



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

22 November 2018

PROJECT NAME:	CITIES ALLIANCE - LIBERIA COUNTRY PROGRAM & CORE FUNDS
PROJECT NUMBER:	87761 & 11934-003
COUNTRY:	SWITZERLAND
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY 2016 TO 31 DECEMBER 2017

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Acronyms and abbreviations

CA	Cities Alliance
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
PC	Project Centre
RFQ	Request for Quotation
RO	Regional Office
SOP	Standard Operating Procedure
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US\$	United States Dollars



Executive summary

The engagement context

From 2 to 10 August 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 Cities Alliance Programme, comprising projects 87761 and 11934-003 (“the projects”), which are implemented and managed by the UNOPS Cities Alliance Cluster (CAC). The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The projects reported expenditure amounting to US\$ 15,747,273 during the period from 1 January 2016 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, 2 and 3.



Table 1: Summary of projects within the Cities Alliance Unit

Project title	Period	Project no.
Cities Alliance Partnership - Cities Alliance CORE funds	1 January 2016 to 31 December 2017	87761
Cities Alliance – Liberia Country Programme	1 January 2016 to 31 December 2017	11934-003

Table 2: Summary results of the financial audit

Project title and funding source	Project no.	Financial statement		Statement of non- expendable property	
		Amount US\$	Opinion	Amount US\$	Opinion
Cities Alliance Partnership; Cities Alliance CORE funds	87761	14,503,912	Unmodified	9,955	Unmodified
Cities Alliance - Liberia Country Programme – Comic Relief	11934-003	1,243,361	Unmodified	n/a	n/a
Total		15,747,273		9,955	

Table 3: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Satisfactory	
Procurement and supply chain	Partially satisfactory (minor improvement needed)	
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).”

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	Procurement and supply chain	Weaknesses in the procurement oversight function	Medium	65,000
Total				65,000

Management’s comments

The management team of UNOPS Geneva accepted the recommendation.

Signed:

Mark Henderson
Partner
Moore Stephens LLP

22 November 2018

Operational overview

The Cities Alliance is a global partnership for urban poverty reduction, promoting and strengthening the role of cities in sustainable development, bringing together key actors including national governments, bilateral donors, multilateral organisations, associations of cities and Non-Governmental Organisations (NGOs). The Cities Alliance aims at supporting cities, local governments and their partners in the developing world in addressing challenges to capture the gains of urbanisation and taking advantage of its opportunities, for the benefit of all citizens.

Since September 2013, Cities Alliance has been hosted by UNOPS. UNOPS acts as the trustee and administrator of Cities Alliance funds in accordance with the agreed Standard Operating Procedures (SOP) and UNOPS Financial Rules and Regulations including those related to internal and external audits.

While UNOPS audit is governed by the United Nations “single audit principle”, specific project audits requested by partners and donors can be arranged and managed in accordance with the terms and conditions that may be stated in the Agreement or agreed upon by the respective parties as well as in accordance with the policies and procedures that govern UNOPS Internal Audit and Investigation Group (IAIG).

The projects are ongoing. The Cities Alliance Partnership Programme funded by core funds has different completion dates. The Liberia Country Programme is expected to be completed by March 2021.

The audit team extends its appreciation to the management and staff members of UNOPS office in Geneva as well as staff of City Alliance Secretariat for their full cooperation during the audit.

Detailed assessment

#	Observation	Recommendation	Management comment and action Plan	Responsible manager / Due date / Priority
Functional Area: Procurement and supply chain				
1	<p>Title</p> <p>Weaknesses in the procurement oversight function</p> <p>Comparison criteria</p> <p>Section 2.6 of the procurement manual sets out the role and responsibilities of procurement reviewers, including to:</p> <p>“3. Ensure that procurement actions pre-cleared uphold the UNOPS procurement principles and highest standards of integrity, including that appropriate vendor background checks have been carried out prior to award.”</p> <p>Section 9.5 of the procurement manual sets out the requirements prior to the award of a contract.</p> <p>Facts / observation</p> <p>We noted that Cities Alliance launched an RFP process in December 2017 for “Partnership Facilitation and City Diagnostics to Support Equitable Economic Growth in two Secondary Cities in Ghana”.</p> <p>Four bidders submitted proposals, and two of these were marked by the bid opening panel as having concerns: one for inserting the financial proposal within the technical document, and the other because it had omitted most of the information requested in the tender.</p>	<p>The procurement review process should be sufficiently thorough that fundamental errors, such as the failure to identify submitted documentation from prospective suppliers, are prevented from influencing contract award decisions.</p> <p>The procurement manual, or associated standard operating procedure (SOP), should require the completion, review and approval of a checklist of key tasks to be undertaken prior to decisions being formalised.</p> <p>Such a checklist should ensure, <i>inter alia</i>, that all bids have been reviewed, that the reasons for rejection are documented and, crucially, confirmed by a second member of the evaluation team and / or procurement reviewer.</p> <p>It may be considered appropriate for any additional procedures only to be applied in the event that the</p>	<p>We accept the finding.</p>	<p>Responsible manager</p> <p>Procurement manager</p> <p>Due date</p> <p>Immediate</p> <p>Priority</p> <p>Medium</p>

	<p>The evaluation was concluded and the team communicated the results to vendors. The vendor whose proposal had omitted the required information asked for clarification, and at this point the CA team realised that it had in fact been provided in the first place, and that there had been an oversight from the secretariat.</p> <p>At this time the contract had already been signed. An internal procurement review was carried out by UNOPS and it revealed that the price of the vendor that lost out could have saved the donors US\$ 65,000 or more, even at the renegotiated price of the winning vendor.</p> <p>This was an error on the part of the procurement review process and poses a risk of liability on the part of UNOPS, should donors require that the apparent savings are to be compensated.</p> <p>Impact</p> <p>The failure to assess accurately and in full those documents provided by bidders in response to requests for services risks premature exclusion of eligible suppliers, which in turn may result in paying higher fees to the eventual winner.</p> <p>There is also the follow-on risk of liability on the part of UNOPS, in the event that the project donor reclaims the overpaid amount.</p> <p>Cause</p> <p>Lack of or inadequate corporate policies or procedures</p>	<p>expected contract award value exceeds a certain amount.</p>		
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Status of previous audit recommendations

All recommendations from the project audit report “6217 Cities Alliance Programme”, issued in 2016, have been implemented and closed.

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.