



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

28 September 2015

| | |
|---------------------------------|--|
| PROJECT NAME: | DARFUR URBAN WATER SUPPLY PROJECT |
| PROJECT NUMBER: | 00076613 |
| COUNTRY: | SUDAN |
| AUDITOR: | MOORE STEPHENS LLP |
| PERIOD SUBJECT TO AUDIT: | 1 JANUARY 2012 TO 24 JULY 2015 |

Contents

| | |
|---|-----------|
| Acronyms and abbreviations | 3 |
| Executive summary | 4 |
| The engagement context..... | 4 |
| Audit objectives | 4 |
| Audit scope | 4 |
| Audit rating..... | 4 |
| Key issues and recommendations | 5 |
| Detailed assessment | 7 |
| Annex I - Definitions | 12 |

Acronyms and abbreviations

| | |
|-------|--|
| IAIG | Internal Audit and Investigations Group |
| 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 |
| MoU | Memorandum of Understanding |

Executive summary

The engagement context

From 30 November to 9 December 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 Darfur Urban Water Supply Project (Project ID 00076613) (“the project”), which is implemented and managed by the UNOPS Sudan Office. The audit firm was under the general supervision of IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 8,519,047 during the period from 1 January 2012 to 24 July 2015. This project was funded by the Department for International Development (DFID) of the UK.

Audit objectives

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

The areas of focus included:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable internal control systems (eg: UNOPS Financial Rules and Regulations)

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

- a) Client/donor contributions and project expenditure are properly accounted for;
- b) Project expenditure was incurred in accordance with the contribution agreement, and is 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.

In particular, the audit firm provided 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 project’s 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 International Public Sector Accounting Standards (IPSAS).

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. |
|-----------------------------------|-------------|--------------------------------------|-------------|
| Darfur Urban Water Supply Project | | 1 January 2012 – 24 July 2015 | 00076613 |
| Financial statement | | Statement of non-expendable property | |
| Amount USD | Opinion | Amount USD | Opinion |
| 8,519,047 | Unqualified | - | N/a |

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 |  |
| General administration | Partially satisfactory |  |
| Overall rating of internal control | Satisfactory |  |

Key issues and recommendations

Among the three audit findings, none were noted to be caused by factors beyond the control of UNOPS. There are three recommendations ranked 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 | General administration | Annual physical verification and certification of assets not properly documented | Medium | - |
| 2 | Project Management | Project budget not signed and Memorandum of Understanding not dated | Medium | - |

| No. | Functional area | Audit finding title | Priority rating (high / medium) | Financial impact (USD) |
|--------------|------------------------------|--|---------------------------------|------------------------|
| 3 | Procurement and supply chain | Lack of evidence for the requisitions approved prior to the issuance of solicitation documents | Medium | - |
| Total | | | | - |

Signed:



Mark Henderson
Partner
Moore Stephens LLP

28 September 2015

Detailed assessment

| # | Observation | Recommendation | Management comment and action plan | Responsible manager / due date / priority |
|--|--|---|---|---|
| Functional area: General administration | | | | |
| 1 | <p>Title</p> <p>Annual physical verification and certification of assets not properly documented</p> <p>Comparison criteria</p> <p>Articles 4.1.1 and 4.1.2 of the Administrative Instruction (AI/EO/2011/02) Management of Assets stipulate that “Physical verification is the process of taking stock of items that are currently being used, maintained, or owned by UNOPS. The purpose is to ensure that the inventory report is complete and correct.</p> <p>It is recommended that inventory counts and asset reconciliations be performed on a regular basis and should not be limited to once a year. A proper record should correspond to the asset count performed and any discrepancies identified should be rectified in a timely manner.”</p> <p>In addition article 3.1.1.b stipulates “Tag numbers must be 12 alphanumeric characters, of which the first five characters shall be the project ID, the next three characters shall be the country code, and the remaining four digits will follow a conventional numeric sequence.”</p> <p>Facts / observation</p> | <p>The results of the physical verification should be properly documented.</p> <p>Such documentation should comprise signed physical count sheets showing a clear reconciliation between the theoretical and physical quantities, and the names and signatures of the persons who carried out the physical verification.</p> <p>The tag numbers assigned to the registered assets should conform to the recommendation of the Administrative Instruction (AI/EO/2011/02) Management of Assets.</p> <p>In addition the registered assets reference numbers should be the same in both the fixed assets register and the in the assets module in Atlas.</p> | <p>Staff responsible for assets management to be instructed to familiarise themselves with the AI for the Management of Assets, and additional training to be provided.</p> | <p>Responsible manager:</p> <p>Head of Office</p> <p>Due date:</p> <p>31 October 2015</p> <p>Priority:</p> <p>Medium</p> |

| # | Observation | Recommendation | Management comment and action plan | Responsible manager / due date / priority |
|--|--|----------------|------------------------------------|---|
| Functional area: General administration | | | | |
| | <p>The audit team noted that the annual physical verification of the project Registered Assets was not properly documented and the following weaknesses were identified:</p> <ul style="list-style-type: none"> - Lack of count sheets showing the reconciliation between the physical and theoretical quantities; - Lack of a detailed report showing the dates of the physical verification, persons who participated in the verification and summary of the result of the verification. <p>Additionally the tag numbers used were not in accordance with the recommendation of the Administrative Instruction (AI/EO/2011/02) Management of Assets, with regards to their construction.</p> <p>Furthermore the reference numbers of the registered assets listed in the fixed assets register of the Project differ from those recorded in the assets module in Atlas.</p> <p>Impact</p> <p>Failure to prepare and maintain such documentation is contrary to the requirements of articles 4.1.1 and 4.1.2 of the Administrative Instruction (AI/EO/2011/02) Management of Assets, and prevents accurate information from being readily available.</p> <p>Cause</p> <p>Resources: Inadequate training</p> | | | |

| # | Observation | Recommendation | Management comment and action plan | Responsible manager / due date / priority |
|--|---|--|--|---|
| Functional area: Project Management | | | | |
| 2 | <p>Title</p> <p>Memorandum of Understanding not dated</p> <p>Comparison criteria</p> <p>Article 3 of the signed MoU between UNOPS and DFID stipulates that “The arrangements of this Project and the purposes for which the contribution will be used are set out in the attached Project document”.</p> <p>Facts / observation</p> <p>The audit team noted that the initial MoU was not dated at the point of signature.</p> <p>Impact</p> <p>Without the date of signature being recorded on the Agreement, it is not clear at which point its requirements came into effect.</p> <p>Cause</p> <p>Guidance: Lack of or inadequate procedures / guidance or supervision at the RO/OC/PC level</p> | <p>The project agreement should be signed and dated by both parties before it is considered to be in effect.</p> | <p>Staff responsible in MoU process to be advised for ensuring the date on signature, and to seek the donor signature on the project budget sheet and on all Annexes to the MOU.</p> | <p>Responsible manager:</p> <p>Head of Office</p> <p>Due date:</p> <p>31 October 2015</p> <p>Priority:</p> <p>Medium</p> |

| # | Observation | Recommendation | Management comment and action plan | Responsible manager / due date / priority |
|--|---|---|--|---|
| Functional Area: Procurement and supply chain | | | | |
| 3 | <p>Title</p> <p>Lack of evidence for requisitions approved prior to the issuance of solicitation documents</p> <p>Comparison criteria</p> <p>Article 14 of the Memorandum of Understanding stipulates “UNOPS will administer and account for the Contribution in accordance with its financial regulations and other applicable rules and procedures and practices and keep separate records and accounts for the Project.”</p> <p>Article 2.5.1 of the UNOPS procurement manual stipulates “A UNOPS procurement activity usually begins with a requisition for the purchase of a particular product.</p> <p>The requisition must include a complete description of what should be purchased, documentation that funds are available, as well as justification of the purchase with reference to the project agreement with the client (or administrative budget, in the case of internal UNOPS procurement). In the case of a requisition in respect of construction works, due consideration should be given to the advisability of maintaining a contingency fund of at least 10 percent to cover potential construction cost overruns.”</p> <p>Facts / observation</p> <p>When reviewing the procurement files, the audit team noted that in two</p> | <p>Project management should ensure that the provisions of the Procurement Manual are adhered to by preparing requisitions before the solicitation documents.</p> | <p>The project and procurement staff are to be notified for strict adherence to an approved requisition (through Atlas or otherwise) prior to the commencement of solicitation process</p> | <p>Responsible manager:</p> <p>Head of Office</p> <p>Due date:</p> <p>31 October 2015</p> <p>Priority:</p> <p>Medium</p> |

| # | Observation | Recommendation | Management comment and action plan | Responsible manager / due date / priority | | | | | | | | | | | | |
|--|---|---------------------|---|---|---|--|---------|------------|------------|--|---------|------------|------------|--|--|--|
| Functional Area: Procurement and supply chain | | | | | | | | | | | | | | | | |
| | <p>instances the Atlas requisition was prepared after the approval of the solicitation document.</p> <table border="1"> <thead> <tr> <th>Contract Title</th> <th>Contract Ref</th> <th>Date of Requisition</th> <th>Date of Approval of the Solicitation document</th> </tr> </thead> <tbody> <tr> <td>Construction of Distribution Pipe Lines in Eastern part of Zalengi</td> <td>CON-011</td> <td>27/04/2012</td> <td>09/04/2012</td> </tr> <tr> <td>Construction of pump station and Installation of Distribution & Borehole pumps in eastern part of Zalingei</td> <td>CON-014</td> <td>12/05/2012</td> <td>29/05/2012</td> </tr> </tbody> </table> <p>In addition no supporting documents such as emails or internal correspondence were provided showing that a formal requisition was raised before the preparation of the solicitation document.</p> <p>Impact</p> <p>The absence of an approved requisition prior to the issuance of the solicitation document prevents confirmation that adequate funds are in place for the purchase, and, in the event that these are lacking, results in the procurement being unable to proceed further.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p> | Contract Title | Contract Ref | Date of Requisition | Date of Approval of the Solicitation document | Construction of Distribution Pipe Lines in Eastern part of Zalengi | CON-011 | 27/04/2012 | 09/04/2012 | Construction of pump station and Installation of Distribution & Borehole pumps in eastern part of Zalingei | CON-014 | 12/05/2012 | 29/05/2012 | | | |
| Contract Title | Contract Ref | Date of Requisition | Date of Approval of the Solicitation document | | | | | | | | | | | | | |
| Construction of Distribution Pipe Lines in Eastern part of Zalengi | CON-011 | 27/04/2012 | 09/04/2012 | | | | | | | | | | | | | |
| Construction of pump station and Installation of Distribution & Borehole pumps in eastern part of Zalingei | CON-014 | 12/05/2012 | 29/05/2012 | | | | | | | | | | | | | |

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 |
|-------------------------------|---|
| Satisfactory | 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. |
| Partially Satisfactory | 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. |
| Unsatisfactory | 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 |
|---------------|--|
| High | 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). |
| 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. <i>Note: Low priority recommendations, if any, are dealt with by the audit firm directly with UNOPS management either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority</i> |

| | |
|--|--|
| | <i>recommendations are not included in the report.</i> |
|--|--|

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)
- Information and communications technology