UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

SSF MALARIA GRANT IN CAMBODIA (PRINCIPAL RECIPIENT)

INTERNAL AUDIT REPORT

9 February 2017

PROJECT NAME:	SINGLE STREAM OF FUNDING (SSF) MALARIA GRANT IN CAMBODIA
PROJECT NUMBER:	00086135
COUNTRY:	CAMBODIA
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY 2014 TO 30 JUNE 2015

Contents

Acronyms and abbreviations

CNM	National Centre for Parasitology, Entomology and Malaria Control
FB	Fund Board
FMO	Fund Manager's Office
GFATM	The Global Fund to fight AIDS, Tuberculosis and Malaria
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
LLIN	Long Lasting Insecticidal Nets
KHOC	Cambodia Operations Centre
PC	Project Centre
PR	Principal Recipient
PUDR	Progress Update and Disbursement Request
RO	Regional Office
SR	Sub-recipient
SSF	Single Stream of Funding
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 26 to 30 January 2015 and from 31 August to 11 September 2015, Moore Stephens LLP ("the audit firm"), conducted an audit of the Principal Recipient of the project 'SSF Malaria Grant in Cambodia' (Atlas project ID 00086135), ("the project"), which is implemented and managed by the UNOPS Operations Centre in Cambodia.

The project reported PR expenditure amounting to USD 15,620,126 during the period from 1 January 2014 to 30 June 2015.

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, we 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

We 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 we assessed the management of the project as satisfactory which means "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". 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.
SSF Malaria Grant in Cambodia (Principal Recipient)		1 January 2014 – 30 June 2015	00086135
Financial statement		**Statement of non-expendable property**	
Amount USD	**Opinion**	**Amount USD**	**Opinion**
15,620,126	Unqualified	106,364	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	🟩
Overall rating of internal control	**Satisfactory**	🟩

Key issues and recommendations

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	Further strengthening of Sub-recipient monitoring	High	-
2	Project management	Delays in reporting	Medium	-
			Total	-

Signed:

Partner
Moore Stephens LLP

9 February 2017

Detailed assessment

#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project Management				
1	**Title** Further strengthening of Sub-recipient monitoring **Comparison criteria** Article 10(b) of the Standard Conditions of the Programme Agreement with Global Fund. Articles on 'Audit, Monitoring and Evaluations' as set out in the individual Sub-recipient Agreements. **Facts / observation** During our review of the procedures in place at the PR for monitoring the SRs, and the issues raised by IAIG in their report dated 28 November 2014 we identified that the recommendations given were not fully implemented.[1] Whilst we note that a great deal of progress has been made in the policies and procedures for monitoring the SRs since IAIG issued their report, we consider further strengthening of the procedures could be made with UNOPS ensuring the following recommendations have been, or will be implemented:	The UNOPS Cambodia Operations Centre (KHOC) should re-visit the recommendations provided in the IAIG report in conjunction with the recommendations given in this report. Significant progress has been made on SR monitoring during the last audited period and KHOC should continue progress to further strengthen the procedures to address this key risk.	UNOPS understands the importance of the M&E as a backbone for any program/project and we are committed to keep improving the M&E oversights. PR UNOPS conducts M&E visits in accordance with the National Strategy already. Such spot-checks do include verification of data on household cards and distribution lists (this includes checks for duplication as well as receipt of LLINs by beneficiaries). These household cards and distribution lists are the only means of verification set out in the National Strategy, and will be reviewed during field visits. The issuance of instructions / norms regarding the expected frequency of supervision visits by	**Responsible manager:** Financial Management Officer **Due date:** 31 March 2017 **Priority:** High

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[1] The recommendations referred to, as reported in IAIG report reference 4003, had not, at the time of our fieldwork in September 2015, been fully implemented. However by the time of submission of this report in February 2017, all recommendations had been fully implemented according to IAIG's records.

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Monitoring of SRs
- Ensure that the monitoring visit plan is in accordance with what has been agreed in the monitoring and evaluation plan agreed with GFATM (i.e. one visit to each SR per six-month period) and is documented in writing at the start of each six-month period
- Establish and document a risk-based methodology for selecting the SRs to be monitored. Even though a selection methodology is not required by GFATM it will enable UNOPS to demonstrate best practice to GFATM in its monitoring procedures.
- Any significant delay in the issuing of monitoring visit recommendations, or failure to follow-up recommendation with SRs, represents a risk to UNOPS should issues be found at any SRs. Tracking and follow-up procedures introduced following the IAIG report should be reinforced and followed consistently to achieve the intended outcomes.

Verification of SR expenditure reports
- Define and document a precise expenditure verification policy and methodology. This would cover points such as:
  - The number of SRs to be checked per reporting period;
  - The extent of the use of analytical review procedures (i.e. checking whether the numbers look reasonable) versus detailed checking of supporting documents;
  - The number of sampled transactions per SR financial report;
  - The basis for sample selection;
  - The use of risk assessment in the sample selection – e.g. sampling a greater number of items at SRs assessed as higher risk or focusing the sample selection on expenditure areas assessed as higher risk;
  - The nature of evidence to be checked for each transaction;
  - Whether the checks are carried out at the SR or on the basis of documents sent to UNOPS' office;
  - Who carries out the checks e.g. compliance staff; finance staff;
- Review the procedures for documenting the expenditure verification

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PHDs / OHDs is the prerogative of the Ministry of Health and the National Malaria Programme and UNOPS will coordinate with them.

PR UNOPS has developed guidelines for verification of SR expenditures and have a checklist for PHD financial verification. The IAIG recommendation was closed during 2016.

The following steps were taken to make the ME system more active:

Staffing: The ME & Program Specialist hired two ME staff who are placed in CNM to work and collaborate with CNM most of the time;

One program and one ME officer is made responsible for each SR to deal with them all programmatic and ME issues;

Increased number of field visits planned for 2017 and ME and Program Staff visit of the SRs offices on a monthly basis;

ME and supervision visit database is established and will be implemented from 2017; and

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	work and following up on findings. Ensure that the checks are documented and that findings are fed back to the SRs and followed up where necessary; • Consider carrying out more extensive verification, e.g. more detailed analytical review or selecting a higher number of sampled items for checking supporting documents. This will of course depend on UNOPS' available resources and also the extent to which SRs will accept the imposition of more detailed checking; • Place appropriate reliance on the independent SR financial audits to provide assurance over SR expenditure and be aware of the limitations of financial audit. **Impact** The performance and accountability of SRs is a key risk for UNOPS. This risk is heightened because of the fraud issues identified by GFATM OIG under the previous PR and the media attention that resulted from this. Ensuring the accountability of the SRs requires rigorous monitoring of the SRs' programme activities and financial management by UNOPS and failure to undertake such monitoring may lead to reputational damage for the programme, UNOPS, SRs and GFATM. UNOPS is under particular scrutiny by GFATM and other stakeholders to ensure that the malpractices previously discovered have been eliminated. **Cause** Lack of or inadequate OC policies or procedures.		Program & ME team visits meeting minutes which will be shared with SRs for the action plan. The independent SR financial audits are carried out and to certain extent it provides the reliance on assurance over SR expenditure.	

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#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project Management				
2	**Title** Delays in reporting **Comparison criteria** Part D of Annex A to the Programme Agreement with Global Fund. Articles on 'Reporting obligations' as set out in the individual Sub-recipient Agreements. **Facts / observation** The Sub-recipient Agreements set out the reporting obligations of the SRs which require submission of quarterly reports to the PR within 15 days after the end of the quarter (20 days in the case of CNM). The Programme Agreement with Global Fund requires the submission of the PUDR to the global fund on a biannual basis within 45 days following the end of the semester. The SRs did not consistently report on time with delays noted for reporting period as set out below: 	Reporting period	No. of delayed reports
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30 June 2014	6 out of 15 SRs
31 December 2014	7 out of 15 SRs
30 June 2015	5 out of 15 SRs		The UNOPS Cambodia Operations Centre (KHOC) should continue to remind the SRs of their responsibility to submit the reports by the due date. Such reminders should be sent well in advance of the submission date so as to allow time for the reports to be prepared. It is also important for KHOC to comply with the requirements of the agreement with Global Fund and Management should make every effort to meet the reporting deadlines set out in the agreement.	PR UNOPS is continuing to pressure to SRs to submit the reports. There are two reminders sent out; the first by the programme team and the second by the finance team. Agreed. PR UNOPS has progressed well in the recent past with regards to the reporting deadlines. Meeting the deadline for reporting has been incorporated in the performance framework for the Programme and finance support officer.	**Responsible manager:** Financial Management Officer **Due date:** 31 March 2017 **Priority:** Medium

The delays in the SR reporting have resulted in delayed submission of the PUDR to the Global Fund for each of the reporting periods within our audited period as follows:

Reporting period	Due date	Submission date
30 June 2014	14 August 2014	26 August 2015
31 December 2014	14 February 2015	8 April 2015
30 June 2015	14 August 2015	*

* Not yet submitted at the end of our audit fieldwork (11 September 2015)

Impact

Delays in the submission of SR reports to the PR impact on the ability of the PR to report to the Global Fund by the deadlines set out in the Programme Agreement.

Delays in submitting the PUDR to the Global Fund is an issue of non-compliance with the requirements of the Programme Agreement and may damage the reputation of UNOPS as PR with the Global Fund.

Cause

Lack of or inadequate guidance or supervision at the OC level

Lack of or insufficient resources (financial, human, or technical resources)

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;
    - o Lack of or inadequate corporate policies or procedures
    - o Lack of or inadequate RO/OC/PC policies or procedures
    - o Inadequate planning
    - o Inadequate risk management processes
    - o Inadequate management structure
- **Guidance**: inadequate or lack of supervision by supervisors;
    - o Lack of or inadequate guidance or supervision at the RO/OC/PC level
    - o Inadequate oversight by Headquarters
- **Resources**: insufficient resources (funds, skill, staff) to carry out an activity or function;
    - o Lack of or insufficient resources (financial, human, or technical resources)
    - o 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