



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

9 October 2017

PROJECT NAME:	GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA (GFATM) PRINCIPAL RECIPIENT - MYANMAR - PRINCIPAL RECIPIENT - UNOPS
PROJECT NUMBER:	00077260
COUNTRY:	MYANMAR
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2016

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Acronyms and abbreviations

GF	Global Fund
GFATM	The Global Fund to Fight Aids, Tuberculosis and Malaria
EFR	Enhanced Financial Reporting
HQ	Headquarters
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
LFA	Local Fund Agent
M&E	Monitoring and Evaluation
MMOC	Myanmar Operations Centre
NFM	New Funding Model
OC	Operations Centre
PC	Project Centre
PO	Purchase Order
PR	Principal Recipient
PUDR	Progress Update Disbursement Request
RO	Regional Office
SR	Sub-recipient
TB	Tuberculosis
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 9 to 26 May 2016, 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 ‘Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Principal Recipient – Myanmar - Principal Recipient – UNOPS’ (OneUNOPS project ID 00077260), (“the project”), which is implemented and managed by the UNOPS Operational 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 5,773,061 during the period from 1 January to 31 December 2016.

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 (some improvement needed), which means, “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". 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.
Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Principal Recipient – Myanmar - Principal Recipient – UNOPS		1 January – 31 December 2016	00077260
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
5,773,061	Unqualified	132,087	Unqualified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

The audit raised five issues. There are five recommendations, of which one is ranked high and four are ranked medium.

Among the five issues, one was noted to be caused by factors beyond the control of UNOPS (Issue 1).

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	Programme management	Late reporting of Progress Update and Disbursement Requests	Medium	-
2	Finance	Duplication of transactions	High	-
3	Finance	Incorrect commitments balance	Medium	-
4	Finance	Overstatement of expenditure	Medium	-
5	Procurement and supply chain	Late reporting of procurement transactions	Medium	-
Total				-

Management's comments

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

Signed:



Mark Henderson
Partner
Moore Stephens LLP

9 October 2017

Operational overview

The United Nations Office of Project Services (UNOPS) is one of the Principal Recipients (PR) for the Round 9 programme funding of The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) in Myanmar. The grants were awarded in 2010 and implementation started January 2011. The grants are currently in their Phase II of implementation which commenced in January 2013.

Project implementation is undertaken by the PR and Sub-Recipients (SR) in close association with the PR, while funding for the activities is handled by UNOPS as the PR.

The UNOPS GFATM team has three units – Programme Unit, Monitoring and Evaluation Unit and Programme Support Unit. In 2016 UNOPS continued the implementation of Phase II activities through the provision of TB, Malaria and HIV New Funding Model (NFM) grants to different types of SRs. At the start of 2016 UNOPS adopted a new accounting system, OneUNOPS, through which all 2016 funds were managed.

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 comments and action plan	Responsible Manager / Due date / Priority										
Functional Area: Project management														
1	<p>Title</p> <p>Late reporting of Progress Update and Disbursement Requests</p> <p>Comparison criteria</p> <p>Annex A, Section D of the Grant Agreement states that:</p> <p>“Not later than forty-five (45) days after the end of each semester of the Principal Recipient’s fiscal year, the Principal Recipient shall submit to the Global Fund a periodic report on the Program using the “On-going Progress Update and Disbursement Request”.</p> <p>The Operational Policy Manual also states:</p> <p>“The PR should complete the Enhanced Financial Reporting (EFR) template within 45 days of the end of the reporting period. It should be submitted to the LFA alongside the Progress Update & Disbursement Request (PU/DR). In exceptional circumstances, if compilation of the financial information risks delaying the submission of the PU/DR, the PR may submit the EFR template separately from the PU/DR (but within a maximum of 60 days after the end of the reporting period).”</p> <p>Global Fund granted UNOPS a reporting extension for the reporting period 1 July – 31 December 2016. The revised reporting deadline was 20 March 2017.</p> <p>Facts / observation</p> <p>As illustrated below, the submission of all PUDRs was delayed.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Contract reference</th> <th style="text-align: center;">Period</th> <th style="text-align: center;">PUDR due date</th> <th style="text-align: center;">Date delivered (signed version)</th> <th style="text-align: center;">No. of days late</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Contract reference	Period	PUDR due date	Date delivered (signed version)	No. of days late						<p>Management of MMOH should ensure that reports required by donors are submitted to them within the timeframes specified in the project documents.</p>	<p>Timely submission of grant consolidated PU/DRs by UNOPS PR is entirely dependent on timely receipt and clearance of the last SR report under the respective grant. The Global Fund is aware of this challenge and while GF was not able to grant UNOPS exception from the official reporting deadlines, the delay in submission of the consolidated reports per grant have never had an impact on the timely fund disbursement to PR from the GF and subsequently from UNOPS PR to SRs. The PR will continue to implement its capacity building and training activities to improve reporting timelines from SRs to the PR and PR to LFA. The trend is improving. The GF had never expressed any dissatisfaction with the timing of reports, nor has it resulted in cash shortages with partners.</p>	<p>Responsible manager:</p> <p>Programme Director</p> <p>Due date:</p> <p>On-going</p> <p>Priority:</p> <p>Medium</p>
Contract reference	Period	PUDR due date	Date delivered (signed version)	No. of days late										

MYN-H-UNOPS	1 January to 30 June 2016	14 August 2016	1 September 2016	18			
MYN-H-UNOPS	1 July to 31 December 2016	20 March 2017	23 March 2017	3			
MYN-T-UNOPS	1 January to 30 June 2016	14 August 2016	1 September 2016	18			
MYN-T-UNOPS	1 July to 31 December 2016	20 March 2017	27 March 2017	7			
MYN-M-UNOPS	1 January to 30 June 2016	14 August 2016	1 September 2016	18			
MYN-M-UNOPS	1 July to 31 December 2016	20 March 2017	23 March 2017	3			
<p>The office indicated this was due to the delays by SR on report receipt/ acceptance stage.</p> <p>Impact</p> <p>Late reporting may delay the disbursement of funds and consequently jeopardise program activities.</p> <p>Cause</p> <p>Other: Factors beyond the control of UNOPS.</p> <p>Resources: Lack of or insufficient resources (financial, human, or technical resources)</p>							

#	Observation	Recommendation	Management comments and Action Plan	Responsible Manager / Due Date / Priority										
Functional Area: Finance														
2	<p>Title</p> <p>Duplication of transactions</p> <p>Comparison criteria</p> <p>IPSAS 1 – Presentation of Financial Statements</p> <p>Facts / observation</p> <p>During our testing of project expenditure, we noted that some transactions were entered twice in the OneUNOPS accounting system. This was caused by expenditure being recorded initially when it was incurred, with a corresponding entry to the receipt accrual account, and then again when the request for payment of the related invoice was submitted. At the time of payment, the corresponding accruals balance should have been reduced instead of increasing expenditure. The entry at the time of the payment request was, therefore, made in error which resulted in that expense being recorded twice. This was caused by OneUNOPS procedures and guidelines not being adequately followed by all users. The receipt accrual account was not reviewed to ensure it was appropriately adjusted following the payment.</p> <p>The following transactions were identified during the audit as being recorded twice in the accounting system:</p> <table border="1" data-bbox="241 1114 1122 1209"> <thead> <tr> <th>No.</th> <th>PO ID</th> <th>Cost type</th> <th>Project code</th> <th>Amount (USD)</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	No.	PO ID	Cost type	Project code	Amount (USD)						<p>Management of MMOH should ensure that a thorough review of the accounting records is performed to determine whether there are any remaining duplicated transactions, so that they can be corrected.</p> <p>Any financial impact will be recorded in the 2017 financial year; however, as stated in the observation, it is highly unlikely that any such impact is material.</p> <p>Given that the cited instances of duplication were not initially identified by the project team, it indicates that there was inadequate analysis of or reconciliation between the various reported balances, namely</p>	<p>Management MMOH takes note of the observation. We are now certain that all transactions have been corrected. The double posting of expenses accounts have net effect on Receipt Accrual Account 23205. Account 23205 has now been reconciled and double expenditure posting is cleared. MMOH Finance Officer will ensure that adequate guidance and procedures are in place and any required correction is processed immediately.</p>	<p>Responsible manager:</p> <p>Finance Officer</p> <p>Due date:</p> <p>On-going</p> <p>Priority:</p> <p>High</p>
No.	PO ID	Cost type	Project code	Amount (USD)										

1	PO:3008996-L:28- REC:4053683	Transportation charges	77267	22,511	expenditure and its performance against budget, the project cash balance, and open purchase orders. Such reconciliations are critical in determining the accuracy of financial information.	
2	PO:3008996-L:28- REC:4053683	Pharmaceutical Products	77267	321,114		
			Total	343,625		
<p>Upon further investigation by the UNOPS Myanmar Operational Hub (MMOH) and UNOPS HQ, other duplicate transactions were identified. They were subsequently removed from project expenses in OneUNOPS and Certified Financial Statements were adjusted and re-issued.</p> <p>The UNOPS HQ implemented a controls system where Certified Financial Statements can only be issued based on confirmation from project teams that the receipt accrual account has been reviewed and corrected as needed. In addition, the UNOPS MMOH has implemented a monthly recurring review of receipt accruals by its central finance unit.</p> <p>Whilst the duplicate transactions identified during the audit were correctly adjusted and mitigating controls implemented, given the volume of transactions recorded in 2016, there remains a risk that some duplicate transactions still exist in the accounting system and in the Certified Financial Statements. However, the impact on the Certified Financial Statements is unlikely to be material.</p> <p>Impact</p> <p>The extent of potential misstatements is not considered to be material to the Certified Financial Statements.</p> <p>Cause</p> <p>Guidelines: Lack of or inadequate OC policies or procedures</p>						

#	Observation	Recommendation	Management comments and Action Plan	Responsible manager / Due date / Priority
Functional Area: Finance				
3	<p>Title</p> <p>Incorrect commitments balance</p> <p>Comparison criteria</p> <p>IPSAS 1 – Presentation of Financial Statements</p> <p>Facts / observation</p> <p>During our testing of the commitments balance disclosed in the Certified Financial Statements, it was noted that some open PO balances were not in line with the expected balance, based on the amount of the PO and the corresponding invoices received prior to the reporting period end.</p> <p>Upon further investigation, it was identified that the report from OneUNOPS which was used to prepare the Certified Financial Statements, reflected PO balances at a date other than the reporting date, thus resulting in the error. The commitments balance was incorrectly reported as US\$ 241,243.</p> <p>Subsequently, the report was generated at the correct reporting date and the Certified Financial Statements were re-issued with the correct commitments balance of US\$ 33,791. However, this error highlights weaknesses in the year-end reporting procedures, including the checks performed prior to financial statements being approved by both the project</p>	<p>Management MMOH should ensure that all relevant year-end reporting procedures are followed and that the commitments balance is complete and accurate as at the reporting date.</p> <p>A review of commitments balances should be performed by the finance team prior to them being reported in the financial statements to ensure they are disclosed at the correct reporting date.</p>	<p>Management MMOH takes note of the observation. UNOPS HQ System Support team together with UNOPS Finance Practice group has adjusted the PO report to reflect PO balances as of reporting date. All PO balances have been reviewed for correctness. Moving forward the MMOH Finance Officer will ensure that guidance and procedures are in place and will work together with procurement teams to ensure PO balances are reviewed regularly.</p>	<p>Responsible Manager:</p> <p>Finance Officer</p> <p>Due Date:</p> <p>On-going</p> <p>Priority:</p> <p>Medium</p>

<p>and finance teams, and therefore the risk of similar errors occurring in future.</p> <p>Impact</p> <p>Even though the error has been corrected and there is no financial impact on the final audited financial statements, a lack of adequate year-end reporting procedures increases the risk of errors in the financial statement disclosures.</p> <p>Cause</p> <p>Lack of or inadequate OC policies or procedures</p>			
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#	Observation	Recommendation	Management comments and Action Plan	Responsible manager / Due date / Priority
Functional Area: Finance				
4	<p>Title</p> <p>Overstatement of expenditure</p> <p>Comparison criteria</p> <p>IPSAS 1 – Presentation of Financial Statements</p> <p>Facts / observation</p> <p>A workshop took place at the end of December 2016 for which a meeting package including accommodation and refreshments was procured through limited National Competitive Bidding. The services were awarded to the Hotel Royal ACE for a total amount of US\$ 96,840 under PO 3027204. The total amount of the PO was accrued as expenditure during 2016 as the event took place in 2016.</p> <p>However, the actual costs as supported by the invoices from, and payment to the hotel show expenditure amounting to only US\$74,900.</p> <p>The error was subsequently corrected by MMOH and the financial statements re-issued to reflect the reduction in expenditure of US\$ 21,940. However, this adjustment was only made after it was identified during the audit and, therefore, highlights a lack of adequate year-end and reporting procedures.</p>	<p>Management MMOH should ensure that the correct amount of expenditure incurred is recorded for each transaction. Appropriate year-end procedures should be performed to ensure the required corrections to expenditure are reflected in the financial statements.</p>	<p>Management MMOH takes note of the observation. The error has been already addressed and there is no financial impact. The Management will continue to work to ensure cut-off errors do not occur through adequate procedures, checks during the critical period of year-end closing and through regular receipt accrual reviews.</p>	<p>Responsible Manager:</p> <p>Procurement and / or Finance Officer</p> <p>Due Date:</p> <p>Implemented</p> <p>Priority:</p> <p>Medium</p>

	<p>Impact</p> <p>The error has been corrected and there is no financial impact on the final audited statements, a lack of adequate year-end procedures increases the risk of similar errors in future.</p> <p>Cause</p> <p>Lack of or inadequate OC policies or procedures</p> <p>Human error - Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p>			
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#	Observation	Recommendation	Management comments and action plan	Responsible manager / Due date / Priority								
Functional Area: Procurement and supply chain												
5	<p>Title Late reporting of procurement transactions</p> <p>Comparison criteria IPSAS 1 – Presentation of Financial Statements</p> <p>Facts / observation MMOH, in their role as the Principal Recipient (PR) of donor funding, procures medical supplies on behalf of Sub-recipients (SRs). UNOPS is responsible for reporting the details of procured items to SRs to ensure that relevant expenditure is recorded in the SRs' accounting information and financial statements.</p> <p>It was noted that some transactions related to the purchase of medical supplies by the PR on behalf of SRs were only reported by the PR to SRs in May 2017, i.e. considerably after the SR financial statements had already been prepared. As a result, 12 sets of SR financial statements had to be updated and re-issued. The late reporting was caused by a delay in the reconciliation of relevant accounting information by UNOPS.</p> <p>The details of those transactions are shown in the table below.</p> <table border="1"> <thead> <tr> <th>SR code</th> <th>Project ID</th> <th>Number of transactions</th> <th>Total value of transactions (USD)</th> </tr> </thead> <tbody> <tr> <td>GFATM PR-Myanmar-SR-MANA</td> <td>00077261</td> <td>14</td> <td>13,419</td> </tr> </tbody> </table>	SR code	Project ID	Number of transactions	Total value of transactions (USD)	GFATM PR-Myanmar-SR-MANA	00077261	14	13,419	<p>Management MMOH should ensure that all procurement transactions which need to be reflected in the accounting records of SRs are reported to them on a timely basis to avoid late reporting or errors in the financial statements.</p>	<p>Management MMOH takes note of the observation. Late reporting was an exception in 2016 year due to implementation by UNOPS of new ERP. Updated corporate guidance on relevant account reconciliation is now available. Going forward there is no risk of future delays.</p>	<p>Responsible manager: Finance Officer</p> <p>Due date: On-going</p> <p>Priority: Medium</p>
SR code	Project ID	Number of transactions	Total value of transactions (USD)									
GFATM PR-Myanmar-SR-MANA	00077261	14	13,419									

GFATM MCC	PR-Myanmar-SR-	00077262	4	5,723			
GFATM MHAA	PR-Myanmar-SR-	00077263	1	8,920			
GFATM MMA	PR-Myanmar-SR-	00077264	14	35,613			
GFATM MRCS	PR-Myanmar-SR-	00077265	6	(1,296)			
GFATM UNION	PR-Myanmar-SR-	00077269	34	723,739			
Total			73	786,118			
<p>These transactions are reflected in the financial statements of the SRs only, and have no impact on the financial statements of UNOPS. The additional expenditure has now been reflected in the revised financial statements of the SRs and, therefore, our finding has no financial impact on the PR's audited financial statements. However, any future delays in the reporting of procured items by UNOPS can result in errors or omissions in the financial statements of SRs.</p> <p>Impact</p> <p>Potential errors or omissions in the financial statements of Sub-recipients.</p> <p>Delays to the preparation of SR financial statements.</p> <p>Cause</p> <p>Lack of or inadequate corporate policies or procedures</p>							

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.