



## INTERNAL AUDIT DIVISION

# REPORT 2015/175

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### Audit of construction projects in the Regional Service Centre in Entebbe

Overall results relating to the effective management and implementation of construction projects in the Regional Service Centre in Entebbe were initially assessed as unsatisfactory. Implementation of two critical and two important recommendations remains in progress

**FINAL OVERALL RATING: UNSATISFACTORY**

16 December 2015  
Assignment No. AP2015/616/01

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# AUDIT REPORT

## Audit of construction projects in the Regional Service Centre in Entebbe

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of construction projects in the Regional Service Centre in Entebbe (RSCE).

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3. The General Assembly approved the establishment of RSCE, a shared service centre, as part of the Global Field Support Strategy with responsibility for providing non-location dependent administrative and financial support for the following missions:

- United Nations Organization Stabilization Mission in the Democratic Republic of Congo (MONUSCO);
- African Union-United Nations Hybrid Operation in Darfur;
- United Nations Mission in the Republic of South Sudan;
- United Nations Interim Security Force for Abyei;
- United Nations Support Office in Somalia;
- United Nations Assistance Mission in Somalia;
- United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic;
- United Nations Electoral Mission in Burundi;
- Special Envoy of the Secretary-General to the Great Lakes; and
- United Nations Monitoring Group on Somalia and Eritrea.

4. The activities of RSCE are governed by the RSCE Steering Committee, which comprises the Assistant Secretary-General of the Department of Field Support (DFS) and directors/chiefs of mission support of the above-mentioned missions. This Committee is responsible for monitoring and providing oversight of the performance of RSCE.

5. In February 2011, the RSCE Steering Committee approved the Capital Master Plan estimated at \$78.5 million for the construction of 28 buildings within the MONUSCO Entebbe Support Base (ESB). In 2011, RSCE, in collaboration with MONUSCO and the Regional Procurement Office (RPO) of the Procurement Division, Department of Management, commenced the implementation of the plan with the construction of seven buildings including: four office buildings, a data centre, a training and conference centre, and a powerhouse. The cost of the construction of the seven buildings was \$28 million as at September 2015. At the time of the audit, the four office buildings, powerhouse and the data centre were 98 per cent complete. The contract for the conference centre had been awarded only recently.

6. RSCE led the preparation of the Capital Master Plan with technical expertise from the United Nations Global Service Centre and consultants hired by RPO. For five months, from February 2012, RSCE also led the implementation of the plan mainly by pooling the technical expertise of MONUSCO and RPO for the preparation of technical specifications to source contractors for the construction of the

data centre and the first two office buildings. In August 2012, the RSCE Steering Committee appointed MONUSCO to implement construction activities related to the Capital Master Plan for ESB. Subsequently, in November 2013, the Committee designated the Director Mission Support (DMS), MONUSCO to lead the project. The ESB is headed by a Chief at the P-5 level who is supported by the ESB Engineering Section, RPO and RSCE. It is responsible for the day-to-day management and implementation of construction activities. The ESB Engineering Section is headed by a staff at the P-3 level and has 34 posts.

7. Comments provided by RSCE, MONUSCO and RPO are incorporated in italics.

## II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of MONUSCO and RSCE governance, risk management and control processes in providing reasonable assurance regarding the **effective management and implementation of construction projects in RSCE**.

9. The audit was included in the 2015 risk-based work plan of OIOS because of the operational, compliance and financial risks related to construction activities in RSCE.

10. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: (a) exist to guide the management and implementation of construction projects in RSCE; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.

11. The key control was assessed for the control objectives shown in Table 1.

12. OIOS conducted this audit from May to September 2015. The audit covered the period from September 2010 to June 2015. The audit covered the governance arrangements, initiation, planning, execution and monitoring of construction activities in the ESB. The audit did not cover the procurement of goods and services.

13. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews and analytical reviews OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

## III. AUDIT RESULTS

14. The RSCE and MONUSCO governance, risk management and control processes examined were initially assessed as **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management and implementation of construction projects in RSCE**. OIOS made six recommendations to address the issues identified. MONUSCO, as the implementing entity of RSCE construction projects, needed to: (a) establish an appropriate project governance/oversight body and appoint a dedicated project manager for the construction activities in Entebbe; (b) obtain construction and occupation permits; and (c) establish arrangements with the Uganda Revenue Authority to operationalize the tax-exempt provision in the Memorandum of Understanding (MoU) between the Government of

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<sup>1</sup> A rating of “**unsatisfactory**” means that one or more critical and/or pervasive important deficiencies exist in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

Uganda and the Organization. RSCE needed to: (a) recover retention amounts paid to contractors in error, properly record retention amounts withheld from contractors and implement a mechanism to properly record future amounts; and (b) prepare and submit to the Uganda Revenue Authority all outstanding claims for value-added tax (VAT) including the estimated \$629,761 relating to the period from August 2013 to July 2015. RPO needed to submit performance evaluation forms to the Vendor Registration Officer and the Vendor Registration Management Team.

15. The initial overall rating was based on the assessment of key control presented in Table 1. The final overall rating is **unsatisfactory** as implementation of two critical and two important recommendations remains in progress.

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management and implementation of construction projects in RSCE	Regulatory framework	Unsatisfactory	Partially satisfactory	Partially satisfactory	Unsatisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

## Regulatory framework

### Need to establish a governance structure for managing construction projects

16. Best practices such as the Department of Peacekeeping Operations (DPKO)/DFS Policy on Quick Impact Projects and the DFS Guidelines on Governance of Major Construction Projects in Field Missions require MONUSCO to establish an appropriate project governance body with clear terms of reference to: (a) review and approve projects and related changes; and (b) monitor the execution of projects and provide direction in their implementation. The governance body should be headed by a senior manager and comprise senior-level specialists from engineering, budget and finance, procurement, safety and security, and communications and information technology. These practices and the RSCE Steering Committee require the DMS to establish appropriate capacity including a dedicated Project Manager with sufficient technical expertise, authority and resources for the day-to-day management of construction projects.

17. A review of the minutes of the RSCE Steering Committee and project documents, and interviews with staff involved in construction activities in Entebbe indicated that MONUSCO assigned the former Deputy Chief Engineer based in Goma as the Project Manager for one year up to September 2013 and the Chief of ESB, supported by the Chief Engineer of ESB, as Project Manager from October 2013 to April 2015. However, the staff assuming these functions were not dedicated to construction projects, and there was no terms of reference or evidence that MONUSCO appointed them as managers of the construction projects in Entebbe.

18. MONUSCO stated that it established a Project Management Team (PMT) of experts, led by a qualified Project Manager, responsible for the day-to-day management of construction activities. A review of project management records showed that the former Chief of ESB convened monthly meetings

with staff involved in construction activities in Entebbe, which included representatives from RSCE and RPO, as well as staff from the relevant sections of ESB such as Engineering, Communications and Information Technology, Safety and Security, and Contracts Management. However, the PMT did not have clear terms of reference and delegated authority.

19. In May 2015, MONUSCO appointed the ESB Chief Engineer as the new Project Manager, and was in the process of formalizing its governance structure and drafting appropriate terms of reference at the time of the audit.

20. The above resulted because MONUSCO did not formalize and clarify the Entebbe construction project management arrangements, structures, roles, responsibilities and accountability for project governance, such as the review of construction activities and related changes, provision of direction by the PMT, and the day-to-day management of construction activities. Also, while there were concerns regarding the competency of selected contractors, MONUSCO did not always promptly identify problems with contractors and take corrective actions.

21. The lack of a formal project management structure resulted in project delays, and failure to identify and address cost overruns in a timely manner. For example: the construction of the data centre, office buildings 1 and 2 and the installation of the cooling system for the data centre were delayed by 261 days, 470 days and 673 days respectively; and the not-to-exceed amount of three projects, i.e., office building 1 and 2 and the data centre exceeded the \$9.8 million final estimated completion cost by \$2.5 million (or 26 per cent).

**(1) MONUSCO should formally: establish an appropriate project governance body with terms of reference to oversee construction projects in the Entebbe Support Base; and appoint a dedicated project manager with appropriate authority and resources for the day-to-day management of construction projects.**

*MONUSCO accepted recommendation 1 and stated that it would formally: establish a project governance body and project team, with terms of reference to oversee construction projects in ESB; and appoint a project manager once the governance arrangements were approved. Recommendation 1 remains open pending receipt of evidence that MONUSCO has formally established a project governance body, project management team and assigned a dedicated project manager for construction activities in Entebbe.*

#### Non-compliance with the local authorities' building requirements

22. The Uganda Building Control Act requires MONUSCO to obtain a construction permit from the Building Committee of the National Building Review Board for construction activities in ESB and occupation permits on completion of a construction. On 16 January and 26 June 2014, the Headquarters Committee on Contracts (HCC), in connection with its review of contracts for the construction of office buildings 3 and 4 and the regional training and conference centre, reminded MONUSCO to obtain Government permits for construction activities in Entebbe.

23. A review of project records and interviews with the Head of ESB and ESB Engineering Section staff indicated that MONUSCO did not obtain permits from the Ugandan authorities for the ongoing construction of six buildings and the planned construction of another building. MONUSCO had also not obtained an occupation permit for the completed powerhouse.

24. The above resulted because MONUSCO incorrectly assumed that the MoU between the United Nations and the Government of Uganda was sufficient and the Organization did not require formal

permits regarding technical aspects of construction activities in ESB. MONUSCO advised that it had obtained verbal approvals from the Civil Aviation Authority regarding the height of buildings. However, in the view of OIOS, this was not a substitute for formal permits regarding the technical aspects of construction activities. As a result, there was a risk that the Entebbe construction activities did not comply with the Uganda Building Control Act; and financial losses could arise in the event that authorities require additional work.

**(2) MONUSCO should obtain construction and occupations permits, post facto, and implement a mechanism to obtain similar permits for all future construction activities in the Entebbe Support Base.**

*MONUSCO accepted recommendation 2 and stated that it initiated the process for obtaining the building permits for completed and new constructions and received approval for the construction of the Regional Training and Conference Centre. Recommendation 2 remains open pending receipt of evidence that MONUSCO has obtained construction and occupations permits for completed constructions and implemented a mechanism to obtain similar permits for all future construction activities in Entebbe.*

Release of retention money before the completion of the contracts

25. United Nations Financial Rules require approving officers of the relevant Finance Section (i.e., the Vendors Service Line of RSCE) to approve payments after determining the correctness of amounts due and confirming that the goods and services were received in accordance with the relevant contract, agreement or purchase order and financial commitment. All contracts for construction activities in ESB require RSCE to retain 10 per cent of the value of certified goods and services to protect the Organization against a contractor's breach or poor performance and release such amounts only after satisfactory completion of the relevant project.

26. A review of 38 out of 377 payments made to construction contractors from September 2010 to June 2015 and an analysis of the retention account indicated that RSCE retained only \$0.46 million of the required \$1.33 million, representing 10 per cent of \$13.32 million paid to contractors for all five ongoing construction contracts for the period from November 2013 to August 2014.

27. The above resulted because Umoja did not initially allow retention of payments and RSCE did not implement a workaround mechanism to track amounts to be retained. RSCE subsequently implemented a mechanism where, in collaboration with the ESB Engineering Section, it calculated amounts to be retained and made progress payments net of retention. However, RSCE and ESB were not consistent in withholding the 10 per cent retentions from progress payments, and RSCE had not maintained an accumulative record of amounts withheld from payments to the contractors. As a result, there was a risk of financial misstatement related to non-accrual of retention amounts and loss resulting from any breaches of contracts by contractors and poor performance.

**(3) RSCE should withhold in the current invoices retention amounts not withheld from previously paid invoices, and implement a mechanism to ensure that 10 per cent retention is consistently withheld and properly recorded.**

*RSCE accepted recommendation 3 and stated that it: put in place a system workaround to ensure that 10 per cent retention was consistently withheld; would reconcile the account; and recover pending amounts from future payments. Recommendation 3 remains open pending confirmation of the withholding of retention money not previously withheld.*

### Need to enhance mechanism for recovery of value-added tax

28. The MoU between the Government of Uganda and the United Nations exempts the United Nations from all direct and indirect taxes. MONUSCO is responsible for making appropriate administrative arrangements for the recovery from the Government of all taxes such as VAT and for liaising with the Government on all matters relating to the implementation of the MoU.

29. A review of 38 out of 377 payments made to construction contractors from September 2010 to June 2015 indicated that RSCE included VAT in its payments to contractors with the expectation that it would request refunds from the Uganda Revenue Authority. This process was inefficient and posed the risk of financial loss in cases where the RSCE did not promptly submit accurate VAT claims and/or the Uganda Revenue Authority refused to honour some claims. For example, a review of VAT claims submitted by RSCE to the Uganda Revenue Authority indicated that: (a) RSCE only submitted VAT claims totaling \$232,464 for the period from August 2013 to July 2015 (prior to August 2013 there were no outstanding VAT claims due to delays in commencement of billable construction activities), and the Uganda Revenue Authority rejected \$103,239 of these claims because contractors had not declared the related revenue; and (b) RSCE had not submitted claims totaling \$629,761 related to the period from August 2013 to July 2015. During the audit, in July 2015, RSCE requested RPO to assist with the recovery of VAT claims totaling \$87,465 that were part of the \$103,239 that was previously rejected by the Uganda Revenue Authority.

30. The above resulted because RSCE did not draw MONUSCO attention to the need to implement a mechanism, in collaboration with the Uganda Revenue Authority, whereby contractors invoiced, and the Organization paid contractors, net of VAT.

**(4) MONUSCO should establish arrangements with the Uganda Revenue Authority to operationalize the tax-exempt provision of the Memorandum of Understanding between the Government and the United Nations.**

*MONUSCO accepted recommendation 4 and stated that it established arrangements with the Uganda Revenue Authority, which provided for: direct tax exemption for imported materials and services by international contractors; and for the Organization to pay locally registered contractors' invoices inclusive of VAT and later submit claims to the Uganda Revenue Authority on a retroactive basis to recover the VAT paid to these contractors. On 27 October 2015, RSCE established standard operating procedures to ensure the timely processing, follow-up and resolution of VAT claims. Based on the action taken by MONUSCO and RSCE and OIOS verification of the evidence provided, recommendation 4 has been closed.*

**(5) RSCE should prepare and submit all outstanding claims for value-added tax to the Uganda Revenue Authority.**

*RSCE accepted recommendation 5 and stated that it submitted all claims up to 31 October 2015. Based on the action taken by RSCE and OIOS verification of the evidence provided, recommendation 4 has been closed.*

### Need to consistently complete and submit vendors' performance evaluation forms to the Vendor Registration Officer and Vendor Registration Management Team

31. The United Nations Procurement Manual requires: (a) MONUSCO to monitor and evaluate the performance of all contractors for construction activities in ESB with regard to quality, delivery and timeliness on an annual basis and when amending the related contracts by completing the relevant



performance evaluation reports and providing them to RPO; and (b) RPO to complete its portion of the reports, submit them to the Vendor Registration Officer and Vendor Registration Management Team in the case of poor performance, and extend contracts based on satisfactory performance of the vendors.

32. A review of the contract and procurement files for all 15 contracts related to construction activities in ESB and interviews with RPO and MONUSCO staff indicated that MONUSCO had completed its portion of the contractors' performance evaluation forms and provided these forms to RPO. However, RPO did not: complete its portion of the forms in respect of 10 out of 15 contracts, and submit the completed reports relating to poor performance to the Vendor Registration Officer and Vendor Registration Management Team to update the vendor registration records. Two of the 10 contracts related to poorly performing vendors. While RPO explained that this process was consistent with its practices, it did not comply with the relevant provision of the Procurement Manual. As a result, there was a risk that the evaluation forms did not accurately reflect the performance of the contractors and the supplier roster was not promptly updated to reflect the performance of ESB construction contractors.

**(6) The Regional Procurement Office should consistently complete the relevant sections of contractors' performance reports and submit them to the Vendor Registration Officer and Vendor Registration Management Team for cases of poor performance.**

*The Regional Procurement Office accepted recommendation 6 and stated that it would complete the relevant sections of the contractors' performance reports and send the completed reports in cases of poor performance to the Vendor Registration Officer and Vendor Registration Management Team. Recommendation 6 remains open pending receipt of evidence that RPO has consistently completed the relevant sections of the contractors' performance reports and submitted them reports to the Vendor Registration Officer and Vendor Registration Management Team in case of poor performance.*

#### **IV. ACKNOWLEDGEMENT**

33. OIOS wishes to express its appreciation to the management and staff of RSCE, MONUSCO and RPO for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja  
Assistant Secretary-General for Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of construction projects in the Regional Service Centre in Entebbe

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	MONUSCO should formally: establish an appropriate project governance body with terms of reference to oversee construction projects in the Entebbe Support Base; and appoint a dedicated project manager with appropriate authority and resources for the day-to-day management of construction projects.	Critical	O	Receipt of evidence that MONUSCO has formally established a project governance body, project management team and assigned a dedicated project manager for construction activities in Entebbe.	30 June 2016
2	MONUSCO should obtain construction and occupations permits, post facto, and implement a mechanism to obtain similar permits for all future construction activities in the Entebbe Support Base.	Critical	O	Receipt of evidence that MONUSCO has obtained construction and occupation permits for completed constructions and implemented a mechanism to obtain similar permits for all future construction activities in Entebbe.	30 June 2016
3	RSCE should withhold in the current invoices retention amounts not withheld from previously paid invoices, and implement a mechanism to ensure that 10 per cent retention is consistently withheld and properly recorded.	Important	O	Confirmation of the withholding of retention money not previously withheld.	31 March 2016
4	MONUSCO should establish arrangements with the Uganda Revenue Authority to operationalize the tax-exempt provision of the Memorandum of Understanding between the Government and the United Nations.	Important	C	Action taken.	Implemented
5	RSCE should prepare and submit all outstanding claims for value-added tax to the Uganda Revenue Authority.	Important	C	Action taken.	Implemented

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by RSCE, MONUSCO and RPO in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of construction projects in the Regional Service Centre in Entebbe

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
6	The Regional Procurement Office should consistently complete the relevant sections of contractors' performance reports and submit those for cases of poor performance to the Vendor Registration Officer and Vendor Registration Management Team in compliance with the Procurement Manual.	Important	O	Receipt of evidence that RPO has consistently completed the relevant sections of the contractors' performance reports and submitted reports to the Vendor Registration Officer and Vendor Registration Management Team in case of poor performance.	30 June 2016

# **APPENDIX I**

## **Management Response**



Mission de l'Organisation des Nations Unies  
pour la Stabilisation en République  
démocratique du Congo

United Nations Organisation Stabilization  
Mission in the Democratic Republic of Congo

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## INTEROFFICE MEMORANDUM

3 December 2015  
Ref. ODMS/15/OM/04380

To: Ms. Eleanor T. Burns, Director  
Internal Audit Division, OIOS

From: Guy Siri  
Director of Mission Support  
MONUSCO

Subject: **Management Response to Draft Audit Report – Construction Projects at the Regional Service Centre, Entebbe (Assignment No. AP2015/616/01)**

1. Thank you for your interoffice memorandum reference IAD: 15-616-007 dated 24 November 2015, requesting the Mission to provide comments on the recommendations in the draft audit report on construction projects in the Regional Service Centre in Entebbe.
2. As requested, please find attached the Mission's response in respect of the recommendations pertaining to MONUSCO. Supporting documents will be provided to the Audit Team only.

Best regards.

Cc Mr. Anthony Banbury, Assistant Secretary-General, DFS  
Mr. Dmitri Dovgopoly, Director, Procurement Division, DM  
Ms. Safia Boly, Chief, RSCE  
Mr. Bolton Tarleh Nyema, Chief, Peacekeeping Audit Service, IAD, OIOS  
Mr. Ian R. Sinclair, Mission Chief of Staff, MONUSCO  
Mr. Seth Adza, Chief, Audit Response and Boards of Inquiry Team, DFS  
Mr. Gabriel Borla, Chief, Engineering Section, MONUSCO  
Mr. Hicham Maoual, OiC, Contracts Management Section, MONUSCO  
Ms. Kerry Zillner, Audit Focal Point, MONUSCO  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

Attachment: Appendix 1 – Management Response

*Peace it!*

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## Management Response

## Audit of construction projects in the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical/ <sup>1</sup> Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	MONUSCO should formally: establish an appropriate project governance body with terms of reference to oversee construction projects in the Entebbe Support Base; and appoint a dedicated project manager with appropriate authority and resources for the day-to-day management of construction projects.	Critical	Yes	Chief, Entebbe Support Base	30 June 2016	<p>MONUSCO acknowledges the need to formally establish a project governance body and project team, with Terms of Reference (TOR) to oversee construction projects in Entebbe Support Base (ESB).</p> <p>In this regard, the document "Governance of the Major Construction Projects at MONUSCO Entebbe Support Base" has been drafted based on the DFS/DPKO guidelines <i>Governance of Major Construction Projects in Field Missions</i> dated 1 October 2014 and its <i>Supplemental Guidance</i> issued on 22 October 2015. This draft Governance document provides guidelines on the composition of the Project Management Group (PMG) together with the roles and responsibilities of each member of the PMG. In addition, the document provides the guidance on the formation of project team and its members including appointment of the project manager. It should be noted that the composition of each project team is to be adapted according to the needs of each project. The draft is now under final review by RSCE and MONUSCO management and will soon be submitted to DFS for final approval. Once approved, this document will serve as the formal establishment of a project governance body including the roles and responsibilities/TOR for the stakeholders. Supporting document has been provided to the Audit Team.</p> <p>In addition, although there is already a MONUSCO Project Manager to oversee construction projects in ESB, the formal appointment will be issued once the Governance document has been approved. The TOR of the Project Manager will provide appropriate authority and necessary resources for the day to day management of the projects</p>

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of construction projects in the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						in ESB. It is envisaged that the PMG will retain authority over changes of scope and cost of the projects.
2	MONUSCO should obtain construction and occupations permits, post facto, and implement a mechanism to obtain similar permits for all future construction activities in the Entebbe Support Base.	Critical	Yes	Chief, Entebbe Support Base	30 June 2016	<p>MONUSCO initiated the process for obtaining the building permits for both post facto and new constructions through its Note to Entebbe Municipal Council dated 25 September 2015. To this end, the Municipality has already approved the construction of the new Regional Training Centre Building (RTCC1). The building plans were approved on 16 November 2015. Supporting documents have been provided to the Audit Team.</p> <p>With regard to post-facto permits, a preliminary site visit by Municipal Representatives took place on 7 October 2015 during which the post-facto permit process was clarified including the need for submitting "as-built" drawings sealed and stamped by a Uganda Registered Professional Engineer. The application process will commence once the qualified Professional is identified and appointed. However, the issuance of the post-facto permits will be subject to response from the Uganda Local Authorities.</p>
3	RSCE should withhold in the current invoices retention amounts not withheld from previously paid invoices and implement a mechanism to ensure that 10 per cent retention is consistently withheld and properly recorded.	Important				No comments from MONUSCO
4	MONUSCO should establish arrangements with the Uganda Revenue Authority to operationalize the tax-exempt provision of the Memorandum of Understanding between the	Important	Yes	Chief, Entebbe Support Base / Chief, Contract Management	Implemented October 2015	This recommendation is already implemented. As stated in paragraph 33 of the draft report, the Mission is VAT tax exempted in accordance with the provisions of the MOU between the Government of Uganda and the United Nations. The current modus operandi provides for direct tax exemption for materials and services imported for the UN by International Contractors only. In this case, tax exempted imports are processed through MOVCON

## Management Response

## Audit of construction projects in the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Government and the United Nations.					<p>Entebbe Support Base. For locally registered contractors, the Mission is charged the VAT and the dedicated RSCE Vendor Service Line processes the VAT related portion of the invoice paid and claimed back through the Uganda Revenue Authority (URA) on a retroactive basis without affecting the Contractual NTE. The RSCE SOP dated 27 October 2015 outlines procedures on how to timely process VAT claims and follow up and resolve those that may be rejected by the URA. To support the tax exempt status of the Mission and minimize the rejection of VAT claims by the Uganda Revenue Authority (URA) due to the local contractors not declaring their revenue, the Mission issues a "To Whom It May Concern" letter to all its local contractors to certify that they are providing services to the Mission and as such are tax exempted. Supporting documents have been provided to the Audit Team.</p> <p>Therefore, the Mission has already established and implemented arrangements/mechanisms to ensure that the tax-exempt provision of the MoU is operational. This recommendation should be considered for closure.</p>
5	RSCE should prepare and submit all outstanding claims for value-added tax to the Uganda Revenue Authority.	Important				No comments from MONUSCO
6	The Regional Procurement Office should consistently complete and submit the performance evaluation forms to the Supplier Roster Office and the Vendor Review Committee in compliance with the Procurement Manual.	Important				No comments from MONUSCO



Nations Unies



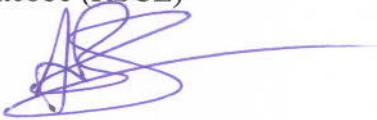
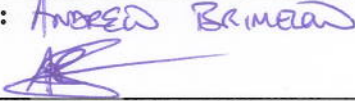
United Nations

Regional Service Centre  
Entebbe - Uganda

FACSIMILE

Date: 4 December 2015

Reference: RSCE/Fax/2015/216

<b>To:</b> Eleanor T. Burns, Director Internal Audit Division, OIOS	<b>From:</b> Ms. Safia Boly, Chief Regional Service Centre Entebbe (RSCE) 
<b>Att:</b> Mr. Seth Adza, Chief ARBOIS Mr. Henri Fourie, Chief ARU	
<b>Fax No:</b>	<b>Fax No: 198 - 3466</b>
<b>Tel No:</b>	<b>Tel No: 198 - 5015</b>
<b>Subject: Draft report on an audit of construction projects in the Regional Service Centre in Entebbe (Assignment No. AP2015/616/01)</b>	
<b>Total number of transmitted pages including this page: 4</b>	
<p>1. Reference is made to your IOM (IAD: 15-616-007) dated 24 November 2015 on the above mentioned subject.</p> <p>2. Please find comments to recommendations contained in the draft report on the audit of construction projects (Assignment No. AP2015/616/01) pertaining to RSCE activities.</p> <p>Thank you.</p>	
<b>Drafted by:</b> Margo Acker	<b>Authorized by:</b> 

## Management Response

## Audit of construction projects in the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	MONUSCO should formally: establish an appropriate project governance body with terms of reference to oversee construction projects in the Entebbe Support Base; and appoint a dedicated project manager with appropriate authority and resources for the day-to-day management of construction projects.	Critical				
2	MONUSCO should obtain construction and occupations permits, post facto, and implement a mechanism to obtain similar permits for all future construction activities in the Entebbe Support Base.	Critical				
3	RSCE should withhold in the current invoices retention amounts not withheld from previously paid invoices and implement a mechanism to ensure that 10 per cent retention is consistently withheld and properly recorded.	Important	Yes	Service Delivery Manager, Allowances & Payments	First Quarter 2016	We note the recommendation. The system issue (failing to net-off retentions) with Umoja was brought to the attention of Umoja Support Team for remedy and a workaround was put in place which is expected to prevent recurrence. For the non-system related gaps, RSCE in collaboration with ESB Engineering will thoroughly reconcile the accounts so that pending amounts, if any, are recovered from subsequent payments.
4	MONUSCO should establish arrangements with the Uganda Revenue Authority to	Important				

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

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	operationalize the tax-exempt provision of the Memorandum of Understanding between the Government and the United Nations.					
5	RSCE should prepare and submit all outstanding claims for value-added tax to the Uganda Revenue Authority.	Important	Yes	Chief Financial Reporting	Implemented	We note the recommendation. Significant progress has been made in the clearance of the back log for filing of VAT refund claims. The RSCE has submitted claims up to 31 October 2015 and is therefore currently up to date. There were a number of claims that had been filed earlier which had been rejected by Uganda Revenue Authority on account of suppliers not having declared their sales beforehand. These are in the process of being reviewed for resubmission by 15 December 2015. As at 31 October 2015, the outstanding amount for VAT refund from the Uganda Revenue Authority (URA) as recorded in the books of various RSCE Client missions was \$1,531,050. Of this, VAT claims worth \$776,790 have been successfully submitted to URA. Work is underway in the preparation of claims amounting to \$727,758 for resubmission by December 15, 2015 (earlier rejected). The backlog had been partially caused by erratic information and documentation flow among various stakeholders across the RSCE and suppliers. This has

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						been addressed by promulgating a Standard Operating Procedure aimed to streamline documentation flow to facilitate timely filing of claims. With this background, the recommendation is considered fully implemented.
6	The Regional Procurement Office should consistently complete and submit the performance evaluation forms to the Supplier Roster Office and the Vendor Review Committee in compliance with the Procurement Manual.	Important				

United Nations



INTEROFFICE MEMORANDUM

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MEMORANDUM INTERIEUR

TO: Ms. Eleanor T. Burns, Chief  
A: Internal Audit Division, Office of Internal Oversight Services

DATE 8 December 2015

THROUGH: Christian Saunders, Director  
S/C DE: Office of the Under-Secretary-General for Management

FROM: Mario Baez, Chief, Policy and Oversight Coordination Service  
DE: Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on the audit of construction projects in the Regional Service Centre in Entebbe (Assignment No. AP2015/616/01)**

1. We refer to your memorandum dated 24 November 2015 regarding the above subject draft report and provide the comments of the Department of Management in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

15-03131  
9 Dec 2015

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3	RSCE should withhold in the current invoices retention amounts not withheld from previously paid invoices and implement a mechanism to ensure that 10 per cent retention is consistently withheld and properly recorded.	Important				
4	MONUSCO should establish arrangements with the Uganda Revenue Authority to operationalize the tax-exempt provision of the Memorandum of Understanding between the Government and the United Nations.	Important				

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

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5	RSCE should prepare and submit all outstanding claims for value-added tax to the Uganda Revenue Authority.	Important				
6	The Regional Procurement Office should consistently complete and submit the performance evaluation forms to the Supplier Roster Office and the Vendor Review Committee in compliance with the Procurement Manual.	Important	Yes	Chief, Regional Procurement Office	30 June 2016	<p>It should be noted that there is currently no "Supplier Roster Office". The Procurement Manual only cites Vendor Registration Officer (VRO) and the Vendor Registration Management Team (VRMT). The Contractor Performance Report (July 2015) was modified to reflect this change.</p> <p>Management accepts, and will implement, this recommendation with qualification as follows:</p> <p>a) As per the Procurement Manual sections 7.11.b and 15.2.3.c, the Procurement Officer shall send copies of the completed contractor performance reports only in instances of poor performance by a vendor, for which the case will be referred to the Vendor Review Committee (VRC), i.e. neither the VRMT nor the VRC should be receiving copies of all completed performance reports.</p> <p>b) It is a standard practice for the RPO to maintain Vendor/Contractor Performance Reports on file. Additionally, at the time of a contract amendment request, Vendor/Contractor Performance Reports must be submitted by the</p>

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						<p>Requisitioning Office to the RPO. Further, it is the practice in the RPO to submit cases requiring VRC review to the VRMT. Therefore, adequate and effective monitoring mechanism is already in place.</p> <p>c) A communication will be sent to the RPO staff requiring completion of the relevant section of the vendor performance report upon receipt from contract management.</p> <p>d) In light of the fact that the Procurement Manual may appear vague in establishing requirement of when the vendor performance reports should be submitted to the VRMT, a revision to the manual will be made as part of the next Procurement Manual update.</p> <p>Management also wishes to inform that the upgrade in Umoja to include the supplier performance functionality and reporting, will eventually automate vendor performance monitoring.</p>