



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## INTERNAL AUDIT REPORT

**19 November 2014**

<b>PROJECT NAME:</b>	<b>TOWARDS ECOSYSTEM-BASED MANAGEMENT OF THE HUMBOLDT CURRENT LARGE MARINE ECOSYSTEM (HCLME)</b>
<b>PROJECT NUMBER:</b>	<b>00076126</b>
<b>COUNTRY:</b>	<b>PERU</b>
<b>AUDITOR:</b>	<b>MOORE STEPHENS LLP</b>
<b>PERIOD SUBJECT TO AUDIT:</b>	<b>2 SEPTEMBER 2010 TO 30 JUNE 2014</b>

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## Acronyms and abbreviations

HCLME	Humboldt Current Large Marine Ecosystem
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
PC	Project Centre
RO	Regional Office
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

## Executive summary

### The engagement context

From 20 to 24 October 2014, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through Moore Stephens LLP (“the audit firm”), conducted an audit of the project ‘Towards Ecosystem-Based Management of the Humboldt Current Large Marine Ecosystem (HCLME)’ (“the project”) (Atlas award ID 00076126). The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 3,100,820 during the period from 2 September 2010 to 30 June 2014.

### Audit objectives

The overall objective of the audit is to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives. The areas of focus include:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable legislation.

The purpose of the audit is to provide reasonable assurance that:

- a) Client/donor contributions and project expenditure are properly accounted for;
- b) Project expenditure were incurred in accordance with the contribution agreement, and are supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the auditors shall:

- a) Express an opinion as to whether the project’s financial statements present fairly, in all material respects and whether expenditures incurred on the project 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 UNOPS; (iv) in accordance with the legal agreement terms; and (v) were supported by properly approved vouchers and other supporting documents.
- b) Express an opinion as to whether the project’s “Statement of non-expendable property” fairly presents, 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 systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the projects objectives.

### Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IASSB and UNOPS internal audit practices, and in consideration of the requirements of United

Nations System Accounting Standards (UNSAS), for the project period up to 31 December 2011, and International Public Sector Accounting Standards (IPSAS), for the project period from 1 January 2012.

### Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as **satisfactory** which means “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”. The details of the audit results are presented in Tables 1 and 2.

**Table 1: Summary results of the financial audit**

Project title		Period	Project no.
Towards Ecosystem-Based Management of the Humboldt Current Large Marine Ecosystem (HCLME) (Atlas proposal ID 00060454)		2 September 2010 – 30 June 2014	00076126
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
3,100,820	Unqualified	34,932.77	Unqualified

**Table 2: Internal control rating summary for project**

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
Asset management	Satisfactory	
<b>Overall rating of internal control</b>	<b>Satisfactory</b>	

### Key issues and recommendations

Neither of the two audit findings were noted to be caused by factors beyond the control of UNOPS. There are two recommendations, both of which are ranked of medium priority.

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (USD)
1	Project management	Project implementation timeframe not updated to reflect revised end-date	Medium	-
2	Finance	Non-compliance with UNOPS Operational Advance guidelines	Medium	-
<b>Total</b>				-

Signed:



Mark Henderson  
Partner  
Moore Stephens LLP

19 November 2014

## Detailed assessment

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Project Management</b>				
<b>1</b>	<p><b>Title</b></p> <p>Project implementation timeframe not updated to reflect revised end-date</p> <p><b>Comparison criteria</b></p> <p>According to the Terms of Reference for the project audit a seven-month extension request was granted stating a new end-date of 31 March 2016 instead of 30 June 2015.</p> <p>The Internal Controls Framework for UNOPS offices states:</p> <p><i>Introduction:</i> All expenditure must be assigned to a budget. Administrative units are generally responsible for the administrative budget and the client service divisions are responsible for both project and administrative budgets.</p> <p><i>Ensuring and effective monitoring system:</i> The Division Chief must have a monitoring system to provide assurance that office is making progress on its annual operation plan and budget, and that the system of internal controls is functioning.</p> <p><b>Facts / observation</b></p> <p>Despite the initial request for extension being granted by the UNDP representative with authority for the Project, as at the date of the audit,</p>	<p>We recommend that, once formal notification of the extension has been received, HCLME draft and submit an updated budget to reflect the no-cost extension to the Project and incorporate the new timeframe of activities.</p>	<p>A formal notification of Project Extension from UNOPS HQ has as yet not been received. That said it has been agreed that there will be a 7-month extension to 31.03.2016.</p> <p>The remaining GEF grant funds have been analysed and budget lines checked as part of the 2015 Annual Operation Plan (AOP) design process.</p> <p>It is clear that there will be no additional funding for the 7-month extension period. It is also probable that not all the GEF grant funds will be used by project</p>	<p><b>Responsible Manager:</b></p> <p>Regional Project Coordinator and Finance Officer</p> <p><b>Due Date:</b></p> <p>31 December 2014</p> <p><b>Priority:</b></p> <p>Medium</p>

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Project Management</b>				
	<p>(November 2014) no formal notification of the seven-month extension had been received from the contracting authority.</p> <p>In the absence of formal confirmation of the extension, the project has not updated the workplan to indicate the expected revised timeframe of project activities and the corresponding costs to be incurred.</p> <p><b>Impact</b></p> <p>Failure to update the workplan to reflect the most likely expectation of activity implementation reduces the ability of the project manager and donors to monitor the achievements made.</p> <p><b>Cause</b></p> <p>Inadequate oversight by HQ.</p>		<p>closure.</p> <p>The drafting and submission of a simple updated Budget has been done. However further analysis will be carried out in conjunction with the 2015 AOP finalization and approval on December 17th 2014.</p>	

#	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Finance</b>				
<b>2</b>	<p><b>Title</b></p> <p>Non-compliance with UNOPS Operational Advance guidelines</p> <p><b>Comparison criteria</b></p> <p>Point 7 of the UNOPS Operational Advance guidelines states:</p> <p>Operational Advance should be requested in the currency in which payments are to be made (preferably in LCY to avoid exchange gain/loss). In case both USD and LCY are requested, separate cashbooks for each account must be maintained.</p> <p><b>Facts / observation</b></p> <p>We noted that due to legal requirements in Peru, the Project is unable to open its own bank account.</p> <p>As a result, cash advances made in relation to DSAs and other expenses are paid from a UNDP bank account to the Finance Officer (FO)'s personal bank account (either directly, or through UNOPS Copenhagen). The FO then withdraws and distributes the advances and returns any unused funds.</p> <p>The elevated risk associated with cash payments as opposed to other payment methods must be appropriately mitigated through the use of tight financial controls, and this is particularly relevant where funds are transferred to an individual's personal account. (In one example, UNDP transferred PEN 140,150 (USD 42,000) in relation to subsistence allowances and supplies for a field visit to an Islas Ballestas, representing a considerable sum to be deposited into an</p>	<p>In line with UNOPS guidelines and template on Operational Advances, a cash book should be implemented with the Finance Officer authorising and signing each deposit made into and disbursement made from the security box.</p>	<p>Many of the project service providers do not provide credit i.e. payment after the delivery of goods and services. Examples are laboratory consumables, fuel for boats providing baseline services and subsistence allowances for fisherfolk without bank accounts.</p> <p>We agree with the proposed solution to maintain a physical cash book in addition to the digital one.</p>	<p><b>Responsible Manager:</b></p> <p>Regional Project Coordinator and Finance Officer</p> <p><b>Due Date:</b></p> <p>Immediate</p> <p><b>Priority:</b></p> <p>Medium</p>

#	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Finance</b>				
	<p>employee's personal account.) However we found that certain steps in the cash management cycle were not sufficiently strong to reduce these risks to an acceptable level.</p> <p>Specifically, once the funds are received in the bank account, they are withdrawn and kept in a cash security box at the offices of HCLME. However there is no cashbook maintained to record deposits made into or withdrawals from the security box as required by in the Operational Advance guidelines.</p> <p><b>Impact</b></p> <p>There is a greater risk that funds could be used for non-project related purposes or misappropriated in the absence of segregated cash management controls.</p> <p><b>Cause</b></p> <p>Lack of RO/OC/PC policies or procedures</p>			

## Annex I - Definitions

### 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 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
<b>Satisfactory</b>	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.
<b>Partially satisfactory</b>	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.
<b>Unsatisfactory</b>	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.

### Categories for priorities of audit recommendations

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:

Categories	Definition
<b>High</b>	Prompt 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 organization).
<b>Medium</b>	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
<b>Low</b>	Action is considered desirable and should result in enhanced control or better value for money.

### Possible causes

The following categories of **possible causes** are used:

- **Guidelines:** absence of written procedures to guide staff in performing their functions;
  - Lack of or inadequate corporate policies or procedures
  - Lack of or inadequate RO/OC/PC policies or procedures
  - Inadequate planning
  - Inadequate risk management processes
  - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors;
  - Lack of or inadequate guidance or supervision at the RO/OC/PC level
  - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skill, staff) to carry out an activity or function;
  - Lack of or insufficient resources (financial, human, or technical resources)
  - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions;
- **Intentional:** intentional overriding of internal controls;
- **Other:** Factors beyond the control of UNOPS.

### List of functional areas

The following categories of **functional areas** are used:

- Project management
- Finance
- Human resources
- Procurement and supply chain
- General administration (which includes asset management)