of budgetary control.

The majority of MDTF expenditure was incurred before 2012. Out of a total expenditure of USD 38,866,911, USD 37,869,929 or 97% had been incurred in this period.

When downloading the data by activity, especially Activity 4 shows a major amount of over expenditure. The majority of this over expenditure, at least US\$ 2,597,210 results from corrections during the project closure in 2012 and reallocated existing expenditure to the wrong activity.

Activity 3 was meant for works.

Activity 4 was mainly supervision and staff cost. In the 2012, reversals of US\$ 2,282,124 related to the contractual services companies account were transferred from Activity 3 to Activity 4. When this erroneous reversal is not considered the expenditure on Activity 4 is reduced from US\$ 7,474,703 to US\$ 5,078,390 (including management fee) against a budget of US\$ 4,678,848 or an over expenditure of nine percent instead of 60 percent.

To avoid this in the future we have become more stringent in the processing of reversals demanding more documentation than before 2013 and filing it electronically in a separate reversal file.

***Expected completion date***

December 2013

***Responsible manager***

Project manager

## **A Appendices**

### **A.1 Definition 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 harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1 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:

<b><u>Standard Rating</u></b>	<b><u>Definition</u></b>
<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 categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.



The following categories of priorities are used:

<b><u>Rating</u></b>	<b><u>Definition</u></b>
High	Action that is considered imperative to ensure that UNOPS is not exposed to high risk (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.

The following categories of possible causes are used:

#### **Categories of possible causes**

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:

#### **Categories of functional areas**

- General Policy
- Project/Programme Activities
- Finance
- Human Resources
- Procurement
- Information Technology
- General Administration