



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

14 February 2018

PROJECT NAME:	MODERNIZATION AND IMPROVEMENT OF POLICING PROJECT (MIPP)
PROJECT NUMBER:	93090
COUNTRY:	NEPAL
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2016

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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
UNDP	United Nations Development Programme
UNFPA	The United Nations Population Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollars
VAT	Value Added Tax
WFP	World Food Program

Executive summary

The engagement context

From 5 to 14 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 ‘Modernization and Improvement of Policing Project’ (oneUNOPS project ID 93090), (“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 2,073,023 during the period from 1 January to 31 December 2016.

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.
Modernization and Improvement of Policing Project		1 January – 31 December 2016	93090
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
2,073,023	Qualified	6,268	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	Value Added Tax (VAT) charged as expense	Medium	131,966
Total				131,966

Signed:



Mark Henderson
Partner
Moore Stephens LLP

14 February 2018

Detailed assessment

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority						
Functional Area: Finance										
1	<p>Title</p> <p>Value Added Tax (VAT) charged as expense</p> <p>Comparison criteria</p> <p>Paragraph 33 of the Memorandum of Understanding between DFID and UNOPS states ‘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</p> <p>UNOPS has incurred VAT on purchases made for the project and has not been able to obtain a refund from the Government of Nepal (GoN).</p> <p>The process for obtaining a VAT refund commenced in 2015 and was continued in 2016, but GoN still has not provided the refund.</p> <p>The following table summarises the amount of VAT paid on the procurements that were included in our audit sample:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Total value of invoices tested, net of VAT</td> <td style="text-align: right;">USD 1,068,515</td> </tr> <tr> <td>Total VAT for invoices tested</td> <td style="text-align: right;">USD 131,966</td> </tr> <tr> <td>Total Gross value of invoices tested</td> <td style="text-align: right;">USD 1,200,481</td> </tr> </table>	Total value of invoices tested, net of VAT	USD 1,068,515	Total VAT for invoices tested	USD 131,966	Total Gross value of invoices tested	USD 1,200,481	<p>It is recommended that UNOPS Nepal continue its efforts to obtain the VAT refund. It is also recommended that the VAT refund 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 Nepal noted with appreciation the recommendation of the auditors.</p> <p>Registration for the VAT refunds have already been completed with the VAT authorities and some claims for VAT refunds have already been submitted. However, the authorities have informed UNOPS, that actual refunds could only be done after obtaining the Host Country Agreement between UNOPS and Government of Nepal.</p> <p>UNOPS Nepal is continuously following up on this matter with the Ministry of Foreign Affairs.</p> <p>Currently, project funds were utilized per the approved project plan and budget.</p>	<p>Responsible Manager</p> <p>Project Manager</p> <p>Due date</p> <p>Immediate – ongoing</p> <p>Priority</p> <p>Medium</p>
Total value of invoices tested, net of VAT	USD 1,068,515									
Total VAT for invoices tested	USD 131,966									
Total Gross value of invoices tested	USD 1,200,481									

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority
	<p>Impact</p> <p>Project funds were used for purposes other than those intended per the Project Agreement.</p> <p>Cause</p> <p>Other: Factors beyond the control of UNOPS</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.