

**UNITED NATIONS OFFICE FOR PROJECT SERVICES
(UNOPS)****INTERNAL AUDIT REPORT****31 December 2025**

Project name:	Security and Justice Programme - Policing Component
Project number:	24535-001
Country:	Nepal
Auditor:	BDO LLP
Period subject to audit:	1 May 2024 to 31 March 2025

Contents

Acronyms and abbreviations.....	3
Executive summary.....	4
Operational overview	7
Detailed assessment.....	8
Annex I - Definitions.....	10

Acronyms and abbreviations

FCDO	Foreign, Commonwealth and Development Office
GBV	Gender-based violence
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Standard Accounting System
NP	Nepal Police
PIN	People in Need
SJP	Security and Justice Programme
ToC	Theory of Change
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 ‘Security and Justice Programme - Policing Component (“the project”) (oneUNOPS project ID 24535-001), which is implemented and managed by the UNOPS Office in 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\$ 3,131,913 during the period from 1 May 2024 to 31 March 2025. The donor who contributed to the project is the Foreign, Commonwealth & Development Office (FCDO).

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.
Security and Justice Programme - Policing Component		1 May 20124 to 31 March 2025	24535-001
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
3,131,913	Unmodified	3,375	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	
Information and Communications Technology	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

The internal audit report raised one recommendation, ranked medium priority.

Recommendations with a medium priority mean that “Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).”

The table below summarizes the recommendations we have issued in relation to the functional areas concerned, and provides 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	VAT charged as expenditure	Medium	9,709

Management's comments

The Head of the Programme accepted the recommendation.

Signed:



DS
BDO LLP

BDO LLP

31 December 2025

Operational overview

The Security and Justice Programme (SJP), funded by the Foreign, Commonwealth and Development Office (FCDO), is implementing the Integrated Programme for Strengthening Security and Justice's dual focus of tackling criminal violence and other causes of public insecurity, in particular gender-based violence (GBV), and strengthening the service delivery capacity of the Nepal Police (NP) and other key duty-bearers. In line with Nepal's 2015 Constitution, SJP recognizes that supporting the devolution of policing and developing more responsive, representative and accountable police forces is critical to stability in Nepal and preventing a return to conflict.

Based on consultations with the NP, building on previous FCDO investments, lessons learnt and underpinned with a robust theory of change (ToC), SJP Policing Component proposes working across four workstreams:

- i) Organisational Development;
- ii) Strengthened Investigation Capacity of Nepal Police;
- iii) Community-Policing Partnerships, problem solving for GBV and other crime prevention;
- iv) Facilities and Equipment for improved service delivery. Through these investments the project aims to increase NP's overall capability on GBV responsiveness and prevention, increase reporting of crime, drive multi stakeholder community safety partnerships and improve responsiveness and accountability of NP to the public.

The workstreams will be implemented at the Federal, Provincial and local levels. The project will work closely with People in Need (PIN) to improve collaboration and cooperation between communities, police and other actors to maintain safety and security; and building capacity and capability of local Security and Justice actors. The project will take an adaptive approach to learning, delivery, programming, and management and ensure strong integration of Gender Equality and Social Inclusion across the project workstreams.

The contract entered into force on 1 May 2024 for a period of 26 months, ending on 31 March 2027, for a total amount of US\$ 12,223,778 (£ 9,742,39).

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:	VAT charged as expenditure							
Functional area:		Finance							
Comparison criteria:		Paragraph 41 of the Memorandum of Understanding between FCDO and UNOPS states 'the Grant will not, unless approved by FCDO 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:		Guidelines	Inadequate planning						
Responsible manager:		Head of Project							
Due date:		30 June 2026							
Financial impact:		US\$ 9,709							
Facts / observation:		<p>We noted that whilst some of the project expenditure was recorded excluding VAT, other items were recorded with the VAT amount included. However, as per the Memorandum of Understanding, no taxes can be funded by the grant.</p> <p>We reviewed UNOPS's VAT refund claim file and the transaction list, and have calculated that VAT of US\$ 9,709 was included as a project cost.</p> <p>The details of the purchases noted in the VAT refund claim file are provided in the table below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Total amount if invoices where VAT was claimed</td> <td style="text-align: right; padding: 2px;">US\$ 84,390</td> </tr> <tr> <td style="padding: 2px;">Total value of invoices, net of VAT</td> <td style="text-align: right; padding: 2px;">US\$ 74,681</td> </tr> <tr> <td style="padding: 2px;">Total value of VAT (13%)</td> <td style="text-align: right; padding: 2px;">US\$ 9,709</td> </tr> </table> <p>We note that, to date, UNOPS Nepal has received no VAT refund from the Government of Nepal. We also note that FCDO requested the Government of Nepal to refund project VAT to UNOPS in its letter dated February 2025 and since then UNOPS has accounted for VAT separately, with expenditure reported exclusive of VAT. Nevertheless, VAT has been reported in the financial statement and, as claiming taxes is specifically prohibited by the project Memorandum of Understanding, we consider the VAT amount of US\$ 9,709 to be ineligible.</p>		Total amount if invoices where VAT was claimed	US\$ 84,390	Total value of invoices, net of VAT	US\$ 74,681	Total value of VAT (13%)	US\$ 9,709
Total amount if invoices where VAT was claimed	US\$ 84,390								
Total value of invoices, net of VAT	US\$ 74,681								
Total value of VAT (13%)	US\$ 9,709								
Impact:		Project expenses are overstated by US\$ 9,709.							
Recommendation:		We recommend UNOPS Nepal to account for VAT separately, and consistently record all project expenditure exclusive of VAT.							

Management reply and action plan:	<p>We acknowledge the audit observation relating to the charging of VAT to the project, and the reference to Paragraph 41 of the Memorandum of Understanding (MoU) between FCDO and UNOPS, which states that <i>“the Grant will not, unless approved by FCDO 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.”</i></p> <p>However, it is worth noting that at the start of project implementation, the Host Country Agreement (HCA) between UNOPS, the Government of Nepal, and the relevant authorities had not yet been finalized. In the absence of an approved HCA, and given prevailing national tax regulations, the initial operational decision was to record all VAT amounts as project expenses to avoid delays in payments and ensure uninterrupted project delivery. During this period, UNOPS maintained continuous engagement with FCDO regarding the VAT reimbursement mechanism. Meanwhile, project activities had to proceed, and timely payments to vendors and partners were necessary to uphold contractual obligations. In February 2025, FCDO issued an Instruction to Mission (IOM) to the Government of Nepal requesting reimbursement of VAT to UNOPS Nepal. As the VAT-related bills had already been submitted to the Government for processing, all VAT amounts booked as expenses up to 14 August 2024 will be segregated and adjusted accordingly by March 2026, pending completion of the national reimbursement process. Management have initiated steps to reclassify, recover or adjust VAT amounts that were incorrectly charged to the project budget. In addition, going forward the project management teams will ensure that VAT-related clauses in donor agreements are flagged and strictly enforced.</p>
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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
- (d) 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.