



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

14 December 2015

PROJECT NAME:	TULKAREM COURTHOUSE FACILITY (TCHF)
PROJECT NUMBER:	00076825
COUNTRY:	PALESTINE
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY 2011 TO 30 SEPTEMBER 2015

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Acronyms and abbreviations

IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
PC	Project Centre
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 12 to 22 October 2015, 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 ‘Tulkarem Courthouse Facility (TCHF)’ (Atlas project ID 00076825) (“the project”), which is implemented and managed by the UNOPS Operations Centre in Jerusalem. 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 amounted to USD 16,392,651 during the period from 1 January 2011 to 30 September 2015. The following donor contributed to the project: DFATD (Department of Foreign Affairs, Trade and Development).

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 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.
Tulkarem Courthouse Facility (TCHF)		1 January 2011 to 30 September 2015	00076825
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
16,392,651	Unqualified	40,425	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	
General administration	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

No recommendations have been raised, however there are some important issues in relation to the project as a whole for which we have provided relevant details below.

1. Power supply

As per the project document, UNOPS' responsibility was to construct the courthouse building to provide facilities for the Magistrates and First Instance courts. The municipality's responsibility, in association with the Palestinian Power Authority (PPA), was to implement the power supply infrastructure by the end of Q1 2015. However at the time of our audit we noted that the power supply had still not been provided and, as a consequence, the courthouse facility, although having been formally handed over by UNOPS to the beneficiary, was still not functioning.

2. Project budget

During the project inception in 2011, it was determined that to build three courthouses, as originally envisaged under the overall donor programme, was no longer feasible and that:

- (a) a reduction in functional programme(s), or accommodation schedules was required;
- (b) the implementation and management strategy would need to be altered; and

(c) budget increases and time extensions were necessary.

In February 2013 the Government of Canada approved a re-scoping of the overall donor programme and a reallocation of resources:

- (i) reducing project scope from three courthouses [Ramallah, Hebron and Tulkarem] to two [Hebron and Tulkarem];
- (ii) replacement of ██████████ by UNDP as implementing agency for the design and construction of the Hebron courthouse;
- (iii) increase in budget and a time extension for the design and construction of the UNOPS implemented Tulkarem and the UNDP implemented Hebron courthouses; and
- (iv) a resources increase for monitoring and evaluation.

In May 2014 further funding was approved to close a funding gap that had emerged during the construction of the Tulkarem courthouse. Contingency allowances for both Tulkarem and Hebron Courthouses were also adjusted to take into account the degree of risk commensurate with the current state of advancement of each courthouse facility (i.e., whether at design or construction phase) to mitigate against any potential future design, construction or furniture and equipment cost escalation and / or currency fluctuation.

Lastly, the timeframe was extended to reflect revised completion deadlines. The change in scope resulted in increasing the total budget for Tulkarem Courthouse from originally CAD 9,177,970 to the final amount of CAD 19,293,462.

3. Currency exchange loss

The project was originally signed at an exchange rate of CAD 1.05 / USD, which was then used as the baseline reference to calculate differentials at the point UNOPS received its tranches. Given the subsequent sharp drop of the CAD against the USD, calculations show an accumulated loss to date of approximately USD 1 million.

Of this, USD 750,000 was covered by a contingency written into the project agreement, leaving USD 250,000 which was addressed through a de-scoping mechanism signed-off by the beneficiary and the donor. Low priority furniture items have been removed.

This issue was raised by UNOPS / IAIG which identified an opportunity to improve the de-scoping process by defining with the donor and beneficiaries, where appropriate and as early as possible, a prioritized list of items activities or works that could be removed during implementation.



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14 December 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:

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 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