UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

4 September 2015

PROJECT NAME: SMALL GRANTS PROGRAMME (SGP) – OPERATIONAL PHASE 5
PROJECT NUMBER: 00078647
COUNTRY: ARMENIA
AUDITOR: MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT: 1 JUNE 2011 TO 30 JUNE 2014
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acronyms and abbreviations</td>
<td>3</td>
</tr>
<tr>
<td>Executive summary</td>
<td>4</td>
</tr>
<tr>
<td>The engagement context</td>
<td>4</td>
</tr>
<tr>
<td>Audit objectives</td>
<td>4</td>
</tr>
<tr>
<td>Audit scope</td>
<td>4</td>
</tr>
<tr>
<td>Audit rating</td>
<td>4</td>
</tr>
<tr>
<td>Key issues and recommendations</td>
<td>5</td>
</tr>
<tr>
<td>Annex I - Definitions</td>
<td>7</td>
</tr>
</tbody>
</table>
Acronyms and abbreviations

BU Business Unit
CBA Community-based Adaptation
CBO Community-based Organization
CO Country Office
COA Chart of Account (Atlas)
COB Country Operating Budget
CPMT Central Programme Management Team
CPS Country Programme Strategy
DOA Delegation of Authority
ERP Enterprise Resource Planning (Atlas)
FTA Fixed-Term Appointments
GEF Global Environment Facility
GLJE General Ledger Journal Entry
ICF Internal Control Framework
LOA Letter of Agreement
MOA Memorandum of Agreement
MOSS Minimum Operating Security Standards
MOU Memorandum of Understanding
NAO (UNOPS) North America Office
NC National Coordinator
NFP National Focal Person
NGO Non-governmental Organization
NHI National Host Institution
NSC National Steering Committee
OP Operational Phase
PA Programme Assistant
PO Purchase Order (Atlas)
PRINCE2 Projects In Controlled Environments 2
REQ Requisition (Atlas)
RR (Res. Rep.) Resident Representative
SC Service Contracts
SOP Standard Operating Procedures
SGC Small Grants Cluster (The UNOPS NAO SGP team)
SGP GEF Small Grants Programme
SSA Special Service Agreement
TOR Terms of Reference
UN United Nations
UNDP United Nations Development Programme
UNDSS United Nations Department of Safety and Security
UNOPS United Nations Office for Project Services
Executive summary

The engagement context

From 27 to 31 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 Small Grants Programme (SGP), Operational Phase 5 (OP5) in Armenia, (Project ID 00078647) ("the project"), which is implemented and managed by UNDP SGP Office in Armenia on behalf of the Global Environment Facility (GEF). 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 1,172,249 during the period from 1 January 2011 to 30 June 2014. This project was funded by the Global Environment Facility (GEF).

The UNOPS-Small Grants Cluster (SGC), in conjunction with the Central Programme Management Team (CPMT), adopted a risk-based approach to form the audit plan, through which the SGP Armenia programme was selected to be audited.

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 legislation.

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 year 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 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**

<table>
<thead>
<tr>
<th>Project title</th>
<th>Period</th>
<th>Project no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Grants Programme – Operational Phase 5, Armenia</td>
<td>1 January 2011 – 30 June 2014</td>
<td>00078647</td>
</tr>
<tr>
<td>Finance statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount USD</td>
<td>Opinion</td>
<td>Amount USD</td>
</tr>
<tr>
<td>1,172,249</td>
<td>Unqualified</td>
<td>6,839</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Functional area</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Database management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Country Operating Budget management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Atlas processes</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Financial management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Human resources</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Document and asset management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td><strong>Overall rating of internal control</strong></td>
<td><strong>Satisfactory</strong></td>
</tr>
</tbody>
</table>

**Key issues and recommendations**

No audit findings have been raised.
Signed:

Mark Henderson
Partner
Moore Stephens LLP
4 September 2015
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:

<table>
<thead>
<tr>
<th>Standard Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>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.</td>
</tr>
<tr>
<td>Partially Satisfactory</td>
<td>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.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>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.</td>
</tr>
</tbody>
</table>

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:

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