UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

PROJECT NAME:	**SMALL GRANTS PROGRAMME (SGP) – OPERATIONAL PHASE 5**
ATLAS PROJECT NUMBER:	**00078668**
ONEUNOPS WORKPACKAGE:	**10175-005-04**
COUNTRY:	**PEOPLE'S REPUBLIC OF CHINA**
AUDITOR:	**MOORE STEPHENS LLP**
PERIOD SUBJECT TO AUDIT:	**1 JANUARY 2011 TO 30 SEPTEMBER 2016**

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Acronyms and abbreviations

AI	Administrative Instructions
BU	Business Unit
CBA	Community-based Adaptation
CBO	Community-based Organisation
CD	Country Director
DCD	Deputy Country Director
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
GLA	General Ledger Account
GLJE	General Ledger Journal Entry
ICF	Internal Control Framework
IPSAS	International Public Sector Accounting Standards
LOA	Letter of Agreement
MOA	Memorandum of Agreement
MOSS	Minimum Operating Security Standards
MOU	Memorandum of Understanding
GPSO	(UNOPS) Global Portfolio Services Office
NC	National Coordinator
NFP	National Focal Person
NGO	Non-governmental Organisation
NHI	National Host Institution
NSC	National Steering Committee
OD	Organisational Directive
OP	Operational Phase
PA	Programme Assistant
PO	Purchase Order (Atlas)
PRINCE2	Projects in Controlled Environments 2
REQ	Requisition (Atlas)
RFP	Request for Payment
RR (Res. Rep.)	Resident Representative
SC	Service Contracts
SOP	Standard Operating Procedures
SGC	Small Grants Cluster (The UNOPS SGP team)
SGP	GEF Small Grants Programme
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 16 to 27 January 2017, 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 China, *(*Atlas Project ID 00078668, OneUNOPS Work Package 10175-005-04) ("the project"), which is implemented and managed by UNDP SGP Office in China 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 2,974,834 during the period from 1 January 2011 to 30 September 2016. 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 China 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 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 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, People's Republic of China		1 January 2011 – 30 September 2016	00078668 / 10175-005-04
Financial statement		**Asset listing**[1]	
Amount USD	**Opinion**	**Amount USD**	**Opinion**
2,974,834	Unqualified	4,241	n/a

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Grant management	Satisfactory	
Financial Monitoring and Processes	Satisfactory	
oneUNOPS (previously Atlas) processes	Partially satisfactory	
Document Management – Filing and Archiving	Satisfactory	
Asset Management	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

There are three recommendations, one of which is ranked as high priority while two are medium.

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.

[1] All assets procured under the SGP programme are fully expensed at the time of purchase. They do not, therefore, appear on a separate statement of non-expendable property and an audit opinion is not required. The asset listing is provided as Annex II of this report.

Table 3: Summary of audit findings

No.	Functional area	Audit finding title	Priority rating (high / medium / low)	Financial impact (USD)
1	Financial Monitoring and Processes	Database not correctly updated for financial data quality	Medium	-
2	Financial Monitoring and Processes	Grantee disbursement not showing in Atlas / OneUNOPS	Medium	-10,000
3	OneUNOPS (previously Atlas) Processes	Expenditure omitted from the financial statements	High	-
			Total	**-10,000**

Detailed assessment

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: Financial Monitoring and Processes				
1	**Title** Database not correctly updated for financial data quality **Comparison criteria** Section 4.1.2. of the SOP states that: Since July 2007, UNOPS made it mandatory for all new grant MOAs to properly have its financial data (including the planned disbursement dates and amounts) entered into the SGP Database. **Facts / observation** We found a number of errors within the grant database. These errors were in two main categories: • tranche amounts were detailed incorrectly, showing balances remaining on the project when all tranches had been paid; and • information had not been updated in respect of a project's status. The affected projects are detailed below: CPR/SGP/OP5/Y3/STAR/CC/13/04 CPR/SGP/OP5/Y4/STAR/BD/14/03	The grant database should be updated as soon as possible after any grant activity, such as signing the MOA, making payments to grantees and changes to project status. The database should be reviewed periodically to ensure it accurately reflects the status of each of the projects.	**NC comments:** The disbursement information cannot be updated once it is approved in the SGP database. But, the correct information is reflected in Atlas previously, and now in oneUNOPS. **UNOPS-SGC comments:** The SGP database is being revamped which will provide new features and functionalities on the grant management. Meanwhile, the NC is advised to approve the disbursement information in database only after the disbursement is processed in oneUNOPS. Other project information including the project status should be updated periodically to improve the data quality.	**Responsible manager:** NC / PA **Due date:** 31 December 2017 **Priority:** Medium

	CPR/SGP/OP5/Y4/STAR/CC/14/05 CPR/SGP/OP5/Y4/STAR/CC/14/02 CPR/SGP/OP5/Y4/STAR/BD/14/01 CPR/SGP/OP6/Y1/CORE/2015/01 **Impact** Inaccurate information published on the database may mislead its readers. If the database figures are used to evaluate the total commitments of the SGP programme, these commitments could be over-estimated in the cases where payments to grantees have not been recognised. **Cause** Guidance: Lack of or inadequate guidance or supervision at the RO/OC/PC level; and Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional area: Financial Monitoring and Processes				
2	**Title** Grantee disbursement not showing in Atlas / OneUNOPS **Financial impact:** US$ 10,000 **Comparison criteria** Section 4.5.2 of the SOP states that: It is the NC/PA's responsibility to ensure that the proper Atlas accounts are used at all times. The NC/PA needs to review the ATLAS financial records on a regular basis in order to "catch" mistakes and to avoid unnecessary reconciliation exercises with the UNDP CO Finance and UNOPS. **Facts / observation** We identified an instance where the second payment for project CPR/SGP/OP6/Y1/CORE/2015/01 amounting to $10,000 is not recorded in the project Atlas or OneUNOPS account, even though the amount was actually paid on 24 February 2016. The referenced transaction (RFP 620007491) did not appear within the financial statement or list of transactions submitted for audit and may therefore have been paid after the date of the financial statement. **Impact**	We recommend that the disbursement is correctly recorded within the accounting system.	**NC comments:** The referenced payment was paid through RFP 620007491. **UNOPS-SGC comments:** This was a case that was paid out by UNDP CO in early 2016 based on an authorisation from UNOPS to do so in late 2015. The UNOPS-FG SCA team discovered it in the reconciliation report by June 2016 and notified us to create the appropriate RFP in oneUNOPS, which was done via RFP ID 620007491, as stated by the SGP team already.	**Responsible manager:** NC **Due date:** Completed **Priority:** Medium

	Financial information contained within Atlas / OneUNOPS is incorrect, and as a result decisions made based on that information may be complicated. Financial reporting is under-recognising the total expenditure made during the period. **Cause** Other: Migration from Atlas to OneUNOPS.			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: OneUNOPS (previously Atlas) Processes				
3	**Title** Expenditure omitted from the financial statements **Comparison criteria** Audit objective 2 of the Terms of Reference states that: The purpose of the audit is to provide reasonable assurance that: c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations. Section 4.4.1. of the SOP states that: UNOPS has…Fiduciary responsibility towards UNDP and GEF: systematic monitoring and control framework of financial transactions through ATLAS and UNOPS Financial Dashboard. Section 4.5.2 of the SOP states that: It is the NC/PA's responsibility to ensure that the proper Atlas accounts are used at all times. The NC/PA needs to review the ATLAS financial records on a regular basis in order to "catch" mistakes and to avoid unnecessary reconciliation exercises with the UNDP CO Finance and UNOPS. **Facts / observation**	The transactions recorded in oneUNOPS are reviewed for completeness on a periodic basis.	**NC comments:** Agreed. However, the salary charges are processed by UNOPS and UNDP CO. **UNOPS-SGC comments:** The payroll for SC contracts is process by UNDP CO, and UNOPS SCA team reconciles the charges.	**Responsible manager:** NC and UNOPS-SGC **Due date:** Ongoing **Priority:** High

During our review of the salary costs charged to the China country programme, we noted that some staff costs were not included within the financial statement.

A summary of the staff costs which were missing are detailed in the table below, these are the figures as presented in the payroll reports for 2011 and 2016.

At the time of this report, the exact amount is still not known and we have been unable to quantify this finding. However, an estimated value of expenditure omitted from the project financial statement is presented below. These figures are based upon the payroll reports provided by the SGP office and total USD 86,161.

2011

Role	Missing	2011 - USD
PA	Jan-Apr	6,963
NC	Jan-Apr	15,872
Total		**22,835**

2016

Role	Missing	2016 - USD
PA	Jan-Sep	17,931
NC	Jan-Sep	45,395
Total		**63,326**

Impact

The project financial statement presents an estimated understatement of expenditure amounting to USD 86,161

	Cause Guidance: Inadequate oversight by Headquarters			

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:

- Grant Management
- Financial Monitoring and Processes
- OneUNOPS (previously Atlas) processes
- Document Management – Filing and Archiving
- Asset Management

Annex II – Asset listing

The GEF Small Grants Programme

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SGP EQUIPMENT INVENTORY DATABASE - Template

Non-expendable Property Statement - SGP China

Audit Period: 1 January 2011 to 30 September 2016

List of equipment as of (date)

No	Category	Sub-Category	Description	Unit	Quantity	Unit price US$	Total US$	Location -users	Acquisition date	Status
1	IT Equipment	Laptop	Lenovo Thinkpad X200 7457CH1	No	1	1,175	1,175	China - Liu Yi	12/7/2009	out of commission
2	IT Equipment	Accessories	External CD-ROM, Thinkpad	No	1	154	154	China - Liu Yi	12/7/2009	Working
3	IT Equipment	Accessories	Removable Hard Disk, Lenovo, 250GB	No	1	81	81	China - Liu Yi and Lu Meijia	12/7/2009	Working
4	Audio Visual	Camera	Canon PowerShot SX40HS	No	1	527	527	China - Liu Yi	12/12/2011	Working
5	Audio Visual	Accessories	Camera bag, LOWEPRO	No	1	15	15	China - Liu Yi	12/12/2011	Working
6	Audio Visual	Accessories	Camera memory card, Kingmax SDHC-8GB	No	2	10	20	China - Liu Yi	12/12/2011	Working
7	Audio Visual	Accessories	Camera Tripod, WEIFENG 330A	No	1	8	8	China - Liu Yi	12/12/2011	Working
8	IT Equipment	Laptop	Microsoft Surface Pro4/i7/64GB/256	No	1	2,261	2,261	China - Liu Yi	11/26/2015	Working
						Total	**4,241**			

SUMMARY

	Unit	Qty	Total Acq Value
Audio Visual			
Camera	No.4	1	527
Projector	No.		
Accessories	No.5,6&7	3	43
Recorder	No.		
Television	No.		
		Total:	570
Furniture			
Chairs	No.		
File rack	No.		
Shelf	No.		
Sofa	No.		
Table	No.		
		Total:	-
IT Equipment			
Accessories	No.2&3	2	235
Computers	No.		
Laptop	No.1&8	2	3,436
Monitors	No.		
Printers	No.		
Scanner	No.		
Softwares	No.		
Storage device	No.		
Telephone exchange	No.		
UPS	No.		
		Total:	3,671
Life Saving Equipment			
Life jackets	No.		
Office Equipment			
Air conditioners	No.		
Copiers	No.		
Mobile phone	No.		
Money safe	No.		
		Total:	0
Vehicles			
Motorcycles	No.		
		Total:	0

Prepared by:

Name: Lu Meijia

Signagure

Date: 30 Sep. 2016

Certified by:

Name: Liu Yi

Signagure

Date: 30 Sep. 2016

All the assets listed in the report are non-capitalised assets and have been already reported as expense to the client at the time of purchase, and thus not reflected in a general ledge