



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## INTERNAL AUDIT REPORT

**10 August 2018**

<b>PROJECT NAME:</b>	<b>JOINT PEACE FUND (JPF)</b>
<b>AWARD NUMBER:</b>	<b>97408</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 2017</b>

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## Acronyms and abbreviations

FMO	Fund Management Office
JPF	Joint Peace Fund
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
NIS	Nordic International Support Foundation
OC	Operations Centre
RO	Regional Office
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 ‘Joint Peace Fund (JPF)’ (“the project”) (oneUNOPS award ID 97408), which is implemented and managed by UNOPS 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 US\$ 14,626,757 during the period from 1 January to 31 December 2017. 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 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.
Joint Peace Fund (JPF) (oneUNOPS project ID 97408)		1 January – 31 December 2017	97408
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
14,626,757	Unmodified	12,333	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	
<b>Overall rating of internal control</b>	<b>Satisfactory</b>	

### Key issues and recommendations

The audit raised two issues. There were two recommendations, both of which were ranked 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	Procurement and supply chain	Electronic bid excluded from initial evaluation process	Medium	-
2	Human resources	Lack of basis for allocating salary costs	Medium	-
<b>Total</b>				-

### Management's comments

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

Signed:



Mark Henderson  
Partner  
Moore Stephens LLP

10 August 2018

## 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 US\$, on average, provided to implementing partners during the period from 2016 to 2021.

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
<b>Functional Area: Procurement and supply chain</b>				
1	<p><b>Title</b></p> <p>Electronic bid excluded from initial evaluation process</p> <p><b>Comparison criteria</b></p> <p>Article 7.1 of the Procurement Manual – Submissions can be received by mail, secure fax and dedicated email. Offers received by dedicated fax and email must be treated with the same degree of control as offers received by post or delivered personally.</p> <p><b>Facts / observation</b></p> <p>A consultant was contracted to perform a Knowledge Attitudes and Practices Study of the Public Awareness, Perceptions, and Priorities of the Myanmar Peace Process. A procurement process took place and a Request for Proposals was issued which resulted in the contracting of the consultant under PO3049738.</p> <p>An initial evaluation was carried out on the offers received, however, a review of the evaluation report shows that one of the bids was initially missed by procurement staff and not included in the evaluation. The bid was only identified when the vendor questioned the status of their proposal. Procurement staff</p>	<p>UNOPS Myanmar should ensure that the new e-sourcing procurement platform incorporates controls to prevent legitimate bids being misplaced.</p> <p>An additional control should be put in place to ensure that no e-mails received into the dedicated e-mail address for procurement bids are transferred to the junk e-mail box.</p>	<p>In order to avoid from this occurring again, UNOPS MMOC has introduced the e-sourcing platform since May 2017, before other offices introduced it. eSourcing will help address these issues for high value procurement (more than 5,000). For procurement value of less than US\$ 5,000, the office will put in place the necessary controls.</p> <p>UNOPS MMOC Reception staff have also been instructed to regularly check the junk folder.</p>	<p><b>Responsible manager:</b></p> <p>JPF Trust Director</p> <p><b>Due date:</b></p> <p>Immediate</p> <p><b>Priority:</b></p> <p>Medium</p>

<p>investigated this and found that the bid was submitted by e-mail and was located in the UNOPS junk e-mail folder. The reason why the system allocated this bid to the junk folder is not clear. Although this appears to be an isolated incident and not a systematic problem, it raises questions over the control of the submission process for electronic bids and whether additional proposals may have been missed in other procurement processes.</p> <p>Once the bid was located, UNOPS followed the correct procedures to ensure that this bid was properly included in a subsequent re-evaluation process and, in fact, this bid was eventually awarded the contract.</p> <p>We also note that UNOPS Myanmar implemented an e-sourcing platform which should help prevent bids being misplaced in future.</p> <p><b>Impact</b></p> <p>Electronically submitted bids may be missed by procurement staff and not included in any evaluation. This is unfair to potential vendors and increases the risk that UNOPS may not be achieving the best value for money.</p> <p>Missed bids may also result in complaints lodged by vendors and possible legal action taken in the most serious cases.</p> <p><b>Cause</b></p> <p>Human error - Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p>			
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#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
<b>Functional Area: Human resources</b>				
<b>2</b>	<p><b>Title</b></p> <p>Lack of basis for allocating salary costs</p> <p><b>Comparison criteria</b></p> <p>Per donor agreements, expenditure claimed from donor funds should be supported by documentation. For example, paragraph 14 of the Memorandum of Understanding between UNOPS for JPF and DfID states that 'Financial records, including documentation to support entries on accounting records and to substantiate charges against contributions, will be maintained in accordance with the Partner's usual accounting procedures, financial regulations, rules, policies, procedures and directives, including as to the retention period'.</p> <p><b>Facts / observation</b></p> <p>We noted that salary costs for staff who worked part-time on the JPF project were allocated to the project on the basis of fixed percentages set out in Description of Action attached to the donor agreement. 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.</p> <p>There is thus a risk that the actual time spent by staff on the</p>	<p>To ensure that the staff costs reported under the JPF project are identifiable and verifiable, JPF 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.</p>	<p>Management noted the recommendation and will take action for setting up an appropriate system for salary cost allocation.</p>	<p><b>Responsible manager:</b></p> <p>JPF Trust Director</p> <p><b>Due date:</b></p> <p>Immediate</p> <p><b>Priority:</b></p> <p>Medium</p>

	<p>project was less than the percentage claimed.</p> <p><b>Impact</b></p> <p>The amount of time staff spent working on the JPF project could be less than the amount charged to the project.</p> <p><b>Cause</b></p> <p>Guidelines: Lack of or inadequate corporate policies or procedures</p>			
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## 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
<b>Satisfactory (effective)</b>	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.
<b>Partially satisfactory (some improvement needed)</b>	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.
<b>Partially satisfactory (major improvement needed)</b>	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.
<b>Unsatisfactory (ineffective)</b>	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
<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.