UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

9 August 2018

PROJECT NAME:	**THE THREE MILLENNIUM DEVELOPMENT GOAL FUND (3MDG)**
ENGAGEMENT NUMBER:	**10636**
COUNTRY:	**MYANMAR**
AUDITOR:	**MOORE STEPHENS LLP**
PERIOD SUBJECT TO AUDIT:	**1 JANUARY TO 31 DECEMBER 2017**

Contents

Acronyms and abbreviations

3MDG	The Three Millennium Development Goal Fund
FMO	Fund Management Office
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US$	United States Dollars

Executive summary

The engagement context

From 14 to 30 May 2018, 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)' (oneUNOPS engagement ID 10636), which is implemented and managed by UNOPS 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 $ 45,914,834 during the period from 1 January to 31 December 2017. The following donors contributed to the project: Australia, Denmark, the European Union, Sweden, Switzerland, the United Kingdom and the United States of America.

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 IAASB 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.
The Three Millennium Development Goal Fund (3MDG) (oneUNOPS engagement ID 10636)		1 January – 31 December 2017	82844, 86942, 86943, 88531, 88556, 91146, 95719, 91437, 92022, 89804, 91915, 97447 94841, 10636-011, 10636-012, 10636-014, (and grant projects)
Financial statement		**Statement of non-expendable property**	
Amount US$	**Opinion**	**Amount US$**	**Opinion**
45,914,834	Unmodified	41,692	Unmodified

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	**Rating**	
Project management	Satisfactory	🟩
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 three observations. There are three recommendations, all of which are ranked as 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 (US$)
1	Finance	Inconsistencies in supporting documentation	Medium	-
2	Finance	Lack of disclosure of currency revaluation gains and losses	Medium	-
3	Human resources	Lack of basis for allocating salary costs	Medium	-
			Total	**-**

Management's comments

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

Signed:

Mark Henderson
Partner

Moore Stephens LLP
150 Aldersgate Street
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9 August 2018

Operational overview

In 2012, UNOPS was selected as the Fund Manager for the 3MDG Fund. The Fund is a US$ 284 million, five and half year fund supported by seven international donors: Australia, Denmark, the European Commission, Sweden, Switzerland, the United Kingdom and the United States of America.

The 3MDG Fund supports the provision of health services in Myanmar and will contribute towards the country's efforts to achieve the three health-related Millennium Development Goals. These goals include reducing child mortality, improving maternal health and combating HIV, Tuberculosis and Malaria. The fund is managed through the UNOPS Fund Management Office (FMO) and Implementing Partners (IPs) selected by the FMO.

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: Finance				
1	**Title** Inconsistencies in supporting documentation **Comparison criteria** Per the 3MDG Operational Guidelines, 'Direct costs are incurred costs that are: i. Directly attributable to the action as outlined in the 'Description of Action' as annexed to the GSA; ii. Specifically provided for in the approved budget; iii. Supported by original and verifiable vouchers for the incurred period; and iv. Auditable'. **Facts / observation** During 2017 UNOPS made payments to two advisors working for the National Health Plan Implementation and Monitoring Unit (NIMU). Their work was overseen by NIMU who then authorised the payment, with UNOPS acting as a pay agent on NIMU's behalf. According to one payment request submitted by NIMU to UNOPS, the advisors are paid on the basis of the number of days worked. However, the number of days worked as per the request was not supported by timesheets or any other evidence that demonstrates that they actually worked those days. Upon further investigation, we found that the advisors were paid a fixed monthly fee. We were not provided with the contracts for those	3MDG management should ensure that it requests and reviews documentation to support all payment requests related to project activities. Management should also ensure that all payments to advisors are supported by sufficient supporting documentation. Where payments are made on the basis of the number of days worked, these should be supported by timesheets showing the hours worked. Where advisors are paid a fixed fee upon submission of deliverables, this should be clearly stated on the payment requests.	Management notes the recommendation and has already taken steps to change the process for authorisation of payments to ensure that supporting documentation is in place, which is in line with the requirements of the project.	**Responsible manager:** Program Director **Due date:** Immediate **Priority:** Medium

advisors and therefore could not confirm the payment basis. However, we have reviewed evidence that the advisors submitted the required deliverables and saw other evidence of them having completed the work, such as project reports. Therefore, we do not consider the costs to be ineligible.

Nevertheless, 3MDG management should ensure that the information on the payment requests is consistent with the agreed payment arrangement. If advisors are paid a fixed amount upon submission of project deliverables, this should be clearly documented on the payment request submitted to UNOPS. If they are paid on the basis of the number of days worked, this should be supported.

The details are provided in the table below:

Advisor	**Period**	**No. of days worked * rate**	**Amount (USD)**
Advisor 1	April to June 17	30 days*USD300*3 months	27,000
Advisor 2	April to June 17	20 days*USD300*3 months	18,000

Impact

There is a risk that the payment is made for a higher number of days than were actually worked by the advisors. There is also a risk that the work has not been performed as expected.

Cause

Guidelines: Lack of or inadequate corporate policies or procedures

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: Finance				
2	**Title** Lack of disclosure of currency revaluation gains and losses **Comparison criteria** Certified Financial Statements Certified project financial statements should only include actual expenditure, incurred as part of project activities. **Facts / observation** We noted that project expenditure reported in the 2017 financial statements includes currency revaluation entries posted at HQ level. These entries relate to the revaluation of balances in currencies other than the reporting currency (USD) and are posted as part of the year-end adjustments for the preparation of corporate financial statements. We understand that these entries are reversed from the accounting system the following year as they represent unrealised gains and losses, and should not be included as part of project expenditure or have an impact on the cash balance. The unrealised gains and losses on currency revaluation do not represent actual expenditure incurred as part of project activities. We understand that the adjustments are required in order to comply with IPSAS and are in line with the UNOPS corporate policy, however, we recommend that a disclosure is made in the project financial statements to show the amounts of unrealised gains and	We recommend that the policy for recognition of currency revaluation gains and losses and the associated amounts are clearly disclosed in the notes to the certified financial statements for improved transparency.	UNOPS complies with IPSAS 4 – "The effects of change in Foreign Exchange Rates". Hence the revaluation is made in compliance with this standard. Going forward we will enhance the disclosure of the policy for recognition of currency revaluation gains and losses and the associated amounts in the notes of the Certified Financial Statements.	**Responsible manager:** Programme Director **Due date:** Ongoing **Priority:** Medium

losses reported as part of expenditure.

The details of the currency revaluation transactions included in 2017 project expenditure are provided in the table below:

Project/ GL account	**10636 3MDG**
58010	(11,301)
78020	6,451
Total (gain) / loss	**(4,850)**

Impact

Unrealised income and expenditure presented as part of actual project expenditure.

The presentation of project expenditure and cash balance in a given reporting period is misleading as it shows unrealised gains and losses under ‘project’ expenditure and cash balance, indicating that they were generated as part project activities.

Cause

Guidelines: Lack of or inadequate corporate policies or procedures

#	Observation	Recommendation	Management comments and action plan	Responsible manager / due date / priority
Functional Area: Human resources				
3	**Title** Lack of basis for allocating salary costs **Comparison criteria** Per the 3MDG Operational Guidelines, 'Direct costs are incurred costs that are: i. Directly attributable to the action as outlined in the 'Description of Action' as annexed to the GSA; ii. Specifically provided for in the approved budget; iii. Supported by original and verifiable vouchers for the incurred period; and iv. Auditable'. **Facts / observation** We noted that salary costs for staff who worked part-time in the infrastructure unit on the 3MDG project were allocated to the project on the basis of fixed percentages set out in the internal note to file. There is no staff time recording system and there was no evidence provided to allow us to verify that the actual time spent by staff on the project was at least equal to the percentage claimed. There is thus a risk that the actual time spent by staff on the project was less than the percentage claimed. **Impact** The amount of time staff spent working on the 3MDG project could be less than the amount charged to the project.	To ensure that the staff costs reported under the 3MDG project are identifiable and verifiable, 3MDG management should establish a system to record the time spent by its staff on various activities for staff who work part time on the project.	Management noted the recommendation and will take action for setting up an appropriate system for salary costs allocation.	**Responsible manager:** Program Director **Due date:** Immediate **Priority:** Medium

	Cause Guidelines: Lack of or inadequate corporate policies or procedures			

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.