



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

2 September 2014

PROJECT NAME:	THE THREE MILLENNIUM DEVELOPMENT GOAL FUND (3MDG)
PROJECT NUMBER:	00066803
COUNTRY:	MYANMAR
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2013

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Acronyms and abbreviations

FB	Fund Board
FMO	Fund Manager's Office
HSS	Health System Strengthening Support
HQPCP	Headquarters Contracts and Property Committee
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
LCPC	Local Contracts and Property Committee
MMOC	Myanmar Operations Centre
MNCH	Maternal Newborn and Child Health
OC	Operations Centre
PC	Project Centre
RO	Regional Office
SARA	Substance Abuse Research Association
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 5 to 23 May 2014, 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 project ‘The Three Millennium Development Goal Fund (3MDG)’ (“the project”) (Atlas award ID 00068803), which is implemented and managed by the UNOPS Operations Centre in Myanmar. The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 25,840,899 during the period from 1 January to 31 December 2013.

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 **partially 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.
The Three Millennium Development Goal Fund (3MDG) (Atlas award ID 00068803)		1 January – 31 December 2013	00082844, 00086942, 00088531, 00086943, 00088556 (and grants projects)
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
25,840,899	Unqualified	365,763	Unqualified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

Among the five audit findings, none were noted to be caused by factors beyond the control of UNOPS. There are five 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	Project management	Absence of baseline survey data	Medium	-
2	Project management	Weaknesses in Routine Data Quality Assurance (RDQA) and Core Indicator Database information management systems and inconsistency of data on the 3MDG website	Medium	-

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (USD)
3	Project management	Late reporting	Medium	-
4	Procurement and supply chain	Cut off errors	Medium	(184,341)
5	Procurement and supply chain	Delays in the procurement of a contractor to conduct the baseline survey	Medium	-
Total				(184,341)

Signed:



Mark Henderson

Partner

Moore Stephens LLP

2 September 2014

Detailed assessment

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Programme Management				
1	<p>Title</p> <p>Absence of baseline survey data</p> <p>Comparison criteria</p> <p>The 3MDG Description of Action states that “Baseline data will be collected within 6 months of agreements being signed”</p> <p>Facts / observation</p> <p>As at the date of the audit, (May 2014) the MNCH baseline had not yet begun.</p> <p>We understand that the main reason for the delay was in obtaining official agreement from the MoH for the selection of townships in which to implement 3MDG, and for conducting subsequent surveys in these approved townships, combined with a change in the political context of what 3MDG is able to do (i.e. a scale up of the baseline to include SARA, including the expanded survey to include GAVI-HSS supported townships).</p> <p>Impact</p> <p>An absence of survey data requires modification to the end-line and impact evaluation methodologies used by the Fund.</p>	<p>We recommend that the 3MDG FMO make the award of the contract to conduct a baseline survey a priority.</p> <p>In the event that the carrying out of a baseline survey is no longer considered practical, clearly revised M&E procedures, establishing the basis on which the results of the programme can be determined, should be prepared and issued to the Fund Board and relevant staff.</p>	<p>The observation is accepted.</p> <p>Action Plan: Obtain MOH approval as soon as possible in order to award the contract (tender has been re-launched and evaluated, lacking only MOH approval). While UNOPS can press the MOH, the approval is not within UNOPS control.</p>	<p>Responsible Manager: M & E Officer</p> <p>Due Date: 31 October 2014</p> <p>Priority: Medium</p>

	Cause Factors beyond the control of UNOPS			
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INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNOPS Internal Audit and Investigations Group
Internal audit report
The Three Millennium Development Goal Fund (3MDG) (66803), Myanmar
1 January to 31 December 2013

No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Programme Management				
2	<p>Title</p> <p>Weaknesses in Routine Data Quality Assurance (RDQA) and Core Indicator Database information management systems</p> <p>Comparison criteria</p> <p>RDQA Operational Guidelines</p> <p>Facts / observation</p> <p>RDQA: RDQA information system compiles action points to improve M&E data documented by 3MDG staff during site visits with implementing partners.</p> <p>We observed that the RDQA data management system used by 3MDG provides, by email, monthly reports on outstanding action points to the individuals to whom the action point is assigned. However, there is a lack of formal procedure to enable senior staff to monitor the follow up actions of junior staff.</p> <p>During our walkthrough of the system the team observed an action point that had been outstanding since August 2013, of which the M&E Officer was not aware.</p> <p>On the same issue, we noted that there is no control in relation to the protection of the “action complete” tick boxes, as all 9 M&E staff have full access to system. The situation could arise therefore that action points are erroneously ticked complete when they have not in fact been followed up.</p>	<p>The UNOPS Myanmar Operations Centre (MMOC) should ensure that adequate training is provided on data management and data quality.</p>	<p>The observation is accepted.</p> <p>Action Plan: External review of systems by international systems developer and modification of system to ensure adequate follow-up by senior management of RDQA action points. Systems developer will develop an external auditor report to support simplified external auditing of the pre-programmed VBA consistency checks.</p>	<p>Responsible Manager: M&E Officer</p> <p>Due Date: 30 September 2014</p> <p>Priority: Medium</p>

	<p>Core Indicator Database: Further, the team observed that pre-set data quality audit reports should be created in the data management system to verify visual basic for application (VBA) consistency checks in the database. This would then reduce the time spent to manually compile data for auditing the database's pre-programmed consistency checks.</p> <p>Impact</p> <p>Failure to follow up Action Points may result in errors and irregularities being uncorrected for some time.</p> <p>Cause</p> <p>Resources: Inadequate training</p>			
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No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Programme Management				
3	<p>Title</p> <p>Late reporting</p> <p>Comparison criteria</p> <p>Donor Agreements</p> <p>Facts / observation</p> <p>Several of the 3MDG donor agreements state that the semi-annual narrative and financial reports for the period 1 January 2013 to 30 June 2013 are due for reporting by 30 September 2013, and that annual narrative and financial reports for the period 1 January 2013 to 31 December 2013 are due for reporting by 30 April 2014.</p> <p>However the final report (which was in fact issued for the period May 2012 to December 2013) was not submitted until 21 May 2014.</p> <p>Impact</p> <p>Failure to provide the contractually required semi-annual reports to donors prohibits formal communication of the financial position of the fund, which may impact the release of funds and future activities</p> <p>Cause</p> <p>Resources: insufficient resources</p>	<p>The UNOPS Myanmar Operations Centre (MMOC) should ensure that reports required by donors are submitted to them within the timeframes specified in the project documents.</p>	<p>The observation is accepted.</p> <p>The programmatic and financial position of the fund was formally communicated on at least a quarterly basis to the Fund Board at the quarterly meetings.</p> <p>Action Plan: Timely submission of the January – June 2014 progress report on 30 September (within FB established tolerances).</p>	<p>Responsible Manager: Fund Director</p> <p>Due Date: 15 October 2014</p> <p>Priority: Medium</p>

No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Procurement and supply chain				
4	<p>Title</p> <p>Cut off errors</p> <p>Amount</p> <p>US\$184,341 - understatement</p> <p>Comparison criteria</p> <p>IPSAS (accruals basis of accounting)</p> <p>Facts / observation</p> <p>The team identified a number of issues with respect to expenditure cut off as follows:</p> <ul style="list-style-type: none"> Urine test strips procured under PO406095 - The amount of US\$23,052 as recorded in the Detailed Expenditure Report (DER) is in accordance with the PO and the quotation from the supplier. However, the actual cost in accordance with the supplier's invoice amounts to US\$22,374. This is part of a bigger supply from UNICEF which are made on a prepayment basis and a reconciliation takes place after the final settlement through the issue of a statement of account. At this point, any difference is reflected in the General Ledger. However, no adjustment for the difference of US\$678 was made in the year 2013. Supplies from UNICEF totalling US\$125,431.40 were procured under PO409996 and entered into the DER in accordance with the PO. After 	<p>Management should ensure that all relevant IPSAS adjustments are made prior to finalising the financial reports. A specific review should be undertaken of all supplies made on a prepayment basis to ensure the correct amount is recorded within a particular period. Furthermore, significant payments made under consulting contracts shortly after the period end should be reviewed to ensure the necessary accruals are made.</p>	<p>Issue 1: UNICEF only provides estimates and will not give fixed price quotations. After the deliveries have been completed UNICEF provides a Statement of Account indicting the amount to be refunded or the amount to be paid additionally as happened in the past as well. The amount to be refunded cannot be estimated in advance as this varies substantially. Hence corrections in General Ledgers can only be completed after the amount to be refunded is known. UNOPS received Statement of Account for this case on 16 May 2014, at this time the General Ledger was closed and no corrections could be applied.</p>	<p>Responsible Manager: Procurement Officer</p> <p>Due Date: 31 December 2014</p> <p>Priority: Medium</p>

	<p>final settlement, the actual supplier's invoice amounted to US\$116,568.40. The difference of US\$8,863 was refunded and reflected in the General Ledger in April 2014 but no adjustment was made in the year 2013.</p> <ul style="list-style-type: none"> A long term contract was signed with an external consultant on 18 July 2013 to conduct project evaluation services. The contract included the requirement for an inception report outlining the evaluation framework to be submitted within 6 months for a total amount of US\$ 387,764. The contract provided for a 15% payment in advance which was duly made and recorded in the DER and a further instalment on completion and submission of the draft inception report amounting to US\$193,882. The draft report was submitted in mid-January 2014. As the relevant work in preparing the report was incurred in the period, and the liability to pay was triggered on signing of the contract, an accrual should have been made for these fees at the end of 2013. <table border="1" data-bbox="327 826 898 986"> <thead> <tr> <th>Description</th> <th>Amount, US\$</th> </tr> </thead> <tbody> <tr> <td>PO406095</td> <td>678</td> </tr> <tr> <td>PO409996</td> <td>8,863</td> </tr> <tr> <td>Project evaluation</td> <td>(193,882)</td> </tr> <tr> <td>Total</td> <td>(184,341)</td> </tr> </tbody> </table> <p>The IPSAS accruals basis of accounting recognises transactions and other events when they occur and not only when cash or its equivalent is received or paid.</p> <p>We note that the Report of the Board of Auditors for the year ending 31 December 2012 identifies that "UNOPS had initially planned to rely on internal resources to implement IPSAS, but possessed insufficient technical skills to interpret and apply their more exacting requirements, necessitating the support of consultants and extensive remedial action. These difficulties were compounded by incomplete planning of key activities required to prepare financial statements and to facilitate the Board's audit".</p>	Description	Amount, US\$	PO406095	678	PO409996	8,863	Project evaluation	(193,882)	Total	(184,341)		<p>Issue 2: Same as the case above the Statement of Account was received on 21 March 2014, at which time the General Ledger was closed and corrections could not be executed anymore.</p> <p>Issue 3: No further comment</p> <p>Action Plan: Endeavour to negotiate with UNICEF to obtain the Statement of Account earlier and in time to reflect the same in the relevant accounting period. This is subject to UNICEF rules and regulations.</p>	
Description	Amount, US\$													
PO406095	678													
PO409996	8,863													
Project evaluation	(193,882)													
Total	(184,341)													

	<p>Impact</p> <p>The financial reports for the year 2013 are not presented in accordance with IPSAS and the total expenditure declared is understated as a result.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions</p>			
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#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Procurement				
5	<p>Title</p> <p>Delays in the procurement of a contractor to conduct the baseline survey</p> <p>Comparison criteria</p> <p>The 3MDG Description of Action states that "Baseline data will be collected within 6 months of agreements being signed"</p> <p>Facts / observation</p> <p>As at the date of the audit, the MNCH baseline had not yet begun.</p> <p>Delays in procurement that contributed to the delay are detailed below. The competitive tender process for this survey was referred to both the LCPC (Case No. 10880) and the HQCPC (meeting No. 44) as a result of non-compliance of bids to the tender requirements (e.g. bidders not understanding the requirements relating to electronic submissions).</p> <p>3MDG had requested to award the contract to the consultant who they considered provided the strongest technical offer, whereas the only remaining compliant bid was cheaper and since it met the technical criteria, LCPC did not accept the request.</p> <p>As HQCPC agreed with the conclusion of LCPC, no contract has yet been awarded.</p>	<p>We recommend that the UNOPS Myanmar Operations Centre (MMOC) follows UNOPS' procurement rules, including decisions made by the LCPC and HQCPC.</p>	<p>Action Plan: Obtain MOH approval as soon as possible in order to award the contract (tender has been re-launched and evaluated, lacking only MOH approval).</p>	<p>Responsible Manager: M&E Officer</p> <p>Due Date: 31 October 2014</p> <p>Priority: Medium</p>

	<p>Impact</p> <p>An absence of survey data requires modification to the end-line and impact evaluation methodologies used by the Fund.</p> <p>Cause</p> <p>Inadequate risk management processes Inadequate corporate policies or procedures</p>			
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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.

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