



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

PROJECT NAME:	PROJET D'APPUI A LA REHABILITATION ET RELANCE DU SECTEUR AGRICOLE (PARRSA)
PROJECT NUMBER:	00077040
COUNTRY:	DEMOCRATIC REPUBLIC OF CONGO
AUDITOR:	MOORE STEPHENS LLP
PERIOD:	1 JANUARY TO 31 DECEMBER 2015

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Acronyms and abbreviations

IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
PARRSA	Projet D'Appui A La Rehabilitation Et Relance Du Secteur Agricole (Parrsa)
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 3 to 8 May 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 *Projet d’Appui à la Réhabilitation et à la Relance du Secteur Agricole « PARRSA »*, (Project ID 00077040), (the project), which is implemented and managed by the UNOPS Operations Centre in Democratic Republic of Congo. 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 14,712,283.41 during the period from 1 January to 31 December 2015. The following donor contributed to the project: World Bank (IDA).

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 Internal Auditing and Assurance Standards Board 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.
Projet de Réhabilitation et de Relance du Secteur Agricole – PARRSA		1 January – 31 December 2015	00077040
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
14,712,283.41	Unqualified	347,838.91	Unqualified

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Satisfactory	
Human resources	Satisfactory	
Procurement and supply chain	Satisfactory	
General administration	Partially satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

The internal audit report contains one finding which is of medium priority.

Medium priority recommendations mean that action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).

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	Lack of clarity and application of procedures relating to management of guarantees and retention monies	Medium	-
Total				-

Signed:



Mark Henderson
Partner

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

20 July 2016

Detailed assessment

#	Observation	Recommendation	Management Remarks and Action Plan	Manager / Implementation Date / Priority
Functional area: General Administration				
1.	<p><u>Title:</u> Lack of clarity and application of procedures relating to management of guarantees and retention monies.</p> <p><u>Comparison Criterion:</u> For works contracts, PARSSA applies performance guarantees at a rate of 5% for all contracts.</p> <p>Exception: One works contract with a company for which UNOPS has received a performance guarantee (no. 2014/416) for an amount of USD 109,697.80.</p> <p><u>Observations:</u> 1) In point 2.1.1.3 Expenditure and receipts concerning procurement contracts on page 77, the project procedures list seven tasks listed which need to be completed. We noted that for task no. 5 - Collection of Guarantees, there are no detailed procedures to be followed. 2) The "CDOH Managing bank guarantees received from bidders" procedure, issued on 3 December</p>	<p>We recommend that the project team, in conjunction with the finance and procurement units, harmonise procedures relating to managing guarantees in order to simplify understanding and their application for all parties involved:</p> <ol style="list-style-type: none"> Throughout the selection process up to the point of the contract being signed, the Procurement Unit makes sure that all contractual information relating to the guarantee is not only clearly communicated to but also understood by all relevant parties. The aim is to prevent the risk of conflict in execution of the contract due to misunderstandings, should the project team be called upon to withhold a guarantee following poor execution of the work; The Project Team, upon validation of work on the ground and on invoices submitted for payment, 	<p>The Procedures Manual will be revised in order to take into account the UNOPS procedures on managing guarantees and retention monies for ensuring proper execution and performance.</p>	<p>Responsible manager: Project Manager Procurement Unit Finance Unit</p> <p>Due date: Immediate</p> <p>Priority: Medium</p>

#	Observation	Recommendation	Management Remarks and Action Plan	Manager / Implementation Date / Priority
Functional area: General Administration				
	<p>2015, states: "... the Procurement Unit is responsible for transmitting the bank guarantee to the Finance Unit; the Finance Unit is responsible for holding the bank guarantee in the safe deposit box and for updating the bank guarantee records".</p> <p>We consider these procedures to be insufficient in regards to the recording of the guarantee by the Finance Unit.</p> <p>3) The administrative and financial procedures in point 2.1.8.1, Accounting rules, states the following: "the guarantees received from bidders are entered into the accounts depending on their nature (tender guarantee, guarantee for advance payment, works performance guarantee) as debts due to bidders in a separate account".</p> <p>However, we found that:</p> <p>a) None of the guarantees was entered into a separate account and that the original bank guarantee document was merely kept in a safe deposit box by the Finance Unit; a photocopy is kept by the Procurement Unit. A manual file for recording guarantees is kept by the project manager.</p> <p>b) For payment of invoices submitted by contractors for work, the project team applies a guarantee of 5%, without specifying to contractors prior to retaining it that this is the guarantee is against proper execution</p>	<p>should ensure strict compliance with the clauses of the contract on this matter; and</p> <p>3. The Finance Unit, upon payment of invoices, should ensure that the payments strictly comply with the contract clauses.</p>		

#	Observation	Recommendation	Management Remarks and Action Plan	Manager / Implementation Date / Priority
Functional area: General Administration				
	<p>and performance of the work carried out.</p> <p><u>Impact:</u> Risk of conflict if the Project Team is obliged to withhold a guarantee owing to a lack of understanding by the company of the clauses of the contract signed.</p> <p><u>Cause:</u></p> <p><u>Guidelines:</u> absence of written procedures to guide staff in performing their functions.</p>			

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