



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## INTERNAL AUDIT REPORT

**22 March 2016**

<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>1 JULY 2014 TO 31 DECEMBER 2015</b>

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## Acronyms and abbreviations

CLP	Chilean Pesos
HCLME	Humboldt Current Large Marine Ecosystem
IAIG	Internal Audit and Investigations Group
IFOP	Fisheries Development Institute
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 8 to 12 February 2016, 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 USD 967,965.22 during the period from 1 July to 31 December 2014 and USD 1,909,726.00 during the period from 1 January to 31 December 2015, resulting in total expenditure of USD 2,877,691.22 for the period subject to audit.

### 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-expendable 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 the 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.	
Towards Ecosystem-Based Management of the Humboldt Current Large Marine Ecosystem (HCLME) (Atlas award ID 00060454)		1 July 2014 to 31 December 2015	00076126	
Financial statement		Statement of non-expendable property		
Amount USD	Opinion	Amount USD	Opinion	
2,877,691.22	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

There are two audit findings, one of which was noted to be caused by factors beyond the control of UNOPS. There are two recommendations, both ranked as 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	Finance	Exchange rate difference reported as expenditure	Medium	18,322.10
2	Project management	Lack of Steering Committee meetings	Medium	-
<b>Total</b>				<b>18,322.10</b>

Signed:



Mark Henderson  
Partner  
Moore Stephens LLP

22 March 2016

## Detailed assessment

#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Finance</b>				
1	<p><b>Title</b></p> <p>Exchange rate difference reported as expenditure.</p> <p><b>Comparison criteria</b></p> <p>The Grant Support Agreement signed between the United Nations Office for Project Services (UNOPS) and the Fisheries Development Institute (IFOP) as of 30 January 2015 states:</p> <p>Section 5.4 "The amount of payment of such Grant funds is not subject to any adjustment or revision because of price or currency fluctuations..."</p> <p>Additionally Annex D "General conditions for grant support agreements" states:</p> <p>Section 6.3 "At the time the Agreement expires or is terminated, the following types of funds shall immediately revert to UNOPS: (a) Any balance of funds that has not been disbursed to the Grantee; or (b) UNOPS has advanced fund to the Grantee, but the Grantee has not expended them"</p>	<p>The project should ensure that expenditure reported under grant agreements is on the basis of the reporting currency specified in the agreements.</p> <p>As such and in the event that no expenditure has been incurred, the full amount disbursed, in the currency disbursed, should be recovered.</p>	<p>The main complication was the currency exchange rate difference from USD to CLP (a legal requirement to allow tendering to start) and then back from CLP to USD once the bidding process failed. The exchange rate changed due the USD strengthening hence producing the loss when purchasing USD for the refund.</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 comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Finance</b>				
	<p>Section 15.5 "The Grantee shall within 30 calendar days after the effective date of such termination repay to UNOPS all unexpended UNOPS funds which are not otherwise obligated by a legally binding transaction applicable to this Agreement".</p> <p><b>Facts / observation</b></p> <p>On 10 February 2015, UNOPS transferred USD 200,000 to IFOP in accordance with Section 5.2 of the agreement (Milestone 1: USD 200,000.00 upon signature of the agreement by both parties), converted into CLP 124,800,000.00.</p> <p>However the grant agreement was subsequently terminated once it became apparent that the funds could not be utilised in accordance with the agreement.</p> <p>On 8 October 2015, the Bank Banco Estado transferred CLP 124,800,000.00, converted into USD 181,677.90, to the UNOPS bank account.</p> <p>By failing to recoup the amount disbursed in USD to the entity, or the equivalent thereof, the project suffered an exchange loss of USD 18,322.10, being USD 200,000.00 less USD 181,677.90.</p> <p><b>Impact</b></p>			



#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Finance</b>				
	The project has expended funds for which no benefit has accrued.  <b>Cause</b>  Factors beyond the control of UNOPS.			

#	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Project Management</b>				
<b>2</b>	<p><b>Title</b></p> <p>Lack of Steering Committee meetings</p> <p><b>Comparison criteria</b></p> <p>The UNDP Project Document “Governments of Chile and Peru – United Nations Development Programme – United Nations Office for Project Services / PIMS 4147 Towards Ecosystems-based Management of the Humboldt Current Large Marine Ecosystem”, Part III: Management Arrangements, Section 265 states: “The Steering Committee will meet on an annual basis to approve the work plan and the annual budget.”</p> <p><b>Facts / observation</b></p> <p>The Steering Committee for 2015 had not met as at the date of the audit. The Steering Committee has responsibility guiding project implementation, verifying and approving the annual operational plans as well as financial and technical reports, and providing general strategic guidance to the Regional Project Coordination Unit.</p> <p><b>Impact</b></p> <p>Failure to meet regularly and evaluate the objectives and progress of the project could result in delays in</p>	<p>The Steering Committee should meet on an annual basis to discuss and evaluate the progress of the project, as well as address the key issues for the coming period.</p>	<p>On 9 December 2015 the Regional Project Coordinator requested a Project Steering Committee (PSC) meeting on two possible dates, 17 or 18 December 2015, however this was rejected by the PSC focal points: IFOP and IMARPE.</p> <p>The only activities planned for 2016 (first trimester) were pre-planned and approved by the PSC in 2015. The PSC group members met virtually and face to face in 2015 during Strategic Action Programme (SAP) progress meetings.</p> <p>The project was scheduled to close 31 March 2016, nevertheless an extension to 31 December 2016 has been requested by both countries to assist with a link to a proposed second phase and if approved a PSC meeting will be held in week 17.</p>	<p><b>Responsible Manager:</b></p> <p>Regional Project Coordinator and Finance Officer</p> <p><b>Due Date:</b></p> <p>31 March 2016</p> <p><b>Priority:</b></p> <p>Medium</p>

#	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Project Management</b>				
	activities or not achieving objectives in a timely manner.  <b>Cause</b>  Factors beyond the control of UNOPS.			

## 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).