UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

4 September 2015

PROJECT NAME:	**SMALL GRANTS PROGAMME (SGP) – OPERATIONAL PHASE 5**
PROJECT NUMBER:	**00078723**
COUNTRY:	**NEPAL**
AUDITOR:	**MOORE STEPHENS LLP**
PERIOD SUBJECT TO AUDIT:	**1 JANUARY 2011 TO 30 JUNE 2014**

Contents

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 17 to 21 November 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 Nepal, *(*Project ID 00078723) ("the project"), which is implemented and managed by UNDP SGP Office in Nepal 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 1,842,926 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 Nepal 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

Project title		Period	Project no.
Small Grants Programme – Operational Phase 5, Nepal		1 January 2011 – 30 June 2014	00078723
Financial statement		**Statement of non-expendable property**	
Amount USD	**Opinion**	**Amount USD**	**Opinion**
1,842,946	Unqualified	18,523	Unqualified

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Grant management	Satisfactory	
Database management	Satisfactory	
Country Operating Budget management	Satisfactory	
Atlas processes	Satisfactory	
Financial management	Satisfactory	
Human resources	Satisfactory	
Document and asset management	Satisfactory	
Overall rating of internal control	**Satisfactory**	

Key issues and recommendations

There are four recommendations, which are all ranked of medium priority. Among the four audit findings, one was noted to be caused by factors beyond the control of UNOPS.

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 / low)	Financial impact (USD)
1	Grant management	Termination procedures not followed after request for termination	Medium	-
2	Atlas processes	Receipt not found in Atlas	Medium	-
3	Finance management	Miscoded expenditure	Medium	-
4	Document and asset management	Lost assets recorded as in use	Medium	371.84
			Total	**371.84**
	Sub-total financial impact on financial statement			**-**
	Sub-total financial impact on statement of non-expendable property			**371.84**

Signed:

Mark Henderson

Partner

Moore Stephens LLP

4 September 2015

Detailed assessment

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional area: Grant management				
1	**Title** Termination procedures not followed after request for termination **Comparison criteria** Section 7.1(f) of the SOP states that: An agreement can be legally terminated by taking the following steps: • The NSC should be notified/consulted and agree with the termination; • The case should be clearly documented – including written correspondence with the grantee; • …in less severe cases, a simple termination notification letter, signed by the UNDP RR may be issued. **Facts / observation** The audit team observed that for the grant NEP/SGP/OP5/Y2/CORE/12/13, a request for termination had been submitted by the grantee as they were unable to complete key parts of the project due to lack of cooperation from a partner. The termination request was dated April 2014. As at the date of the audit, November 2014, the NSC had not been notified of the request for termination and no termination notification letter had been issued from the GEF-SGP office. None of the additional tranche payments scheduled after April 2014 were	The NSC should be informed as soon as possible, after a termination request has been received, and the termination notification letter issued, and signed by UNDP.	NC Comments: Will comply as per recommendation. SGC Comments: We agree with this recommendation and will re-emphasize the SOP provisions. NSC members can be notified via e-mail and/or during the subsequent NSC meeting. The termination letter should be issued within two weeks of termination request. The NC is advised to do the needful and close the audit recommendation.	**Responsible manager:** NC **Due date:** 31 December 2015 **Priority:** Medium

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subsequently made. **Impact** Contractually, without a formal termination letter from GEF-SGP / UNDP, the project is considered on-going. There is a risk, albeit low in this case, that the project may continue to incur costs and expect reimbursement. It is therefore important that, if in agreement, terminations are formalised by the GEF-SGP office as soon as possible after request from the grantee. Likewise the database can be updated accordingly to reflect accurate information. **Cause** Intentional: intentional overriding of internal controls			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
	Functional area: Atlas processes			
2	**Title** Receipt not found in Atlas **Comparison criteria** Section 4.1.3 of the SOP states that: Based on the above [approved POs], the UNDP CO, or NC/PA, is authorised by UNOPS to create a receipt for every grant PO in Atlas and associate it with a voucher for disbursement. **Facts / observation** The audit team observed that the receipt for the first tranche payment of grant NEP/SGP/OP5/CORE/Y1/11/01, was not showing in Atlas. The receipts for the remaining tranche payments were available. It was possible to see the receipt number in Atlas but not the actual receipt itself. **Impact** Without a receipt maintained in Atlas there is limited evidence that payments of tranches have been accurately recorded. **Cause** Other: Factors beyond the control of UNOPS.	The NC / PA should ensure that copies of the PO receipts are kept, either in hard copy or as a print screen soft copy.	NC Comments: The said receipt was created in 2011 and receipt was not in printed form assuming that we can access the receipts in Atlas when needed, but it seems that we cannot always retrieve old receipts. From now on, we will also start to print a copy of the PO receipt. SGC Comments: We agree with this recommendation and recognize that the NC is already addressing this finding. Maintaining such documentation should be in line with the document retention policy in the SOPs.	**Responsible manager:** NC / PA **Due date:** 31 December 2015 **Priority:** Low

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
	Functional Area: Finance management			
3	**Title** Miscoded expenditure **Comparison criteria** Section 4.2.2 of the SOP states that "at the time of processing the admin related PO and voucher; the Chart of Accounts (COA) needs to correlate to the purpose of the payment – correcting the ACTIVITY ID/Atlas account if necessary. This is the responsibility of the NC/PA." **Facts / observation** The audit team observed that within our sample of items from the country operating budget, some were allocated to an incorrect account as per the chart of accounts. This mainly concerned rent expenses for the SGP office which were charged under both "Common Services – Premises" and "Sundry". Office administration costs were charged to "Bank charges" and not "Sundry". Support service costs were charged to "Common Services – Premises". **Impact** Inaccuracies in the financial reporting limit the effectiveness with which	The NC and PA should ensure that operating budget expenditure items have been correctly recorded in Atlas	NC Comments: In the new system of copying PO from receipt, we can only change the items or descriptions but the account number is a default (we cannot change the account number). Since we cannot change the account number, it becomes difficult for us to match account number and description during PO raising. We also need to do hit and trail effort to match the description and account number. Sometimes raising a single PO may take hours when we could not match the description and account number. It would be easier for us if we could search via account code rather than description in new system.	**Responsible manager:** NC / PA **Due date:** Complete **Priority:** Medium

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	budget monitoring can be performed. **Cause** Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.		SGC Comments: The COA is mapped in Atlas Requisition, and it cannot be changed afterwards. The SGC team uses the closest Account Code possible to match the Activity. So far as the Activities are concerned, the 2015 Requisition includes all the Activities; therefore, there is no margin for error.	

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
	Functional area: Document and asset management			
4	**Title** Lost assets recorded as in use **Comparison criteria** Section 6.1.5 of the SOP states that: Assets are written off when it is established that they are missing, lost or damaged beyond repair. **Facts / observation** The audit team observed that the two mobile phones issued to the NC and the PA were lost in the previous year. As per the Statement of Assets, these items were still listed as in use. **Impact** The asset register is overstated and not up to date. **Cause** Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions	The NC should carry out that a regular review of the equipment and assets held, ensuring that records are complete, accurate and up to date.	NC Comments: We have updated the asset register with complete and accurate records. SGC Comments: We agree with this recommendation and recognize that the NC has already addressed this finding.	**Responsible manager:** NC **Due date:** Complete **Priority:** Medium

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.

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