UNOPS

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

6 November 2020

PROJECT NAME:	**BRG RESULTS ENABLING FACILITY**
PROJECT NUMBER:	**21123-002**
COUNTRY:	**INDONESIA**
AUDITOR:	**BDO LLP**
PERIOD SUBJECT TO AUDIT:	**1 JANUARY TO 31 DECEMBER 2019**

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Acronyms and abbreviations

BRG   Badan Restorasi Gambut (in English: Peat Restoration Body)

GoI   Government of Indonesia

IAASB   International Auditing and Assurance Standards Board

IAIG   Internal Audit and Investigations Group

IP   Implementing Partner

IPSAS   International Public Sector Accounting Standards

OH   Operational Hub

PC   Project Centre

REF   Results-Enabling Facility

RO   Regional Office

UNOPS   United Nations Office for Project Services

US$ United States Dollars

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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 'BRG Results Enabling Facility' ("the project") (oneUNOPS project ID 21123-002)*,* which is implemented and managed by UNOPS Thailand Operational 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$ 14,190,465 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.

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![UNOPS logo]

Table 1: Summary results of the financial audit

Project title		Period	Project no.
BRG Results Enabling Facility		1 January to 31 December 2019	21123-002
Financial statement		**Statement of non-expendable property**	
Amount US$	**Opinion**	**Amount US$**	**Opinion**
14,190,465	Unmodified	29,164	Unmodified

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Project management	Satisfactory	
Finance	Satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
Information and communications technology	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 audit finding can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US$)
1	Finance	Oversight in application of accruals accounting	Medium	-
			Total	**-**

Management's comments

The Head of Office of the UNOPS Operational Hub accepted the recommendation.

Signed:

Robert Waters
Partner
BDO LLP

6 November 2020

Operational overview

The project's goal is to strengthen and sustain the Government of Indonesia's institutional capacity to restore peatlands. Its planned impact is to reduce greenhouse gas emissions from the land use sector, and to promote biodiversity conservation from peatlands. It is implemented by the BRG (Peatland Restoration Agency), an institution set up in 2016 by presidential decree.

UNOPS supports BRG delivery through an implementation support unit situated within BRG to provide day-to-day technical guidance and support. This support is supplemented by contracts with external providers in areas such as strategic consultancy, communications and peatland mapping. Local implementing partners assist in project implementation. Back-office support is provided through UNOPS's Support Services Unit.

The expected results are as follows:

- BRG's target peatland areas have undergone a transformational process allowing for economic activities that are in line with the environmental sustainability agenda of the Indonesian Government;

- Stakeholders involved in sustainable peatland management are informed about the GoI sustainability commitments and are able to access this funding to further improve sustainable peatland use;

- GoI peatlands restoration is informed by best available tools and methodologies that help shape effective peatlands restoration actions on the ground; and

- BRG at national and provincial levels has increased capacities to implement, monitor and deliver effective and sustained peatlands management solutions.

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 the UNOPS offices in Thailand and Indonesia for their full cooperation during the audit.

Detailed assessment

1.	Title:	Oversight in application of accruals accounting
Functional area:		**Finance**
Comparison criteria:		Section 23.01 of the financial regulations and rules states that financial statements shall comply with accounting policies which shall prescribe accrual-based accounting in accordance with IPSAS.
Priority:		Medium
Cause:		Human error	Un-intentional mistakes committed by staff entrusted to perform assigned functions
Responsible manager:		Finance manager
Due date:		31 October 2020
Financial impact:		-
Facts / observation:		We noted that the rental payment for the BRG office in Jakarta, covering the period 13 January 2020 to 31 December 2020, was initially included as expenditure in the financial year 2019, instead of being treated as a prepayment. Under the accrual-based IPSAS framework, expenditure should be recorded in the period in which it is incurred.
		The rental cost was over-stated by US$ 171,393, plus the corresponding management fee of US$ 8,518. After this issue was identified by the audit team, a late adjustment to correct the error was made by UNOPS to the annual financial statement, but not to the underlying general ledger. (A note to this effect has been included in the project financial statement). Following the adjustment, the rental cost is correctly accounted for within the annual financial statement.
Impact:		If expenses are incorrectly matched to the periods in which they are incurred, expenditure may be overstated or understated in the financial statement.
Recommendation:		The project team should ensure that accrual-based accounting is used to match expenditure to the correct period. The procedures implemented when reviewing the accruals-based journals should be strengthened.
Management reply and action plan:		We accept the finding. As clarified during the close out meeting, the discrepancy was due to human error and similar transactions completed during the same period and afterwards had been completed in full compliance with IPSAS. Nevertheless, the Finance unit will conduct a refresher for Procurement personnel and other personnel responsible for initiating Requests for Payment (RFPs) and Receipts (commitments) to always clearly identify prepayment RFPs from initiation and raise them accordingly so that they follow the correct workflow. A check item will also be included in the hub Finance DoA holders' RFP review checklist to act as a prompt for DoA holders when reviewing payments.

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;
    - o Lack of or inadequate corporate policies or procedures
    - o Lack of or inadequate RO/OC/PC policies or procedures
    - o Inadequate planning
    - o Inadequate risk management processes
    - o Inadequate management structure
- **Guidance**: inadequate or lack of supervision by supervisors;
    - o Lack of or inadequate guidance or supervision at the RO/OC/PC level
    - o Inadequate oversight by Headquarters
- **Resources**: insufficient resources (funds, skill, staff) to carry out an activity or function;
    - o Lack of or insufficient resources (financial, human, or technical resources)
    - o 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.