UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

5 September 2017

PROJECT NAME:	**JOINT PEACE FUND (JPF)**
AWARD NUMBER:	**00097408**
COUNTRY:	**MYANMAR**
AUDITOR:	**MOORE STEPHENS LLP**
PERIOD SUBJECT TO AUDIT:	**1 JANUARY TO 31 DECEMBER 2016**

UNOPS

Contents

Acronyms and abbreviations

FMO	Fund Management Office
JPF	Joint Peace Fund
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
MMOH	Myanmar Operations Hub
NIS	Nordic International Support Foundation
OC	Operations Centre
PC	Project Centre
PPE	Property plant and equipment
RO	Regional Office
UNDP	United Nations Development Programme
UNFPA	The United Nations Population Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollars
WFP	World Food Program

Executive summary

The engagement context

From 8 to 25 May 2017, 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 'Joint Peace Fund (JPF)' ("the project") (oneUNOPS award ID 00097408), which is implemented and managed by the UNOPS Operations Hub 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 3,898,227 during the period from 1 January to 31 December 2016. The following donors contributed to the project: Australia, Canada, Denmark, Finland, Italy, Japan, Norway, Switzerland, the UK, the US and the EU.

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 period 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, "The assessed governance

arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area". 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.
Joint Peace Fund (JPF) (oneUNOPS project ID 00097408)	1 January – 31 December 2016	00097408
Financial statement	**Statement of non-expendable property**	

Amount USD	Opinion	Amount USD	Opinion
3,898,227	Unqualified	-	-

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Project management	Partially satisfactory (some improvement needed)	🟧
Finance	Satisfactory	🟩
Human resources	Satisfactory	🟩
Procurement and supply chain	Satisfactory	🟩
Asset management	Satisfactory	🟩
General administration	Satisfactory	🟩
Overall rating of internal control	**Satisfactory**	🟩

Key issues and recommendations

The audit raised two issues. Among the two issues, one was noted to be caused by factors beyond the control of UNOPS (Issue 1). There were two recommendations, both were ranked medium.

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	Late submission of progress reports	Medium	-
2	Project management	Error in the Annual Report	Medium	-
			Total	**-**

Management's comments

The Trust Director accepted all the recommendations and is in the process of implementing them.

Signed:

Mark Henderson
Partner
Moore Stephens LLP

5 September 2017

Operational overview

In 2016 the Joint Peace Fund (JPF) was set up by donor countries via a joint collaboration agreement. It establishes UNOPS as the Trustee and Contracts Manager and NIS, a partner organisation, as the Technical Secretariat. The purpose and scope of the Fund is to respond to the needs of the Myanmar peace process, as agreed between the Parties (Government and Ethnic Armed Organisations), and with the broad participation of organisations in Myanmar society. Donor countries are represented by the Fund Board, which governs the Fund, and include Australia, Canada, Denmark, Finland, Italy, Japan, Norway, Switzerland, the UK, the US and the EU.

The project's budget is based on 80 grants of 520,000 USD on average provided to implementing partners during the period from 2016 to 2021. The project was still in its inception phase in 2016 with 11 staff employed by UNOPS.

The audit team extends its appreciation to the management and staff members of UNOPS office in Myanmar for their full cooperation during the audit.

Detailed assessment

#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project management				
1	**Title** Late submission of progress reports **Comparison criteria** Annex II, Section 3.8 of the European Union Delegation Agreement states that: "The Organisation shall submit a report for every reporting period as specified in the Special Conditions as from the commencement of the Implementation Period, unless otherwise specified in the Special Conditions. Reporting, narrative as well as financial, shall cover the whole Action, regardless of whether this Action is entirely or partly financed by EU funds. Progress reports shall be submitted within 60 days after the period covered by such report." **Facts / observation** As illustrated below, the submission of the narrative and financial progress reports was delayed.	JPF management should ensure that reports required by donors are submitted to them within the timeframes specified in the project documents.	JPF management takes note of this observation. Our action plan is: To send out the both the Narrative and Financial report in time. The FMO narrative report is built based on the narrative report received from the Technical Secretariat/NIS. We will work with NIS to send us the narrative reports in time.	**Responsible manager** Programme Director **Due date** Immediate, ongoing **Priority** Medium

#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
	<table><tr><th>Report</th><th>Period</th><th>Due date</th><th>Submission date</th><th>No. of days late</th></tr><tr><td>Narrative report</td><td>1 January – 31 December 2016</td><td>1 March 2017</td><td>15 March 2017</td><td>14</td></tr><tr><td>Financial report</td><td>1 January – 31 December 2016</td><td>1 March 2017</td><td>13 March 2017</td><td>12</td></tr></table> We understand that the late submission was mainly caused by the delay in the preparation of the narrative report and financial information by the JPF partner NIS. However, UNOPS should work with NIS to ensure the reports are always submitted within the stated deadlines. **Impact** Late reporting may delay the disbursement of funds and consequently jeopardise program activities. **Cause** Other: Factors beyond the control of UNOPS.			

#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project management				
2	**Title** Error in the Annual Report **Comparison criteria** Donor agreements and JPF Operational Guidelines **Facts / observation** We noted an error in the JPF Annual Report submitted to the Fund Board. Section 4.4.5 of the Annual Report states the following for Output Indicator 3.2: "19 applications were received out of which three were approved by the JPF Evaluation Committee in late Q4 and under review for possible FB consideration in early 2017." However, only two applications were actually approved (ROAD and RCDF). **Impact** Errors made in the narrative reports can result in misleading information being provided to the users of these reports.	JPF management should ensure that all information in the financial and narrative reports submitted to the Fund Board is complete and accurate.	JPF management takes note of this observation. This is an oversight in the report. Two applications (ROAD, RCDF) were approved by the Evaluation Committee for stage 1 submission to the Fund Board in 2017. A third one (UKSY) was actually pulled out at the very last minute from the Evaluation Committee meeting at the end of December 2016 because TS decided that there was not enough information available to satisfactorily present it to the Evaluation Committee. To avoid that this will happen again we will check the narrative reports outputs and ensure that they can be documented and substantiated.	**Responsible manager** Programme Director **Due date** Immediate, ongoing **Priority** Medium

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#	Observation	Recommendation	Management comment and Action Plan	Responsible Manager / Due Date / Priority
	Cause Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.			

Annex I - Definitions

Standard audit ratings for overall performance of internal control system

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

(a) satisfactory (effective),

(b) partially satisfactory (some improvement needed),

(c) partially satisfactory (major improvement needed), and

(c) unsatisfactory (ineffective).

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 (effective)	The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (some improvement needed)	The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (major improvement needed)	The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
Unsatisfactory (ineffective)	The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity.

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.