



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

22 November 2017

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| PROJECT NAME: | SUPPORT TO THE MASTER PLAN MODERNIZATION OF THE GUATEMALAN SOCIAL SECURITY INSTITUTE |
| PROJECT NUMBER: | 53788 |
| COUNTRY: | GUATEMALA |
| AUDITOR: | MOORE STEPHENS LLP |
| PERIOD SUBJECT TO AUDIT: | 14 NOVEMBER 2006 TO 30 APRIL 2017 |



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Acronyms and abbreviations

| | |
|--------|--|
| HQCPC | Headquarters Contracts and Property Committee |
| IAASB | International Auditing and Assurance Standards Board |
| IAIG | Internal Audit and Investigations Group |
| IP | Implementing Partner |
| IPSAS | International Public Sector Accounting Standards |
| IGSS | Guatemalan Social Security Institute |
| OC | Operations Centre |
| PC | Project Centre |
| PO | Purchase Order |
| RO | Regional Office |
| UNDP | United Nations Development Programme |
| UNFPA | The United Nations Population Fund |
| UNICEF | The United Nations Children's Fund |
| UNOPS | United Nations Office for Project Services |
| USD | United States Dollars |

Executive summary

The engagement context

From 5 to 30 June 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 the project ‘Support to the Master Plan Modernization of the Guatemalan Social Security Institute’ (“the project”) (OneUNOPS project ID 53788), which is implemented and managed by the UNOPS Guatemala. 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 96,131,971 during the period from 14 November 2006 to 30 April 2017.

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 IAASB 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 (some improvement needed), which means, “The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the



achievement of the objectives of the audited entity/area". 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. |
|--|-------------|--------------------------------------|----------------|
| Support to the Master Plan Modernization of the Guatemalan Social Security Institute | | 14 November 2006 - 30 April 2017 | 53788 |
| Financial statement | | Statement of non-expendable property | |
| Amount USD | Opinion | Amount USD | Opinion |
| 96,131,971 | Unqualified | - | Not applicable |

Table 2: Internal control rating summary for project

| Rating summary by functional area | | |
|---|---|--|
| Functional area | Rating | |
| Project management | Partially satisfactory (some improvement needed) | |
| Finance | Partially satisfactory (some improvement needed) | |
| Procurement and supply chain | Partially satisfactory (major improvement needed) | |
| Human resources | Partially satisfactory (some improvement needed) | |
| General administration | Satisfactory | |
| Overall rating of internal control | Partially satisfactory (some improvement needed) | |

Key issues and recommendations

The audit raised six issues. There are six recommendations, all of which are ranked medium priority, meaning "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 | Finance | Errors between expenditure, commitments and advances | Medium | - |
| 2 | Procurement and supply chain | Delays in procurement process | Medium | - |
| 3 | Procurement and supply chain | Non-compliance with the procurement manual | Medium | - |
| 4 | Procurement and supply chain | Weaknesses in issuing purchase orders | Medium | - |
| 5 | Procurement and supply chain | Errors in procurement process documentation | Medium | - |
| 6 | Human resources | Issuing of partial purchase orders (POs), that do not cover the total contract costs | Medium | - |
| Total | | | | - |

Management's comments

The Head of Office of UNOPS Guatemala accepted all recommendations.

Signed:

Mark Henderson
Partner
Moore Stephens LLP

22 November 2017

Operational overview

The project provides technical support and services to the Guatemalan Social Security Institute (IGSS) to improve the quality of medical-hospital facilities and services as well as benefits for the labour sector and its dependents, improving the hospital infrastructure and health services at national level. The project objectives are as follows:

- Modernization and extension of hospital facilities and medical services, improving their capacity, quality and geographical coverage benefiting the labour sector;
- Design and planning of new medical-hospital infrastructure;
- Acquisition of medical-hospital equipment and medical materials, including medicines, vehicles, and other items required;
- Contracting technical assistance and consultancies on specific subjects, such as: development of hospital rules and procedures; care protocol and medical-hospital reference; manuals on maintenance and operations of equipment and machines related with medical-hospital services and facilities; and maintenance rules for medical and hospital buildings and installations.

In April 2007 UNOPS and IGSS signed an agreement to modernize hospitals and social services in the country. UNOPS contracts consultants to perform studies and companies to improve IGSS infrastructure at the national level. Work includes renovating hospital units, constructing new medical facilities and improving the quality of health services in the country through modern technology, new medical equipment and other requirements prioritized by IGSS.

The project is on-going and is expected to be completed by the end of 2017.

The audit team extends its appreciation to the management and staff members of UNOPS office in Guatemala for their full cooperation during the audit.

Detailed assessment

| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
|---------------------------------|--|---|---|---|
| Functional Area: Finance | | | | |
| 1 | <p>Title</p> <p>Errors between expenditure, commitments and advances</p> <p>Amount (financial statements for the period ending 30 April 2017)</p> <p>2012 expenses - overstatement of US\$ 2,011,465</p> <p>2013 expenses - overstatement of US\$ 2,874,957</p> <p>2017 open purchase order balance - understatement of US\$ 42,543</p> <p>2017 advances balance – understatement of US\$ 14,146</p> <p>Comparison criteria</p> <p>IPSAS 1, Presentation of the financial statements</p> <p>Facts / observation</p> <p>We noted errors in the commitments (open purchase orders) balances in the financial statements submitted to IGSS. The following errors were identified:</p> <p><i>Financial statements as at 31 December 2012</i></p> <ul style="list-style-type: none"> - The financial statements did not report the commitments balance of US\$ 2,011,465, which was instead reported as part of the project expenditure. <p><i>Financial statements as at 31 December 2013</i></p> <ul style="list-style-type: none"> - The financial statements did not report the commitments balance of US\$ 2,874,957, which was instead reported as part of the project expenditure. | <p>The project team should ensure that the commitments balance reported in the financial statements is complete and accurate.</p> <p>As part of its financial statement preparation procedures, all relevant balances and disclosures should be compared to the figures in the transaction listing.</p> | <p>Management agrees with recommendation and will ensure to take action in the most efficient way.</p> <p>From 2012 on, according to IPSAS, receipt accruals were issued for receipt of services, works estimations and goods and these receipts were automatically reported as expenditures, even though payments were not processed. As per IPSAS, reception of services or goods is recorded the day received, thus being reflected as expenditure when receipt is issued, even though payment will take place when all documentation is approved.</p> | <p>Responsible manager:</p> <p>Finance Officer</p> <p>Due date:</p> <p>On-going</p> <p>Priority:</p> <p>Medium</p> |

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| <p><i>Financial statements as at 31 December 2014</i></p> <ul style="list-style-type: none"> - The total commitments balance reported was US\$ 949,119, however, the figure as per the transactions listing was US\$ 4,331,657, resulting in a difference of US\$ 3,382,448. <p><i>Financial statements as at 31 December 2015</i></p> <ul style="list-style-type: none"> - The total commitments balance reported was US\$ -217,171, however, the figure as per the transactions listing was US\$ 2,653,943. <p><i>Financial statements as at 30 April 2017</i></p> <ul style="list-style-type: none"> - The total commitments balance reported was US\$ 4,100,152, however, the figure as per the transactions listing was US\$ 4,142,695, resulting in a difference of US\$ 42,543. - The negative advances balance of US\$ 14,146 was reported in error, in fact these represent reversing journals. The actual balance on project advances is nil but due to a technical issue during the transfer of accounts from Atlas to OneUNOPS accounting system, the opening advances balance was not migrated and, therefore, only the reversing journals are reflected in the advances account. <p>Impact</p> <p>The financial statements submitted to IGSS contained errors and therefore provided misleading financial information to its users.</p> <p>There is no financial impact on total expenditure reported in the financial statement as at 30 April 2017 because commitments that were reported as expenditure in previous years were expensed in the following years. However, the expenditure figures recorded for the years of 2011-2013 and the commitments and advances balances as at 30 April 2017 are misstated by the amounts reported above.</p> | | | |
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| | Cause Guidelines - Lack of or inadequate corporate policies or procedures | | | |
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| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
|--|--|---|---|--|
| Functional Area: Procurement and supply chain | | | | |
| 2 | <p>Title Delays in procurement process</p> <p>Comparison criteria The UNOPS procurement manual and Appendix I of the project agreement between UNOPS and IGSS</p> <p>Facts / observation We noted delays in the UNOPS procurement processes which, in turn, led to delays in implementation of the project. Significant delays were experienced in the procurement processes relating to the following works:</p> <ol style="list-style-type: none"> 1. <u>“Supply of medical equipment and furniture for the Departmental Hospital in Puerto Barrios, Izabal, extension of the areas of labour and births in the Gyneco-obstetrics Hospital and the regional hospital of Quetzaltenango (ITB 006/2013)”</u> <p>UNOPS submitted its recommendation of suppliers on 9 January 2014, IGSS approved the financing of works on the hospital of Quetzaltenango on 16 June 2014 and there was no further progress on the bid until 30 September 2014 when UNOPS confirmed prices with the suppliers. As a result, the process was deemed to be unsuccessful by IGSS, who cited delays caused by UNOPS as the reason for the failure.</p> | <p>The project team should ensure that its procurement procedures are performed in a timely manner to avoid delays to project implementation. The roles of each member of the procurement team should be clearly defined and timeframes for the completion of the processes should be established and adhered to.</p> | <p>Recommendation will be taken into account and action taken to ensure efficient future procurement processes.</p> | <p>Responsible manager: Procurement Officer</p> <p>Due date: On-going</p> <p>Priority: Medium</p> |

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| | <p>2. <u>“Supply of medical equipment and furniture for the Departmental Hospital in Puerto Barrios, Izabal, extension of the areas of labour and births in the Gyneco-obstetrics Hospital and the regional hospital of Quetzaltenango (ITB 009/2013)”</u></p> <p>UNOPS submitted its recommendation of suppliers on 13 May 2014, IGSS approved the financing of works on the hospital of Quetzaltenango on 23 July 2014 and there was no further progress on the bid until 30 September 2014 when UNOPS confirmed with the suppliers. As a result, the process was deemed to be unsuccessful by IGSS, who cited delays caused by UNOPS as part of the reasons for the failure.</p> <p>We understand that there were delays in the approval of the proposed works by IGSS. IGSS approved the works on the hospital of Quetzaltenango and did not approve the works on the hospital of Puerto Barrios. Additionally, IGSS did not have sufficient funds to finance the works, which was another reason for the failure of the process. However, UNOPS could have proceeded with notifying the suppliers of the approved works, which might have avoided the failure of the procurement process.</p> <p>3. <u>“Supply of medical equipment and furniture for the Regional Western Hospital, Quetzaltenango (ITB 002/2014)”</u></p> <p>IGSS authorised UNOPS to proceed with the procurement of lots 4 and 6 on 12 March 2014. UNOPS provided IGSS a list of recommended suppliers only on 30 September 2014. As a result, the process was deemed to be unsuccessful by IGSS, who cited delays caused by UNOPS as the reason for the failure.</p> <p>Delays on the part of UNOPS were found to be caused by a lack of clearly defined roles of the procurement team members and a lack of deadlines set for the completion of the procurement process.</p> | | | |
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| | <p>Impact</p> <p>Delays in the procurement process can result in delays in project implementation and can jeopardise the overall objectives of the project.</p> <p>Cause</p> <p>Guidelines - Inadequate risk management processes</p> <p>Other - Factors beyond the control of UNOPS</p> | | | |
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| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
|--|--|---|--|--|
| Functional Area: Procurement and supply chain | | | | |
| 3 | <p>Title Non-compliance with the procurement manual</p> <p>Comparison criteria The UNOPS procurement manual states that: “The contracting staff, the requester or the operational unit, and the end user are involved in the performance evaluation of the supplier. The person responsible for the contacting process in question, has the principal responsibility for evaluating the supplier; however, the contracting staff depend on the input received from the requester or the operational unit, the end user, and the consulting engineer (in the case of construction projects), in order to perform a meaningful evaluation”.</p> <p>Facts / observation We noted that the end user, IGSS, was not involved in performance evaluations of suppliers. The evaluations were only signed by the UNOPS project manager.</p> <p>Impact If supplier performance evaluations are not performed in conformity with the procurement manual, relevant issues may be omitted from the evaluation, resulting in suppliers being rejected by the donor and leading to delays in project implementation.</p> | <p>The project team should ensure it complies with the regulations contained in the procurement manual.</p> | <p>Management agrees with recommendation and will ensure to take action in the most efficient way.</p> <p>Indeed, the performance evaluation was signed only by UNOPS Project Manager; However, in the constructive process there was permanent interaction between the various actors of UNOPS, IGSS, contractor, supervision and end users.</p> <p>However, for transparency reasons and to avoid orders not authorized by IGSS higher authorities, the representative of that entity was not authorized to sign any document on behalf of the entity and only reported to its superiors to record progress and achievements that showed development of the works. The agreement between UNOPS and IGSS did not specify the protocol to be used to carry out performance evaluations for companies, therefore, despite the fact that the UNOPS Procurement Manual provides for the joint evaluation modality, with contributions from all actors of the works, the Project Manager of UNOPS proceeded to elaborate the certificate of performance. In compliance with the Procurement Manual, the performance evaluation was performed when all the commitments were fulfilled, including the final payment, for that reason the same was done on November 25, 2013.</p> | <p>Responsible manager: Procurement Officer</p> <p>Due date: On-going</p> <p>Priority: Medium</p> |



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| | Cause Guidelines – Inadequate risk management processes. | | | |
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| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
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| Functional Area: Procurement and supply chain | | | | |
| 4 | <p>Title</p> <p>Weaknesses in issuing purchase orders</p> <p>Comparison criteria</p> <p>The UNOPS procurement manual states that:</p> <p>“Purchase orders are contracts, normally used for the acquisition of products. The PO is accompanied by the relevant instructions for packing and shipping the products, and also with UNOPS general conditions relating to products (or making reference to the UNOPS website, which details the general conditions). A PO must be issued in Atlas / OneUNOPS, in order to commit the necessary funds (obligatory for amounts in excess of US\$ 2,500)”.</p> <p>Facts / observation</p> <p>During our review, we identified that:</p> <ul style="list-style-type: none"> • In the case of four works contracts entered into during the period 2007 to 2014, POs were not generated to commit funds in the system. For those contracts, POs were found to be generated just before making a payment instead of at the point when the contract was signed. • In some cases, POs were not generated for the total contract value, due to lack of funds availability at the time of contracting. Upon receipt of funds from the donor, the POs were not amended. • The majority of the POs we reviewed were not accompanied by a copy of instructions, the UNOPS general conditions or a reference to the web site where the conditions may be found, as required by the UNOPS procurement | <p>The project team should ensure it complies with the regulations contained in the procurement manual.</p> <p>POs should be issued at the time of contracting to ensure sufficient funds are committed in the system.</p> | <p>POs were not raised until payment due to lack of funds under budget.</p> <p>POs have been raised committing funds since 2014.</p> <p>Both Atlas and OU POs have a reference link were to look for the general conditions. Suppliers know this as it is on the printed PO that they sign.</p> | <p>Responsible manager:</p> <p>Procurement Officer</p> <p>Due date:</p> <p>On-going</p> <p>Priority:</p> <p>Medium</p> |

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| | <p>manual. The reference link to the general conditions is only available in the UNOPS accounting system which only UNOPS staff can access.</p> <p>Impact The lack of a PO created in the system leads to the funds not being committed, which increases the risk of funds being approved for other activities.</p> <p>Cause Guidelines – Lack of adequate corporate policies or procedures.</p> | | | |
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| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
|--|--|---|--|---|
| Functional Area: Procurement and supply chain | | | | |
| 5 | <p>Title</p> <p>Errors in procurement process documentation</p> <p>Comparison criteria</p> <p>The UNOPS procurement manual provides the following guidelines on documentation:</p> <p><i>“Documentation of the acquisition process</i></p> <p>In accordance with the principles of transparency and responsibility, and for the purposes of facilitating internal and external audits of the UNOPS operations, each step in the acquisition process should be duly documented and maintained on file.</p> <p><i>Establishing an evaluation team</i></p> <p>The members of the team should be designated, in writing, by the PA; the team should be under the responsibility of an experienced individual, designated by the acquisitions authorities.</p> <p>All of the observers or participants in the evaluation team, must sign a declaration of confidentiality, and state that they have no conflicts of interest, with regard to the evaluation”.</p> <p>Facts / observation</p> <p>In our review of the documentation for the procurement of medical equipment and infrastructure, we noted that some files did not contain all of the documentation required by the procurement manual and some had errors in it. The details are provided below.</p> <p><u>6.1 Medical-hospital equipment - Phase II: Supply and installation of medical-hospital equipment, to various medical units of the IGSS (ITB 08/2012)</u></p> | <p>The project team should ensure that it complies with the regulations contained in the procurement manual. All procurement decisions should be justified and well documented.</p> | <p>6.1 This case, like the one in the paragraph related to ITB 01/2011, clarifies that compliance with this requirement is further supported in the technical evaluation tables.</p> <p>6.2 An inaccuracy was identified in Annex 2.1 Summary table of the requirements and general information of the companies and documents of the Bidding. Therefore, compliance with the delivery of the quality certificates as presented in the accompanying technical evaluation tables is supported. The non-adjudication of some items offered does not result from the non-presentation of the certificates, if not technical non-compliance. See</p> | <p>Responsible manager:</p> <p>Procurement Officer</p> <p>Due date:</p> <p>On-going</p> <p>Priority:</p> <p>Medium</p> |

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| <ul style="list-style-type: none"> • The designation of members of the evaluation team was not supported by written evidence. • There was no written evidence that declarations of confidentiality were signed by the project observers. • It was noted in the procurement file that the company Equipo Médico Hospitalarios, S.A did not comply with the quality certificate in conformity with ISO 13485, however, during our review we noted that the company was in compliance with the requirement. <p><u>6.2 Supply and installation of medical – hospital equipment and furniture for different medical units of the IGSS (ITB 01/2011)</u></p> <ul style="list-style-type: none"> • The designation of members of the evaluation team was not supported by written evidence. • There was no written evidence that declarations of confidentiality were signed by the project observers. • It was stated in the procurement file that the company Almar Diagnostica, S.A. did not hold the following required documents: a certificate for the products which is compliant with manufacturing standards and post service sales, or the ISO certificate ISO 13485. During our review we noted that the company did provide those documents. • It was stated in the procurement file that the company Imfohsa, S.A. did not hold a certificate of availability of spare parts. During our review we noted that the company did provide the certificate. <p><u>6.3 Supply and installation of medical – hospital equipment and medical furniture for Departmental Hospital of the IGSS in Puerto Barrios (ITB 005/2012)</u></p> <ul style="list-style-type: none"> • In the file of the company Servicios Quirúrgicos, S.A. it was stated that they did not provide a declaration regarding the quality of the products, however, during our review we noted that the company did provide this declaration. <p><u>6.4 Construction of a consulting area in Antigua Guatemala (LAC-PS08-1550-MV year 2008)</u></p> | | <p>evaluation tables ITB 01/2011.</p> <p>Like other cases already clarified in this document during the technical evaluation, the existence of the certificate or the commitment of supply of spare parts is verified for a minimum period of 5 years. Please check attached documents identified as Imfohsa ITB-01/2011 evaluative tables.</p> <p>6.3 In this case, an inaccuracy related to the filing of Form A-8 Affidavit of Assets Quality was identified in Annex 3.2 Compliance summary table, Evaluation of technical documentation. It is worth mentioning that this situation did not affect the adjudication of the company, mentioning that of three items (4.3, 4.7, and 4.8) were awarded two of them (4.3 and 4.7) item 4.8 could not be awarded because it was the highest price offer. It is</p> | |
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| <ul style="list-style-type: none"> The designation of members of the evaluation team was not supported by written evidence. <p><u>6.5 Consultancy regarding the design for the expansion and remodelling of the installations of the Hospital General del IGSS in Puerto Barrios (year 2007)</u></p> <ul style="list-style-type: none"> The designation of members of the evaluation team was not supported by written evidence. There was no written evidence that declarations of confidentiality were signed by the project observers. <p><u>6.6 Executive planning of the Hospital Regional de Occidente – Quetzaltenango (PO-106669-MV year 2008)</u></p> <ul style="list-style-type: none"> The designation of members of the evaluation team was not supported by written evidence. <p>Additionally, we noted that validation of the authenticity of the guarantees issued by banking institutions was not carried out, as required by the procurement manual.</p> <p>Impact</p> <p>The procurement processes are not documented in accordance with the requirements of the procurement manual. Errors in the documentation of the process of evaluation of suppliers can lead to inappropriate procurement decisions being made.</p> <p>In all cases, the decision does not appear to have been affected as all other companies were awarded the contracts, however, errors can lead to inappropriate decisions being made in future.</p> <p>Cause</p> <p>Guidance - Lack of adequate guidance or supervision at the RO/OC/PC level.</p> <p>Human error - Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p> | | <p>mentioned that at the time of the receipt of goods, an inspection is made that the equipment is good and that complies with the characteristics requested under the provisions of Section IV. General Conditions for Goods (CGB).</p> | |
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| # | Observation | Recommendation | Management comments and action plan | Responsible Manager / Due Date / Priority |
|---|--|---|--|--|
| Functional Area: Human resources | | | | |
| 6 | <p>Title Weaknesses in the recruitment process</p> <p>Comparison criteria UNOPS Standard Operating Procedures</p> <p>Facts / observation We noted that the process of recruiting a supervisory assistant did not follow the standard recruitment procedures. The position was not advertised and no background checks on the candidate were performed. Subsequently, the employee was found to have submitted fraudulent insurance claims using false documents during his previous employment. The employee was subsequently dismissed by UNOPS.</p> <p>Impact Lack of background checks and other relevant recruitment procedures can result in inappropriate or dishonest staff being employed. This increases the risk of errors or fraud being committed by UNOPS staff members.</p> <p>Cause Guidance - Lack of or inadequate guidance or supervision at the RO/OC/PC level</p> | <p>The project team should ensure that all appropriate recruitment procedures are followed to reduce the risk of unsuitable candidates being hired.</p> | <p>Considering the event, in future exception recruitments, will be taken the advice, as a good practice, to check behavior and good performance of personnel in previous contracts.</p> | <p>Responsible manager: Human Resources Officer</p> <p>Due date: On-going</p> <p>Priority: Medium</p> |

Annex I - Definitions

Standard audit ratings for overall performance of internal control system

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

- (a) satisfactory (effective),
- (b) partially satisfactory (some improvement needed),
- (c) partially satisfactory (major improvement needed), and
- (c) unsatisfactory (ineffective).

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 (effective) | The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area. |
| Partially satisfactory (some improvement needed) | The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area. |
| Partially satisfactory (major improvement needed) | The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area. |
| Unsatisfactory (ineffective) | The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity. |

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.