UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

28 OCTOBER 2013

PROJECT NAME:	LIVELIHOODS AND FOOD SECURITY FUND TRUST (LIFT)
PROJECT NUMBER:	00070927
COUNTRY:	MYANMAR
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2012

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Acronyms and abbreviations

FB	Fund Board
FMO	Fund Manager's Office
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
LIFT	Livelihoods and Food Security Trust Fund
MMOC	Myanmar Operations Centre
OC	Operations Centre
PC	Project Centre
RO	Regional Office
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 27 August to 6 September 2013, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through Moore Stephens LLP ("the audit firm"), conducted an audit of The LIFT Fund *(*Project ID 00070927) ("the project")*,* which is implemented and managed by the UNOPS Operations Centre in Myanmar. The audit firm was under the general supervision of IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 31,619,250 during the period from 1 January to 31 December 2012. The following donors contributed to the project*:* UK Department for International Development, Government of Denmark (Danida), European Commission, Swedish International Development Cooperation Agency, Australian Government Overseas Aid Program (AusAid), New Zealand Ministry of Foreign Affairs and Trade, Netherlands Minister for European Affairs and International Cooperation, French Development Agency, Swiss Agency for Development and Cooperation and United States Agency for International Development (USAID).

Audit objectives

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

a) Effective, efficient and economical use of resources;
b) Reliability of reporting;
c) Safeguarding of assets; and
d) Compliance with applicable legislation.

The purpose of the audit was to provide reasonable assurance that:

a) Client/donor contributions and project expenditure are properly accounted for;
b) Project expenditure was incurred in accordance with the contribution agreement, and is supported by adequate documentation; and
c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the audit firm provided an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the project's objectives.

Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IASSB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as satisfactory which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity". The details of the audit results are presented in Tables 1 and 2.

Table 1: Summary results of the financial audit

Project title		Period	Project no.
Livelihoods and Food Security Trust Fund (LIFT)		**1 January – 31 December 2012**	**00070927**
Financial statement		**Statement of non-expendable property**	
Amount USD	**Opinion**	**Amount USD**	**Opinion**
31,619,250	**Unqualified**	**190,071**	**Unqualified**

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Project management	Satisfactory	
Finance	Partially satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
Overall rating of internal control	**Satisfactory**	

Key issues and recommendations

Among the three audit findings, none were noted to be caused by factors beyond the control of UNOPS. There are three recommendations, all of which are ranked of medium priority.

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (USD)
1	Finance	Project budgeting to be based on most up-to-date information	Medium	-
2	Finance	Projected shortfall of future project funding	Medium	-

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (USD)
3	Finance	Cut-off error	Medium	-
			Total	**-**
			Sub-total financial impact on financial statement	**-**
			Sub-total financial impact on statement of non-expendable property	**-**

Detailed assessment

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional area: Finance				
1	**Title** Project budgeting to be based on most up-to-date information **Comparison criteria** Section 5.5 – 'Annual FMO Budget' of the LIFT Operational Guidelines states "the FMO will submit an annual budget to the Fund Board by 15 November each year … Budget amendments must be approved by the FB if they exceed 10% variation within any of the main budget line headings". **Facts / observation** The audit team noted that the budget was presented to the Fund Board in accordance with the guidelines, and a subsequent revised budget presented in March 2012. However, the revised budget included some items which were known at the time not to be accurate. These included USD 135,000 for the purchase of vehicles that had already been procured and expensed at the end of 2011, and HR costs being shown in the budget without taking into account a revised valuation method after the adoption of IPSAS, and a full year of office rent even though 9 months had been expensed in 2011.	The FMO should ensure that each budget submitted to the Fund Board for approval comprises only items which can reasonably expected to be expended in the period covered. This requires a detailed review of each budget line based on all available information up to the point of submission, ensuring that the valuation and quantity of required items is accurately recorded.	UNOPS takes note of this observation.	**Responsible manager:** Project manager **Due date:** 31 December 2013 **Priority:** Medium

	Impact Although none of the items mentioned above resulted in a 10% variance on an overall budget heading, it is nonetheless incumbent upon the FMO to prepare budgets which are realistic and based on the most accurate projections possible. Failure to do so weakens the overall accountability of the project financial reporting. **Cause** Guidance: Lack of or inadequate guidance or supervision at the RO/OC/PC level			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: Finance				
2	**Title** Projected shortfall of future project funding **Comparison criteria** Section 5 of the Operational Guidelines states that “Disbursements by the FMO are subject to availability of funds. Under no circumstances shall the FMO be expected to disburse funds in excess of the funds in hand”. **Facts / observation** The audit team reviewed the projected cashflows for the project and noted an expected shortfall in funds of USD 20.2m at the end of 2014, USD 43.7m at the end of 2015 and USD 24.5m at the end of 2016, with total expenditure forecast for those periods to be USD 30.0m, USD 18.2m and USD 7.2m respectively. (We note, however, that current contracted expenditure, i.e. for grants which have already been authorised, does not exceed the committed funding). A second forecast inclusive of “soft” contributions, i.e. those indicated would be available from donors but which are not yet committed, reduces the deficit to USD 14.5m, USD 37.6m and USD 18.4m respectively. There is therefore currently a substantial projected shortfall in funding compared to the envisaged expenditure, which would have a significant impact on the operations the fund could undertake through its	The FMO should prepare a cashflow forecast for each Fund Board meeting which demonstrates how the fund can fully utilise only those financial resources available to it. This will identify which potential grants would be most at threat from a lack of further funding. The current forecasts can still be prepared and used for wider project management purposes, but from a strict budgeting perspective financial viability must be maintained.	For this we’d like to clarify that there is no shortfall if we only take into consideration the current grants without taking into account the intended, but not contracted, funding windows. In fact, at the end of 2016, there would be a balance of USD13.5m based on the contracted amounts as of Dec’ 12.	**Responsible manager:** Project manager **Due date:** 31 December 2013 **Priority:** Medium

	implementing partners. Even though the fund is not committed to providing funds in excess of those available, it could nonetheless have a highly detrimental impact on the IPs if envisaged funding could not be remitted after a programme had started. **Impact** The FMO is responsible for ensuring that expected outflows match the available resources as closely as possible. Without a detailed analysis of which activities are possible within a "break-even" scenario, it will not have a clear picture of which specific grants are financially viable. **Cause** Guidance: Lack of or inadequate guidance or supervision at the RO/OC/PC level			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: Finance				
3	**Title** Cut-off error **Comparison criteria** A fundamental principle of financial reporting under IPSAS is that financial statements are prepared on the accruals basis of accounting. **Facts / observation** While reviewing operational advances the audit team noted a transaction reflecting telephone charges from November 2012, but which was only charged as an expense in January 2013. The initial advance was recorded under voucher 781858 on 18 December 2012, for an amount of USD 2,315, at which point a receivable was debited. Subsequently, on 15 January 2013, voucher 789259 recorded the expense, which was therefore not in the period in which it was incurred. Additional testing of other transactions around the year end found this to be an isolated incident. **Impact** The financial statement does not include all of the expenditure incurred in the period reported.	The FMO should ensure that robust procedures are effected with regard to year end accruals and prepayments, such that all and only expenditure pertaining to the period is reported, with any corresponding balance deferred to the subsequent period. This should include a review of all payments made in respect of a period straddling the year end, and any advances or commitments that have been recorded in the Atlas system in order to identify any expenditure amounts which should be transferred to a different period. This review should take place before the closing of the books for the financial period.	UNOPS takes note of this observation and has already taken corrective action within the Finance unit to avoid such errors in the coming year.	**Responsible manager:** Project manager **Due date:** 31 December 2013 **Priority:** Medium

	Cause Guidance: Lack of or inadequate guidance or supervision at the RO/OC/PC level			

Annex I - Definitions

Standard Audit Ratings for overall performance of internal control system

The harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1 January 2010 is based on the following principles:

There are three categories:

(a) satisfactory,

(b) partially satisfactory, and

(c) unsatisfactory.

The elements of the rating system take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are, as follows:

Standard Rating	Definition
Satisfactory	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited party.
Partially Satisfactory	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
Unsatisfactory	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the overall objectives of the audited entity could be seriously compromised.

Categories for priorities of audit recommendations

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of **priorities** are used:

Categories	Definition
High	Prompt action is considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
Low	Action is considered desirable and should result in enhanced control or better value for money. *Note: Low priority recommendations, if any, are dealt with by the audit firm directly with UNOPS management either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority*

	recommendations are not included in the report.

Possible causes

The following categories of **possible causes** are used:

- **Guidelines**: absence of written procedures to guide staff in performing their functions;
  - Lack of or inadequate corporate policies or procedures
  - Lack of or inadequate RO/OC/PC policies or procedures
  - Inadequate planning
  - Inadequate risk management processes
  - Inadequate management structure
- **Guidance**: inadequate or lack of supervision by supervisors;
  - Lack of or inadequate guidance or supervision at the RO/OC/PC level
  - Inadequate oversight by Headquarters
- **Resources**: insufficient resources (funds, skill, staff) to carry out an activity or function;
  - Lack of or insufficient resources (financial, human, or technical resources)
  - Inadequate training
- **Human error**: Un-intentional mistakes committed by staff entrusted to perform assigned functions;
- **Intentional:** intentional overriding of internal controls;
- **Other**: Factors beyond the control of UNOPS.

List of functional areas

The following categories of **functional areas** are used:

- Project management
- Finance
- Human resources
- Procurement and supply chain
- General administration (which includes asset management)
- Information and communications technology