



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

16 October 2019

PROJECT NAME:	MODERNISATION AND IMPROVEMENT OF POLICING PROJECT (MIPP)
PROJECT NUMBER:	93090
COUNTRY:	NEPAL
AUDITOR:	BDO LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2018



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Acronyms and abbreviations

DFID	Department for International Development
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
NP	National Police
OC	Operations Centre
PC	Project Centre
RO	Regional Office
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNOPS	United Nations Office for Project Services
US\$	United States Dollars
VAT	Value Added Tax

Executive summary

The engagement context

From 18 June to 4 July 2019, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through BDO 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 of IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to US\$ 4,432,945 during the period from 1 January to 31 December 2018.

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 to 31 December 2018	93090
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
4,432,945	Qualified	7,374	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 two issues. There are two recommendations, both 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 (US\$)
1	Finance	Value Added Tax (VAT) charged as expenditure	Medium	301,276
2	Finance	Over-accrual of expenditure	Medium	38,137
Total				339,413

Management's comments

The Head of Office of UNOPS Nepal accepted the recommendations.

Signed:

Robert Waters
Partner
BDO LLP

16 October 2019

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. DFID's 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.

Under the IPSSJ, United Nations Office for Project Services (UNOPS) is implementing the Modernisation and Improvement of Policing Project (MIPP) services component. This component is targeted primarily at the Nepal Police, given its coverage, but also encompasses 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. MIPP under IPSSJ, steered by the Nepal Police, has the following six 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 National Police (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
5. Skills development and service delivery skills of police personnel are enhanced with special attention to Women and Children; and
6. 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\$ 301,276</p> <p>Comparison criteria Paragraph 37 of the Amended and Restated 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 has worked with the donor, DFID, to obtain a VAT refund for VAT incurred on purchases made for the project since 2015. The first VAT refund was received on 12 December 2018 from the Government of Nepal (GoN) for the VAT incurred in 2015. As of mid-July 2019, UNOPS had been able to recover 99.7% of the amount incurred for the period from 2015 to 2018 and has resubmitted refund claims for the remaining outstanding amounts. Prior to securing approval for, and subsequent remittance of these refunds, UNOPS charged VAT as project expenditure.</p>	<p>UNOPS should continue to record VAT in the oneUNOPS advance account. VAT recorded as expenditure should be reversed from the expenditure for the period 2015 to 2018.</p>	<p>The Project Management agrees to the Auditor’s recommendation to continually record VAT as advances or receivables from the VAT Office of Kathmandu, Nepal.</p> <p>From the time the project got the first VAT refund from the GoN, a separate line for VAT is created in the project Purchase Orders to record the VAT as receivables.</p>	<p>Responsible manager Project Manager</p> <p>Due date December 2019</p> <p>Priority Medium</p>

<p>However, this did not start until 2019, meaning that, in 2018, a total VAT amount of US\$ 301,276 was charged as expenditure and which was not subsequently reversed.</p> <p>Although reversing entries were made in the 2019 accounting period, the 2018 financial statement remains overstated.</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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#	Observation	Recommendation	Management comments and action plan	Responsible manager / due date / priority
Functional Area: Finance				
2	<p>Title</p> <p>Over-accrual of expenditure</p> <p>Amount</p> <p>US\$ 38,137</p> <p>Comparison criteria</p> <p>Paragraph 6 of the Amended and Restated Memorandum of Understanding between DFID and UNOPS states, "The Partner will be solely responsible for the administration of DFID financing covered by this Arrangement and will carry out such administration in accordance with its financial regulations, rules, policies, procedures and directives, with the same degree of care and due diligence as it uses in the administration of its other programmes and projects."</p> <p>Facts / observation</p> <p>UNOPS accrued expenditure for the construction of the police building at the end of 2018, based on estimated amounts provided by the UNOPS site engineer, which in turn came from information provided by the construction contractors. Actual expenditure details were received by the UNOPS project management team from the contractors in March 2019, after the closure of the 2018 accounting period but before the financial statement was certified.</p> <p>The actual expenditure incurred was lower than the accrued amount, as shown in the table below:</p>	<p>UNOPS should ensure that all significant over- or under-accruals are adjusted prior to the issue of the project financial statements.</p> <p>The expenditure amounts reported in the financial year should be accurate as per the supporting documents.</p>	<p>The Project Management agrees to the Auditor's recommendation.</p>	<p>Responsible manager</p> <p>Project Manager</p> <p>Due Date</p> <p>December 2019</p> <p>Priority</p> <p>Medium</p>

Description	Amount NPR	Amount US\$			
Expense accrued at year-end by UNOPS	29,093,486	265,410			
Actual expense per supporting documents	22,638,808	201,127			
Over accrual of expense	6,454,678	64,283			
Less: VAT raised under financial finding 1	(2,943,045)	(26,146)			
Net over accrual of expense	3,511,633	38,137			
Impact					
Overstatement of expenditure in the financial statement					
Cause					
Human error					

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