



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

1 August 2018

PROJECT NAME:	MODERNISATION AND IMPROVEMENT OF POLICING PROJECT (MIPP)
PROJECT NUMBER:	93090
COUNTRY:	NEPAL
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2017

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Acronyms and abbreviations

DFID	Department for International Development
GB£	Pound Sterling
GoN	Government of Nepal
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
IPSSJ	Integrated Programme for Strengthening Security and Justice
MIPP	Modernization and Improvement of Policing Project
MOU	Memorandum of Understanding
OC	Operations Centre
PC	Project Centre
RO	Regional Office
UNDP	United Nations Development Programme
UNFPA	The United Nations Population Fund
UNOPS	United Nations Office for Project Services
US\$	United States Dollars
VAT	Value Added Tax
WFP	World Food Programme

Executive summary

The engagement context

From 18 to 29 June 2018, 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 ‘Modernisation and Improvement of Policing Project’ (“the project”) (oneUNOPS project ID 93090), which is implemented and managed by UNOPS 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 \$7,428,802 during the period from 1 January to 31 December 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 satisfactory, which means, “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”. 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.
Modernisation and Improvement of Policing Project		1 January - 31 December 2017	93090
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
7,428,802	Qualified	9,474	Unmodified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

The audit raised one issue. There is one recommendation, which is 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).”

The issue was noted to be caused by factors beyond the control of UNOPS.



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 (US\$)
1	Finance	Value Added Tax (VAT) charged as expenditure	Medium	649,465
Total				649,465

Management's comments

The Head of Office of UNOPS Nepal accepted the recommendation and is in the process of implementing it.

Signed:

Mark Henderson
Partner
Moore Stephens LLP

1 August 2018

Operational overview

The United Kingdom (UK) has been investing in improving access to security and justice for the poor in Nepal for several years. It has supported the reconstruction of war-damaged police posts to re-establish police presence (under the Nepal Peace Trust Fund), technical advice on police strategy, the provision of dispute mediation services and the creation of over a thousand community women's groups to support to prevent and respond to sexual violence. A new business case approved by the Department for International Development (DFID) Secretary of State in December 2013 learns from, draws together and scales up this work. DFID's new Integrated Programme for Strengthening Security and Justice ("Integrated Programme" – IPSSJ) aims to improve security and justice services for 1.5 million more poor people and ensure they can access justice.

The IP-SSJ will operate until 31 December 2018, and will involve a number of Government and Non-Government institutions. A combination of Government counterparts, UN Agencies, and Non-Governmental Organizations (NGO) will implement the IPSSJ.

The programme has three specific outcome areas:

- a. Change to social barriers that impede access to justice;
- b. Increased engagement among communities and security and justice institutions for better prevention of crime and insecurity;
- c. Improved responses to criminal violence through higher capabilities and performance of security and justice institutions.

Under the IP-SSJ, United Nations Office for Project Services (UNOPS) is implementing the Modernization and Improvement of Policing Project (MIPP) services component. This component is targeted primarily for the Nepal Police, given its coverage, but will also encompass some small-scale investments in the capabilities of related security and justice services in the selected districts, notably those provided by the Chief District Officer and the Women's Development Officer. DFID Nepal and UNOPS signed a Memorandum of Understanding (MOU) in December 2014 to implement the MIPP. As per the MOU, DFID intends to engage UNOPS for a period of four years and allocate a tentative budget of up to £16 million. This is divided over three segments and the first segment is being implemented over two years (2015-2016) with a total budget of \$10 million. After the two major earthquakes in Nepal in April and May 2015, DFID also allocated funds for the earthquake affected districts to be included under MIPP. The districts include Gorkha, Dhading, Sindhupalchowk and Dolakha. MIPP under IP-SSJ, steered by the Nepal Police, intends to achieve the following five outputs:

1. Modernised, gender-sensitive police units are in place for better public access to police services;
2. Strengthened Operations and Maintenance capacity for police facilities and equipment;
3. Strengthened Performance Management Systems (PMS) of NP for effective delivery of policing services, particularly with respect to the protection from criminal violence and access to security and justice;
4. Strengthened performance systems of NP in relation to monitoring and evaluation, budgeting, and skills development and service delivery skills of police personnel are enhanced with special attention to Women and Children; and
5. Increased capabilities in forensic investigations.

The audit team extends its appreciation to the management and staff members of UNOPS office in Nepal 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 Value Added Tax (VAT) charged as expenditure</p> <p>Amount US\$ 649,465</p> <p>Comparison criteria 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 UNOPS incurred VAT on purchases made for the project and has not been able to obtain a refund from the Government of Nepal (GoN). The process for obtaining a VAT refund commenced in 2015 and has continued in 2018, but GoN still has not provided the refund. UNOPS submitted an exception report to DFID in relation to VAT and since 2018 DFID has been actively</p>	<p>We reiterate recommendation 8201/01 which addresses the same issue from prior year; 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 continues to make its best efforts to get VAT refunds. Donor DFID also raised its concern with the Government and has written letters to the Government for VAT refunds. Based on the requests, MOF has instructed the VAT office to refund VAT amounts to MIPP.</p> <p>UNOPS has now initiated the VAT refund process and once the VAT amounts are refunded necessary adjustments will be made on expenditures as per UNOPS policy.</p> <p>So long as the government is not refunding VAT, the treatment of the VAT expenditures are unavoidable costs and it is an eligible cost for the project and this expenditure will be reflected in the project financial report.</p>	<p>Responsible manager Project Manager</p> <p>Due date Immediate – ongoing</p> <p>Priority Medium</p>

	<p>involved in the process for obtaining a VAT refund.</p> <p>In 2017, a total VAT amount of \$649,465 was charged as expenditure.</p> <p>Impact</p> <p>Project funds were used for the purposes other than those intended in the Agreement.</p> <p>Cause</p> <p>Other: Factors beyond the control of UNOPS</p>			
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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.