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Internal audit and oversight

**UNOPS: Report of the UNDP Office of Audit and Performance
Review to the UNOPS Executive Director on internal audit
services in 2003***

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* The collection of data required to present the Executive Board with the most current information has delayed submission of the present document.

I. Introduction

1. The internal audit of the United Nations Office for Project Services (UNOPS) operations is being carried out by the Project Services Audit Section (PSAS) of the Office of Audit and Performance Review (OAPR) pursuant to a memorandum of understanding between UNOPS and UNDP/OAPR effective 1 January 1997 and in accordance with UNDP Financial Rule 103.02 applicable, *mutatis mutandis*, to the internal audit of UNOPS operations.

2. PSAS has seven authorized posts – for a chief, five audit specialists and an audit assistant – four of which were encumbered and three vacant as at 31 December 2003. The encumbered posts occupied by three audit specialists (one of whom is designated Chief, a.i.) and one audit assistant. The vacant posts are those of the chief (as of the retirement of the incumbent in August 2002, since when the post has not been filled upon the request of UNOPS) and two audit specialists (one of which will be filled while the other one has remained ‘frozen’ since the middle of 2001).

3. In April 2003, PSAS was relocated from the UNDP premises occupied by OAPR in the DC-1 building to the UNOPS premises in the Chrysler building.

II. Implementation of the annual audit plan

4. In line with the approved annual audit plan for 2003 and requests from UNOPS management during the reporting year, OAPR initiated and conducted a total of 21 internal audits covering operational activities at headquarters and in the field, including those under management and other support services arrangements (MSAs), as shown in the table below.

Internal audits provided in 2003, by type of audit

<i>Type of audit</i>	In process 01/01/03	Audit initiated	Final report issued	In process 31/12/2003
Management or functional audit of project or group of projects	2	6	7	1
Management audit of headquarters or field organizational unit, functional audit of functions in headquarters or field unit and informatics audit	1	5	5	1
Special audit	-	1	1	-
Financial statement audit (MSA)	-	9	8	1
Total	3	21	21	3

5. OAPR has been using a system of standard audit opinions in assessing internal control of activities being audited using three categories: satisfactory, partially satisfactory and deficient. For the 21 final reports (of which 18 are on audits that were started and finalized in 2003 and three are on those that had continued into 2003 from 2002), the overall audit opinions are as follows:

- Satisfactory – three reports
- Partially satisfactory – eight reports
- Deficient – one report

- No rating – one report on a special audit and the reports on the financial statement audits of certain MSA project activities; these fall outside the system of standard audit opinions.

6. Brief accounts of the main results of audits initiated and carried out in 2003 and on which, in each case, either a final audit report was issued or a draft report submitted to UNOPS for comments prior to finalization, are presented in the next three sections of this report. Summaries of the three audits in process at the beginning of 2003 were included in the internal audit report for the year 2002 (DP/2003/21) as presented to the Executive Board at its annual session 2003.

III. Management or functional audit of project or group of projects

7. OAPR considers the overall level of internal control to be satisfactory with respect to the audit of a cluster of projects in Kosovo and to be partially satisfactory with respect to the other three project audits, namely, TAJ/95/002, PNG/98/002 and the cluster of projects implemented in Afghanistan by the division for Western Asia, the Arab States and Europe.

8. Nonetheless, some improvements in operational activities have been identified in areas such as the following: (a) For the audit of a cluster of projects in Kosovo, the main recommendation is the need for senior management to review the organizational structure in Kosovo in order to assure that clients perceive UNOPS as an integrated, client-focused operation rather than as separate units competing against each other; (b) for TAJ/95/002, the need to prepare a revised budget reflecting the present funding realities in addition to the objectives and scope of work, as outlined in the revised draft project document; (c) for PNG/98/002, the areas of budget revision and expenditure control need to be closely monitored considering the absence of adequate funding necessary to support planned activities; and (d) for the cluster of projects in Afghanistan, an annual administrative budget for the UNOPS implementation facility unit should be established on the basis of need, in order to monitor and control the overall administrative cost of running the facility; recommendations were also made in the areas of commitments prior to receipt of donor funds, advances recoverable locally, and procurement of services and goods.

9. For PNG/01/005 and RAF/98/G31 (based on the draft report as at 31 December 2003), the overall level of internal control in the financial management is considered to be deficient. In the case of PNG/01/005, the significant weaknesses pertain to budget revisions (where cost-sharing contributions have not been reflected on a timely basis), the operations of a bank account (lack of authorization and reconciliations) and financial reporting (lack of adequate documentation and reports at the project site level). In the case of RAF/98/G31, significant weaknesses pertain to the lack of clear and reliable expenditure reports from the project offices in two programme countries and the lack of satisfactory arrangement for the disbursement of funds at the project level.

IV. Management audit of headquarters or field organizational unit, audit of functions in headquarters or field unit and informatics audit

10. OAPR considers the overall level of internal control to be satisfactory with respect to the functional audits of the International Fund for Agricultural Development (IFAD) loan administration activities, the financial authorization procedures, and the global report emanating from the financial statement audits of MSA project activities (draft report as at 31 December 2003). The overall level of internal control is considered to be partially satisfactory with respect to the management audit of the Kosovo procurement unit and the review of information technology policies. In addition to these audits, PSAS participated as an observer in the Enterprise Resource Planning meetings within UNOPS during the first half of the year.

11. While there are no major areas of concern relating to the above management or functional audits, improvements have been recommended, such as in the following areas: (a) For the IFAD loan administration activities, the loan administration unit should shift its focus towards liaison with the client, oversight of UNOPS services to IFAD, monitoring of loan status, central record keeping, development and standardisation of UNOPS internal policies and procedures, and training and provision of ad hoc advice to UNOPS staff in loan administration; (b) for the Kosovo procurement unit under the management of the Copenhagen Office, a main recommendation has been made regarding the contract for procurement services with the United Nations Interim Mission in Kosovo, namely, to ensure that any future contracts of a similar nature contain clauses to cover the cost of operations created to implement the related activities, protect against the arbitrary cancellation of the agreement, and provide for the reimbursement of the cost of procurement work performed that is later cancelled by contracting entity; and (c) for the review of information technology policies, recommendations have been made in respect of the need to establish written policies on of firewall and router administration, as well as the need to designate an information security officer.

V. Special audit of accounts receivable

12. A special audit of the accounts receivable relating to the Heantos project was carried out at the request of UNOPS management and the Management Coordinating Committee.

13. It was noted that the decision to continue the Heantos activity despite the absence of a continuing agreement and the lack of sufficient funds represented a serious management override of key internal controls provided for in UNOPS financial regulations 5.4 and 5.5. Based on a review of pertinent records, the management decision to continue the Heantos activity was made at the level of the former Executive Director, although there was no indication that the former Executive Director gained financially from that action. It was also evident that the project coordinator was carrying out activities in support of matters unrelated to the Heantos activity. Finally, it was determined that the intent of UNOPS to make a provision for doubtful account in respect of the Heantos accounts receivable of

\$557,196 was reasonable given the uncertainty concerning the recoverability of the costs incurred.

VI. Financial statement audit of MSA project activities

14. As in previous years, OAPR conducted financial statement audits of MSA activities implemented by UNOPS under letters of agreement between the borrowing governments and UNDP with respect to activities financed from World Bank loans. In 2003, audits were undertaken for five MSA activities, with total expenditure of \$8.5 million in 2002.

15. Financial statement audits were also carried-out for: (a) two MSA project activities financed with World Bank loans, one in Cambodia (total expenditure of \$397 thousand in 2001-2002) and the other in Afghanistan (total expenditure of \$966 thousand in 2002), as required under the agreements between the respective governments and UNOPS, and (b) an MSA project activity (total expenditure of \$393 thousand in 2002), financed by the Japan Bank for International Cooperation, in the Islamic Republic of Pakistan, pursuant to agreement between the Government and UNDP.

16. In all the financial statement audits carried out in 2003, the opinion was expressed that the “financial statements present fairly the financial position [...] as at 31 December 2002 and the results for the financial period then ended. The transactions were in accordance with the relevant legislative authority in all material respects”.

VII. Audit recommendations

17. The audit reports issued in 2003 contained 149 recommendations. Of these, 48 were in the area of finance, 35 in administration (which included contracts and procurement), 25 in programme, 23 in organization and structure, 10 in the area of policy, six in personnel and two in office automation. It should be noted that because of the special nature and purpose of the reports on the audit of the government-funded MSAs financed by the World Bank and other institutions, those eight reports do not contain recommendations.

18. Based on an arrangement between UNOPS and OAPR, the UNOPS organizational units concerned provided written comments on the contents of the draft audit reports, including an account of actions taken or contemplated to implement the recommendations contained in the reports. As in 2002, the timeliness in the provision by UNOPS action units of those comments continued to be over the time limit of a three-week period, attributable mainly to the changing organizational structure and reduction in the staffing capacity during the reporting year.

19. UNOPS provided its comments on the 146 recommendations. There was only one instance where UNOPS did not agree with a recommendation: in the audit of projects implemented in Kosovo, the UNOPS Copenhagen Office disagreed with the recommendation to consider establishing service standards to help the client understand the timeframes involved in the execution of procurement operations. In general, the comments indicated that actions had been taken or were being taken to address the audit issues and recommendations. In the case of the special audit of the

accounts receivable relating to Heantos activities, the final audit report does not contain management comments relating to the issues raised, or on the three recommendations made, because of the nature of the assignment.
