



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

26 August 2016

PROJECT NAME:	MODERNIZATION AND IMPROVEMENT OF POLICING PROJECT (MIPP)
PROJECT NUMBER:	00000093090
COUNTRY:	NEPAL
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	5 JANUARY TO 31 DECEMBER 2015

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Acronyms and abbreviations

DFID	Department for International Development
GON	Government of Nepal
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
MIPP	Modernisation and Improvement of Policing Project
MoU	Memorandum Of Understanding
OC	Operations Centre
PC	Project Centre
RO	Regional Office
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars
VAT	Value Added Tax

Executive summary

The engagement context

From 30 May to 10 June 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 ‘Modernization and Improvement of Policing Project’ (Atlas project ID 00093090), (“the project”), which is implemented and managed by the UNOPS Operation Centre in Nepal. 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 to USD 909,085 during the period from 5 January to 31 December 2015.

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 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 partially satisfactory which means “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". 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.
Modernization and Improvement of Policing Project		5 January – 31 December 2015	00093090
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
909,085	Unqualified	7,013	Unqualified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

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	Cut off error	Medium	15,845
2	Finance	Value Added Tax (VAT) charged as expenditure	Medium	-
Total				15,845

Signed:



Mark Henderson
Partner
Moore Stephens LLP

26 August 2016

Detailed assessment

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority																
Functional area: Finance																				
1	<p>Title Cut off error</p> <p>Comparison criteria In order to ensure accurate reporting of project expenditure in compliance with IPSAS, transactions should not be recognised as expenditure until the costs have been incurred.</p> <p>Facts / observation The transactions indicated in the table below were included in the expenditure total reported in the 2015 financial statements, but were not actually incurred until 2016.</p> <p>The travel was scheduled to take place in January 2016, but the advance cheque was initially issued in 2015 (later cancelled) and the amount was recorded as expenditure in the Atlas system at that point.</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Account Description</th> <th>Vendor</th> <th>Amount USD</th> </tr> </thead> <tbody> <tr> <td>17/Dec/2015</td> <td>Daily Subsistence Allow-Intl</td> <td>██████████</td> <td>3,017</td> </tr> <tr> <td>17/Dec/2015</td> <td>Daily Subsistence Allow-Intl</td> <td>██████████</td> <td>3,017</td> </tr> <tr> <td>17/Dec/2015</td> <td>Daily Subsistence Allow-Intl</td> <td>██████████</td> <td>3,017</td> </tr> </tbody> </table>	Date	Account Description	Vendor	Amount USD	17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017	17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017	17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017	<p>It is recommended that all expenditure is recorded in the period in with the relevant activities take place.</p> <p>Expenditure should not be recognised at the point when an advance payment is made.</p>	<p>In accordance with the UNOPS travel policy, 100% of the DSA can be paid out prior to the mission. Since this travel was originally planned to commence on 9th of January 2016, DSA was processed in December 2015. UNOPS transitioned from ATLAS to OneUNOPS on January 1, 2016 and these payments were processed in advance so that transitional and other delays caused by year-end closure of accounts did not affect them. The cheques were prepared in the names of mission members by UNDP as UNOPS did not have any bank account at that time in Nepal. The cheques were prepared by UNDP Finance but not handed over to the mission members until the year-end. Prepaid expenses are segregated and journalised at our HQ and not at the project level. In this case</p>	<p>Responsible manager: Finance manager</p> <p>Due date: 31 December 2016</p> <p>Priority: Medium</p>
Date	Account Description	Vendor	Amount USD																	
17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017																	
17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017																	
17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017																	

17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017	the total DSA cost of USD 15,845 was not a material amount at cooperate level, in the opinion of our HQ and hence no prepaid adjustment was made, as it does not affect the true and fair view of the financial statements of UNOPS as a whole.
17/Dec/2015	Daily Subsistence Allow-Intl	██████████	3,017	
17/Dec/2015	Travel - Other	██████████	152	
17/Dec/2015	Travel - Other	██████████	152	
17/Dec/2015	Travel - Other	██████████	152	
17/Dec/2015	Travel - Other	██████████	152	
17/Dec/2015	Travel - Other	██████████	152	
Total for DSA			15,845	
<p>Impact The expenditure reported in 2015 is overstated by the above amount.</p> <p>Cause Human error</p>				

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority
2	<p>Title Value Added Tax (VAT) charged as expenditure</p> <p>Comparison criteria Paragraph 33 of the Memorandum of Understanding states that, 'The Grant will not, unless approved by DFID in writing, be used to meet the cost of any import, custom duties or any other taxes or similar charges, applied directly or indirectly, by local Governments or by any local public authority on the goods/services provided.'</p> <p>Facts / observation UNOPS has not been able to secure a formal VAT exemption from the Government of Nepal (GoN). Therefore the VAT amounts on goods and services procured have been recognized as expenditure in the financial statements.</p> <p>Impact The project has utilized more funds in respect of implementation of activities than would have been the case had an exemption been in place.</p> <p>Cause Other: Factors beyond the control of UNOPS</p>	<p>It is recommended that UNOPS continues its efforts to expedite the process to obtain VAT exemption.</p> <p>It is also recommended that the VAT exemption agreement with the GoN is made in a way that will allow for all VAT amounts paid from the beginning of the project to be recovered.</p>	<p>UNOPS has constantly followed up the issue of VAT exemption with the Internal Revenue Office. It is expected to be solved soon.</p>	<p>Responsible manager: Country Director</p> <p>Due date: 31 December 2016</p> <p>Priority: Medium</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.

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), and
- Information and communications technology.