



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

30 September 2020

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 2019

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Acronyms and abbreviations

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
RO	Regional Office
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

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 ‘Modernization and Improvement of Policing Project’ (“the project”) (oneUNOPS project ID 93090), which is implemented and managed by UNOPS Nepal Operation Hub. 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 US\$ 4,863,397 during the period from 1 January to 31 December 2019.

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 2019	93090
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
4,863,397	Unmodified	18,410	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).”

Further details of the finding 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	92,748
Total				92,748

Management's comments

The Head of Office of UNOPS Nepal accepted all recommendations.

Signed:



Robert Waters
Partner
BDO LLP

30 September 2020

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, the 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. DFID Nepal and UNOPS signed a Memorandum of Understanding (MOU) in December 2014 to implement the MIPP under IPSSJ, steered by the Nepal Police. The MOU has been amended twice, once in 2016 and once in 2018 and 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 project is on-going and is expected to be completed by the end of 2020.

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

1.	Title: Value Added Tax (VAT) charged as expenditure																								
Functional area:	Finance																								
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'.																								
Priority:	Medium																								
Cause:	Human error	Un-intentional mistakes committed by staff entrusted to perform assigned functions																							
Responsible manager:	Project Manager																								
Due date:	31 December 2020																								
Financial impact:	US\$ 92,748																								
Facts / observation:	<p>Value Added Tax (VAT) relating to purchase orders issued before 2019 but still open in 2019 was incorrectly recorded as expenditure in oneUNOPS. A financial finding was raised in the internal audit report for the period from 1 January to 31 December 2018 for this reason.</p> <p>A portion of the VAT refund from the Government of Nepal received in 2019 for these amounts was incorrectly accounted for by UNOPS crediting the VAT advance account instead of the expenditure lines to which the VAT amounts had initially been charged. The resultant impact is an over-reporting of expenditure in the year, and equivalent over-reporting of the VAT advance account.</p> <p>Additionally, we found that US\$ 12,234 of VAT on an accrued expense was accounted for as an expense instead of as a VAT advance in 2019.</p> <p>A list of the relevant accounting entries with the corresponding VAT amount which was charged as an expense is included in the table below.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Voucher reference</th> <th rowspan="2">Voucher amount US\$</th> <th colspan="2">VAT amount for which finding is raised</th> </tr> <tr> <th>Amount US\$</th> <th>Amount NPR</th> </tr> </thead> <tbody> <tr> <td>680001980</td> <td style="text-align: right;">56,724</td> <td style="text-align: right;">34,748</td> <td style="text-align: right;">3,938,649</td> </tr> <tr> <td>680002290</td> <td style="text-align: right;">102,666</td> <td style="text-align: right;">45,766</td> <td style="text-align: right;">5,203,630</td> </tr> <tr> <td>100184498</td> <td style="text-align: right;">106,341</td> <td style="text-align: right;">12,234</td> <td style="text-align: right;">1,391,000</td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;">92,748</td> <td style="text-align: right;">10,533,279</td> </tr> </tbody> </table>			Voucher reference	Voucher amount US\$	VAT amount for which finding is raised		Amount US\$	Amount NPR	680001980	56,724	34,748	3,938,649	680002290	102,666	45,766	5,203,630	100184498	106,341	12,234	1,391,000			92,748	10,533,279
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	Although the errors were identified and corrected by UNOPS in 2020, the financial statement of 2019 remains uncorrected.
Impact:	Project expenses are overstated and the advances balance is understated.
Recommendation:	UNOPS should record VAT as an advance and offset the refund received against it.
Management reply and action plan:	The management accepts the auditor's finding as per the facts/observation above. The finding has already been rectified in 2020. The management also identified the course of action for the proper reconciliation and recording of VAT amount with effect from 1 Jan 2020.

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.