



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

28 OCTOBER 2013

PROJECT NAME:	THREE DISEASES FUND (3DF)
PROJECT NUMBER:	00053634
COUNTRY:	MYANMAR
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	1 JANUARY TO 31 DECEMBER 2012

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1. EXECUTIVE SUMMARY

1.1. THE ENGAGEMENT CONTEXT

From 28 May to 7 June 2013, 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 Three Diseases Fund (Project ID 00053634) (“the project”), which is implemented and managed by the UNOPS Operations Centre 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\$ 9,093,760 during the period from 1 January to 31 December 2012. The following donors contributed to the project: Department for International Development (DFID), European Commission (EC), Swedish International Development Cooperation Agency (SIDA), Australian Government Overseas Aid Program (AusAid), Government of Norway, Netherlands Minister for Development Cooperation and Government of Denmark..

1.2. 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.

1.3. AUDIT SCOPE

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IASSB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).







1.4. 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 “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”. The details of the audit results are presented in Tables 1 and 2.

1.4.1. Table 1: Summary results of the financial audit

Project Title		Period	Project no.
Three Diseases Fund (3DF)		1 January – 31 December 2012	00053634
Financial Statement		Statement of Non-Expendable Property	
Amount US\$	Opinion	Amount US\$	Opinion
9,093,760	Unqualified	342,280	Unqualified

1.4.2. Table 2: Internal controls ratings summary for project

Rating Summary by Functional Area		
Functional area	Rating	
Project management	Partially satisfactory	
Finance	Partially satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issue/s and recommendation/s

Among the four audit findings, one (Finding No.3) was noted to be caused by factors beyond the control of UNOPS. None of the findings listed below were ranked as a high priority. In view of the action taken by management, two recommendations have been closed.

Below is a list of the audit findings, further details of which can be found in section 2.

No.	Functional Area	Audit Finding Title	Priority Rating (High / Medium)	Financial impact (US\$)
1	Project management	Late payments to Implementing Partners	Medium	-
2	Finance	Late journal posting in relation to staff costs relating to the 3MDG project rather than 3DF	Medium	28,511.49
3	Finance	Liability in relation to return of unspent IP funds	Medium	-
4	General administration	Overstated assets	Medium	2,088.12
Total				30,599.61
Sub-total financial impact on financial statement				28,511.49
Sub-total financial impact on statement of non-expendable property				2,088.12

2. DETAILED ASSESSMENT

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority
Functional Area: Project management				
1	<p>Title</p> <p>Late payments to Implementing Partners</p> <p>Comparison Criteria</p> <p>Three Diseases Fund Operational Guidelines for the Implementing Partners and the Fund Manager - Section 6.e. Audits</p> <p>The Operational Guidelines states that “The normal processing “turn-around” timeframe days from the date of receipt of satisfactory reports by the Fund Manager should not exceed 10 working days for payments to be effected. Additional time may be required in cases where clarification or additional information is needed or in cases where reports are not submitted within reporting deadlines”. Final payments are contingent on unqualified audit reports, and the Operational Guidelines goes on to say “Adverse and disclaimer opinions would result in suspension of any further disbursement to the IP by the Fund Manager until the IP satisfactorily demonstrates that issues identified have been resolved”.</p> <p>Facts/Observation</p> <p>The audit team identified that the final payments made to Implementing Partners were made after significant delays, see table below:</p>	<p>The UNOPS Myanmar Operations Centre (MMOC) should endeavour to follow project Operational Guidelines in relation to the processing time of IP reports so that the disbursement of funds is not affected.</p> <p>Technical support should be provided to IPs to enable them to submit technical reports within the specified timeframes.</p>	<p>Noted. Disbursement is subject to receipt and acceptance of the complete set of reports. For the listed International NGOs the review dialogue and subsequently acceptance was prolonged and thus exceeded the set timelines. The Operational Guidelines should have had revised timeline provisions for review cases where the delay is due to the IP rather than the FMO. This will be considered in future funds operational guidelines. No further action as 3DF is operationally closed effective 31 December 2012.</p>	<p>Responsible Manager:</p> <p>N/A</p> <p>Due Date:</p> <p>N/A</p> <p>Priority:</p> <p>Medium</p> <p>Status:</p> <p>Closed</p>

IP name	Submission date: final financial report technical report	Date of final payment	Days delay	Amount of final payment
Save the Children	12/3/2012 12/11/2012	26/12/2012	44	364,094
Medecins Sans Frontieres Switzerland	6/10/2011 30/3/2012	19/10/2012	203	72,676
Population Services International TB	4/9/2012 17/10/2012	6/12/2012	50	69,012
Population Services International HIV	3/10/2012 17/10/2012	6/12/2012	50	282,923

The audit team was informed that delays related in part to audit observations that had been raised in the prior period relating to payment / non-payment of income taxes for NGOs. The 3DF project followed international laws which prevented the payment of local taxes. An external financial consulting company was hired to review the issue and advised that income tax was in fact payable for INGO and LNGO employees, and that INGOs and LNGOs were required to file income taxes annually on behalf of employees.

The Fund Board advised 3DF to release final payments to IPs.

Impact

Settlement of final payments to IPs is an obligation of UNOPS, and there is an expectation that the timeframe will be in accordance with the Operational Guidelines. Delays in final payments may create operational risk to Implementing Partners.

	<p>Further, the participation of Implementing Partners in future projects may be jeopardised.</p> <p>Cause</p> <p>Resources: insufficient resources (funds, skill, staff) to carry out an activity or function insufficient technical resources</p>			
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#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority				
Functional Area: Finance								
2	<p>Title</p> <p>Late journal posting in relation to staff costs relating to the 3MDG project rather than 3DF</p> <p>Amount</p> <p>\$ 28,511.49</p> <p>Comparison Criteria</p> <p>Approved 3DF Transition Plan Section 3.1 and 3.2</p> <p>Facts/Observation</p> <p>The Three Millennium Development Goals (3MDG) project started in 2012 with the aim of carrying out 3DF activities that would not be covered by The Global Fund's Round 9 activities which commenced in January 2011. As such, the 3DF Fund Management Office (FMO) posts were mapped to the 3MDG FMO posts where both posts could be covered by one personnel, taking advantage of reduced 3DF workload and initially less 3MDG workload during the transition period. The percentage allocation for the second six months of 2012 was defined in the 3DF Transition Plan which was approved by the Fund Board.</p> <p>The audit team observed that the journals relating to this allocation, summarised below, were not posted until 19 March 2013 and therefore the draft 2012 Financial Report provided in advance of the audit did not reflect this adjustment.</p> <table border="1" data-bbox="353 1289 1211 1378"> <thead> <tr> <th data-bbox="353 1289 846 1353">Period (journal reference)</th> <th data-bbox="846 1289 1211 1353">3MDG costs per the Approved Transition Plan</th> </tr> </thead> <tbody> <tr> <td data-bbox="353 1353 846 1378">July to September 2012 FTA staff</td> <td data-bbox="846 1353 1211 1378">106,082.22</td> </tr> </tbody> </table>	Period (journal reference)	3MDG costs per the Approved Transition Plan	July to September 2012 FTA staff	106,082.22	<p>The UNOPS Myanmar Operations Centre (MMOC) should ensure year end journals are posted prior to the issuing of the project financial statement.</p>	<p>By the Transition Plan the position of the Technical Support Specialist in question indeed was foreseen as a split charge between 3DF and 3MDG in 2012. However, the actual workload of the position ended up to be 100% 3DF closure preparation, hence in view of the FMO this is an eligible charge to 3DF. These cost will be justified to the 3DF Fund Board.</p>	<p>Responsible Manager:</p> <p>Engagement Closure Manager</p> <p>Due Date:</p> <p>31 December 2013</p> <p>Priority:</p> <p>Medium</p> <p>Status:</p> <p>Open</p>
Period (journal reference)	3MDG costs per the Approved Transition Plan							
July to September 2012 FTA staff	106,082.22							

(AEM13MM014)	
July to December 2012 ICA staff (AEM13MM015)	4,687.20
July to December 2012 FTA staff (AEM13MM016)	-43,842.40
July to December 2012 ICA staff (AEM13MM017)	-30,712.09
Total	36,214.93

Subsequently, UNOPS adjusted their draft financial statements for this journal, however, we observed that \$ 28,511.49, part of the \$30,712.09 journal related to a portion of the costs of the Technical Support Specialist, Communications Officer and Head of Programme positions which involved a departure from the Transition Plan which was approved by the Fund Board.

Impact

The Financial Report for the period 1 January to 31 December 2012 contains overstated Human Resource costs, amounting to \$ 28,511.49.

Cause

Guidance: inadequate supervision by supervisors.
Inadequate guidance or supervision at the OC level.

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority
Functional Area: Finance				
3	<p>Title</p> <p>Liability in relation to return of unspent IP funds</p> <p>Comparison Criteria</p> <p>Three Diseases Fund Operational Guidelines for the Implementing Partners and the Fund Manager - Section 6. Grants</p> <p>Facts/Observation</p> <p>3DF has yet to request reimbursement of unspent funds from three IPs. Out of six UN partner projects, two projects (WHO – HIV and WHO – MARC) have not yet submitted the financial report, and therefore no final payment / request for reimbursement has been released in this regard.</p> <p>Impact</p> <p>The Financial Statement may be overstated by the amount of any unspent IP funds.</p> <p>Cause</p> <p>Other: Late reporting by IPs.</p>	<p>The UNOPS Myanmar Operations Centre (MMOC) should reflect in the financial statement any unspent IP funds that have not yet been returned.</p>	<p>The 3DF Fund Board is the funding authority and takes funding decisions which UNOPS as FMO then implements and monitors. The fiduciary responsibility lies with the Fund Board which is reflected in the low pass-through administrative fee that UNOPS charges on IP disbursements. The relevant UNOPS policy in this regard stipulates accordingly that as there is no liability to the organisation on the grants, grant payments are fully expensed at time of disbursement.</p>	<p>Responsible Manager:</p> <p>OC Director</p> <p>Due Date:</p> <p>31 December 2013</p> <p>Priority:</p> <p>Medium</p> <p>Status:</p> <p>Open</p>

#	Observation	Recommendation	Management comments and action plan	Responsible Manager / Due Date / Priority
Functional Area: General administration				
4	<p>Title</p> <p>Overstated assets</p> <p>Amount</p> <p>\$2,088.12</p> <p>Comparison Criteria</p> <p>Three Diseases Fund Operational Guidelines for the Implementing Partners and the Fund Manager - Section 9.b. Office accommodation and equipment</p> <p>Facts/Observation</p> <p>The Operational Guidelines states that “An inventory of non-expendable items – items valued at US\$500 or more and other attractive items (i.e. that have resale value) – must be maintained by the Fund Manager”. The audit team identified that the item “Internet Wireless Base Station Unit - Cost Sharing with UNHCR”, value \$2,088.12 was struck out on the asset register, but was still included in the total.</p> <p>Impact</p> <p>The inventory of non-expendable property is overstated by \$2,088.12.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p>	<p>When assets are removed/struck off the inventory of non-expendable property, the value should also be removed from the total.</p>	<p>Accepted, this has been corrected on the relevant asset register following the observation raised by the audit and before finalisation of the audit report. No further action to be taken.</p>	<p>Responsible Manager:</p> <p>N/A</p> <p>Due Date:</p> <p>N/A</p> <p>Priority:</p> <p>Medium</p> <p>Status:</p> <p>Closed</p>

Annex I - Definitions

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 1 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 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.

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. <i>Note: Low priority recommendations, if any, are dealt with by the audit firm directly with UNOPS management either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the report.</i>

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.

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)
- Information and communications technology