



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

24 August 2018

| | |
|---------------------------------|--|
| PROJECT NAME: | GLOBAL FUND REGIONAL ARTEMISININ INITIATIVE (RAI) – MYANMAR - PRINCIPAL RECIPIENT - UNOPS |
| PROJECT NUMBER: | 89550 |
| COUNTRY: | MYANMAR |
| AUDITOR: | MOORE STEPHENS LLP |
| PERIOD SUBJECT TO AUDIT: | 1 JANUARY TO 31 DECEMBER 2017 |

Contents

| | |
|---|-----------|
| Acronyms and abbreviations | 3 |
| Executive summary | 4 |
| The engagement context | 4 |
| Audit objectives | 4 |
| Audit scope | 4 |
| Audit rating | 4 |
| Key issues and recommendations | 5 |
| Operational overview | 7 |
| Detailed assessment | 8 |
| Annex I - Definitions | 14 |

Acronyms and abbreviations

| | |
|-------|---|
| GF | Global Fund |
| GFATM | The Global Fund to Fight Aids, Tuberculosis and Malaria |
| IAIG | Internal Audit and Investigations Group |
| IPSAS | International Public Sector Accounting Standards |
| IAASB | International Auditing and Assurance Standards Board |
| LFA | Local Fund Agent |
| M&E | Monitoring and Evaluation |
| OC | Operations Centre |
| PO | Purchase Order |
| PR | Principal Recipient |
| PUDR | Progress Update and Disbursement Request |
| RAI | Regional Artemisinin Initiative |
| RO | Regional Office |
| SR | Sub-recipient |
| 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 ‘Global Fund Regional Artemisinin Initiative (RAI) Principal Recipient – Myanmar - Principal Recipient – UNOPS’ (oneUNOPS project ID 89550), (“the project”), 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 US\$ 1,832,633 during the period from 1 January to 31 December 2017.

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 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. |
|---|------------|--------------------------------------|-------------|
| Global Fund Regional Artemisinin Initiative (RAI) – Myanmar - Principal Recipient – UNOPS | | 1 January – 31 December 2017 | 89550 |
| Financial statement | | Statement of non-expendable property | |
| Amount US\$ | Opinion | Amount US\$ | Opinion |
| 1,832,633 | Unmodified | 44,334 | Unmodified |

Table 2: Internal control rating summary for project

| Rating summary by functional area | | |
|---|---------------------|--|
| Functional area | Rating | |
| Programme management | Satisfactory | |
| Finance | Satisfactory | |
| Procurement and supply chain | Satisfactory | |
| Human resources | Satisfactory | |
| General administration | Satisfactory | |
| Overall rating of internal control | Satisfactory | |

Key issues and recommendations

The audit raised three issues. There are three recommendations, all of which are ranked medium.

Among the three 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 (US\$) |
|--------------|----------------------|--|---------------------------------|-------------------------|
| 1 | Programme management | Late submission of Progress Update and Disbursement Requests | Medium | - |
| 2 | Finance | Error in reporting contributions | Medium | - |
| 3 | Finance | Lack of disclosure of currency revaluation gains and losses | 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

24 August 2018

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. 2017 was the final year of the implementation period under this programme.

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 PR is managing the Global Fund's Regional Artemisinin Initiative (RAI) grant which aims to support various program activities in the Greater Mekong sub-region in five countries: Kingdom of Cambodia, Lao People's Democratic Republic, Republic of the Union of Myanmar, Kingdom of Thailand and Socialist Republic of Vietnam. Under the RAI grant the PR is responsible for the audit of the RAI grant implemented in Laos's People Democratic Republic.

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 submission 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 Global Fund Operational Policy Manual also states:</p> <p>“Annual PU/DR: Report due 60 days from reporting period end date. LFA review of annual PU/DR required”.</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>RAI_PU7D R8</td> <td>1 January to 30 June 2017</td> <td>14 August 2017</td> <td>6 November 2017</td> <td style="text-align: center;">84</td> </tr> <tr> <td>RAI_PU7D R8</td> <td>1 July to 31 December 2017</td> <td>1 March 2018</td> <td>25 April 2018</td> <td style="text-align: center;">55</td> </tr> </tbody> </table> | Contract reference | Period | PUDR due date | Date delivered (signed version) | No. of days late | RAI_PU7D R8 | 1 January to 30 June 2017 | 14 August 2017 | 6 November 2017 | 84 | RAI_PU7D R8 | 1 July to 31 December 2017 | 1 March 2018 | 25 April 2018 | 55 | <p>Management should ensure that reports required by donors are submitted within the timeframes specified in the project documents.</p> | <p>With the approval from the GF team, new staff were recruited including one additional position for Strategic Finance and Reporting Specialist in the reporting team for faster review and processing of the financial reports to the donor.</p> <p>Additionally, 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 and the GF team. The trend is improving, nor did it result 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 | | | | | | | | | | | | | | | |
| RAI_PU7D R8 | 1 January to 30 June 2017 | 14 August 2017 | 6 November 2017 | 84 | | | | | | | | | | | | | | | |
| RAI_PU7D R8 | 1 July to 31 December 2017 | 1 March 2018 | 25 April 2018 | 55 | | | | | | | | | | | | | | | |

| | | | | |
|--|--|--|--|--|
| | <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 Error in reporting contributions</p> <p>Comparison criteria IPSAS 1 – Presentation of Financial Statements</p> <p>Facts / observation We found an inconsistency in the presentation of the contributions income and transfers in the 2017 and 2016 financial statements. Upon further investigation, it was identified that in 2014 an incorrect entry was made to the contributions account instead of the inter-project transfers account. The correct entry was a debit of US\$ 27,762,953 to inter-project transfers, and instead the debit entry was posted to contributions, thereby reducing it.</p> <p>A manual adjustment to correct the error was made to the financial statements in 2014 and in the following years, including in 2016. However, this manual adjustment was not made in the 2017 financial statements. The net impact on the total income line in the 2017 financial statements was nil, however, the individual financial statement captions were misstated by US\$ 27,762,953.</p> <p>Subsequently, management updated the financial statements to correct the error so our finding has no financial impact on the</p> | <p>Management should improve the process for preparing financial statements and introduce a further level of review.</p> <p>A list of manual adjustments should be maintained and all adjustments should be reflected in the final financial statements.</p> | <p>We corrected the error and a new CFS issued. The management has put in place a tool to track all the changes manually done on the CFS and will ensure that such mistake does not occur in future.</p> | <p>Responsible manager: Programme Director</p> <p>Due date: Immediate</p> <p>Priority: Medium</p> |

| | | | | |
|--|--|--|--|--|
| | <p>presented statements. Nevertheless, management should ensure all manual adjustments have been made prior to the financial statements being issued.</p> <p>Impact</p> <p>Financial statement captions for contributions and inter-projects transfers were misstated.</p> <p>The financial statements were corrected by management as a result of our finding to show the correct amounts.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p> | | | |
|--|--|--|--|--|

| # | Observation | Recommendation | Management comments and action plan | Responsible manager / due date / priority |
|---------------------------------|---|---|--|--|
| Functional Area: Finance | | | | |
| 3 | <p>Title</p> <p>Lack of disclosure of currency revaluation gains and losses</p> <p>Comparison criteria</p> <p>Certified Financial Statements</p> <p>Certified project financial statements should only include actual expenditure, incurred as part of project activities.</p> <p>Facts / observation</p> <p>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 (US\$) 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.</p> <p>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</p> | <p>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.</p> | <p>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.</p> | <p>Responsible manager:</p> <p>Program Director</p> <p>Finance Officer</p> <p>Due date:</p> <p>Ongoing</p> <p>Priority:</p> <p>Medium</p> |

| <p>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.</p> <p>The details of the currency revaluation transactions included in 2017 project expenditure are provided in the table below:</p> <table border="1" data-bbox="264 517 627 683"> <thead> <tr> <th>Project/ GL account</th> <th>89550 GF PR RAI</th> </tr> </thead> <tbody> <tr> <td>58010</td> <td>(2,557)</td> </tr> <tr> <td>78020</td> <td>297</td> </tr> <tr> <td>Total (gain)/loss</td> <td>(2,260)</td> </tr> </tbody> </table> <p>Impact</p> <p>Unrealised income and expenditure presented as part of actual project expenditure.</p> <p>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.</p> <p>Cause</p> <p>Guidelines: Lack of or inadequate corporate policies or procedures</p> | Project/ GL account | 89550 GF PR RAI | 58010 | (2,557) | 78020 | 297 | Total (gain)/loss | (2,260) | | | |
|--|------------------------|--------------------|-------|---------|-------|-----|--------------------------|----------------|--|--|--|
| Project/ GL account | 89550 GF PR RAI | | | | | | | | | | |
| 58010 | (2,557) | | | | | | | | | | |
| 78020 | 297 | | | | | | | | | | |
| Total (gain)/loss | (2,260) | | | | | | | | | | |

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.