

United Nations Office for Project Services

Internal Audit Report

Project ID: 00053634

Three Diseases Fund

Audit Period – 2011

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SECTION - I

1. Executive Summary

1.1 Background

The Internal Audit and Investigations Group conducted an audit of the Three Diseases Fund project bearing project ID number 00053634 in January 2013. The audit was carried out with the assistance of the audit firm, Lochan & Co, Chartered Accountants, New Delhi, India.

The purpose of the audit was to assess the extent to which operational processes have been effected to provide reasonable assurance with regard to the following areas: efficient and economic use of resources; reliability of operational and financial reporting and compliance of activities and transactions with applicable regulations, rules and procedures.

In particular the audit is aimed to provide reasonable assurance that:

- Client/donor contributions and project expenditure are properly accounted for;
- Project expenditure were incurred in accordance with the provisions of UNOPS services under the legal agreement, and are supported by adequate documentation;
- The related financial statements prepared by UNOPS for the period under review present a fair view of the operations.

The audit reviewed the transactions for the period from January until December 2011.

1.2 Overall Assessment-

In our opinion the overall level of internal control with respect to the Three Diseases Fund project's operations is considered to be **Satisfactory**.

The specific ratings for the main areas covered by the audit are as follows:

Rating Summary by Functional Area				
Area	Rating			
Project management	Satisfactory	v		
Finance	Satisfactory	v		
Procurement and supply chain	Satisfactory	v		
Human resources	Satisfactory	v		
General administration (incl. Assets management)	Satisfactory	v		
Overall rating	Satisfactory	v		

1.3 Audit Highlights

The report contains **three** recommendations which are considered **Medium** priority as per definitions available at **annexure 001**.

Some of the significant issues which require management attention are as follows:

Rec. No.	Recommendation	Priority	Area
A.1	<ul style="list-style-type: none"> The Three Diseases Fund management should disburse the funds to Implementing Partners (IPs) as per scheduled time of Memorandum of Agreement subject to receipt of approved financial reports. 	Medium	Project management
B.1	<ul style="list-style-type: none"> The Three Diseases Fund management should ensure timely settlement of advances as per the policies of UNOPS. 	Medium	Finance

Rec. No.	Recommendation	Priority	Area
B.2	<ul style="list-style-type: none"> • The Three Disease Fund management should ensure that approved budget for the calendar year is recorded in the ATLAS software. • Budget revisions should be undertaken for significant variances as per procedure of UNOPS and it should be ensured that budget revisions are signed on time. • Reasons for budget variances should be documented and follow up should be undertaken for significant variances. 	Medium	Finance

1.4 Good Practices Observed:

During the audit visit, the audit firm has observed certain good practices followed by the Three Diseases Fund project in the various areas of finance, program and the overall system of the organization. The audit firm has enlisted the following good practices followed by the project:

- Fund Board meetings - actions have been taken on Fund Board decisions regularly;
- Transition plan is well prepared and appreciated by Fund Board;
- Management has articulated the audit recommendations for new project as lessons learnt;
- Risk management is being monitored;
- Adequate records for contribution received from donors are well maintained;
- Grant management tracking sheet are being maintained appropriately;
- Financial Management has been good;
- Payments vouchers are sufficiently supported;
- Procurement files are being well maintained in hard copies and soft copies;
- Follow up of IPs recommendations has been regular and meticulous;
- Periodic physical verification of assets has been undertaken regularly;
- Human Resource personal files are properly maintained;
- Online leave approval system is in place;
- Effective data back up system is in place.

SECTION – II

2.0 Audit Objectives, Scope and Operational Overview

2.1 Audit Objectives and Scope

The overall objectives and scope of the audit are detailed below.

2.1.1 Audit Objectives

The overall objective of the audit is to assess the management of the project operations with the view of obtaining reasonable assurance towards the achievement of the project objectives. The areas of focus include:

- Effective, efficient and economical use of resources;
- Reliability of reporting;
- Safeguarding of assets; and
- Compliance with applicable legislation.

The purpose of the audit is to provide reasonable assurance that:

- Client/donor contributions and project expenditure are properly accounted for;
- Project expenditure were incurred in accordance with the provisions of UNOPS services under the legal agreement, and are supported by adequate documentation;
- The related financial statements prepared by UNOPS for the period under review present a fair view of the operations.

2.1.2 Audit Scope

During the audit, relevant samples of documents and transactions for the period from 01 January 2011 until 31 December 2011 were reviewed. Discussions were held with Three Diseases Fund project's staff throughout the audit. The audit scope is

- to conduct the audit in accordance with the International Standard on Auditing issued by International Auditing & Assurance Standards Board (IAASB) and UNOPS internal audit practices;
- to certify the financial statements of the project as per the UN System Accounting Standards (UNSAS).
- to review the budget and expenditure process and ascertain if the expenditure are in line with the objective and activities set out in the project document.
- to review whether the funds shown in the accounts as having been charged to the project were available for and applicable to the service or purpose to which they have been charged and the expenditure conforms to the authority which governs it.

2.2 Operational Overview

2.2.1 Brief Background of the Project

The Three Diseases Fund (3DF) is a multi-donor initiative to reduce the human suffering caused by HIV-AIDS, Malaria and Tuberculosis (TB) in Myanmar.

Responding to this growing crisis, a consortium of donors comprising the European Commission and the Governments of Australia, the Netherlands, Norway, Sweden and the United Kingdom established a pooled funding mechanism to finance efforts to reduce the burden of the three diseases in Myanmar.

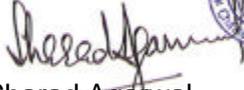
The Three Diseases Fund (3DF) was launched in October 2006. Its core aim is to provide a simple and transparent instrument to finance a nationwide programme of activities to reduce the transmission of HIV-AIDS, TB and Malaria, and enhance care and treatment through access to essential drugs and related services. The Three Diseases Fund financed projects target those most at risk, with particular focus on people with limited or no access to public health services due to geographic or security constraints or because of discrimination based on factors such as ethnicity, gender or financial status.

2.2.2 Project Information

a)	Project Number	00053634
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b)	Project Title	Three Diseases Fund
c)	Start date	October 2006
d)	Estimated End Date	December 2012
e)	Budget (2011)	US\$ 19,931,087
f)	Actual Expenditure (2011)	US\$ 22,289,090

The audit team extends its appreciation to the management and staff members of Three Diseases Fund project for their full cooperation during the audit.



Sharad Agarwal FCA
Partner
[Lochan & Co](#)
Chartered Accountants

Date: 03 August 2013
Place: New Delhi

SECTION – III**3.0 Detailed Assessment**

The details of the audit findings are as follows:

(A) Project Management**Satisfactory**

Ref	Observation	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments (if any)
Functional Area : Project Management							
A.1	<p><u>Title: Disbursement of funds to IPs</u> <u>Comparison Criteria:</u></p> <ul style="list-style-type: none"> As per article 4 of MOAs entered between Three Diseases Fund and IPs, UNOPS shall disburse the funds on receipt of approved financial reports as scheduled in MOAs. <p><u>Facts/Observation:</u></p> <ul style="list-style-type: none"> There are delays in disbursement of funds by Three Diseases Fund management in case of 9 IPs and delays are to the tune of 11 to 45 days. The Three Diseases Fund management has explained that as per MOA, funds are disbursed only after acceptance of reports. Disbursements included funds for planned expenditures for next period and against expenditures 	<p>The Three Diseases Fund management should disburse the funds to Implementing Partners as per scheduled time of Memorandum of Agreement subject to receipt of approved financial reports.</p>	<p>Three Diseases Fund – Chief Executive Officer (CEO)</p>	<p>Once the IP submitted reports are approved, the Fund Management Office (FMO) will ensure that disbursement is in line with the relevant Standard Operating Procedure (SOP).</p>	<p>31 December 2013</p>	<p>Medium</p>	

Ref	Observation	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments (if any)
	<p>reported for previous period.</p> <p>Impact:</p> <ul style="list-style-type: none"> Disbursement delays have an impact on availability of funds on time for project activities at IP level. <p>Cause:</p> <ul style="list-style-type: none"> Guidance (Lack of or inadequate guidance or supervision at the project centre level) 						

(B) Finance**Satisfactory**

Ref	Observation / Impact	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments
Functional Area : Finance							
B.1	<p>Title: Settlement of advances</p> <p>Comparison Criteria:</p> <ul style="list-style-type: none"> As per UNOPS operational advance policy, the Regional Fund Management Office (RFMO) shall be responsible for settlement of advances within three months from the date of establishment. In the field offices, finance officer is 	The Three Diseases Fund management should ensure timely settlement of advances as per the policies of UNOPS.	Three Diseases Fund – Chief Executive Officer (CEO)	The 3DF will continue to provide capacity building to the IPs, but acknowledges this is outside its influence and is to be looked at as being within tolerances of implementation, always provided that the	31 December 2013	Medium	

Ref	Observation / Impact	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments
	<p>responsible for operation and maintenance of operational advance.</p> <p>Facts:</p> <ul style="list-style-type: none"> The Three Diseases Fund has disbursed advances to certain parties to conduct training and workshops of Community Based Organizations (CBOs). Three cases of advances were identified where advance was not settled within three months. Delays of 80 to 105 days had been noticed in settlement of such advances. The Three Diseases Fund management has explained that the advances were given to local implementing partners. The local implementing partners due to lack of financial management capacity take longer to settle the expenditures. <p>Impact:</p> <ul style="list-style-type: none"> Non compliance with UNOPS policy and delay in settlement of advances has financial implications. 			<p>advances are ultimately settled and that reconciliation by management towards the IPs is strict and robust (e.g. no further advances until the existing one is reconciled).</p>			

Ref	Observation / Impact	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments
	<p>Cause:</p> <ul style="list-style-type: none"> Guidance (Lack of or inadequate guidance or supervision at the project centre level) 						
B.2.	<p>Title: Budgetary Control</p> <p>Comparison Criteria:</p> <ul style="list-style-type: none"> The approved budget is required to be recorded into ATLAS for effective monitoring of budget. The actual expenditure is required to be incurred as per approved budget. <p>Facts:</p> <ul style="list-style-type: none"> Initially a budget of US\$ 8,015,354 for the year 2011 was approved by the Fund Board on 10 December 2010. A revised budget amounting to US\$ 19,931,087 was approved by Fund Board on 05 January 2012 i.e. after the completion of the year 2011. However, the budget as per ATLAS was amounting to US\$ 28,934,489. Further, the actual expenditure incurred was US\$ 22,289,090 	<ul style="list-style-type: none"> The Three Disease Fund management should ensure that approved budget for the calendar year is recorded in the ATLAS software. Budget revisions should be undertaken for significant variances as per procedure of UNOPS and it should be ensured that budget revisions are signed on 	Three Diseases Fund – Chief Executive Officer (CEO)	The control on fund availability in ATLAS is against budget as well as against cash ledger; hence, budget cannot be overspent as only the relevant amount of cash is applied. Three Diseases Fund - FMO will ensure ATLAS budget matches approved budget and all Fund Board approvals are documented.	31 December 2013	Medium	

Ref	Observation / Impact	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments
	<p>against the revised budget of US\$ 19,931,087 i.e. excess by US\$ 2,358,003 (11.83% of the budget)</p> <ul style="list-style-type: none"> The Three Diseases Fund management explained that over-utilization occurs where the Fund Board approves out-of-session additional expenditure and does not review the total annual budget each time. Audit firm has not been provided any evidence of out of session additional expenditure approval of Fund Board. The budget recorded in ATLAS is not matching with the budget approved by Fund Board and a difference of approx. US\$ 9 Million has been noticed. <p>Impact:</p> <ul style="list-style-type: none"> It has an impact on budgetary control mechanism as budgets are being monitored through ATLAS. The over utilization of the budget has the potential risk that the financial resources has been utilized in an excess of what was budgeted. 	<p>time.</p> <ul style="list-style-type: none"> Reasons for budget variances should be documented and follow up should be undertaken for significant variances. 					

Ref	Observation / Impact	Recommendation	Responsible Manager	Management Reply and Action Plan	Due Date	Priority	Further Audit Comments
	<p>Cause:</p> <ul style="list-style-type: none"> Guidance (Lack of or inadequate guidance or supervision at the project centre level) 						

(C) Procurement and Supply Chain **Satisfactory**

No observation

(D) Human Resources **Satisfactory**

No observation

(E) General Administration (incl. Assets Management) **Satisfactory**

No observation

SECTION - IV

Annexure 001

Definitions of Standard Audit Ratings, Priorities, Causes and Functional Areas for Management report

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

(A) Standard Audit Ratings for overall performance of internal control system:

The harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 01 January 2010 is based on the following principles:

- There are three categories: (a) satisfactory, (b) partially satisfactory, and (c) unsatisfactory.
- The elements of the rating system will 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	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited party.
Partially Satisfactory	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
Unsatisfactory	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the overall objectives of the audited entity could be seriously compromised.

(B) Rating 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:

Rating	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 desirable and should result in enhanced control or better value for money. (Note: Low priority recommendations, if any, will be dealt with by the audit team directly with the management of the entity under review, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the report).

(C) 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 (specify) 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 (specify) level
- Inadequate oversight by Headquarters

Resources: insufficient resources (funds, skill, staff) to carry out an activity or function;

- Lack of or insufficient resources (specify: 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.

(D) List of functional areas

The following categories of functional areas are used:

- Project management;
- Finance;
- Human resources;
- Procurement and supply chain
- General Administration (which includes Asset management)
- Communications (if anything is project specific)
- Information and communication technology; and
- Security