

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP MYANMAR

Improved Livelihood & Social Cohesion
(Directly Implemented Project, Output No. 86669)

Report No. 1391

Issue Date: 15 August 2014

**Report on the audit of UNDP Myanmar
Improved Livelihood & Social Cohesion, Output No. 86669
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 6 to 16 May 2014, through Moore Stephens LLP (the audit firm), conducted an audit of the Improved Livelihood and Social Cohesion, Output No. 86669 (the Project), which is directly implemented and managed by the UNDP Country Office in Myanmar (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report which includes expenditure for the period from 1 January to 31 December 2013 and the accompanying Funds Utilization statement¹ as of 31 December 2013 as well as Statement of Assets as of 31 December 2013. The audit did not include activities and expenses incurred or undertaken at the "responsible party" level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters), or where supporting documentation was retained at the UNDP Country Office level. The audit did not cover the Statement of Cash Position as of 31 December 2013 as no separate bank account was established and maintained for the Project.

The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditure			Project Assets	
Amount (in \$ '000)	Opinion	Net Financial Impact (in \$ '000)	Amount (in \$ '000)	Opinion
5,460*	Qualified	35	190	Unqualified

*Expenditures recorded in the Combined Delivery Report was \$5,874,323. Excluded from the audit scope were transactions that are not processed or approved at the Office level (\$414,088).

The audit firm qualified its opinion on project expenditure and the Funds Utilization statement due to unsupported transactions amounting to \$34,694 and entailing potential financial irregularities. The audit firm was unable to assess the extent of the possible impact of this issue. This matter was referred to the Investigations Section of OAI for further assessment and appropriate action.

Key recommendations: Total =6, high priority = 5

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated fixed assets used at the project level; (c) Inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Lack of supporting documentation (Issue 1)	Supporting documents for two payments totalling \$34,694 were not available. As efforts to trace the documents from the originating field offices were not successful, the Office suspected that these transactions may involve financial irregularities.
	<u>Recommendation:</u> Enhance controls over payments, including: (a) an in-depth analysis to identify the reasons for the unsupported payments and addressing the related control weaknesses; (b) identifying the transactions that may be subject to the suspected financial irregularities (including payments made on behalf of other UN agencies) and taking corrective action; and (c) attributing responsibility and taking appropriate action.
<u>Corporate Issue:</u> ² Recognition of micro capital grant expenditure prior to payment and activity implementation (Issue 2)	In December 2013, the Office approved payment of micro-capital grants to implementing partners amounting to \$2.8 million. This amount was recorded as expenditure incurred during 2013, even though this was not actually paid to the implementing partners until January 2014. The 2013 Combined Delivery Report would therefore be misleading as not all the expenditure was incurred for activities in 2013. However, the UNDP 'Guidance on Micro Capital Grants does not give guidance on accounting for micro-capital grants.
	<u>Recommendation:</u> Consider the limitations of the current method of recognising grant expenditure at the point of approval of payment and review the recognition criteria for micro-capital grant payments; and include guidance for accounting for micro-capital grants in an updated and expanded version of the 'Guidance on Micro Capital Grants' document.
Weaknesses in the evaluation procedures for call for proposals (Issue 3)	A Call for Proposals was made by the Office in September 2013. In one state, all six proposals received were accepted by the Office despite cases of non-compliance with the Call for Proposals. The Office had also not established criteria for specific scores to be awarded in any of the assessed categories.
	<u>Recommendation:</u> Include a documented assessment of compliance with the terms of the Call for Proposals in the review of proposals; standardize consequences of non-compliance; establish criteria for award of scores under each of the assessment criteria and standardize and document all procedures so that all implementing partners are treated equally and the evaluation process is transparent.
Weaknesses in project monitoring (Issue 4)	There was inadequate monitoring by the project, as noted in one of the states. The weaknesses noted included: participant lists not signed by the participants; quality of monthly reports not consistent for all implementing partners; monthly and quarterly reports not signed; financial information not included in the monthly reports; and no evidence of review of Implementing Partners reports by UNDP staff.
	<u>Recommendation:</u> Include a documented assessment of compliance with the Monitoring and Evaluation plan in the review of the implementing partners' monitoring reports and

² Corporate issue requires action by UNDP headquarters.

update this plan to require submission of financial information by the implementing partners in their monitoring reports.

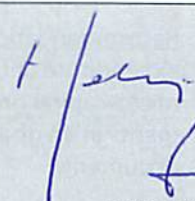
Inconsistent grant agreements and lack of information on the review of fund utilization (Issue 5)

There were inconsistencies on grant agreements on the conditions of payments to implementing partners of the 2nd tranche. Requests by implementing partners for the 2nd tranche did not give financial information on how the previous tranche was spent.

Recommendation: Apply a standard percentage of utilization of the first tranche of funding to all grant agreements and request implementing partners to include basic financial information in their payment requests.

Management comments and action plan

The Resident Representative and the Chief, Accounts and Client Services Division of the Office of Financial Resources Management accepted all the recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.



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