

**Annexes to the report of the United Nations Office for Project Services  
on internal audit and oversight in 2007**

**presented at the annual session 2008  
(DP/2008/21)**

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## Annex 1

### Recurrent and/or High Priority Recommendations of Audit Report issued in 2007

LIMITED SCOPE AUDIT OF THE GLOBAL MONITORING FOR STABILITY AND SECURITY (GMOSS) ACTIVITY UNDER PROJECT INT/01/R73 (Atlas Project No. 30526), Report No. PS 0222(b), 4 April 2007.

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	CANANE	In line with the current UNOPS financial regulations, expenditures should not exceed the funds received and the authorized budget.	<p><i>“UNOPS agrees with the recommendation and will ensure that all control procedures are established and applied which require that project budgets are approved and expenditure are incurred in accordance with budget authorizations”</i></p> <p><i>Expected Completion Date: “A Circular letter was sent in October 2006 to those responsible for project management.”</i></p> <p><i>Responsible Manager: Rino Semiro Imponenti, Chief a.i. . Division of Finance and Administration.</i></p>	SWOC is carefully monitoring all project expenses to ensure that these are within the approved budget amount.	On-going	Expenditures are within the approved budget.
5.	CANANE	The project financial reporting period should be in line with the UNOPS financial period, as stipulated in the UNOPS financial regulations and rules.	<p><i>“We do not agree with OAPR’s recommendation, as this would exclude UNOPS from participating in many operations and cooperating with many international partners, to which different accounting periods apply. In addition, it is not plausible to us why the reporting period has to match the principle of a calendar year and cannot refer to any period as long as expenses truly accurately reflect UNOPS official financial records.”</i></p>	The final financial report is due during this month. SWOC will attempt issuance of two financial reports, for 2007 and 2008 separately, and see whether this is acceptable for the EC.	To be implemented during April 2008.	2007/08 financial statements issued.

			<p><u>OAPR Response to UNOPS Management Comments:</u></p> <p><i>It is essential to follow the organizational accounting period in order to authenticate and support underlying expenses charged in the books of accounts. However, in cases where a donor reporting requirement would intersect between two accounting periods, separate reports for each UNOPS accounting period can be issued along with a combined report, if required. We, therefore, do not agree with the UNOPS management comments. Hence, we maintain audit recommendation 5 that the project financial reporting period should be in line with the annual year-end closing of the UNOPS financial accounts.</i></p>			
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**CONSOLIDATED REPORT LIMITED SCOPE AUDIT OF CERTAIN MSA PROJECT ACTIVITIES IN AFGHANISTAN, Kabul Afghanistan, Report No. PS 0229, dated 22 February 2007**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	MEO	It should be ensured that expenditure are incurred based on authorized budgets and any adjustments should be properly authorized and supported.	<p><i>“Although written authorization was not obtained in Financial matters in general and constraints in particular were discussed with the WB team leader during regular WB missions to Kabul. Further, it has to be highlighted that the implementation period of the NEEPRAs had to be extended due to several reasons:</i></p> <ul style="list-style-type: none"> <li>- <i>lack of contractor’s capacity,</i></li> <li>- <i>adverse weather and security conditions</i></li> <li>- <i>and evolving political environment.</i></li> </ul> <p><i>Consequently the non-works costs were higher than anticipated and stipulated in the original MSA agreements. The funding for non-works costs was not increase under the existing agreements based on the understanding that further funding will be made available under the amendments of the agreements. The operations and implementation had to continue to meet program objectives and fulfill contractual obligations. However, enhanced communication between the WB, the involved Ministries and UNOPS certainly improved which shall help to avoid deficiencies in the future. There will be no project amendment without written approval from WB and the ministry.”</i></p> <p><i>Expected Completion Date: In place now.</i></p>	Implemented	Throughout 2006 and 2007	<p>1) Appropriate prior authorization are sought from the GOA and/or WB to use available resources until additional funding is made available (provided herewith as example to demonstrate how similar issues were addressed in the subsequent phases of the National Rural Access Programme, one of the National Priority Programmes of the GOA)</p> <p>2) Request from UNOPS to the GOA and No objection letter from the GOA for realignment of funds (RAL project 39625)</p>

2.	MEO	Every effort should be made by the MERO to effect adjustments of charges in the year to which they relate.	<p><i>“This was a retrospective request from the World Bank to shift entire sub-projects from 30014 to 30032 which meant shifting entire costs for sub-projects even those incurred in 2003. This was done to comply with the request and to facilitate the restructuring and realignment of the work plan for project 30032. In addition, this shift was to facilitate the reporting of physical and financial implementation progress.</i></p> <p><i>IT has been usual practice to effect adjustment in the year expenses were incurred. All efforts have been made for this for this to be the norm. however, any request in the future for retrospective adjustments affecting several years charges will be done on formalized documentation and communicated to top UNOPS management to gain wider approval and authorization.</i></p> <p><i>The project team was under the impression that only the documents supporting the transfer had been requested for review. The original supporting documentation is properly archived and can be made available to the audit in order to verify the veracity and validity of the charges. This can be forwarded if required to the audit team.”</i></p> <p><i>Expected Completion date: With immediate effect.</i></p>	Implemented	Throughout 2006 & 2007	A in depth analysis and review of detailed project account expenditures of previous years were one priority during FY 2006 and resulted in the identification of incorrect charges of prior year charges which had to be correct. Each adjustment is supported with the relevant supporting documents. In principle we fully agree to the adjustment of charges in the year to which they relate. However, under these circumstances the adjustments were in the interest of the client and UNOPS to rectify the project accounts. The set up of a PSU to ensure close monitoring of the project expenditure guarantees that each project under the WB portfolio reports activity related expenses and incorrect or erroneous charging does not occur again.
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3.	MEO	<p>In line with the current UNOPS financial regulations, expenditures should not exceed the funds received or the authorized budget.</p>	<p><i>“The entire NEEP/NEEPRA/NRAP portfolio is inter-related because each is created following an amendment to the original MSA (each amendment is equivalent to an ATLAS project id). As such each Atlas WB project should not be strictly viewed in isolation because it sometimes happens that when an amendment is approved by the WB it takes sometime for the paperwork to be completed and the funds received by UNOPS. As operations have to continue and sub-project have to continue being implemented in anticipation of funds that create the issue of projects appearing overspent at the year end. This is compounded by the bureaucracy in the Ministries when processing fund requests.</i></p> <p><i>Efforts have been made to plan amendments and fund requests well in advance to avoid delays and spending beyond the available funds. As of today 100% of the funds under each signed agreement within the portfolio were received due to the numerous discussions with representatives of respective Ministries. It should be noted Donors/clients had difficulties to accept the definition of expenditures based on UN financial regulations that included commitments.</i></p> <p><i>UNOPS HQ issued advance financing guidelines in December 2006 and these are being implemented in 2007. It should be noted that there is a significant strengthening of UNOPS financial practices across the organization. This is resulting in clear directions and policy being issued and restructuring to ensure greater financial management and supervision in the field and more specific at AGOC.</i></p> <p><i>30029, negative fund balance of \$387,941; the project team identified incorrect charges that are currently under process of being adjusted. Once the adjustment exercise is completed the account will show a positive fund balance.”</i></p> <p><i>Expected Completion Date: Fund request in advance have already been initiated. The adjustment has already been completed.</i></p>	<p>Implemented (funds have been requested and deposited on time for ongoing projects of the portfolio)</p>	<p>Throughout 2006 &amp; 2007</p>	<p>1) Amendments to the agreements to fund subsequent phases of the programme and fund requests have been planned well in advance in order to avoid exceeding the authorized budget. 2) Positive balances under the project accounts can be seen on the Financial statements for 2007 which have not yet been issued by HQ/RO.</p>
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4.	MEO	Non-expendable property should be accounted for and controlled in line with UNOPS asset management procedures.	<p><i>“As many projects in APIF to procure similar items at the same time, bulk procurement was considered a suitable practice to lower unit costs and to reduce the time for delivery. While there may have been problems with the recording and distribution of non-expendable property in the past, the problem has been resolved by decentralizing the procurement and logistics functions to the programmes. The programme now has a dedicated procurement and logistics unit that documents the procurement process and maintain the records of all the NRAP programme non-expendable property. The project team is looking forward to corporate approach in using the Assets Management Module in Atlas and expects improvement due the systematized approach in managing non-expendable property.</i></p> <p><i>Further structural changes guarantee better control over the charging discipline in the programme. The NRAP – Programme Support Unit (PSU) that is under direct supervision of the Chief Technical Advisor is budget clearing every commitment under the programme providing the correct Chart of Account (COA) and raising a purchase order in the financial system ATLAS.</i></p> <p><i>The project team is under the impression that the structural changes have been discussed with the auditor during the audit.</i></p> <p><i>In addition to the structural changes later in 2006 and analyses of the programme’s financial records pertaining to non-expendable property and a physical inventory including the 8 Regional Offices throughout Afghanistan was carried out in order to account for assets belonging to the programme. Assets lists have been shared with the WB and GoA.”</i></p> <p><i>Expected Completion Date: Already completed</i></p>	Implemented	Throughout 2006 and 2007o	<p>1) procurement activities are being committed under specific projects</p> <p>2) PSU in place in order to assure quality of financial data and strong monitoring and reporting</p> <p>3) Decentralized Proc &amp; Log Unit in place to maintain proper records</p>
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7.	MEO	Personnel area recruited without the required competencies to fulfill the objectives of the project.	<p><i>“HR functions in APIF were previously organized centrally. While issues this approach have been noticed it has been resolved by decentralizing the HR functions to the programmes. The NRAP programme now has a dedicated HR unit that document the recruitment process and maintain the records of all the NRAP programme personnel, international and national.</i></p> <ol style="list-style-type: none"> <li>1. <i>Ensure adherence to transparent recruitment procedure</i></li> <li>2. <i>Compliance to open bidding procedure, in accordance with World Bank and UNPOS HR guidelines and procedure. Release vacancy announcements for all newly recruited international staff in NRAP.</i></li> <li>3. <i>Adopt a fair and transparent selection process during all international recruitment</i></li> <li>4. <i>Ensure compliance to salary scale guidelines and procedure, relevant to years of experience, qualifications, skill and expertise and the complexity of the position.</i> <ol style="list-style-type: none"> <li>a) and b) above</li> <li>1) <i>Clearly identifiable Terms of Reference will be inserted in all national staff files</i></li> <li>2) <i>Ensure all National staff files has a reference document referring to the recruited procedure of the staff member (i.e. Vacancy Announcement, or if recruited by means of single sourcing it should be in accordance with a clear work plan / or in line with project requirements)</i></li> </ol> </li> </ol> <p><i>In general UNOPS NRAP (HR) is committed and focused to adopt a due diligence HR policy that complies with UNOPS Human Resource guidelines and procedure, that supports the fair, transparent and consistent practice towards all our staff in this Programme.”</i></p> <p><i>Expected Completion Date: Restructure already in place. Serials 1 and 2 above will be achieved by 31 March 2007.</i></p>	Implemented	<ol style="list-style-type: none"> <li>1. All positions are posted both internally and externally and filled through recruitment process</li> <li>2. Since May 2007 all positions have been filled through proper recruitment: posting the position, matrix, screening, short listing, conducting interview, negotiation with candidate, NOL from WB. Though the recruitment system has to be improved taking into account WB requirement such as total number of applications applied for, posting and deadline of vacancy.</li> <li>3. Recently ICA guidelines have been introduced and now under implementation which is quite fair and transparent process of recruitment both for national and international consultants. Please see ICA guidelines for details.</li> <li>4. ICA has clear guidelines for salary which is implementing currently. Though salary scale of national staff has to be worked out. Currently salary scale of 2006 is in use for national staff.</li> <li>4.1. All personal files of national staff have ToR. And ToR now is a part of contract and it goes as Annex A.</li> </ol> <p>UNOPS HQ introduced new ICA guidelines which came into effect January 1 2008 and comply with HR policy and procedures.</p>
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9.	MEO	Project budget and expenditure should be properly monitored with a view to ensuring the successful achievement of the project's objectives.	<p><i>“One of the project team main focuses in 2006 was using ATLAS more and more as financial management tool. In addition to that locally incurred expenditures recorded in FABS are being reviewed on a monthly basis before recorded in ATLAS.</i></p> <p><i>The programme reports on a monthly basis via constructed PDRs to respective Ministries to guarantee transparency and show financial development under each agreement. Further improvement in monitoring and financial reporting will certainly remain a priority in order to ensure successful achievement of project objectives.</i></p> <p><i>Again it is restated that new structure has been put in place ensuring the project has its dedicated finance and project support personnel to ensure real time accounting and integral support to the project. This will ensure greater transparency for the project management team to be able to ensure correct budget management. “</i></p> <p><i>Expected Completion Date: Already Implemented.</i></p>	Implemented	Throughout 2006 & 2007	<ol style="list-style-type: none"> <li>1) New structure with PSU responsible for Financial Management and Reporting</li> <li>2) Quarterly submission of FMRs to the GOA and WB (Financial and physical progress report ). For the physical progress report Primavera is used to generate adequate reports. See attached latest FMR submission to the client.</li> <li>3) Requesting project funds on time in order to avoid temporarily charging of other projects</li> <li>4) 100% use of Atlas and well trained Staff enhances the quality of Financial Management.</li> </ol>
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FULL SCOPE AUDIT OF THE MSA ACTIVITY “TECHNICAL ASSISTANCE – NATIONAL TAX IDENTIFICATION PROJECT” – (ARG/98/R01), Activity Year 2005, Buenos Aires, Argentina, Report No. PS 0230(b), dated 19 March 2007.

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue			Summary of actions taken for the implementation
				Current Status	Date of Implementation/	Indicator of implementation/ progress	
				(Implemented, In process, No action yet taken)	Expected Date of Implementation		
1	PMO of each project, to be defined in April 2007	Consultants’ reports should be periodically reviewed on a sample basis by the project management specialist before approving the payment. The supporting documentation and verification process that UNOPS should perform to authorize consultants’ payments should be clarified with the Government and the World Bank.	<p><i>“LCO agrees that sample reviews of consultant’s reports should be conducted by the PMO or his/her assistant as a good practice. However, most of the contracts issued under this project are for data entry personnel who are paid for service provided. I believe that this aspect is not reflected correctly in the standard contract model used, which mentioned as criteria for payment, partial and final report for activities that are purely operational.”</i></p>	Implemented	April 2007, Please note that the project under review is now closed, so the recommendation of conducting periodic reviews of the consultants contracts will be in placed once the re-organization of the office is completed by hiring a Senior PMO and assigning the portfolio to staff located in Argentina.	Notes of Revision of Consultants Reports attached.	Since April 2007, AROC has conducted periodic reviews of consultants reports in the field.

3	Senior PMO	The imprest account should reflect its new status as the account for the UNOPS office in Argentina.	<i>“Noted and fully agreed. Appropriate decisions will be taken in line with the new financial structure being proposed by UNOPS Senior management.”</i>	In process		The opening of the account for UNOPS AROC was initiated. Once it is operating, the Imprest Account will be closed.	N/A
4	Division of Finance and Administration	Adjustments and corrections of transactions should be done in a timely manner, that is, within the same accounting period.	<i>“No comments”</i>	No action yet taken		The situation is critical. The adjustments are being processed by now. The QFS are delayed. Argentina LCO and its Regional Office will do the follow up to solve this issue. We expect the results during April'08. The BB funds Project closed at December 2007 and expects the Final Financial Statement before the end of March to rendering to World Bank.	N/A

**“Consolidated Report Limited Scope Audit of Certain MSA Project Activities in the Nile Basin Countries and Ethiopia”  
Report No. PS 0236, dated 11 May 2007.**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	Portfolio Manager, AFO	In line with the current UNOPS financial regulations, expenditures should not exceed the funds received or the authorized budget.	<i>“In the absence of an official pre-financing policy the project managers consulted with the Executive Director who made it clear to the Chief of the Global and Interregional Division, Lisa Gomer, that UNOPS was not prepared to close the projects. This is additional to the reasoning given earlier by the current Portfolio Manager. “</i>			
5.	Portfolio Manager, AFO	The project’s financial activities should be properly monitored in order to identify any errors and make the necessary corrections in a timely manner.	<i>“The original implementation arrangement for this project called for 11 staff. In 2005 the project was staffed by 4.5 full time staff. Due to the difficult financial situation within UNOPS up to four interns at a time were used by this project in an effort to maintain standards in implementation. However, management decisions were made by the executive office to continue operations despite lack of funding to fully staff the project.  Under the new arrangement implemented in mid 2006 there are 10 staff dedicated 100% to his programme. The cleanup of the projects is expected to take through early 2007 at which point we do not foresee such monitoring issues that were caused by short staffing.”</i>			

**“Audit of the Project “Sustainable Microfinance to improve the Livelihoods of the Poor” in Myanmar- MYA/01/004 (PSAS Report No. PS 0231)**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1	UNOPS Yangon Office	The management of UNOPS Yangon Office should review the structure to address and streamline the core issues of: <ul style="list-style-type: none"> <li>- succession planning and capacity building; and</li> <li>- wastage of resources.</li> </ul>	<i>“Comments noted and agreed for review and action plan.”</i>	The project monitoring and evaluation activities were re-structured with the closure of the 3 zonal offices and the contracts of the 3 Microfinance Specialists were terminated. Two M&E Experts were recruited for impact assessment studies and monitoring and evaluation. The contract of the Microfinance Specialist in Yangon office will be terminated by end June 2008, when the project will be handed over to UNDP.	The contracts of the 3 Microfinance Specialists together with the field support staff were terminated 31 January 2007.  Two M&E Experts were recruited in April 2007.	
2.	UNOPS Yangon Office	The management of UNOPS Yangon Office should consider to implement the following: <ul style="list-style-type: none"> <li>- a Microfinance Committee is formed as stipulated in the Project Document to discharge its roles and duties to ensure the project status, progress and performance are in line with the UNDP policies; and</li> </ul>	<i>“Comment noted. Although there was no formally established MF Committee, there were regular quarterly meetings comprising UNDP Staff and UNOPS APM to discuss MF issues as per the TOR. Moreover on December 20, 2005, the UNOPS Portfolio Manager wrote to DRR and ARR of UNDP, following</i>	MF committee is meeting monthly and meeting minutes are sent to UNOPS, Bangkok	Monthly	

		<p>- minutes of the meetings are adequately documented, monitored and follow-up for appropriate action plans for any emerging issues.</p>	<p><i>up on a meeting in Yangon of 5 December 2005, requesting the need for the MF Committee. UNDP agreed that an MF Committee comprising UNDP, UNOPS and IP meet on a monthly basis to discuss issues as per the TOR of the MF Committee. UNDP agreed that an MF Committee comprising UNDP, UNOPS and IP meet on a monthly basis to discuss issues as per the TOR of the MF Committee. The Portfolio Manager requested same to APM.</i></p> <p><i>The project Office was reminded that all minutes of meetings (monthly and quarterly) should be kept on file at project office and copy sent to UNOPS Bangkok.</i></p> <p><i>Monthly meetings are now formally conducted from October 2006 onwards and the minutes of the meetings were also sent to UNOPS Bangkok.</i></p>			
3.	UNOPS Yangon Office	<p>The management of UNOPS Yangon Office management should:</p> <ul style="list-style-type: none"> <li>- reassess the appropriateness of the frequency of the meetings, i.e. quarterly basis, and if appropriate, to conduct on a monthly basis to ensure emerging issues/latest development are communicated and resolved in a timely</li> </ul>	<p><i>“Noted and agreed. Monthly meeting through telephone conversations were held between the APM and PACT Manager to address any monthly issue. Monthly meetings among the 3 partners (UNOPS, UNDP and PACT Manager) are now being held and minutes are also</i></p>	<p>In addition to the monthly meetings, ad hoc meetings are held between UNDP, UNOPS and IP when urgent matters arise.</p>	<p>As and when required.</p>	

		<p>manner; and - ensure the representative from PACT is invited for a monthly meetings.</p>	<p><i>shared with UNOPS Bangkok office.</i></p> <p><i>As per earlier comment, the issue of the MB Meetings was discussed many times but no consensus was reached. In a meeting conducted in February 2006 with the Implementing Partner (PACT), UNOPS Management in Yangon and Bangkok and UNDP discussed the resurrection of the Management Board. This issue was again addressed in the quarterly meeting in July 2006. However, because of the sensitivity of the inclusion of the civil society representative, it was suggested there should be deferment of this Board Meeting.</i></p> <p><i>UNOPS has taken note of the audit's comments and will address the matter again with UNDP.</i></p>			
4.	UNOPS Yangon Office	<p>The management of UNOPS Yangon Office should ensure that a formal detail assessment is carried out to assess and determine the impact of the project in achieving the project objective of poverty alleviation in Dry Zone and Shan State.</p>	<p><i>“Comments noted. In real terms, no formal Impact Assessment has been done in this project. Instead, as per the Prodoc, the Annual HDI Assessment was done. UNOPS Project Office is Yangon along with the Implementing Partner in Delta Zone took the initiative and carried out an assessment of this nature. We plan carrying out similar exercise in Dry Zone and Shan State once new IP has formally settled in with new management structure/operations.</i></p> <p><i>The previous years HDI Assessment</i></p>	<p>Two M&amp;E Experts were recruited to carry out a survey for an impact assessment study in all 3 project areas during August-September 2007 and an analysis of the data collected was done and a report prepared and submitted to UNOPS and UNDP in December 2007. As a follow-up, field visits were made in December 2007 to share the findings of the impact</p>	Ongoing	

			<p><i>Teams also suggested that this assessment should be done.</i></p> <p><i>UNOPS will bring to the attention of UNDP on the need for an impact assessment of this project.</i></p>	<p>studies with the IP's field staff. The M&amp;E Experts also visited the Dry Zone in March 2008 for a social performance study.</p>		
5.	UNOPS Yangon Office	<p>The management of UNDP/UNOPS Yangon Office should consider the following:</p> <ul style="list-style-type: none"> <li>- exploring any other approach to ensure the efforts to create a conducive legal framework can be achieved;</li> <li>- formulate appropriate action plans/strategies to continue the lobbying activities of establishing legal framework; and</li> <li>- once legal framework is achieved, to assess the relevance of current counterpart department and , change the counterpart department, if necessary.</li> </ul>	<p><i>“UNOPS has noted the auditor’s recommendation and will bring it to the attention of UNDP.”</i></p>	<p>Project office in Yangon was informed by UNDP that pursuing the creation of a legal framework was not within the HDI Mandate.</p>	N/A	
6	UNOPS Yangon Office	<p>The management of UNOPS Yangon Office should ensure that:</p> <ul style="list-style-type: none"> <li>- variance analyses is performed for financial activities for each year continuously. This will provide a basis for any significant deviation of the project activities and for effective financial and operational monitoring and control;</li> <li>- any difference between the actual costs in the implementation schedule and ATLAS summary are promptly investigated and properly reconciled; and</li> <li>- detailed breakdown for work plan should be properly documented and</li> </ul>	<p><i>“Noted and agreed. We will investigate the variances and ensure justifications are provided.</i></p>	<p>Implemented (variance analysis done annually and quarterly which are incorporated in annual and quarterly reports)</p>	<p>Annual analysis in January of following year and quarterly analysis at end of each quarter</p>	

		maintained in the respective files for reference and variance analyses.				
7	UNOPS – Yangon Office	The management of UNDP/UNOPS Yangon Office should consider defining the objective to be achieved during the extension period from 2006 to 2007, its strategies and expected outputs/deliverables by taking into account the current development of MF project in Myanmar. The output expected during the 2 years extension period should be specific, measurable, timely and achievable.	<i>“Whilst we recognize that a new project document would have been the ideal resolution, the absence of legal framework for micro finance in Myanmar does not permit this readily. In the circumstances, the extension letter obtained addressed the immediate objectives of budget and expansion programme. Additionally, work plans are prepared and approved annually by UNDP. However, we will share with UNDP the auditor’s observations to have objectiveness/output more clearly defined”</i>	Information on baseline, targets and achievements for 2006 and 2007 have been submitted to UNDP in their SRF format	Done	
8.	UNOPS – Yangon Office	The management of UNOPS Yangon Office should: - review and assess the risks identified in the PRODOC and any new emerging risk on annual basis; - measure the risks and assign risk ratings; and - discuss the action plan in mitigating the risks in meeting involving the donor, executing agency and implementing partner.	<i>“Noted. We will further discuss with UNDP and review the prioritization need to conduct a risk assessment.</i>	UNDP is addressing this matters	Ongoing	

**“Limited Scope Audit of the UNOPS Africa Office (AFO) -PSAS Report No. PS 0241, dated 26 June 2007. Summary of Audit Recommendations**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented - In process No action yet taken)	Date of Implementation Expected Date of Implementation	Indicator of implementation/ progress
1	<i>Overall implementation AFO RD, OC Managers and Operation Managers</i>	The procurement process should be improved to consider internal controls in the following areas: (a) proper use of the LPC to review all procurement actions according to its TOR, (b) properly documenting the evaluation of bids, and (c) performing background checks on prospective new suppliers.	<p><i>Management Comments: “AFO had recognised these deficiencies in the procurement section of ESARO and as such had taken action in early 2007. A (P5) retiree procurement expert has been recruited under a CA as of 21 March 2007, to address these deficiencies.</i></p> <p><i>a) The ESARO LPC TOR stated that all procurement actions over \$2,500 are to be reviewed by the LPC. This was an additional layer of oversight implemented by ESARO and not required by UNOPS procurement rules and regulations, which only requires LPC review for procurement actions of \$30,000 or more. All cases as observed by the audit team were well below the \$30,000 threshold and were urgent requirements. For urgent cases the ESARO Operations Officer reviewed the procurement action and presented the specific case to the PA, who again reviewed and approved the award based on the recommendation. Such approvals were within the DOA of the PA and did not contravene the UNOPS internal framework. AFO has submitted a request for the establishment of an LCPC which will supersede the LPC TOR. The proposed LCPC members are currently observing HQCPC meetings to ensure a better understanding of their obligations and procurement training is being undertaken by AFO to all staff involved in any stage of a procurement exercise, as detailed by OEC below.</i></p> <p><i>b) This observation is noted and has been enforced with immediate effect.</i></p>		<i>a.) Training to be completed 31 August 2007 and then on a periodic basis for new staff; b) immediate; c) immediate</i>	

1	<i>Overall implementation AFO RD, OC Managers and Operation Managers</i>	The procurement process should be improved to consider internal controls in the following areas: (a) proper use of the LPC to review all procurement actions according to its TOR, (b) properly documenting the evaluation of bids, and (c) performing background checks on prospective new suppliers.	<p><i>Management Comments Continued:</i></p> <p><i>c) This observation is noted and is being enforced with immediate effect. The procurement expert is currently compiling a vendor roster and is conducting background checks for all. All awards are now only being conducted after a background check has been completed”.</i></p> <p><b><i>OEC Comments:</i></b> <i>“Further to the above comments OEC wants to note that following the issuance of the UNOPS Procurement Manual and in order to further enhance UNOPS operations in procurement, a training programme in basic procurement has been developed covering the procedures to follow for the entire procurement process. Due to the number of personnel which should receive the training, it was decided to opt for a roll-out through a training of trainers (TOT), and subsequent roll-out at regional/country level. In January 2007, the TOT was carried out and 3 persons from the AFO region participated. The roll out at AFO regional/country level is now being implemented.”</i></p>		<p><i>a.) Training to be completed 31 August 2007 and then on a periodic basis for new staff; b) immediate; c) immediate</i></p>	
4.	<i>AFO PMs</i>	Expenditure should not be incurred in excess of approved budgets. Additionally, the AFO management should address the issue of significant adjustments resulting in credit balances.	<p><i>“Noted and agreed. Expenditure should not be incurred in excess of approved budgets. The current Portfolio Managers are closely monitoring expenditure against budgets. The UNOPS Dashboard has become a useful tool in this regard as will the AFO dashboard currently being developed. Some instances have occurred due to insufficient communication between AFO and HQ Finance; this has been addressed through the recruitment of a new RFM and the soon to be implemented Online Request Tracking System being developed by AFO.</i></p> <p><i>The instances above are being actioned by AFO to rectify the situation immediately.</i></p> <p><i>The AFO RD has instructed AFO PMs to adhere to the UNOPS advance financing policy where applicable.”</i></p>		<p><i>31 July 07 for specified instances above (Pending signing of Budget Revisions by clients &amp; Certified Financial Statements from Finance HQ), and immediate effect for no additional expenditure above approved budgets without appropriate approval.</i></p>	

6.	<i>AFO RFM and UNOPS HQ HR</i>	The imprest accounts should operate at the lowest possible levels given the availability of Atlas to process payments.	<p><i>“Noted. Already there has been a significant increase in the use of ATLAS and a decrease in the use of the imprest account. Through this, AFO has managed to reduce the overall imprest monthly level by \$800,000. The imprest account also serves operations in Somalia, where there is no formal banking system in place and cash payments are required to be made through UN-approved money dealers. KEOC is currently working with these money dealers to make payments to them through ATLAS to an internationally-recognized bank account; this will again significantly reduce the use of imprest accounts.</i></p> <p><i>AFO will change for a new system (UNOPS accounts that allow to use a “Imprest system” in a online base with the ATLAS system.</i></p>		<p><i>Further significant reductions by 15 July (Somalia Operations through Money Dealers to be effected through ATLAS); Additional reductions upon recruitment of Finance Assistant to manage vendor processing – 15 August 2007; On going reduction for requirement of Imprest Account. During 2008 all Imprest accounts will be close.</i></p>	
7.	<i>AFO RFM and UNOPS HQ HR</i>	The reconciliation of the imprest bank accounts should be performed by someone other than the individual responsible for preparing the payments.	<p><i>“Noted. In mid April 2007 KEOC recruited a temporary Finance Assistant with relevant expertise and knowledge to strengthen the section pending finalization of the job fair process. AFO RFM recruited 3 June 2007.”</i></p>		<p><i>Regularised by 31 July 2007. All imprest accounts are reconciled in a monthly basis in the Regional Office and a GL reconciliation was beam completed at the HQ level. In 2008 will reconcile at the AFO level.</i></p>	

9.	<i>Operations Manager, KEOC</i>	The stipulations of the Assets Management Guidelines should be fully implemented at the AFO, specifically with regard to the preparation of complete and accurate inventory records, the proper identification of assets and the undertaking of an annual physical count of non-expendable property.	<i>“Noted. AFO has recognized that there were deficiencies in the ESARO asset management in early 2007 and action has already been initiated to rectify this. In March 2007 AFO issued an RFP for asset recording, decaling and costing of AFO assets. Bids have been received and evaluated and the contract is expected to be awarded by 15 June 2007.”</i>		<i>15 July 2007</i>	
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**Consolidated Report on the Financial Audit of “Nile Basin Initiative Shared Vision Program” (NBI) Project Activities for the Year 2006 –Internal Audit Report No. PS 0253, 31 July 2007**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	Ary Bobrow, Portfolio Manager, AFO.	In line with the current UNOPS financial regulations, expenditure should not exceed the fund received or the authorized budget.	<p><i>Funds were received by UNOPS in February 2007, after the year end, which is the reason why the income couldn't be recorded during FY 2006. A workshop was organized with World Bank and the Nile Secretariat in May 2007. The two World Bank Departments involved in the disbursements for the NBI were attending the meeting.</i></p> <p><i>A the end of the meeting, the following actions were recommended to facilitate disbursements:</i></p> <p><i>1- Update of FMR Template to include actual disbursements, planned expenditure by World Bank Category and above prior receive schedule by category</i></p> <p><i>2- Reconciliation of 2006 above prior review data.</i></p> <p><i>With the inclusion of these new requirements in our next reports, we should be able to get the funds earlier. A proper follow-up needs to be done with the World Bank to ensure that based on this meeting outputs, payments will be processed timely.</i></p>		15 August 2007.	<p>In FY 2007 all project expenditure had sufficient cash, except project 00054943 (Nile Program Support Unit)</p> <p>The World Bank is still not paying on time, project is using advance Financing mechanism when necessary.</p>

3.	Ary Bobrow, Portfolio Manager, AFO.	A uniform system should be introduced to capture data and produce financial statements.	<p><i>The training of NBI projects in ATLAS started in June 2007 and is expected to be completed early September 2007. The following 5 projects (CBSI, NTAP, RPT, SDBS and WRPM) projects have been trained in ATLAS and only two projects are left (ATP and EWUAP).</i></p> <p><i>The Objective is to give access to ATLAS for all projects and allow them to use the system to make payment directly in ATLAS, using their Imprest account. A new procedure is being tested to make Imprest disbursement in ATLAS and we expect our project to be onboard as soon as possible. This will reduce the number of errors due to manual entries in two different systems (ATLAS and Visual Imprest/FASS).</i></p> <p><i>The implementation timeframe needs to be discussed further with the Regional Financial Management Officer. Once applied, this procedure will enable discontinuation of the use of local Imprest systems and all financial information will be produced by ATLAS.</i></p>		31 August 2007.	<p>UNOPS has implemented in 2007 the use of Atlas to projects (to enter requisitions). All projects have been trained and have access to Atlas, which have reduced the number of errors. We have stopped using Global Authorization PO, which help the control and reduce the number of errors.</p> <p>New Atlas disbursement procedure is being implemented along with downsizing of Imprest, to date two projects have opened Atlas bank accounts.</p> <p>On-Going</p>
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4.	Ary Bobrow, Portfolio Manager, AFO.	Projects should be able to distinguish between funds which specifically related to the project and those that relate to expenditure to be incurred on behalf of other projects.	<i>This issue is related to the complexity of projects with regional mandate and the fact that all projects are affecting disbursements on the behalf of the other Nairobi regional Projects. The current UNOPS Imprest rule does not allow duplication on Imprest account in the same location (seven accounts by country) and will add unnecessary complexity in the management of these Imprest accounts.</i>		None	This distinction can only be done through a proper management of PO sent to PMU as replenishments are not done based on anticipated disbursement, but the level of the Imprest account.
5.	Ary Bobrow, Portfolio Manager, AFO.	UNOPS must maintain a comprehensive assets register which will show, among others, the following information: <ul style="list-style-type: none"> <li>• Asset codes;</li> <li>• Asset description;</li> <li>• Date of purchase;</li> <li>• Asset additions during the period;</li> <li>• Asset disposals during the period;</li> <li>• Location of assets and name of the user;</li> <li>• Cost-at the beginning of the period, additions in the year, disposals in the year, and the balance at year end;</li> <li>• The current status of asset-whether the asset is idler or in active use.</li> </ul>	<i>Fixed asset register has been created, for Nile PSU direct purchased, assets after the Audit. The Nile PSU will also liaise with KEOC Operations Manager to ensure that they use the same inventory codification to make the consolidation easier.</i>  <i>The office furniture (desks, tables, chairs, etc) were already under AFO inventory. The only equipment purchased directly by AFO are the following IT equipments: 3 Laptops with FTF monitors and keyboards, 5 Computers, 1 printer, 1 scanner and 1 wireless access point. The two laptops were purchased under North America administrative budget and have to be transferred to AFO assets. The remaining equipments will be added to the AFO inventory for insurance purposes but remains the property of the NBI projects.</i>		31 July 2007.	This register has been put in place in UNOPS offices just after the end of the audit

9.	UNOPS PSU, Finance Specialist.	The project financial activities should be properly monitored in order to identify any errors or omissions and make the necessary corrections on a timely basis.	<i>EWUAP never effected payment on PO No. 38638 because a different PO No. 40938 in favour of same staff for the period in question was also raised through UNOPS ESA.</i>		Already resolved.	No action required Human Error
13.	Dan Temu and Gordon Mumbo	Ensure that separate files are maintained for each of the projects' for ease of retrieval of the transaction documents.	<i>The supporting documents for the here noted projects are not filed separately because the transaction for the three projects are done from the same Imprest bank Account.  It has been decided that forthwith, individual project expenditure documents be filed separately at the project level, but Imprest files will still be remains unique.  A better filling system will also set-up to make documents related to payments easier to find.</i>		31 August 2007.	This has been implemented in July 2007 in Uganda as it is the only PMU with two projects (SDBS and CBSI)
17.	Gordon Mumbo	Expenses should be charged to the correct cost centres so as to avoid misstatement of the respective projects financial reports.	<i>The Finance and Procurement Officer support to other projects is not at any extra cost to the project money wise. This is an agreed internal arrangement among NBI projects to support one another. CBSI also gets supports from other projects at no additional cost to CBSI. As a project based at the Nile-Secretariat resources are shared CBSI also gets logistical support from the Nile-Secretariat at no cost.  However, we are aware of this issue and current New Finance Officer's cost is shared on a fifty/fifty percent basis between CBSI and SDBS.</i>		Resolved.	No action required  This is in practice – the access of Atlas to projects, the use of individual PO in place of Global Authorization has enhanced the controls and error detection.

**Audit of the “Northwestern Integrated Community Development Programme (NWICDP), under project ID 00031089”**  
 Audit Report No. PS 0237, 8 May 2007

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	AFO	Programme management should ensure supporting documents are properly verified for accuracy and correctness.	<i>“Noted. “</i>		<i>Immediate</i>	
2.	AFO	A method of aggregating and posting of expenses that allows for ease in tracing support documentation should be adopted.	<i>Yes</i>		<i>Immediate</i>	
3.	AFO	The staff posting expenditure should liaise with the Programme Manager to ensure expenditure is allocated to the correct budget line or activity code.	<i>Yes, but as this was a temporary measure undertaken due to the migration to the new, advanced and more efficient Management Software and has been rectified and reported to. There was no error as it was known by UNOPS management and corrected.</i>		<i>The corrections have already been done in 2006</i>	
5.	AFO	AFO should closely monitor project expenditures to ensure they do not exceed funds received.	<i>Yes, IFAD were conducting their reconciliations which delayed the processing of Withdrawal Applications. The entire balances were received early 2006.</i>		<i>Continuous Function</i>	

**Audit of the “GEF Small Grants Programme” Country Allocation for INDIA under Project 43806 – IND/SGP/OP3 – Year 2006 – Audit Report No. PS 0242 dated 7 September 2007 - SUMMARY OF AUDIT RECOMMENDATIONS**

Rec. No.	Action Unit	Issues identified in OAPR internal audit report in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Implementation Date / Expected Date of Implementation	Indicator of implementation / progress
1	NAO	In order to provide consulting services, the CEE, as the NHI of the SGP Programme in India, should only be engaged based on a duly signed contract and amendments, where necessary.	<i>Comments from UNOPS NAO: “We fully agree with this recommendation. During the period 1 March – 2 October 2006 there was no duly signed contract with CEE while the institution continued to provide services to the SGP. A contract could not be issued as the involved parties in India could not agree on the hosting set-up of the SGP India; any set-up would have a direct impact on the NHI contract amount and the Statement of Works. Furthermore, UNOPS, in consultation with the Global Manager, was advised not to send a specific endorsement by issuing a contract and therefore appearing to favour one hosting arrangement which was still debated by the different parties in India.”</i>	Implemented. NHI contract commenced. A retroactive payment was made to the NHI to reimburse CEE for its services rendered in the absence of a contract. The situation has been regularized by UNOPS’ insistence on having to issue a contract.	October 2006	There has been no recurrence of this situation since October 2006 - the NHI has been under contract with UNOPS without any gaps since 2006.

**Audit of the “Burtinle Water Supply and Sanitation System Project (BWSS), under project ID 00036538”**

Audit Report No. PS 0238, 8 May 2007

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2007	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
1.	AFO	UNOPS management should ensure payment is based on work that has been certified by the Project Consultant Engineer in line with the Contract requirements.	<i>This payment took place after the Engineer contract has expired due to funding limitations. There were contracts between the Portfolio Manager and IFAD to re-engage the engineer for UNOPS to be able to follow the NGO implementation of the project, but this was not approved and there were no funds to recruit an Engineer under the project budget. This payment is a valid payment as the works relating to it have already been done on ground. This has been supported by the recent visits of the engineer after he has been re-engaged by IFAD.</i>		Completed	

## Annex 2

### Audit recommendations unresolved over 18 months

**FUNCTIONAL AUDIT OF A CLUSTER OF UNOPS PROJECT ACTIVITIES IN MYANMAR**  
**Report No. PS0175, 23 February 2005, Summary of Recommendations**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2005	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process) (If not implemented, indicate strategy)	Date Implemented or Expected Date of Implementation	Indicator of implementation/ progress
11	APO	The petty cash level for MYA/01/003 should be increased and a petty cash account should be established for MYA/01/005.	<i>"APRO has noted the recommendations and has already discussed this with the project offices. Petty Cash account requests are under discussion with the Finance Section."</i>	Not implemented. Not required.	-	With the refocusing of the project strategies, there was no need to increase the level of petty cash.

**FINANCIAL AUDIT OF THE AFGHANISTAN IMPLEMENTATION FACILITY**  
**Report No. PS0177, summary of recommendations**

Rec. No.	Action Unit	Issue identified in OAPR internal audit reports in 2005	Management Comments	UNOPS strategy for addressing issue		
				Current Status (Implemented, In process, No action yet taken)	Date of Implementation/ Expected Date of Implementation	Indicator of implementation/ progress
9	AGOC/APO	For future activities similar to the SCA sub-contract, a written agreement should be entered into to cover the sub-contracting activities, and expenditure should only be incurred on the basis of the terms of the said agreement.	<i>"APIF agrees. APIF likes to note that the problems with SCA on this issue were recurrent in nature and given the tripartite relationship between UNDP as the repository of strategy and direction and SCA for implementation with UNOPS caught in the middle – a</i>	<i>Policy requires developing on this contract arrangement and where possible the arrangement avoided.</i>	<i>Not Implemented</i>	<i>Will be implemented when we enter into new arrangements of similar nature</i>

			<p><i>decision was made to end this programme – turning over execution to UNDP in 2004 to reduce potential for continued problems of this nature. We do however; recognize the principle applies to all activities - not just SCA.”</i></p>			
10	AGOC/APO	<p>The requirement for the APIF to submit monthly contracting reports to headquarters should be clarified on the basis of risk and should include, inter-alia, a clear definition of the purpose of the review and the responsibilities of the recipient of said reports.</p>	<p><i>“The first amendment to the original Delegation of Authority dated 13 August 2003 to Mr. Ecran Muran, Country Director, UNDP Afghanistan and Mr. Gary Helseth, Country Coordinator &amp; Programme Manager, specifies that ‘Mr. Helseth will be requested to submit a regular monthly report on all subcontracts approved.’ The previous Director of Operations approved this delegation on the condition that the Country Coordinator/Programme Manager be required to submit a regular monthly report on all subcontracts approved.</i></p> <p><i>The subsequent amendment to the delegation of authority dated 19 April 2004 to the Country Coordinator, the Officer-in-Charge and the alternate Officer-in-Charge increases the level of delegation to the recipients for the procurement of local goods totaling \$30,000 or more but less than \$100,000. This delegation continues the previous reporting requirement that the recipients of the delegation holders must ‘submit on a monthly basis a report on all contracts and subcontracts approved of over US30,000 or more but less than US 100,000.’</i></p> <p><i>While it is unclear why the previous Director of Operations originally wished that the Country Coordinator</i></p>	<p><i>The policy and method of implementation needs to be developed to support the DoA requirement.</i></p>	<p><i>Not Implemented</i></p>	<p><i>Will be implemented when we enter into new arrangements of similar nature</i></p>

			<p><i>send monthly reports, it can be assumed it was for control purposes, to ensure compliance of procurement procedures designed to ensure transparency, fairness as well as best value for money for procurement actions under the Afghanistan office. At the time the delegations were issued, Siamak Moghaddam was the Project Manager in UNOPS Headquarters managing and coordinating many of the Afghanistan projects. It appears that Siamak Moghaddam did not receive any reports from Afghanistan. After recent consultation with the current Director of Operations, the Director of Operations believes monthly reporting is not necessary and only wishes to be notified of exceptional cases where a problem situation might arise so she may take action if necessary. APIF will be informed of this new exceptional reporting requirement."</i></p>			
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## Annex 3

# United Nations Office of Project Services

Headquarters, Copenhagen  
29 April 2008

## Organizational directive No. 25 Internal Audit Charter

### Mission and scope

1. The mission of the Internal Audit Office (IAO) is to provide independent and impartial assurance and advice designed to improve UNOPS operations. It helps the Organization achieve its objectives by bringing a systematic approach to evaluate and enhance the effectiveness of risk management, control and governance processes.

2. The scope of work of the IAO<sup>1</sup> is to determine whether the said processes, as designed and represented by UNOPS Management, are adequate and functioning in a manner to report, in compliance with UNOPS legislation, that:

- Risks are identified and dealt with;
- Interaction occurs with the various governance groups within UNOPS;
- Financial and other managerial information are timely, complete and accurate;
- Staff and other personnel actions are in compliance with policies and legislation;
- Resources are used economically, effectively and efficiently;
- Programmes, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the Organization control processes;
- Legislative and regulatory issues are recognized and properly managed; and
- Lessons are learned and addressed throughout the Organization.

3. Opportunities for improving management control and the image of UNOPS may be identified during audits. They will be communicated to the appropriate level of management.

4. All UNOPS operations are subject to internal audit.

5. Internal and external audits of UNOPS activities are carried out **exclusively** by UNOPS internal and external auditors correspondingly (United Nations single audit principle<sup>2</sup>).

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<sup>1</sup> The mandate of UNOPS internal audit is described in the UNOPS financial regulations and related UNDP financial rules applicable mutatis mutandis to UNOPS (Refer UNDP financial rule 114.38 , which corresponds to financial rule 103.02 in the latest version of the UNDP rules)

## Accountability

6. The Head of the IAO shall report **independently** and exclusively to the Executive Director to address significant issues related to the processes for controlling the activities of the Organization and offers **recommendations** for improvement and provide information periodically on the status and results of the annual audit plan and the adequacy of IAO resources.

7. Head of the IAO submits a report on an annual basis to the Executive Director for presentation to the UNDP/UNFPA Executive Board (the governing body of UNOPS). This report comments on the results of the previous year's annual audit plan.

## Responsibility

8. The IAO shall have the responsibility to:

- *Develop* a flexible **annual audit plan** in consultation with concerned Managers, using appropriate risk-based methodology and other pertinent criteria and submit that plan to the Executive Director for approval;
- *Implement* the approved annual audit plan and special ad-hoc tasks as requested by Management;
- *Maintain* a professional audit staff with sufficient knowledge and skills to meet the requirements of this Charter;
- *Establish* a quality assurance programme by which the operation of internal audit activities is managed;
- *Manage* the review and submission of all internal audit reports to the Executive Director and other stakeholders, as appropriate.
- *Issue* periodic reports to the Executive Director disclosing results of audit activities and issue the pertinent recommendations;
- *Assist* in or conduct investigations as requested by the UNOPS General Counsel (in this specific case, the final report is issued to the General Counsel);
- *Liaise* and fully cooperate with the UNOPS Strategy and Audit Advisory Committee (SAAC). Regularly inform the SAAC of the status and result of the IAO strategy and work plan, including progress reports on the action taken by management in response to the recommendations made by the Internal Audit Office Auditors;
- *Liaise* and fully cooperate with the United Nations Board of Auditors and the United Nations Joint Inspection Unit (including the monitoring of their respective recommendations);
- *Liaise* and cooperate with the other United Nations Oversight and/or Internal Audit Units; and

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<sup>2</sup> Refer to A/48/587 10 November 1993 for more details

- *Provide* advisory services as requested by the Executive Director.

## **Authority**

9. The IAO staff is authorized to:

- *Have* **unrestricted** access to all UNOPS premises, records, property and staff/personnel;
- *Allocate* resources, set frequencies, select subjects, determine scopes of audit work, and apply the techniques required to accomplish audit objectives;
- *Obtain* the necessary assistance of staff/personnel in the organizational units subject to audit as well as other specialized services from within or outside the Organization when budgetary constraints permit, in accordance with current procedures. All personnel are obliged to assist IAO in fulfilling its role; and
- *Receive* information concerning possible fraud, corruption, waste or mismanagement in accordance with UNOPS Fraud Policy.

10. The IAO staff is **not** authorized to *perform* any non-IAO operational activity or accounting transaction for UNOPS **nor** *direct* the actions of any non-IAO staff/personnel except if they have been assigned to assist the Internal Auditors.

## **Standards**

11. The IAO shall meet the *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* of The Institute of Internal Auditors.

## **Amendment of charter**

12. The Head of the IAO is responsible for applying this Charter and for keeping it current. Amendment of this Charter is subject to the approval of the Executive Director after taking advice from the SAAC.

## **Final provisions**

13. This Organizational Directive is effective immediately.

14. The Head of the IAO is hereby authorized to issue such Administrative Instructions or Guidance Notes that may be necessary to effect the implementation of this Organizational Directive.

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Jan Mattsson  
Executive Director, UNOPS

**United Nations Office for Project Services**

**Internal Audit Office**

**Internal audit work plan for 2008**

**I. Introduction**

This is the first annual work plan (the Workplan) of the newly formed UNOPS Internal Audit Office (IAO) which started its operations on 1 July 2007. The internal audit function of UNOPS had been carried out by the UNDP Office of Audit and Performance Review (OAPR) until 30 June 2007 and thereafter under an officer-in-charge from OAPR until 15 September 2007. Subsequently, the IAO has been headed by a contracted officer-in-charge until 29 February 2008.

This Workplan sets out the goals to be accomplished and the priorities to be given consideration during the year and the required resources. While it is standard audit procedure to manage audit coverage on a sample or test basis based on selection carried out as a result of risk assessment, several internal audit activities consist of tasks which are compulsory and are not amenable to risk analysis (e.g. mandatory annual project audits, ad-hoc requests, investigations, audit management etc.). In 2005/2006, OAPR has developed a risk assessment model which has been principally used to establish the present Workplan for 2008. As risk assessment is a continuing exercise to reflect changes in organizational priorities, it is envisaged that the risk assessment model will continue to be modified in the ensuing year, based upon the experience gained during the course of 2008. The Workplan has been formulated after seeking inputs from senior management throughout the Organization.

UNOPS has established a *Strategy and Audit Advisory Committee* (SAAC). The SAAC is now operational and the IAO will coordinate and cooperate fully with the SAAC through the Executive Director. It should be noted however, that the SAAC does not replace the *Risk Management and Oversight Committee*, which formally has not been repealed, but in practice is now defunct.

**II. Objectives**

The essence of the IAO mission is to assist the Executive Director to whom it reports in discharging his accountability. To reach this goal, the IAO provides assurance, offers advice, recommends improvement and helps enhance the organization's risk management, control and governance systems.

The IAO also seeks to move towards and promote a tight enforcement of internal control and a risk curtailment culture within the Organization.

Finally, the IAO endeavours to support Management in the achievement of UNOPS general policies and objectives as described in the *Business Strategy* and the *2008/2009 Budget Strategy*.

Keeping in view the overall goals and objectives of internal audit, the *Internal Audit Charter* has been formulated, which defines the roles, responsibilities and authority of the IAO.

In particular, the scope of activities of the IAO is defined in the UNOPS Financial Regulations and UNDP Rules as under (changes are made in the context of UNOPS):

*Rule 103.02 [Internal Audit]*

*[The Internal Audit Office] shall be responsible for the internal audit of [UNOPS] and shall have free access to all books, records and other documents which are, in its opinion, necessary for the performance of the audit. Its reviews shall be conducted in accordance with generally accepted auditing standards, shall provide comments and recommendations to the [Executive Director] on financial, management and operational activities, in respect of:*

*(a) The regularity of the receipt, custody, expenditure, accounting and reporting of all financial resources administered by [UNOPS], and the effectiveness of existing internal controls and accounting systems;*

*(b) The conformity of expenditures with the purposes for which funds were appropriated or otherwise provided by the Executive Board and the financial authorizations issued there under [...];*

*(c) The compliance of all financial activities and transactions with established regulations, rules, policies, procedures and administrative instructions;*

*(d) The effective and efficient management of [UNOPS] and the effective, efficient and economic use of [UNOPS] resources and [non-UNOPS] funds administered by [UNOPS].*

### **III. Internal audit standards**

The IAO, like all other United Nations internal audit authorities, follows the *Standards of Internal Auditing* as per the professional practices framework prescribed by the *Institute of Internal Auditors*.

### **IV. Major considerations affecting the Workplan**

#### **1. Business and Budget Strategy**

The Workplan takes into consideration the important issues identified in the Business Strategy for 2007-2009 and the Budget Strategy for 2007-2008.

The Business Strategy of UNOPS outlines the mission as “to expand United Nations system capacity for implementing its peace building, humanitarian, and development operations” and the vision is “to become a world-class provider of management services at the United

Nations”. The focus activities are project management and procurement, to ensure that our clients timely receive quality services at the right cost, and to their full satisfaction, deepening the culture of accountability in our work by placing greater emphasis on producing accurate and timely results-oriented financial reporting for our clients and the Executive Board.

The 2008 Budget Strategy outlined in November 2007 emphasises on 10 main strategic performance objectives and related measures which is an innovative approach. These are:

- Improving financial performance;
- Mitigating financial risks;
- Improving the timeliness and quality of reporting;
- Delivering services that meet or exceed client expectations;
- Improving communications;
- Improving efficiency/effectiveness of business processes;
- Fostering a knowledge sharing culture;
- Improving staff competencies;
- Enhancing workforce diversity; and
- Increasing staff motivation.

## **2. Change in Organizational Structure**

The Workplan also takes into consideration the changes in organizational structure effective 1 January 2008. As per the new organization chart, the Corporate Controls Centre will consist of Finance, Legal, Security, the HQPC (contracts committee) and the IAO as it was ensured that this location does not impair its independence and reporting line. The change in organizational structure provides new challenges and opportunities to the internal audit efforts and has been taken into account in formulating the Workplan.

## **3. Constraint imposed due to mandatory project audits**

UNOPS has audit commitments in several project audit agreements with clients/donors. These commitments require that we provide audited financial statements and/or assurance on utilisation of funds to the clients/donors. The Workplan recognises these commitments and the limitation they impose on the process of sampling and selection based on a risk assessment exercise. The Workplan also recognises that the database on the projects which require such audits is incomplete, making a proactive approach difficult, except for those projects for which information is available.

## **4. Establishment of the IAO**

This being the first full year of the Internal Audit Office, numerous activities are involved in establishing the office. These include the development of specific UNOPS audit policies and procedures, drawing up working policies and procedures, formulating an audit manual, preparing templates for audit work programmes and audit reports etc. The practicalities of

establishing the internal audit function in the organization have been considered while formulating this Workplan.

## **V. Internal audit workplan for 2008**

### **1. General**

The Workplan outlines a prioritized list of proposed audit assignments, including the indicative audit scope for each assignment and an estimate of required resources.

The IAO undertakes an annual risk-based work planning process to determine the internal audit priorities for the coming year. The annual assessment of risks within the audit universe and the identification of auditable entities, establish the internal audit priorities.

The risk assessment and work programme preparation process was revised in 2006 for the 2007 audit Workplan by UNDP OAPR, to make it more efficient, comprehensive and to expand its scope.

The IAO risk assessment and Workplan exercise consisted of seven steps as identified below:

1. Bring up-to-date the Audit Universe;
2. Review of risk assessment model;
3. Identify quantitative/qualitative data for input into risk assessment model;
4. Identify units/processes with high risk rankings;
5. Estimate staff resources required to provide audit and other services;
6. Allocate staff resources to selected units and other audits and services; and
7. Obtain input from Senior Management and other relevant stakeholders.

### **2. Audit Universe**

The audit universe consists of business units and processes within the organization and forms the basis for selecting areas to audit within a given year. Each year the audit universe is revisited to ensure that it appropriately reflects current organizational structure and that proposed risk ratings remain relevant.

The Workplan seeks to expand the scope of audit and conduct more intensive audits of the various activities and functions of UNOPS within the set limitations of time and capacity. Accordingly, the audit universe has been reviewed and is it proposed to be expanded to reflect the current organizational structure.

In 2007, the audit universe was defined by organizational units which consisted of the Regional Offices and the Headquarters units. With the recent institution of Operation Centres in most regions, the majority of the projects are now managed at that level. Therefore, along with the 6 Regional Offices and the headquarters units, the organizational units for the

purpose of audit universe will now be expanded to include the 23 Operation Centres and the related projects.

The audit universe also includes the ongoing projects, as well as those projects which are physically and operationally closed, but financially remain open.

Besides these units, the audit universe also includes certain thematic issues identified for audit starting in 2008.

The details of the Audit Universe are available in *ANNEX I*.

### **3. Risk Assessment Exercise**

#### *Introduction*

Risk is the potential for loss caused by an event or series of events that can adversely affect the achievement of the organization's objectives. Risk management reduces the overall risk to a level which the Organization can assume, based on its risk appetite.

#### *Categories and management of risk*

UNOPS has several layers and categories of organization wide risk, all of which will need to be formally identified and addressed. Such categories of risk include among others:

- Reputational risk
- Business risk
- Performance risk
- Legal/liability risk
- Process risk
- Environmental risk
- Security risk

In applying a risk assessment based model for the purposes of internal audit, the IAO needs to take account of such categories of risk and how the organization addresses and mitigates each.

Furthermore, the IAO also need to consider and coordinate with other bodies such as the Board of Auditors, OIOS and the JIU to understand how their activities may address aspects of UNOPS's management of risk.

As an important element in understanding how the organization manages risk, UNOPS have recently prepared an Accountability Framework and Oversight Policy for presentation to the Executive Board in June 2008. The oversight policy aims to strengthen UNOPS accountability, risk management and assurance processes. While establishing basic principles, the policy also defines the specific terms and concepts, including accountability and transparency, as well as modalities of disclosure and confidentiality in the management of the operational activities of UNOPS. The oversight policy describes the roles and responsibilities of the various parties and the resulting synergies that would enable the UNOPS to enhance its oversight mechanisms.

A close linkage exists between the UNOPS oversight policy, the strategic plan, the accountability framework, the applicable administrative policies and procedures relating to

oversight and personal accountability, and all measures taken to improve evaluation and measurement of results and impact, monitoring and transparency in reporting.

#### *Other key influences*

As per UNOPS Budget Strategy for 2008/2009, four Strategic Themes have been identified: *Finance, Clients, Processes and People*. 10 Strategic Performance Objectives have been delineated under each theme to address related business risks. This exercise is an assessment of UNOPS financial, reputational and operational vulnerabilities and taking the necessary steps to mitigate them.

To add value to UNOPS operations, the IAO is following a risk-based audit planning system to ensure that its priorities are consistent with the organization's goals. Having a model for risk assessment has become essential due to the diversity of UNOPS operations worldwide and considering that the IAO, with its wide scope of audit coverage, has limited staff resources. To optimize these resources, it is imperative that the IAO efficiently and effectively allocates resources to areas that matter most to UNOPS. Thus, risk assessment is a major element during the audit planning phase to systematically identify areas of activity in UNOPS that warrants special emphasis and close review.

#### *Conclusion*

Having an effective risk-based planning system will give a reasonable assurance to UNOPS management that critical auditable areas are adequately covered through a medium to long-term audit strategy and annual workplans, and that recommendations resulting from these audits would add value to the organization in achieving its business strategy.

## **5. Risk Assessment Model**

The purpose of the risk assessment model is (a) to assess the risk profiles of UNOPS entities and therefore to decide on the priorities of the audit missions to be undertaken in the year by the IAO and (b) to keep track of the Organization's risk universe. The risk model developed for the selection of the field audit locations in 2008 maintains the importance of more frequent audits of the larger (in terms of expenditure) and entities identified as inherently prone to higher degrees of risk. The model also includes considerations of financial management and programme performance to strengthen what appears to be under-performing entities.

A comprehensive risk assessment exercise has been carried out to identify significant risk parameters. The benefit of using a risk assessment model is to be able to assess all entities on a common platform, so that the relative riskiness of the impact and vulnerability can be assessed more objectively.

The risk assessment has been carried out by evaluating quantitative and qualitative parameters. Impact values have been assigned by categorizing the raw values as high, medium and low risk by giving a valuation of 5, 3 and 1. A weighted average has been taken to arrive at the overall risk by giving a weight of 70 per cent to quantitative and 30 per cent to qualitative factors.

The risk model used in 2007 was reviewed and improved to include additional risk indicators. These indicators provide management with opportunities to more clearly focus the limited oversight resources on those entities that require strengthening. The model will continue to be

improved through an iterative process based on the accumulation of data and a more accurate weighting of variables. The model will also be further expanded to incorporate headquarters and regional units and more operations centres which are opened during the year. It should be noted that based on the work conducted and knowledge gained during 2008, it is envisaged that the parameters used within the risk model for UNOPS will be enhanced for 2009 and beyond.

Since the number of projects of value >\$100K being handled by the Regional Offices is a significant risk factor, it has been added as a quantitative parameter, in place of 'stakeholders concern', giving an overall weighting of 70 per cent to quantitative parameters instead of 60 per cent. The risk parameters which have been used are as under:

- Programme budgets;
- Programme expenditure;
- Administrative expenditure;
- Income generation targets;
- Actual business acquisition;
- Number of purchase orders >\$100K;
- Number of projects with expenditure >\$100K;
- Time elapsed since last audit;
- Last audit rating;
- Results of recent special audits or investigations and
- Turnover of staff at P4 and above level.

Based upon these parameters, the Regional Offices are categorized as **high**, **medium** and **low** risk based on the overall point score. The high, medium and low risk units are planned to be audited every year, every two years and every three years respectively if they remain in this category.

For carrying out the risk assessment of Operation Centres, the following parameters have been used:

- Project budget;
- Project expenditure;
- Administrative budget;
- Administrative expenditure;
- Income generation;
- Number of Purchase orders >\$100K
- Number of Projects with expenditure >\$100K

A summary of the Risk Assessment Model for Regional Offices is available in *annex 3* and for operation centres in *annex 4*.

For Headquarters units, a new organizational structure is effective from 1 January 2008. Except for Finance, the units which comprise the Global Services Centre and the OEC are different from what they were in 2007. As such, there is no continuity in the financial parameters used for their risk assessment, making such an analysis difficult. The main organizational units in Headquarters are mentioned in *annex 1* relating to Audit Universe. Since these are functional units, IAO will undertake systemic audits of functional areas in

these units, as per the list of performance audits proposed to be undertaken for the year and audit some units based on their inherent riskiness.

## **VI. Activities selected for audit**

### **1. Resources**

The available IAO staff resources are estimated *in toto* as 950 person days (PD). These staff resources are proposed to be deployed as delineated in *ANNEX II*. The IAO plans to deploy 58 per cent of these resources (550 PD) to providing direct assurance services by auditing Regional Offices, Operations Centres and related major projects, and carrying out functional audits in Headquarters and field units. In addition, 135 PD (13.5 per cent) are planned for the management of project audits in which we have an audit commitment or are requested by clients/donors. *Thus, 71.5 per cent of resources are planned to be deployed for audit related activities.*

The limited number of remaining days are planned to be deployed for providing advisory services, investigation services, capacity building and managing the internal audit function at headquarters, preparing the annual workplan, the annual report for 2007, follow up of recommendations of IAO, the United Nations Board of Auditors, OIOS and the Joint Inspection Unit and improvement in work procedures and policies such as manuals, templates, quality assurance, etc.

The distribution of available resources is described in *ANNEX II*. The details of the activities selected for audit during 2008 are as under:

### **2. Assurance Services: Regional Offices, Operation Centres and Projects**

#### *(a) General*

UNOPS has 6 Regional Offices and 23 Operation Centres. The Operation Centre (OC) implements the projects in the field and interacts with the clients. Most project records are available in the OC. In order to expand the scope of audit, it is pertinent to include OC as part of the Workplan and audit some of the major projects on a selective basis in those OC.

#### *(b) Regional Offices*

The United Nations Board of Auditors have recently carried out an audit of the MEO and APO and are in the process of carrying out an audit of some other regions (EUO) as part of their audit of UNOPS for the biennium 2006-2007. However, in order to provide a more comprehensive coverage of the audit of the Operations Centres, it is essential for IAO to audit the Regional Offices and in doing so the IAO may take up issues which complement the work of the external auditors.

On the basis of risk assessment exercise, the North America Office (NAO) is due for audit. However, as the NAO is basically engaged in managing two major clusters of projects, viz. the Mine Action Programme and the Small Grants Programme (UNDP/GEF), and a significant increase in the audit coverage of the SGP programme is already planned for 2008 onwards (see below), the IAO plans to take up the audit of the NAO during 2009.

We also propose to defer the audit of MEO given its recent audit by BoA.

Accordingly, on the basis of risk assessment exercise, the results of which are available on *ANNEX V*, the IAO proposes to take up the audit of the following two Regional Offices during the course of the year:

- Regional Office for Asia & the Pacific (B0055)
- Regional Office for Latin America & the Caribbean (B0054)

***(c) Operations Centres and Projects***

A risk assessment exercise, as mentioned above, has been carried out for the Operations Centres based on parameters and weighting as delineated in *annex 4*.

To provide adequate coverage of all the Regions, the IAO proposes to take up audit of an OC from each Region. In the three Regions with five or more OC, the IAO plans to audit two OC each with the highest risk points, and in the Regions with less than five OC, the IAO plans to audit one OC each with the highest risk point. An exception has been made for the Argentina OC, which is proposed to be taken up next year. Additionally, while auditing each OC, some major projects will be selected for audit.

Thus, based upon the results of the risk assessment exercise, which is available at *ANNEX VI*, the following seven OC are planned to be audited in 2008. While conducting the audit of the OC, a few major projects will be selected for audit while drawing up the work programme for the audit of the OC:

- AGOC, Afghanistan
- LKOC, Sri Lanka
- PEOC, Peru
- IDOC, Indonesia
- INOC, India
- KEOC, Kenya
- SWOC, Geneva

Thus, in the Workplan, the IAO proposes to audit two Regional Offices, and seven OC along with their selected major projects.

An estimated 220 PD are proposed to be allocated to the audit of Regional Offices and OC and the related major projects, in addition to the time spent on planning the audits and finalisation and issue of audit reports.

**3. Headquarters Units**

***(a) Performance Audits of Functional Units in Headquarters and Field***

Keeping in view the Business and Budget Strategy of UNOPS, it is essential that the IAO supports management in strengthening the risk management, control and governance structures within the Organization. Towards this end, we propose to engage into performance audits of selected activities and functions. Such performance (systemic) audits are management reviews on thematic issues consisting of examining the efficiency, effectiveness and economy of the functional activities. While financial audit embraces attestation of financial accountability involving expression of opinion on financial statements (which is the responsibility of the United Nations Board of Auditors), audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations,

audit of internal control and audit of probity and propriety of decisions taken within the audited entity, performance auditing seeks to evaluate whether the systems and functions are performing as intended and whether any changes or improvements are called for. In doing such audits, an attempt is made to answer the basic questions: “*are things being done in the right way?*” and “*are the right things being done?*”

Within the operational audit context, performance thus 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 activities are meeting planned objectives. Performance also refers to whether activities are conducted in accordance with UNOPS values which encompass the notions of prudence and probity and the necessity of taking acceptable risks.

Accordingly, based upon an assessment of risks stemming from systemic weaknesses in functional areas and seeking inputs from management, several topics have been identified for such systemic audits during 2008, as listed in *ANNEX VII*. Out of these, four topics are proposed to be taken up during 2008, based on available staff resources, which will be selected during the course of the year by the Head, IAO.

*An estimated number of 160 PD are proposed to be allocated for systemic audits.*

***(b) Other Headquarters Units and special audit activities***

In addition to carrying out functional audits of headquarters units, the IAO proposes to undertake compliance audits of ‘Office administration’, which is comprised of inherently riskier operations, involving purchases etc.

In addition to the above, some resources have been kept available for any special audits that may be taken up as a result of request by senior management, or due to any special concerns that may come to the notice of IAO during the year.

Related to the audits envisaged as above, staff resources have also been allocated for the planning of audits and drawing up the work programmes based on collecting information and understanding the unit to be audited, issuing audit announcement communications, and finalisation and issue of audit reports and travel.

*Thus an estimated number of 550 PD (58 per cent of total staff resources) are proposed to be allocated by the IAO to the direct conduct of internal audits during 2008.*

**4. Reimbursable Project Audits**

UNOPS has audit commitments in several activities. These commitments may consist of certifying financial statements and that expenditure are properly reflected and have been utilized for the purpose for which they have been allocated and/or of an assurance that UNOPS internal control procedures have been followed.

As part of effective internal audit services, the IAO provides assurance to other stakeholders, such as donors and partners, on the financial performance of programmes and projects that UNOPS implements.

As per the *United Nations Single Audit Principle*, the external audit of UNOPS is carried out solely by the United Nations Board of Auditors, the mandate of which is described in the United Nations financial regulations and rules.

In order to broad-base the audit of projects, the existing policy of outsourcing project audits when clients require such audits (either requested by them or provided for in agreements) will need to be continued, largely due to the practicalities of limited internal resources, timeliness and cost. These audits will be in addition to the projects selected for audit while conducting the audit of OC, as mentioned above.

These audits consist of:

- Provision of financial audits in line with the audit clause and requirement under certain Management Services Agreements (MSA). For 2008, this would consist of financial statement audits of MSA activities implemented by UNOPS under letters of agreement between UNOPS and the World Bank. The related direct audit costs will continue to be charged against the respective project budgets.
- Provision of financial audits in other projects with an agreement which requires either a certification audit and/or assurance on internal controls.
- Internal audit of projects and programmes which are based on specific requests by clients and/or donors/partners or UNOPS management considering certain risk factors and special concerns. In principle, the related direct audit costs are to be charged against the respective project budgets.
- GEF/SGP projects.

A guidance note on how these project audits are to be handled in UNOPS was issued in July 2007. The IAO role in such outsourced project audits is to manage the technical part of the work, such as vetting of Terms of Reference, participating in the entry/exit conference, vetting the draft audit report, issuance of the final audit report and such other inputs that may be necessary to maintain quality of audit reports.

In order to take a pro-active role in such project audits, an exercise has been undertaken, with the help of a consultant, of collating information of the project audit requirement in all the agreements which have been signed by UNOPS with various clients. This will help in identifying the staff resources required to manage such audits, besides save resources by enabling UNOPS to engage in long term agreements with audit firms to carry out the audits. It will also help the Organization in complying with its commitments in terms of deliverables, instead of such audits being undertaken, as at present, only when the clients have asked for the same as per project agreements and it became necessary to do so, which does not augur well for a well managed organization.

### **GEF/SGP Programme**

In the year 2006 and 2007, audits were conducted of 10 countries where the Small Grants Programme (SGP) is implemented. However, this year, under the Operational Phase IV which commenced in July 2007, UNDP/CPMT has requested that 120 countries be audited once during the operational phase i.e. till 2010. Hence, the IAO will be required to carry out about 40 audits every year. For 2008, based on risk assessment and discussions with the client, the following countries have identified for selection:

- Highest risk (9 countries): Sri Lanka / Thailand / Indonesia / Côte d'Ivoire / Turkey / Jordan / Kazakhstan / Ghana / Nepal.

- High risk (13 countries): Belize / Peru / Morocco / Lithuania / Vietnam / Palestinian Authority / Burkina Faso / Iran / Malaysia / Honduras / Barbados / Albania / Kyrgyzstan.
- Medium risk (16 countries): Mongolia / El Salvador / Bhutan / Namibia / Dominica / Mauritius / Trinidad & Tobago / Suriname / South Africa / Western Samoa / Micronesia / Jamaica / Belarus / Niger / Syria / Bulgaria.

While this request for blanket audit coverage over the 4<sup>th</sup> phase of the programme by the client still stands as of the date of this Workplan, please note that UNOPS management have presented a concept paper that presents an alternative approach to audit coverage and it is argued that this alternative approach is more cost effective and meaningful to fulfilling the expectations of the client. The IAO will adjust its approach for audit coverage of the SGP accordingly once a final decision has been made.

Keeping in view the expansion in scope of the SGP audits, these audits will be carried out by engaging either audit consultants, or by entering into a long term agreement with an audit firm. The IAO will, however, provide assistance as mentioned above and will be responsible for issuing the audit report. An estimated number of 35PD will be dedicated to managing these audits.

Thus, based on available information and the limitation of correctly estimating the staff resources required to manage such audits, a provision of staff days has been made in the Workplan for managing these project audits, as indicated in *ANNEX II. 130 PD (14 per cent of IAO total staff resources) are expected to be dedicated to the management of project audits, including GEF/SGP audits.*

Long term agreements will be finalized during the year for the conduct of these audits in a timely and cost effective manner.

## **5. Related Services**

### ***(a) Advisory Services***

Advisory services are generally provided at the request of management. The IAO provides such services but auditors do not have the authority or responsibility for implementing the outcomes of these services. Advisory activities may involve providing informal or formal advice, analysis, assessments, and serving on task forces to analyze operations and make recommendations. The Standards of internal auditing issued by the IIA do provide for such advisory services but when performing such consulting services, the internal auditor should maintain objectivity and not assume management responsibilities.

*35 PD have been provided in the Workplan for such advisory services.*

### ***(b) Support to Investigation***

Investigation activities have been defined by OIOS as a specific examination of a claim of wrongdoing and provision of evidence for possible prosecution or disciplinary measures.

Hence investigation activities are in the nature of an enquiry and extend the scope of the IAO to establishing a wrongdoing, which may be fraud or mismanagement. This may involve examining evidence outside the organization and using forensic auditing procedures.

As per the UNOPS anti-fraud policy (OD10), the General Counsel will make an initial assessment of the reported incident. Cases which, in her/his opinion may constitute fraud or

attempted fraud will be referred to the Investigation Unit of the UNDP/OAPR or to the United Nations Office of Internal Oversight Services (OIOS), as appropriate, for investigation. The General Counsel may also request the IAO to conduct the enquiry.

The IAO does not have specialized staff resources to embark on complex investigations. However, when the nature of the enquiry is within the capabilities of the IAO, such enquiries may be taken up. The IAO may also supplement its technical resources by outsourcing the investigations on a case by case basis.

*60 PD have been provided in the Workplan for this activity.*

***(c) Other Activities***

***(i) Follow up on Audit Recommendations***

Although the implementation of audit recommendations is management's responsibility, auditors will have to follow up on the status of implementation of audit recommendations.

All audit recommendations are categorized as low, medium or high risk, in line with the same approach as used in 2007 by UNDP, and at present manually followed up for implementation. A request to use the CARDS system from UNDP has been made, although no positive answer has been received to date, for electronically monitoring implementation of recommendations and issuing reminders to management. However, in line with leading business practice, the IAO are considering the adoption of its own audit automation software. A cost/benefit analysis will be carried out in quarter two of 2008 in this regard.

The status of implementation is reported to the Executive Director and the Executive Board through the Annual Report of the IAO. In addition, biannual status reports on the level of implementation will be submitted to the Executive Director and the SAAC.

***(ii) Working with oversight partners***

- *The United Nations Board of Auditors.* It is important that the internal and external audit workplans be closely coordinated, that their respective audit recommendations be followed up and that audit results be timely shared. To that effect the Workplan is provided to the external auditors. The audit reports are made available to the external auditors after along with management responses. The external auditors will have full access to CARDS.
- *Oversight Bodies of Other United Nations Organizations.* As per its mandate, the responsibilities of the OIOS extend to the resources and staff of the United Nations which includes separately administered organs. Similarly, as per their mandate, the responsibilities of the JIU also extend to most United Nations organizations. Accordingly, the IAO will extend its cooperation and work closely with the OIOS and the JIU in strengthening internal oversight within UNOPS.
- *Representatives of Audit Services of the United Nations (RIAS).* The IAO will also participate in the meetings of the RIAS to share knowledge and experiences from other United Nations organizations.

## **VII. Managing the internal audit functions**

### **1. General**

Other activities relating to internal audit include the preparation of an annual workplan based upon a risk assessment exercise, an annual activity report submitted to the Executive Board, formulation of policies and procedures for audit, maintenance of an audit manual, development of templates for making audit work programmes, checklist of records to be examined, format of audit report etc. Furthermore, the IAO has an important role to play in its interactions with the SAAC.

*Staff resources estimated at 115 PD have been allocated for these activities as delineated in annex 2.*

### **2. Management of outsourced audit capacity**

To manage the requirements for mandatory and request based project audits, while also mitigating the impact on the person day capacity of the IAO, it is envisaged that the IAO will request the establishment of a Long Term Agreement to provide professional audit and accounting services. The IAO will be involved in the development of the terms of reference for this LTA and work closely with the procurement unit to assist in the management of the tender process.

### **3. Monitoring and Reporting of Implementation of the Workplan**

IAO regularly monitors the implementation of the Workplan, and formally reports on the implementation status as well as the results of its internal audit assignments. This is done through the *Annual Report of Internal Audit Office*, which is presented to the Executive Board in its mid-year. It provides information about budget and staffing levels, utilization of resources and implementation of Workplan. The report includes summaries of the audit reports issued during the year. It also provides details of follow up of implementation of the audit recommendations. The Annual Report expresses the IAO annual positive assurance opinion on the overall adequacy and effectiveness of risk management, control and governance processes over operations and compliance.

The Annual Report of the IAO activities will be submitted to the Executive Board at its June 2008 session in Geneva.

### **4. Staffing Resources and Deployment**

As per the current staffing structure, the IAO has one post of Head (ICS 12), and four posts of Internal Auditors (1 at ICS 11 and 3 at ICS 10). Three of these posts (1 at ICS 11 and 2 at ICS 10) have been filled as of December 2007, and another has been filled on 1 January 2008. The post of Head of Audit has been encumbered on 29 February 2008. Accordingly, these resources have been taken into account in the Workplan.

### **5. Budgetary Resources**

A provision of \$3.44 million has been made in the budget of UNOPS for the biennium 2008-2009 for IAO activities.

## 6. Capacity building

The IAO will undertake capacity building by continuing to develop staff competencies through training and improvement of work methods, tools, techniques, and business processes and leverage the ERP environment as an audit area and a medium for efficiently/effectively conducting audits, and meeting the requirements of continuing education of professional certifications obtained by staff members. Training will be imparted in upgrading skills relating to use of audit automation software, use of computer assisted auditing tools and other areas as defined during the course of the year.

*An estimated 12 PD per staff member has been included in the Workplan for capacity building.*

Staff members will be encouraged to acquire professional certifications in auditing to develop their technical competencies and enhance their working languages proficiency.

## 7. Policies and Procedures, System Improvement

Several activities involved in the strengthening of the internal audit function in UNOPS are planned to be taken up during the course of the year. Accordingly, a provision of 30 PD has been made in the Workplan for the following activities:

- Experience shows that the Audit Clause as included in a number of agreements or projects (e.g. World Bank or IFAD) for different clients is not clear on what is expected often leading to confusion. There is a need for standardization of the Audit Clause for future agreements signed by UNOPS, taking into account the ‘single audit principle’ as defined by the United Nations.
- Devising standard TOR and audit report formats for project audits for different clients/type of audit.
- Revising formats for work programmes and reporting formats for audits undertaken by the IAO.
- Preparation of Internal Audit Manual, delineating the policies and procedures to be followed by the IAO in its operations and checklist of audit checks.
- A roster of consultants and a panel of audit firms for LTA will be taken up to streamline the process of conducting project audits and save time and costs.
- As part of the strategy to use IT systems to automate the audit process and use IT as a tool for audit analysis, the IAO will begin with the acquisition of auditing software such as Auto Audit etc. and computer assisted auditing tools (CAAT) such as ACL or IDEA. The staff will be provided training to use these systems.

### List of attachments

- A. Audit Universe
- B. Audit Workplan and utilization of staff resources in 2008
- C. Risk assessment model for Regional Offices
- D. Risk assessment model for Operation Centres
- E. Results of Risk Assessment of Regional Offices
- F. Results of Risk Assessment of Operation Centres
- G. Topics for systemic audits

## **Attachment A. Audit universe**

The UNOPS Audit Universe consists of the following organizational units as at 1 January 2008:

### **1. Headquarters units**

Executive Office

- Communications Wing
- Business Development

Corporate Control Centre:

- Legal office
- Finance
- HQCPC
- Security

Organization Effectiveness Centre:

- Division of Strategic Human Resources (HR)
- Business Process Support Improvement (BPI)
- Corporate Strategy and Policies (CSP)
- BES functions (outsourced to UNDP)

Global Service Centre

- Division of Information and Communication Technology (ICT)
- Procurement
- Office Administration
- Operations Support Team for EUO, NAO and CPH

### **2. Regional offices**

Regional Office for Middle East (MEO - B0056)

Regional Office for Asia & the Pacific (APO - B0055)

Regional Office for Europe (EUO- B0051)

Regional Office for Latin America & the Caribbean (LCO - B0054)

Regional Office for North America (NAO - B0050)

Regional Office for Africa (AFO - B0053)

### **3. Operation centres**

India (INOC)

Myanmar/Bangkok (MMOC)

Dili, Timor Leste (TLOC)

Ajuen -Banda ACEH, Indonesia (IDOC)

Islamabad, Pakistan (PKOC)

Kabul, Afghanistan(AGOC)

Amman, Jordan IQOC (IRAQ)

Colombo, Sri Lanka (LKOC)

Khartoum, Sudan (SDOC)

Jerusalem (new projects only)

Dakar, Senegal (SNOG)

Nairobi (KNOC)

Tunis, Tunisia (TNOC)

Buenos Aires, Argentina (AROC)

El Salvador (SVOC)

Guatemala (GTOC)

Port-au-Prince, Haiti (HTOC)

Lima, Peru (PEOC)

Montevideo, Uruguay (UYOC)

Skopje, Macedonia (MKOC)

Geneva (SWOC)

Vienna (ATOC)

Italy (ITOC)

## Attachment B

### Internal audit work plan 2008

#### UTILIZATION OF STAFF RESOURCES IN 2008

##### AVAILABLE PERSON DAYS (PD) IN 2008

###### Standard PD available in the year:

No. of days in year		366
less: weekends	104	
annual leave	30	
sick leave	6	
public holidays	<u>10</u>	
	<u>150</u>	
Total PD per auditor available in 2008		<b>216</b>

###### Available PD in 2008 with existing staff:

<u>Functional title</u>	<u>available months</u>	<u>Calculation</u>	<u>AvailablePD</u>
Head of Audit	2/5 months direct audit X standard PD	0.4 X 216	86
4 Internal Auditors	12 months X standard PD	4 X 216	<u>864</u>
	<u>TOTAL PD AVAILABE IN</u>		<u><b>950</b></u>
	<u>2008</u>		

##### UTILIZATION OF PERSON DAYS

###### PART 1 INTERNAL AUDITS

<u>Organizational Units</u>	<u>Location</u>	<u>Estimated PD</u>
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**Regional Offices:**

1.APO	Asia & Pacific	Field	35
2.LCO	Latin America	Field	30

**Operation Centres:**

1.AGOC	Afghanistan	Field	25
2.LKOC	Sri Lanka	Field	20
3.PEOC	Peru	Field	20
4.IDOC	Indonesia	Field	20
5.INOC	India	Field	20
6.KEOC	Kenya	Field	20
7.SWOC	Geneva	Field	20

**Headquarters:**

1. Performance (Systemic) audits	4 X 40PD	Hqrs.	160
2. Office Administration		Hqrs.	15

**Special audits (requested by sr. mgt or suo moto taken up by IAO)** 30

**Audit planning and work program preparation** 50

**Finalisation and issue of audit reports** 25

**Travel** 60

**TOTAL FOR INTERNAL AUDITS** **550** **57.89%**

**PART 2    MANAGEMENT OF PROJECT AUDITS**

**MSA agreements -World Bank, IFAD etc**  
TOR, audit reports etc. 30

**GEF/SGP overall management of audit** 35

40 countries to be selected for 2008  
& 5 countries requested for audit

**Other projects with audit commitment (EU, DFID etc.)**

overall management of audit (list of projects being compiled) 40

**Ad hoc requests for project audits**

overall management of audit 25

**TOTAL FOR PROJECT AUDITS 130 13.68%**

**PART 3 OTHER TASKS**

**Ad hoc Advisory Services 35**

**Support to Investigations 60**

**Internal Audit Management Tasks**

Risk Assessment & Annual Plan for 2008 15

Risk Assessment & Annual Plan for 2009 25

Annual Report for 2007 (to be issued in 2008) 25

Follow-up on recommendations 20

Policies & Procedures (manuals, templates, quality assurance etc) 30

**TOTAL OTHER TASKS 210 22.11%**

**PART 4 CAPACITY BUILDING**

12 days per staff member 12 X 5 60 6%

**GRAND TOTAL 950 100%**

## Attachment C

### **RISK ASSESSMENT MODEL FOR SELECTING REGIONAL OFFICES (RO) FOR AUDIT IN WORK PLAN 2008**

The Risk Assessment model for selecting the Regional Offices to be audited in 2008 is based on the following model. The overall weightage (%) given to the parameter is also indicated below.

<i>PARAMETER</i>	<i>VALUES in \$</i>	<i>SCORE</i>	<i>WEIGHTAGE</i>
<b>A. QUANTITATIVE</b>			
1. Project Budget	<75K	1	10%
	>75K <150K	3	
	>150K	5	
2. Project Expenditure	<50K	1	10%
	>50K <100K	3	
	>100K	5	
3. Administrative Expenditure	<1.5K	1	10%
	>1.5K <3K	3	
	>3K	5	
4. Resource Mobilization (Income Generation)	<5K	1	5%
	>5K <10K	3	
	>10K	5	
5. Business Acquisition	<75K	1	5%
	>75K <150K	3	
	>150K	5	
6 Number of Purchase Orders with expenditure >100K.	<50	1	10%
	>50 <100	3	
	>100	5	
7. Projects with expenditure > 100K	>100K <150K	4	10%
	>150	5	
8. Time elapsed since last audit	Last audit in 2007	1	10%
	Last audit in 2006	3	
	Last audit ante 2006	5	
<b>B. QUALITATIVE</b>			
9. Last audit rating	Satisfactory	1	10%
	Partially Satisfactory	3	
	Deficient	5	
10. Results of investigations in last 3 years	Cases reported, not proven	1	10%
	Reported proven, medium risk	3	
	Reported proven, high risk	5	
11. Turnover of key Management personnel in last 2 years	0 to 1 change in incumbency	1	10%
	2 to 3 changes in incumbency	3	
	>3 changes in incumbency	5	

#### **OVERALL CATEGORIZATION**

<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

## Attachment D

### **RISK ASSESSMENT MODEL FOR SELECTING OPERATION CENTRES FOR THE 2008 AUDIT WORK PLAN**

The Risk Assessment Model for selecting the Operation Centres to be audited in the 2008 work plan is based on the following Model. The overall weightage given to each parameter in the risk assessment is also indicated below.

<b>PARAMETER</b>	<b>VALUES IN \$</b>	<b>SCORE</b>	<b>WEIGHTAGE</b>
1. Project Budget	30K	1	15%
	>30K <75K	3	
	>75K	5	
2. Project Expenditure	Same as above		20%
3. Administrative Budget	<0.5K	1	10%
	>0.5K <1K	3	
	>1K	5	
4. Administrative Expenditure	Same as above		10%
5. Resource Mobilisation	<0.3K	1	15%
	>0.3K <1K	3	
	>1K	5	
6 Number of Purchase Orders with expenditure >100K.	<50	1	15%
	>50 <75	3	
	>75	5	
7. Number of Projects with expenditure >100K	<15	1	15%
	>15 <25	3	
	>25	5	

## Attachment E

### Results of Risk Assessment of Regional Offices

<u>Regional Office</u>	<b>FINAL RISK SCORES AND RANKING</b>				
	<u>Quantitative Final Scores</u>	<u>Qualitative Final Scores</u>	<u>Final Risk Score</u>	<u>Level of Risk</u>	<u>Ranking</u>
Middle East	2.90	0.80	<b>3.70</b>	<b>High</b>	<b>3</b>
Asia and Pacific	2.80	0.90	<b>3.70</b>	<b>High</b>	<b>4</b>
Europe	2.20	0.40	<b>2.60</b>	<b>Medium</b>	<b>6</b>
Latin America & the Caribbean	3.20	0.70	<b>3.90</b>	<b>High</b>	<b>2</b>
North America	3.50	0.80	<b>4.30</b>	<b>High</b>	<b>1</b>
Africa	1.90	1.10	<b>3.00</b>	<b>Medium</b>	<b>5</b>

## Attachment F

### RESULTS OF RISK ASSESSMENT OF OPERATION CENTRES

REGIONAL OFFICE	OPERATION CENTRE	LOCATION	WEIGHTED AVERAGE
APO	INOC	NEW DELHI, INDIA	2.3
	MMOC	MYANMAR/BANGKOK, THAILAND	2
	TLOC	DILI, TIMOR LESTE	1.4
	IDOC	AJUEN -BANDA ACEH, INDONESIA	2.9
	PKOC	ISLAMABAD, PAKISTAN	1.4
MEO	AGOC	KABUL, AFGHANISTAN	5
	IQOC (IRAQ)	AMMAN, JORDAN	2.2
	LKOC	COLOMBO, SRI LANKA	3
	SDOC	KHARTOUM, SUDAN	2.7
	JMOC	JESURALEM (new projects only)	1.4
AFO	CDOC	KINSHASA GOMBE, CONGO	1.6
	KEOC	NAIROBI, KENYA	3.6
	SNOC	DAKAR, SENEGAL	1.4
LCO	AROC	BUENOS AIRES, ARGENTINA	3.4
	SVOC	EL SALVADOR	1.3
	GTOC	GUATEMALA	1.6
	HTOC	PORT-AU-PRINCE, HAITI	1.3
	PEOC	LIMA, PERU	3.9
	UYOC	MONTEVIDEO, URUGUAY	1.3
EUO	SWOC	GENEVA	2.3
	ATOC	VIENNA	1.7
	MKOC	SKOPJE, MACEDONIA	2
NAO	No Operation Centres, but cluster of projects relating to SGP, Mine Action.		

## Attachment G

### **TOPICS FOR PERFORMANCE (SYSTEMIC) AUDITS**

Based on systemic weaknesses in functional areas and seeking inputs from management, several topics have been identified for performance (systemic) audits. The IAO will select from this list the topics to be taken up for audit during 2008 based on the resources available:

- System of Human Resource Management - international and local recruitment of staff, contracts & documentation, performance evaluation, claims & advances, leave management, termination process etc.
- System of engagement of consultants.
- Functioning of HQCPC/LCPC - review of controls in major procurements.
- System of engagement of Long Term Agreements.
- Audit of IT Security Policies - physical security, logical access security, access controls, audit trails, e-mail and web servers, etc.
- ICT Services - business continuity plan, business impact analysis, disaster recovery plan, hot/cold sites, etc.
- Management of performance reporting information - financial reporting, returns, reporting from Atlas etc.
- Review of Control Activities - policies and procedures, system manuals etc.
- Review of internal controls in accounting system - budgetary control issues such as excess project expenditure over budgets, revisions in project budgets, budget overrides, journal entries and general ledger entries, accounts payable and receivables etc.
- Review of un-liquidated obligations.
- Review of implementation of the United Nations Board of Auditors recommendations.
- Review of implementation of Internal Audit recommendations.
- Review of pricing policy - basis and assumptions for cost recovery rates, fixing minimum margins for various activities, low rates for some existing projects etc.