



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## INTERNAL AUDIT REPORT

**2 September 2014**

<b>PROJECT NAME:</b>	<b>LIVELIHOODS AND FOOD SECURITY TRUST FUND (LIFT)</b>
<b>PROJECT NUMBER:</b>	<b>00070927</b>
<b>COUNTRY:</b>	<b>MYANMAR</b>
<b>AUDITOR:</b>	<b>MOORE STEPHENS LLP</b>
<b>PERIOD SUBJECT TO AUDIT:</b>	<b>1 JANUARY TO 31 DECEMBER 2013</b>

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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
FB	Fund Board
FMO	Fund Manager's Office

## 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 ‘Livelihoods and Food Security Trust Fund (LIFT)’ (Atlas 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 by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 35,904,160 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 **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)' (Atlas project ID 00070927)		1 January – 31 December 2013	00070927
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
35,904,160	Unqualified	315,928	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	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
<b>Overall rating of internal control</b>	<b>Satisfactory</b>	

### Key issues and recommendations

The audit finding was not noted to be caused by factors beyond the control of UNOPS. There is one recommendation, 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	Operational Guidelines not updated to reflect revised procedures	Medium	-
<b>Total</b>				-



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2 September 2014

### Detailed assessment

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
<b>Functional Area: Programme Management</b>				
1	<p><b>Title</b></p> <p>Operational Guidelines not updated to reflect revised procedures</p> <p><b>Comparison criteria</b></p> <p>Operational Guidelines</p> <p><b>Facts / observation</b></p> <p>The Operational Guidelines provided for the audit are dated from April 2011. We found areas where the current procedures are not in line with these guidelines and were told that they are in the process of being updated. In particular, the OG state that each Implementing Partner will be subject to an annual audit of the expenditure they have incurred through their project grants. However, following a change of approach, IPs are in fact subject to an audit only in the first and last years of their project agreements. In the intervening years an expenditure verification is carried out instead, which therefore does not assess the systems and internal controls present at the IPs.</p> <p>We understand the reason for the delay to be the need for clarifications regarding what IPs can give to government, and that the FMO hopes to publish revised Operational Guidelines in the next month.</p> <p>In fact, this issue was raised at the 2012 audit debrief meeting and management agreed with our observation.</p>	<p>We recommend that the UNOPS Myanmar Operations Centre (MMOC) maintains Operational Guidelines which accurately present both the context and the agreed methodological procedures of the LIFT Fund.</p> <p>Rather than re-issuing the entire document for each amendment, it may be more practical to formalise an addendum to the Operational Guidelines which is signed off by the Fund Board at quarterly meetings.</p>	<p>The Operational Guidelines require LIFT Fund Board sign off. The Fund Board did not come to agreement on a significant component of the required revision until June 2014 (fund flow to government). The revision of the OG is now being finalised for Fund Board approval based on this agreement.</p> <p>Management will consider the recommendation that future revisions be managed with the approval of addendum.</p>	<p><b>Responsible Manager:</b></p> <p>Fund Director</p> <p><b>Due Date:</b></p> <p>September 2014</p> <p><b>Priority:</b></p> <p>Medium</p>

	<p><b>Impact</b></p> <p>Lack of clarity surrounding specific requirements could lead to misunderstandings at the IP level.</p> <p><b>Cause</b></p> <p>Resources: insufficient resources</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
<b>Satisfactory</b>	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.
<b>Partially satisfactory</b>	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.
<b>Unsatisfactory</b>	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
<b>High</b>	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).
<b>Medium</b>	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
<b>Low</b>	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