UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

1 December 2022

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 2021
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Acronyms and abbreviations

FCDO  Foreign, Commonwealth and Development Office
IAASB  International Auditing and Assurance Standards Board
IAIG  Internal Audit and Investigations Group
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 Project Office. 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$ 6,137,948 during the period from 1 January to 31 December 2021.

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

<table>
<thead>
<tr>
<th>Project title</th>
<th>Period</th>
<th>Project no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernisation and Improvement of Policing Project</td>
<td>1 January to 31 December 2021</td>
<td>93090</td>
</tr>
<tr>
<td>Financial statement</td>
<td>Statement of non-expendable property</td>
<td></td>
</tr>
<tr>
<td>Amount US$</td>
<td>Opinion</td>
<td>Amount US$</td>
</tr>
<tr>
<td>6,137,948</td>
<td>Unmodified</td>
<td>9,498</td>
</tr>
</tbody>
</table>

Table 2: Internal control rating summary for project

<table>
<thead>
<tr>
<th>Functional area</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Finance</td>
<td>Partially satisfactory (some improvement needed)</td>
</tr>
<tr>
<td>Procurement and supply chain</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Human resources</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>General administration</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall rating of internal control</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

Key issues and recommendations

The audit raised one issue. There is one recommendation, which is ranked as 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.

<table>
<thead>
<tr>
<th>No.</th>
<th>Functional area</th>
<th>Audit finding title</th>
<th>Priority rating (high / medium)</th>
<th>Financial impact (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance</td>
<td>Commitments treated as expenditure</td>
<td>Medium</td>
<td>-</td>
</tr>
</tbody>
</table>

Management Comments

UNOPS Internal Audit and Investigations Group
Internal audit report
Modernisation and Improvement of Policing Project, 93090, Nepal
1 January to 31 December 2021
The Head of Office of UNOPS Nepal accepted the audit observation and recommendation.

Signed:

[Signature]

Robert Waters
Partner
BDO LLP

1 December 2022
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 prevent and respond to sexual violence. FCDO’s Integrated Programme for Strengthening Security and Justice (“Integrated Programme” – IPSSJ) aims to improve security and justice services for 1.85 million more poor people and ensure they can access justice.

Under the IPSSJ, the United Nations Office for Project Services (UNOPS) implemented the Modernisation and Improvement of Policing Project (MIPP) services component. This component is targeted primarily at 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. FCDO 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 was amended three times, in 2016, 2018 and in 2020 with a final financial allocation of GBP 24.6 million 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 was operationally closed on 31 December 2021.

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

<table>
<thead>
<tr>
<th>1.</th>
<th>Title:</th>
<th>Commitments treated as expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Functional area:</strong></td>
<td>Finance</td>
<td></td>
</tr>
<tr>
<td><strong>Comparison criteria:</strong></td>
<td>Paragraph 6 of the Amended and Restated Memorandum of Understanding between FCDO and UNOPS states, “The Partner will be solely responsible for the administration of FCDO 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.” Regulation 23.01 of the EOD.ED.2017.04 financial regulations and rules states that “Financial statements shall comply with accounting policies which shall prescribe accrual-based accounting in accordance with IPSAS.” It further defines accrual as “- the basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid).”</td>
<td></td>
</tr>
<tr>
<td><strong>Priority:</strong></td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td><strong>Cause:</strong></td>
<td>Human error Un-intentional mistakes committed by staff entrusted to perform assigned functions</td>
<td></td>
</tr>
<tr>
<td><strong>Responsible manager:</strong></td>
<td>Finance manager</td>
<td></td>
</tr>
<tr>
<td><strong>Due date:</strong></td>
<td>31 December 2022</td>
<td></td>
</tr>
<tr>
<td><strong>Financial impact:</strong></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Facts / observation:</strong></td>
<td>UNOPS entered into a contract with the vendor [redacted] in 2017 for the procurement of the [redacted] and its related operation, maintenance and support services. These services would be provided for five years, after the initial warranty period of one year, up to February 2024. In 2021, additional yearly operations services were agreed with the vendor to cover the period from March 2022 to February 2024, amounting to US$ 420,000. UNOPS estimated a total of US$ 450,000 to cover the costs of the related services to [redacted], audit fees for 2021, and other monitoring, travel and related costs for the defect notification period of construction. As the project was set to operationally close on 31 December 2021, UNOPS obtained approval from the donor to set up a cost recovery project (a new project in oneUNOPS) to manage and pay the costs over the remaining service contract period. UNOPS reported expenditure totalling US$ 400,000 in the 2021 financial statement, of which US$ 370,000 related to the [redacted] system, US$ 20,000 for audit fees for the period January to December 2021 and US$ 10,000 for monitoring, travel and related costs for defect notification period of construction. The remaining US$ 50,000 of expenditure was scheduled to be accrued in 2022 after receipt of Value Added Tax (VAT) reimbursements from the Government of Nepal (GoN).</td>
<td></td>
</tr>
</tbody>
</table>
The financial statement initially presented for audit included these amounts as part of the overall project expenditure for the period, despite not having been incurred, and there was no reference to the cost recovery project. On that basis, the costs were not appropriately reported.

The financial statements were therefore subsequently revised to incorporate this information, with a corresponding explanatory note. Accordingly, no financial finding has been raised in respect of the revised statements that have been subject to audit and annexed to this report. The treatment of the costs, and the balance of project funds, have been agreed with the donor, and are further explained in a separate narrative report submitted.

**Impact:**
While the revised financial statement now presents a fair reflection of the project’s financial status, there had been insufficient consideration of the treatment of expenditure and commitments.

**Recommendation:**
The project team should only report expenditure once it has been incurred.

In relation to the costs that will be incurred in monitoring the system over the course of the maintenance contract until February 2024, the project should prepare a quarterly financial report to be submitted to IAIG by the end of the month following the quarter end. This report should show the actual expenditure incurred in the period, and be based on the transactions recorded against the cost recovery project. All supporting documents should be maintained and made available on request.

**Management reply and action plan:**
Management has taken note of the audit finding and agrees with the audit observation and recommendation.

Management also agrees to provide a quarterly financial report, incorporating the costs incurred while monitoring the system throughout the maintenance period. Additionally, a narrative report will be provided to highlight any significant issues encountered during this period.
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:

<table>
<thead>
<tr>
<th>Standard rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory (effective)</td>
<td>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.</td>
</tr>
<tr>
<td>Partially satisfactory (some improvement needed)</td>
<td>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.</td>
</tr>
<tr>
<td>Partially satisfactory (major improvement needed)</td>
<td>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.</td>
</tr>
<tr>
<td>Unsatisfactory (ineffective)</td>
<td>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.</td>
</tr>
</tbody>
</table>
**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:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>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).</td>
</tr>
<tr>
<td>Medium</td>
<td>Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).</td>
</tr>
<tr>
<td>Low</td>
<td>Action is considered desirable and should result in enhanced control or better value for money.</td>
</tr>
</tbody>
</table>

**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.