INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

16 August 2018

PROJECT NAME:	LIVELIHOODS AND FOOD SECURITY TRUST FUND (LIFT)
AWARD NUMBER:	70927
COUNTRY:	MYANMAR
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2017

Contents

Acronyms and abbreviations

IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
LIFT	Livelihoods and Food Security Trust
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 'Livelihoods and Food Security Trust Fund (LIFT)' (oneUNOPS project ID 70927), 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 $ 75,232,330 during the period from 1 January to 31 December 2017. The following donors contributed to the project: Australia, Denmark, the European Union, France, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom, the United States of America, UNDP and the Mitsubishi Corporation.

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.
Livelihoods and Food Security Trust Fund (LIFT) (OneUNOPS project ID 70927)		1 January – 31 December 2017	70927
Financial statement		**Statement of non-expendable property**	
Amount US$	**Opinion**	**Amount US$**	**Opinion**
75,232,330	Unmodified	75,721	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 one issue. There was one recommendation, 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	Finance	Lack of disclosure of currency revaluation gains and losses	Medium	-
			Total	**-**

Management's comments

The Program Director accepted the recommendation and is in the process of implementing it.

Signed:

Mark Henderson
Partner
Moore Stephens LLP

16 August 2018

Operational overview

LIFT is a multi-donor fund (2009 – 2018) to address food insecurity and income poverty in Myanmar.

The overall objective of LIFT is to contribute resources to a livelihoods and food security programme with the aim of making progress towards the achievement of Millennium Development Goal 1 (the eradication of extreme poverty and hunger) in Myanmar.

Working through a trust fund modality, LIFT's purpose is to sustainably increase food availability and incomes of two million target beneficiaries.

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: Finance				
1	**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	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, if material.	**Responsible manager:** Program Director MMOH Finance **Due date:** Ongoing **Priority:** Medium

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 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	**70927 LIFT**
58010	(195)
78020	2,154
Total (gain)/loss	**1,959**

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

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.