

Annexes to the report of the UNDP Office of Audit and Performance Review on internal audit services to UNOPS in 2006

presented at the annual session 2007
(DP/2007/38)

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Annex 1

Recurrent and/or high priority recommendations

Recommendation number	Action unit	Issues identified in OAPR internal audit reports in 2006	UNOPS management comments on the audit report	UNOPS strategy for addressing issue		
				Strategy	Timeframe	Indicator of progress/completion
Division of Finance and Administration						
3	FIN	The Atlas user profile of FIN staff members, who can approve both purchase orders and payment vouchers, should be reviewed in line with the Internal Control Framework. In addition, an Atlas report to monitor possible violations of segregation of duties should be put in place and regularly reviewed.	“We agree with the recommendation. We will follow up with ICT to ensure that, the only FIN staff with purchase order approval rights are the CFO and two Senior Finance Officers, authorized to act as Officer-in-charge in the CFO’s absence.”	Implemented - with the introduction of the user creation process in Atlas, which controls the roles each user is assigned. In addition, UNOPS is currently reviewing the situation in order to ensure that conflicts that were created prior to the introduction of the improved controls are identified and corrective action taken, as appropriate.	Completed	Completed
4	FIN	In collaboration with UNDP and other Atlas partners, the configuration of inter- and intra-module reconciliations in Atlas should be implemented in order to regularly ensure the completeness, accuracy and correctness of Atlas data.	“We agree with the recommendation. The configuration of inter- and intra-module reconciliations in Atlas is included in the deliverables of Atlas Wave 2 implementation.”	In coordination with UNDP and UNFPA the requirements for improved controls will be included as part of the Atlas Wave II implementation	Not yet prepared	Not yet started

Afghanistan Programme Implementation Facility						
1	AGOC	Expenditure should not be incurred without an approved project document or agreement already in place	”UNOPS agrees with this recommendation. Reminders have been sent to the Country Coordinator concerning compliance with the Financial Rules and Regulations. In addition, in order to improve compliance, a Regional Finance Officer will be assigned to the Afghanistan Office to follow up on this recommendation.”	Reduction of the use of the Imprest and greater use of ATLAS for disbursements. All DoA and PM have been directed not to expend funds without a project document or agreement. AGOC SOP to be amended to include this.	Ongoing- Ratio is currently down to only 10 per cent of transactions through Imprest as at end of 2006. This will be reduced as low as possible by the end of the first quarter 2007. In place now. End of February 2007.	Complete switch-over of Imprest disbursements to ATLAS No payments will be authorized without a project document or agreement
2	AGOC	The Financial Regulations and Rules should be reviewed to ascertain under what conditions expenditure could be incurred prior to the receipt of funds.	“UNOPS agrees with the recommendation. Proposals for changes to the Financial Rules and Regulations will be considered in 2006. A possible solution will be to allow commitments of funds prior to receipt of funds when specific criteria have been met, such as: signed project agreement; interruption of operations would seriously impact project objectives; Donor has other projects which are funded and agrees to use these funds until funds are received.”	A policy on “Advance Funding” has been released and implemented Advance Funding Policy to be included in AGOC SOP	Implemented End of February 2007	Policy on “Advance Funding” fully developed, released and implemented.
3	AGOC	Efforts should be made to secure additional funding to cover the \$3.2 million deficit.	“UNOPS agrees that over-expenditure on project budgets, without agreement from the client violates the Financial Rules and Regulations. The UNOPS Deputy Executive Director has instructed the Country Coordinator, Afghanistan, to take the appropriate corrective action in	Negotiations with donors and better monitoring of project budgets and disbursements	Ongoing	Zero deficit in the AGOC portfolio. No over-expenditures without donor written direction and headquarters UNOPS concurrence.

			accordance with UNOPS Financial Rules and Regulations.”			
4	AGOC	The monitoring and follow-up functions with regard to the ARL should be strengthened and all long-outstanding items should be cleared as soon as possible.	“UNOPS agrees with the recommendation. Procedures have been improved with the introduction of procedures for follow-up and settlement of advances over 90 days and monthly reporting of ARL balances.”	Strict ARL monitoring and monthly ARL ageing report to be produced monthly for the Director AGOC. No replenishment of advances to the field without clearance of current ARL. AGOC SOP amended to reflect this requirement.	Completed By end of February 2007	All ARL balances remain under 90 days old Monthly ARL ageing reports result in no ARL balances over 90 days. At the end of January 2007 the ARL is \$902,968.86, of which \$544,855.00 is still outstanding over 3 months.
5	AGOC	The practice of charging advances for operational project activities as direct expenditure should cease and all such advances should be charged to the ARL and cleared on a timely basis.	“UNOPS agrees with the recommendation. In order to ensure compliance with the established internal control procedures, UNOPS will outpost a Regional Finance Officer to monitor compliance and report to the Chief, Division of Finance and Administration, regularly.”	Strict monitoring of ARL and monthly ARL reporting to the Director AGOC and the RFO when appointed.	Completed but requires some follow-up to ensure all past documentation is present. Fully completed by the 1 st quarter 2007	Complete supporting documentation for all project expenditure is present.
8	AGOC	The practice of purchasing equipment for leasing to other projects should be reviewed and a related business policy should be established to cover this method of operation.	“UNOPS agrees with this recommendation. A detailed review of operations with a view to ensuring current procedures are adequate will be carried out in 2006.”	Policy on “buy and lease” to be developed and posted into AGOC SOP	1 st quarter 2007	Policy fully developed, released and implemented
“Establishment of a National Environment Youth Corps” project - the Gambia						
1	AFO	The reply should be submitted to the UNDP Resident Representative in the Gambia for issuance to the Government. A detailed reply to the Government letter of 1 November 2005 and the subsequent government communication on the matter should be prepared by the UNOPS regional office in accordance with the	“1. Para. (ii) There may have been difficulties in communication during the war in Côte d’Ivoire, where UNOPS office was based until June 2003. However, the situation improved when WCARO moved to Dakar in June 2003. Specific recommendations were made by UNOPS Portfolio Manager to improve channels of communication between UNDP/UNOPS/Projects during a	Execution of solution as indicated in column 3	Early April 2007.	Detailed letter has been prepared and will be sent shortly.

		<p>comments contained in this audit report. The reply should be provided to the Government through the UNDP resident representative in Gambia.</p>	<p>monitoring mission to Banjul undertaken in February 2005.</p> <p>2. Para. (iv) UNOPS will reply to the letter when sending the audit report since the audit was undertaken specifically to address issues raised by the Government.</p> <p>3. Para. 10 The responsibility for managing the project was given to UNOPS Africa II Division in Abidjan since the onset of the project in 2002 as part of the decentralization process.</p> <p>4. Para. 14 It should be stated that UNOPS did not participate to the meeting because it had not been invited.</p> <p>5. Para. 17 The pro forma cost for the CTA post was underestimated in the project document as it was for one individual without dependants. The actual cost was found to be much higher as the incumbent of the post had 4 dependants, 3 of whom were entitled to education grant. UNOPS requested UNDP approval of the higher amount before finalizing the CTA's recruitment.</p> <p>6. Para. 41 UNOPS PAC identified the issue of resource mobilization as a risk that may disrupt project implementation in case pledges indicated in the project document do not materialize. In addition, with the pressure from the highest level of government to start project activities, UNDP gave advance authorization to UNOPS before the incorporation of the initial budget in the financial system".</p>			
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2	AFO	For future activities and as a matter of lessons learned, care should be taken when preparing a sound and comprehensive project document.	<p>“In this case, UNDP fast-tracked the approval process of the project document, which did not facilitate any amendments desired by UNOPS. Given the urgency and the pressure from government officials as conveyed by UNDP, UNOPS accepted the project document though it was not involved in the formulation or appraisal and authorized the UNDP Resident Representative to sign on its behalf. Since 2001, when this project was accepted, UNOPS has streamlined its procedure for project acceptance, including decentralization to regional offices. Measures have been taken to reject projects that do not meet our requirements, particularly when they have already been signed, to encourage donors to associate UNOPS as much as possible in the formulation stage and the UNDP Project Appraisal/Approval Committee and to ensure UNOPS PAC comments are addressed before project implementation starts”.</p>	Project Manager to supervise corrective action as indicated	Ongoing	No repeat of the issue.
“Support to the Police of the Republic of Mozambique” project - phase I (MOZ/95/015) and phase II (MOZ/00/007)						
1	AFO	As a matter of priority, UNOPS should resolve with the UNDP Mozambique office the issue of the over-expenditure, which should include dealing with the following significant factors: (a) effect, if any, of donor contributions of \$236,684 kept by the UNDP Comptroller’s Office in a holding account under MOZ/95/015; and (b) discrepancy on the calculation of the UNOPS support cost as stated between the donor agreement with the Government of Spain and the Project Document.	<p>“UNOPS agrees that the over-expenditure needs to be resolved but feels that while the reasons for the over-expenditure have been clearly reported in the audit report as resulting from non-compliance of the officers responsible for project management, there is no comment on whether the non-compliance was due to negligence on the part of the UNOPS staff or other factors. Given that the audit was made at the request of the UNOPS Deputy Executive Director based on discussions with the UNDP office in Mozambique and given the seriousness of the alleged actions, it is suggested that the audit team consider further investigation of the</p>	<p>UNOPS Finance headquarters to request UNDP comptroller to release donor funds, which will reduce the deficit by \$236,684.</p> <p>UNOPS has agreed to accept a lower rate of AOS, reducing the deficit by \$133,000. UNOPS Finance headquarters to apply this.</p>	<p>End March</p> <p>End March</p>	<p>Funds transferred</p> <p>Budget revision agreed</p>

			<p>matter. In this connection, since those responsible are now employed by UNDP, and since the audit was partly a result of discussions with UNDP, internal audit should carry out any additional work with the agreement of UNDP.</p> <p>Regarding (a) above, as a regular-resource-funded project, UNOPS receives an authorized budget and not cash. Therefore, OAPR may wish to review this point with the assistance of UNDP. With regard to point (b), the total budget authorization and revisions prepared and approved by UNDP appear to be in line with the total contributions received by UNDP, less the UNDP management fee. Therefore, if there are discrepancies, OAPR may wish to further investigate with the assistance of UNDP”.</p> <p><u>Please refer to the OAPR response to the management comments, as shown/detailed in the final report.</u></p>	<p>UNOPS/AFO to further discuss with UNDP Resident Representative in Mozambique the remaining over-expenditure to confirm they were in line with project activities/delivery and to discuss how these costs can be covered.</p>		and signed
3	AFO	The issue of whether to continue or terminate the contract with the firm ABACO should be resolved in consultation with the Office of Legal Services.	<p>“UNOPS agrees with the audit recommendation. ARO will seek the advice of Office of Legal Services and the assistance of UNDP Mozambique in deciding the course of action to be followed.”</p>	<p>UNOPS agreed to pay balance of \$7,000 to enable works to be completed – once the demurrage was refunded – waiting response from UNDP Mozambique</p>	End March	Letter from UNDP confirming recovery of demurrage charges
5	AFO	Under the project MOZ/95/015, the difference between the total donor contributions shown in the final budget revision with that shown in the records of the UNDP Comptroller’s Office should be reconciled, as a matter of priority. In particular, the reconciliation should take into account the amount	<p>“As noted above, as a core funded project, UNOPS receives authorized budget and not cash. Therefore OAPR may wish to review this point with the assistance of UNDP”.</p> <p><i>Please refer to the OAPR response to the management comment, as shown in the final report.</i></p>	<p>UNOPS headquarters Finance to request the UNDP Comptroller to release funds, which will decrease the deficit</p>	End March	UNDP to release funds

		of \$236,684, which is being kept in a holding account by the UNDP Comptroller's Office				
The mine action procurement activities of the Global and Interregional Division						
1	NAO and DPS	<p>For proper vendor management and maintenance of the vendor database, we recommend the following:</p> <ul style="list-style-type: none"> • Establish a process, including setting criteria or benchmarks for the comprehensive evaluation and screening of vendors to be included in the vendor file. <p>(a) Establish a vendor performance feedback mechanism for recording in the vendor file, which could be accessed by all procurement practitioners. The same mechanism may be used to disseminate information on "blacklisted" vendors;</p> <p>(b) Carry out a regular periodic review of the vendor file for updating vendor information and purging obsolete data.</p>	<p>DPS Comments: "Although the recommendation is directed at Global and Int3rregional Division (GLO), from the corporate procurement standpoint, DPS agrees with the recommendation. The new UNOPS Procurement Manual contains language addressing vendor management and evaluation of supplier performance".</p> <p>GLO Comments: "This is fully endorsed but identifying GLO as the action unit responsible is not in line with the current and past division of responsibilities within UNOPS. Client services do not develop corporate procurement guidelines. They are developed by corporate services (OLS and/or DPS) in consultation with client services. This issue can perhaps be seen as a consequence of the incomplete 2004 restructuring, which placed operational responsibility for procurement with client services but provision of support, tools and guidelines with DPS. However, the restructuring of corporate services was put on hold and the support from DPS originally envisaged did not materialize until later. GLO does not have the mandate, capacity or resources to develop corporate guidelines on the management and maintenance of the vendor database, which is a corporate tool. We can certainly provide input to DPS into the design and ongoing maintenance for those vendors with which we work. DPS should be requested to identify a completion date and responsible manager."</p>	Vendor management is a major task/activity. It has been agreed that the Organizational Effectiveness Centre (OEC) of UNOPS will start developing a corporate vendor management system in the last quarter of 2007. In the meantime, a supplier performance evaluation form has been developed. Procurement staffs have been instructed to include it in all new procurement case files and to fill it in at the end of the procurement process. One person at GSC is also collecting this information for all procurement activities conducted by UNOPS	End of 2008	This will depend on the vendor management system that will be put in place

3	NAO and DPS	We recommend that consideration be made to establish a retention policy for all pertinent bid documents and records related to procurement activities.	<p>DPS Comments: “Although the recommendation is directed at GLO, from corporate procurement standpoint, DPS agrees with the recommendation. In this regard, UNOPS issued Organizational Directive No.12 Records Retention Policy on 21 April 2006. The new UNOPS Procurement Manual stipulates rules on ‘Documentation of the procurement process’ (see para. 1.7”).</p> <p>GLO Comments: “Recommendation 3 also pertains to the development of corporate procurement guidelines so the same comments on recommendation 1 apply. Earlier, when this issue came up, [GLO] referred to the UNOPS Handbook and found that it is silent on this subject. [GLO] could not locate any guidance on this subject. Subsequently, Organizational Directive No. 12 was issued on 21 April 2006 [...]. All unsuccessful proposals have been retained since 21 April 2006. Since this recommendation has far-reaching consequences for all units of the organization, not just GLO and mine action, [GLO] would recommend that the management comments include the proposal that adherence to the records retention policy in this respect will be monitored and periodically reviewed in the light of best practices and the capacity of the organizational units to follow the policy. The cost and mushrooming volume of documents for the organization to manage can be considerable [...]”.</p>	The retention policy is clearly defined in Organizational Directive No. 12 and in the Procurement Manual	NA	NA
“Creating a Regional Information Network in Western and Central Africa” (Fidafrique II) – Senegal						
1	AFO	The Agreement should be amended to reflect the issues raised in this report with regard to the following:	“UNOPS agrees [...] and will discuss with IFAD both issues in September 2006 when the next mission is scheduled.”	IFAD considers that it is not necessary to establish such	30 April 2007	IFAD to send a letter to UNOPS explaining the case.

		(a) clearly stating the role of UNOPS; and (b) clarifying the audit responsibilities.		amendment because the project completion date is scheduled for 31 December 2007. This issue will be discussed during the next supervision mission in April 2007.		
“Western and Central Africa Rural Development Hub, a Tool for Improved Food Security and Rural Poverty Alleviation” programme – Senegal						
1	AFO	The Agreement should be amended to reflect the issues raised in this report with regard to the following: (a) clearly stating the role of UNOPS, and (b) clarifying the audit responsibilities.	“UNOPS agrees with the recommendation and will discuss with IFA both issues in September 2006 when the next mission is scheduled”.	IFAD considers that it is not necessary to establish such amendment because the project completion date is scheduled for 31 December 2007. This issue will be discussed during the next Steering Committee meeting	10 May 2007	IFAD will send a letter to UNOPS explaining the case.
Indonesia Programme Implementation Facility and the “Schools Reconstruction and Refurbishment Project” financed by UNICEF						
1	APO	We recommend that in line with the ongoing dialogue with the UNICEF field office, the project implementation plan and budget be revised to take into account the significant changes in the size of the activities, funding and reporting requirements.	“Agreed. Already done. A Project Implementation Plan (PIP) was prepared, circulated for comments and discussed during the UNICEF/UNOPS Bangkok August 2006 meeting. This document was approved in principle and forms the basis of current programme with UNICEF in anticipation of the revised memorandum of understanding to be signed.”	July-December 2006 PIP finalized and approved by UNICEF, reflecting, inter alia, number of schools agreed upon with APO.	Done (September 2006)	Approved PIP document and formal takeover of the project management by APO. New approved management services agreement, replacing the initial memorandum of understanding.
2	APO	We recommend that staff be trained and encouraged to fully utilize Atlas in the project operations.	“Agreed. Discussions between APRO and project management under way to drastically increase use of Atlas in 2007. Additional resources will be required during the next	Provision for training of project finance staff made in January-June 2007 PIP. This PIP	Training slated for current PIP period January-June 2007.	Trainees identified and preliminary arrangements / discussions taken up with Division of

			PIP negotiations with UNICEF. UNOPS is finalizing its review of the use of imprest accounts at all locations with a view to either using UNDP Country Offices to make payments, where feasible, or by providing Atlas payment functionality to UNOPS offices (preferred option). Atlas training will be provided to project personnel with user IDs.”	was formally approved about two weeks ago. Need for such training has already been communicated to Finance NY and OEC CPH.		Finance/New York and OEC/ Copenhagen.
3	APO	We recommend that the coordination, flow of information and communication between UNICEF and UNOPS at the field level be continuously improved to resolve difficulties and obstacles in project implementation in a more timely manner.	“Agreed. Since the transfer of the project responsibility from APIF to APRO in July 2006, there has been considerable improvement in the UNICEF/UNOPS relationship at the field level. Much has been improved in the coordination, information flow and communication between the two agencies. Weekly meetings on progress; weekly technical meetings at alternate venues; and ad hoc meetings either in Banda Aceh or in Jakarta have been held between UNICEF and UNOPS to maintain close consultation on project development or issues. UNICEF Construction Unit staff are invited to all pre-bid meetings and public bid openings.”	UNOPS has opened up to UNICEF Construction Unit Inspection teams at the field level. UNICEF technical staff in Banda Aceh, Calang, Meulaboh and Nias Field Offices are invited to all procurement related meetings/sessions, e.g., pre-bid, bid opening, joint inspections for progress tracking and substantial handover are also undertaken.	Ongoing	Less suspicion and misunderstanding. Problems are resolved in-situ thus minimizing the probability of tension and conflict of opinion and reducing delays in taking remedial action. Improved collaboration and facilitation leading to increased business over time from 133 to 170 schools since the takeover by APO.
6	APO	Imprest account submissions to headquarters should be done no later than the second week of the following month, as required in the imprest guidelines.	“Agreed. The relocation of the Finance Officer to Banda Aceh has led to regular and timely submission of imprest account returns.”	Apart from relocating the Finance Officer to Banda Aceh, a recruitment drive launched to bring on board qualified and capable finance staff. The Finance Unit of the project has benefited from a Finance Associate thus strengthening the staffing in the unit. The Field Offices have	Done in December 2006	New Finance staff on board at the Project Management Unit (PMU), Banda Aceh and the 4 field offices. The new staff have undergone training in FASS and to a great extent have impacted positively on the PMU capacity to provide support for the field offices. Submission of Imprest

				equally benefited from new and capable finance staff, thus enhancing the capacity of the team to organize and respond in a timely manner, as well as expediting Imprest account submissions.		account returns to Finance New York has improved remarkably.
7	APO	We recommend that the practice of using staff's personal bank account for the project operational requirements be discontinued, as a matter of priority, and all funds transferred to a new account under the name of the project office. The project should establish a local currency imprest bank account in Banda Aceh and in the other field office locations. If a bank account in the other field office locations is not possible, a small cash account (not to exceed \$2,500) that is operated on an imprest basis should be established.	"Agreed. Transfer of funds to a staff member's personal account ceased with the relocation of the Finance Officer to Banda Aceh during first week of September 2006. The practice of cash advances to field offices was also discontinued. Regular petty cash accounts have now been set up with proper authorization. Only in Calang actual cash will be held in a safe since no banks are available there at present."	Done	Sept 2006	Finance staff handling funds in his personal account eloped. Small cash accounts have been created in all field offices.
8	APO	We recommend that the expenditures recorded in Atlas under the Schools Reconstruction project be thoroughly and periodically reviewed in order to: (a) ascertain the validity of outstanding purchase orders which were established prior to 30 June 2006 and to adjust or close them, as necessary; (b) identify any incorrect charges, such as the incorrect charge of \$140,000, which should be reversed and transferred to the BRR project, as a matter of priority.	"Agreed. The exercise or reviewing expenditures recorded in Atlas for the project has been completed. Action is being undertaken by the Portfolio Manager to reverse ineligible expenditures charged to the project and simultaneously cancel ULOs considered invalid at this point in time. Balance of 2005 purchase orders have all been cancelled, credited to the project, and along with Project Delivery Report, reported to UNICEF (as of 30 September 2006)."	Done	December 2006 - January 2007	Imprest account expenditures were reviewed retroactively by the Portfolio Manager and all detected ineligible expenditures identified. Major items were reversed out of the project, and only a few small items remain to be done in 2007. Also, all non- valid 2005 and 2006 purchase orders were cancelled before closure of 2006 accounts. Incorrect charges to the project vis-à-vis the BRR

						project were also taken out on closure of 2006 accounts.
9	APO	We recommend that the designated Atlas budget owner for the Schools Reconstruction project should closely control and monitor expenditures, particularly the validity of outstanding purchase orders or encumbrances.	“Agreed. The Portfolio Manager in APRO is now responsible for this exercise and will perform the function as recommended. Past expenditures have been carefully reviewed and validity of purchase orders is currently being ascertained.”	All expenditures in 2007 will be made on the basis of Atlas approved purchase orders	Started in January 2007 and ongoing	Purchase orders created and approved in Bangkok. All expenditures will be made out of these purchase orders, thus facilitating reconciliation and tracking of expenditures, as well as improving financial reporting. By establishing a Master Table on the subcontract components, the value of the purchase orders are closely monitored and adjusted over time.
11	APO	We recommend that a national salary structure, based on corporate guidelines and taking into account the national salary scales of other United Nations organizations operating in the same field location, be instituted for personnel under the Schools Reconstruction project.	“Agreed. A survey of national salary scales of other sister United Nations agencies in Banda Aceh and Nias was undertaken in July 2006. Corporate Guidelines have been taken into account. A new salary structure in line with national salary scales has been prepared and is under implementation with effect from 1 September 2006.”	New national and international salary structure was put in place based on comparable emoluments of other United Nations agency staff of similar levels in Aceh and Nias.	September 2006	New salary structure for nationals implemented in November 2006 with retroactive payments dating back to September 2006. International salary structure was tied to the contract expiry and renewals of individuals.
“Access Improvements to Markets in the Eastern Region” programme - Timor-Leste						
1	APO	The management should ensure that personnel who perform poorly are either counseled soonest possible; or terminated at the earliest opportunity in order to avoid a situation where the poor performance of key personnel leads to ineffective execution of project activities.	“Management agrees with the observation that early activities should have been taken for a replacement despite special situation.”	PMU will monitor the staff performance on a daily basis and feedback is provided to APO in a timely manner	Ongoing	In addition to Performance Assessment before the contract extension, each staff is reminded to act as per terms of reference and related rules.
2	APO	The management of UNOPS should ensure that:	“Management agrees with the observation and recommendation and will follow up with	APO will follow up with UNDP to ensure	Ongoing	The former monitoring and evaluation specialist’s

		<p>(a) The job description/scope of work/terms of reference for the monitoring and evaluation specialist is formally agreed, with UNDP taking into account any overlap of activities with the consultant;</p> <p>(b) Amount charged for the services of the monitoring and evaluation Specialist is justified and commensurate with the work performed and other equivalent Projects;</p> <p>(c) The monitoring and evaluation specialist is assigned to the AIM Project on a full-time basis as required by the project document;</p> <p>(d) Only the actual cost is charged to the project. Estimation of cost should be accounted only as pre-encumbrance or encumbrances in ATLAS. Disbursement should be based on actual cost;</p> <p>(e) Timely reversal in ATLAS should be performed to reflect the actual monitoring and evaluation specialist cost in the AIM project expenditure.</p>	UNDP for a decision on this issue.”	a full-time monitoring and evaluation specialist is appointed as a matter of priority.		assignment ended when her contract expired (6 months) and UNDP has not taken any further action to appoint a replacement.
3	APO	Management should revise the project document on a timely basis to take into account changes made to the timeline, budget, additional funding secured from the Government of Timor-Leste and the latest estimated completion dates; notwithstanding the fact that the project document should be revised on an annual basis in accordance with part IV thereof.	“Management fully agreed with the observation and recommendation and will urge UNDP to amend the project document so that all changes can be properly reflected and documented.”	APO will ensure all future changes from the original project document are reflected through revision or amendment in a timely manner	December 2006	Addendum to the Contract (project document) between UNDP and European Commission was signed
4	APO	The management should ensure the:	“Earlier in February 2006 when foreseeing the possible delay of the project	Based on the project work plan and actual	September 2006	Official approval from European Commission for

		<p>(a) Timely preparation of the revised timeline;</p> <p>(b) Timely preparation of request for project duration extension from the European Commission;</p> <p>(c) Request for extension for project duration should include the period of withholding the retention sum;</p> <p>(d) Timely follow-up to the response from the European Commission regarding the approval of the extension.</p>	<p>implementation based on the tendering timeframe, the Project Manager raised the issue of project extension with the European Commission at the meeting with European Commission Country Director during the visit in Dili. Given the fact that the extension period must be decided in accordance with the date of the contract award, European Commission Country Director advised UNDP and UNOPS to submit the project extension request only after the contract award. At subsequent meetings, the European Commission repeated the same requirement. Although there is no official letter or minutes in this connection, the Project Manager recorded the above discussion and instruction in the Mission Report and APRO Assessment Report of Timor Leste Projects in August 2006. Nevertheless, the Project Manager will follow up with UNDP and the European Commission for early approval of the extension until end of 2008.”</p>	<p>bridge construction schedule of the Contractor, APO will monitor the project progress more effectively so as to ensure that correct and timely action is taken in future.</p>		<p>project extension until end of 2008</p>
7	APO	<p>UNOPS should monitor the timely execution of activities in order to meet the specified objectives of the project.</p> <p>Should there be a change in the timing of execution of project activities and it is apparent that the situation is not conducive to meeting the objectives in the time period allocated, the budget should be revised accordingly to provide a more reasonable delivery rate.</p> <p>A timely formal communication to the donor to approve the extension of the project should also be performed by the Project Manager.</p>	<p>“The comment well noted. Under AIM, 90 per cent of the project budget is located for construction of 5 bridges. Without knowing the exact date of contract award, the management has to keep sufficient amount available for the construction contract in the budget of the current year. Nevertheless, attention should be given to close monitoring of budget/expenditure to ensure efficient communication with the donor for timely budget revision and projects extension.”</p>	<p>Based on the project work plan and actual bridge construction schedule of the Contract, APO will monitor the project progress and use of funds more effectively so as to ensure that correct and timely action is taken in future.</p>	<p>September 2006</p>	<p>Official approval from European Commission for project extension until end of 2008</p> <p>Budget Revision was signed</p>
16	APO	<p>The management should ensure that each of the budget lines is</p>	<p>“The comment is well noted. Normally, the new budget revision should be</p>	<p>APO has sent the Budget Revision to the</p>	<p>December 2006</p>	<p>The Budget Revision passed commitment</p>

		revised in a timely manner if there are potential variances.	<p>sent to commitment control in ATLAS immediately after signatures. The budget revision signed on 18 September 2006 is only an interim one needed for inclusion of \$700,000 of the additional government contribution before awarding the contract to the contractor for bridge construction on 22 September 2006, and another budget revision is to be made after European Commission approval of project extension to end of 2008 is granted. As a result, APRO has held the action to send the budget to commitment control in the system. In ATLAS, once new budget revision is approved, the expenditure reports will be automatically changed according to new budget allocations. APRO decision is to avoid possible confusion on expenditure reports that might be caused by frequent budget revisions within shorter period, particularly at the end of the quarter when the quarterly PDR will be sent to UNDP headquarters.</p> <p>The "O" expenditures or over-expenditure under certain budget lines in the 2005 expenditure report are caused by charging to incorrect fund/donor codes in ATLAS. The corrections have been made through reversal and such human errors should be avoided as much as possible in future."</p>	Commitment Control and taken action to correct erroneous charges as an immediate follow-up to auditor's advice		control in the system and the expenditure report is cleaned.
23	APO	<p>The management should ensure that:</p> <p>(a) All data has back-up at least on weekly basis;</p> <p>(b) UPS hardware to be installed on each project desktop;</p> <p>(c) An off-site location is identified for storage of all back-up CDs and to serve as an alternative location to continue operations should the contingency arise.</p>	"Point well noted. Management will advise and supervise the Project Team to ensure proper action."	PMU will ensure proper action is taken by all staff	Ongoing	Software and required IT goods are purchased for this purpose.

Annex 2

Summary of recommendations unresolved over 18 months

Report reference	Unresolved recommendation	UNOPS management explanation
PS0175 Myanmar	The petty cash level for MYA/01/005 should be increased and a petty cash account should be established for MYA/01/005.	With the refocusing of the project strategies, there was no longer any need to increase the level of petty cash.
PS0175 Myanmar	Contracts between UNOPS and third parties must be entered into only by officials holding an appropriate, valid delegation of authority. With regard to the specific contracts with Dana Phyto Cooperative Society, Mon Literature and Culture Committee and U Aung Zaw Hein, post-facto approval should be sought from senior management to accept related charges as valid expenditures.	APO will ensure the recommended action will be taken and is collecting documents for this purpose.
PS0181 GEF-SGP Tanzania	The staffing of the SGP unit should be reviewed with a view to increasing programme-related support to the national coordinator in order to strengthen the monitoring of projects.	No additional staffing decision was taken by CPMT Global Manager. National coordinator confirmed that since SGP unit is integrated within the UNDP country office, arrangements have been made to ensure that UNDP country office staff assists the national coordinator with project-monitoring tasks. Recommendation cannot be immediately implemented owing to SGP financial constraints. Additionally, the national coordinator has not provided any indication for a continued need of extra staffing, in view of office reorganization.
PS0190 GEF-SGP Ecuador	The programme assistant should discontinue preparing purchase orders in Atlas.	Since new Atlas processing guidelines were introduced in September 2006, the SGP staff should create purchase orders for grant payments, and may assist in admin payments (if accepted by UNDP country office) for usual processing by UNDP country office in line with standard fiduciary responsibility and Internal Control Framework. This revised procedure is needed to streamline response to observed payment process delays on the part of most UNDP country offices. Recommendation cannot be followed as new and improved guidelines were subsequently launched. The result was an improved and streamlined payment process and better coordination between SGP staff and UNDP country office.
PS0191 GEF-SGP Brazil	The “double payment” of \$1,902 to the beneficiary “Associação dos Pequenos Produtores Rurais da Cabeceira do Mangai” should be recovered from the beneficiary.	No written comment received so far from national coordinator or UNDP country despite several reminders. Follow-up action continues. UNDP country office financial records indicate the recovery of the double payment – to be verified.
PS0191 GEF-SGP Brazil	It should be ensured that the operation of the national steering committee in Brazil is in line with the Guidelines, particularly in the following aspects: (a) Members should be formally appointed by the UNDP Resident Representative;	No written comment received from national coordinator despite several reminders. Follow-up action continues. SGP Brazil records to be verified.

	<p>(b) Any member of the national steering committee from the non-governmental sector, academic and scientific institutions, other civil service organizations, should be appointed to serve in her/his personal capacity and not as a representative of her/his organization;</p> <p>(c) The practice of considering the tenure of members to be “indefinite” should be discontinued and the “two-year rule” should be generally used as a yardstick.</p>	
PS0191 GEF-SGP Brazil	It should be ensured that a review is carried out of all operationally completed projects to make sure that these have been/are brought to an appropriate closure.	<p>No written comment received from national coordinator despite several reminders. Follow-up action continues.</p> <p>Local SGP Brazil records to be verified.</p>
PS0192 GEF-SGP Costa Rica	The differences in amounts appearing in the Quarterly Expenditure Report, the annual work plan and the PEDR should be reviewed and reconciled.	<p>It appears that the audit team is under the incorrect impression that the sum of funds appearing in the yearly budget for grants is equivalent to the country allocation. The grant allocation is communicated yearly to each country by means of a specific letter. The grants once approved by the NSC are disbursed through multiple installments over a number of years. Thus what is recorded in the yearly budget is the total sum of grants disbursements due in that single year, including previously approved grants. As a general comment, we do not see clearly the purpose in reviewing the discrepancies post-facto related to the country administrative expenses. Rather it is worth noting that with more than 85 country programmes our effort has concentrated in developing ad-hoc reporting instruments to control the expenditures vis-à-vis the approved yearly budget while checking on the consistent reporting from the country offices.</p> <p>OAPR comments: The issue pertains to: (a) budget and expenditure recording and reporting; and (b) discrepancies noted between the different management reports, i.e., the Quarterly Expenditure Report prepared at the field level, the annual work plan and the PEDR. The recommendation makes no mention of the amount of the grant allocation, in particular, but rather addresses the programme budget and expenditure reporting, as a whole. We recommend, therefore, that future project financial reports from headquarters and the field should be regularly reviewed for consistency in order to strengthen budgetary monitoring and control.</p> <p>UNOPS agrees with this clarification.</p>
PS0195 GEF-SGP Kenya	The engagement of temporary assistance to lessen the administrative workload of the programme assistant should be considered.	No action taken owing to financial constraints at the time and in view of by now improved workload situation of the programme assistant.
PS0195 GEF-SGP Kenya	The grade level of the programme assistant should be reviewed.	No action can be taken at this time since the standard consistent classification of all SGP programme assistants as well as UNDP/UNOPS Human Resources rules do not allow re-classification of grade in the circumstances.

Annex 3

Definitions of standard audit ratings

Audit ratings

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

Definition of performance

Within the operational audit context, performance refers to the economy, efficiency and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency and whether management has put in place mechanisms to accurately monitor and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

Performance also refers to the manner in which activities are conducted – i.e., whether they are conducted in accordance with UNOPS values. UNOPS values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Standard rating

Definition

Satisfactory

In general, controls were in place to ensure that operations are economic, efficient, and effective; and that activities are conducted with due regard to UNOPS values. Any weaknesses identified were not significant enough to compromise the overall performance and the control environment. The range of corrective actions required by management is moderate.

Partially Satisfactory

The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management is required to correct these weaknesses.

Deficient

Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.

Annex 4

Audit risk assessment model and audit work plan for 2007

(Revision date: 17 October 2006)

I. Introduction

The Project Services Audit Section (PSAS) formulated a risk-based audit planning system to ensure that its priorities are consistent with the goals of the United Nations Office for Project Services (UNOPS) and thus enable it to add value to UNOPS operations. PSAS aims to design the 2007 annual work plan based on an assessment of risk and exposures that may affect UNOPS in conducting its activities around the globe. PSAS intends to provide UNOPS management with information to mitigate the risks involved in its operations for the year.

Having a model for risk assessment has become essential because of the diversity and range of UNOPS operations worldwide, the PSAS wide scope of audit coverage and limited available staff. To optimize these limited resources, it is imperative that PSAS efficiently and effectively allocate resources to areas which are most critical to UNOPS. Thus, risk assessment is a key element during the audit planning phase to systematically identify significant areas of activity in UNOPS that warrant special emphasis and closer review.

Having an effective risk-based planning system will give a reasonable assurance to UNOPS management that significant and critical auditable units are adequately covered through a medium- to long-term audit strategy and annual work plans and that recommendations resulting from these audits add value to the projects, corporate service units and UNOPS as a whole.

II. Overall objectives

The overall objective of the risk assessment exercise is to develop an audit plan for UNOPS, based on a risk based approach by determining the higher risk areas and resulting audit procedures and areas of focus.

The risk assessment also aims to provide a feedback to the management on critical areas for due management attention and supervision in implementation of sound internal controls.

III. Proposed methodology

Review of relevant data and information would include UNOPS business plan; organizational structure, management and staffing; funding and resources, including financial and operating data; applicable legislation and recent developments, including changes in management.

Identification of audit universe and auditable units. UNOPS has currently been going through a number of changes in organizational priorities and management structure. With the move of its headquarter from New York to Copenhagen, there is a chance that the existing business units may merge and change and some additional units may emerge. It is therefore very important for any audit plan to take this into consideration.

For our risk assessment model, two audit universes could be defined to capture the UNOPS operations:

- (a) By organizational units;
- (b) By programme and projects

Note: Audit work plan released to UNOPS senior management and to the members of the Corporate Controls Centre in October 2006.

The attachment following the present annex indicates the auditable units within UNOPS, as at 17 October 2006, under the categories of Client Services units; Executive Office and Corporate Services units. Under the category of Client Services units, a sample of related programmes and projects will also be included to give appropriate coverage to UNOPS activities as a whole.

Risk identification involves speculating about the relevant threats and/or opportunities that could affect an auditable unit and its ability to achieve its business goals. In identifying the risk factors in assessing organizational units, those that have a potential to materially affect UNOPS in areas of governance, management, operations and control environment have been taken into consideration. The risk factors also take into account any historical or statistical available data pertinent to the risk identification process.

The identified risk factors for UNOPS two groups of identifiable units, i.e., Client services and Executive Office and corporate services, are shown below and are categorized by quantitative and qualitative factors.

The rating is based on a combination of 60 per cent quantitative and 40 per cent qualitative ratings. The units are ranked according to the overall scores. These results are to be used in identifying units to be audited and as a basis for allocating audit resources for 2007.

	Quantitative factors	Client services	Executive Office and corporate services
1.	Approved programme budgets	10	-
2.	Approved administrative budgets	-	15
3.	Total programme expenditure	10	-
4.	Total administrative expenditure	10	15
5.	Resource mobilization	5	-
6.	Business acquisition	5	-
7.	Number of purchase orders valuing \$100,000 or more	10	15
8.	Time elapsed since last United Nations Board of Auditors and/or PSAS Audit	10	15
		60	60

Qualitative factors are not quantifiable but have an influence on risks in the actual operations and in the management of resources.

	Qualitative factors	Client services	Executive Office and corporate services
1.	Stakeholder concerns	10	10
2.	Last PSAS audit rating	10	10
3.	Results of recent audits or investigations	10	10
4.	Turnover at key management level	10	10
		40	40

Risk measurement considers information such as the probability of occurrence, severity of consequences, and timing and duration. For PSAS to have a consistent basis for measuring the potential influence on the overall level of risk for each auditable unit, a uniform 3-point scale measurement system is being adopted. In all ratings (quantitative and qualitative), the following applies:

<i>1</i>	<i>3</i>	<i>5</i>
<i>Low</i>	<i>Medium</i>	<i>High</i>

The actual values for each quantifiable factor are scaled proportionately so that the auditable unit with the highest value is given a rating of 5 and with the lowest value, a rating of 1. All units are given ratings depending on their position in the range from 1 to 5. In defining the scale, the minimum and maximum values of all auditable units are to be considered. Ranges defined for each factor are on based on an analysis of the global actual figures.

Consultations with the respective UNOPS units are to be conducted: (a) to obtain the data needed for input into the model; (b) to determine their overall perception of risks; and (c) to confirm the risk assessment carried out by PSAS. In the case of substantial differences in perception of risks, the risk assessment process will be revisited.

In this connection, the UNOPS is being requested to provide their risk rating for two qualitative factors, namely, stakeholders' concerns and senior management turnover in each unit.

Consolidation of results of the risk assessment is to be done by PSAS to obtain the risk ranking of all auditable units. The overall scores are divided into three quartiles (see table below) - high, medium and low risk - as the basis for determining the audit cycle and, consequently, the number of units to be included in the PSAS audit work plan. The results of the risk assessment and the units identified for audit are shared with UNOPS.

<i>Level of risk</i>	<i>Final risk scores</i>
High	3.26 to 5.00
Medium	2.01 to 3.25
Low	1.00 to 2.00

Periodic reviews of the risk factors, scores and the weighting system should be carried out annually. The purpose of periodic reviews is to ensure that emerging issues and changing concerns about risks and opportunities are adequately and accurately captured and reflected in the annual work plan.

IV. Definition of proposed risk factors and scores

Quantitative risk factors

The 2007 risk assessment exercise is based on available data for the month of October 2006.

A and B. Approved budgets

Approved budgets correspond to the budget figure approved by UNOPS headquarters and reflected in UNOPS Dashboard as of 1 October 2006.

Client services (programme budgets)

Less than \$75 million	1
Between \$75 million and \$150 million	3
Above \$150 million	5

Executive Office and corporate services (administrative budgets)

Less than \$1.5 million	1
Between \$1.5 million and \$4 million	3
Above \$ 4 million	5

C and D. Total expenditures on programme, management and other activities

Expenditure is one of the key elements to assess risk. The total expenditure on programme and administrative activities pertain to the total expenditure of the units as of 1 October 2006.

Client services (programme)

Less than \$50 million	1
Between \$50 million and US \$100 million	3
Above \$100 million	5

Client Services (administrative)

Less than \$1.5 million	1
Between \$1.5 million and \$3 million	3
Above \$3 million	5

Executive Office and Corporate Services (administrative)

Less than \$1.5 million	1
Between \$1.5 million and \$3 million	3
Above \$3 million	5

E. Resource mobilization

As UNOPS is a service provider, income generation targets are an important factor and indicate the volume and complexity of work for a particular unit.

Client Services (income targets)

Less than \$5 million	1
Between \$5 million and \$10 million	3
Above \$10 million	5

F. Business acquisition

This factor takes into account the expected new pipeline projects for the auditable units. The higher the value of pipeline projects the more it impacts on the operations, funding and hence an enhanced need for control implementation.

Client Services

Less than \$75 million	1
Between \$75 million and \$150 million	3
Above \$150 million	5

G. Number of purchase orders valuing \$100,000 or more

Higher average values of purchase orders add complexity to the operations and increase business risk. Information on the number of purchase orders processed through Atlas has been obtained as of 7 October 2006.

Client Services

Less than 50	1
Between 50 and 100	3
Above 100	5

Executive Office and corporate services

Less than 5	1
Between 5 and 10	3
Above 10	5

H. Time elapsed since last United Nations Board of Auditors and/or PSAS audit

This factor takes into account the time passed since the auditable unit was last audited by the United Nations Board of Auditors and/or PSAS.

Last audit in year 2006	1
Last audit in year 2005	3
Last audit in year 2004 or earlier	5

Qualitative Risk Factors

I. UNOPS stakeholders' concerns

This pertains to the level of interest that UNOPS stakeholders (i.e., Executive Board, senior management, Board of Auditors, donors and Governments) may have in any project/unit because of its high profile in the international community, media, external environment, or even in the host country. The risk of reputation to UNOPS may arise due to the loss of human lives, operations in challenging countries (e.g., the Democratic People's Republic of Korea, Somalia) or mismanaged UNOPS projects. This aspect is assessed by headquarters units.

Expressed level of interest is low	1
Expressed level of interest is medium	3
Expressed level of interest is high	5

J. Last OAPR audit rating

Audit rating pertains to the overall audit opinion of the last audit undertaken by PSAS in the last three years, which covered the planned audit areas. Where there were no audits conducted in last three years, the median score of 3 has been taken to reflect the factor value.

Satisfactory	1
Partially satisfactory	3
Deficient	5

K. Results of recent special audits or investigations

Special audits or investigations are normally associated with control breakdowns and deficiencies and are an important indicator of organizational risk.

Cases reported, but not substantiated during the last three years	1
Cases with medium level of exposure reported and substantiated during the last three years	3
Cases with high level of exposure reported and substantiated during the last three years	5

L. Turnover at headquarters unit key management level

This relates to changes in the critical posts in the Client Services and Executive Office and Corporate Services units. This aspect is assessed by the management of UNOPS.

0-1 change in the management position in the last two years	1
2-3 changes in the management position in the last two years	3
New set-up or more than 3 changes in the management position in the last two years	5

V. Specific risk assessment steps

The risk matrix contains the following spreadsheets; quantitative data sheet (annexure II); qualitative and quantitative score sheets (annexure III and IV); qualitative and quantitative weighted-average score sheets (annexure V and VI); and consolidated risk rating (annexure VII).

Quantitative data sheet

This worksheet is used to enter the data that forms the basis of the overall risk assessment. Data is available as indicated in various sources within the UNOPS Intranet, dashboard and UNOPS headquarters.

Qualitative and quantitative score sheets

These worksheets contain formula based on the risk-rating criteria for all the qualitative and quantitative factors.

Qualitative and quantitative weighted-average score sheets

These worksheets assign weights to the risk factors calculated in the score sheets, based on criteria defined in the risk assessment document.

Consolidated risk rating

This worksheet combines in one single spreadsheet the total score assigned to each auditable unit based on the assessment of the quantitative and qualitative factors and their respective weights. The worksheets assign ranking to units based on the final weighted-average risk scores.

Attachment

List of audit universe and auditable units as at 17 October 2006

Audit universe	Auditable units	Location
Regional Offices and Client Services	<ul style="list-style-type: none"> • Middle East (B0056) • Asia and the Pacific (B0055) • Central Asia, North Africa, Near East and Europe (B0051) • Latin America and the Caribbean (B0054) • North America • Africa (B0053) • Individual programmes and projects 	<p>Dubai Bangkok</p> <p>Geneva Lima New York Nairobi</p> <p>Programme countries</p>
Executive Office and Corporate Services	<ul style="list-style-type: none"> • Office of the Executive Director (B0002) • Office of Legal and Procurement Services (B0008) • Division of Finance and Administration (B0004) • Division of Human Resources Management (B0006) • Division of Information and Communication Technology (B0010) • Global Service Centre (B0058) 	<p>Copenhagen</p> <p>Copenhagen</p> <p>New York</p> <p>Copenhagen</p> <p>Copenhagen Copenhagen</p>

Source: *Organizational directive No. 1.5
UNOPS financial dashboard, October 2006.*