



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

20 August 2018

| | |
|---------------------------------|--|
| PROJECT NAME: | GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA (GFATM) PRINCIPAL RECIPIENT - MYANMAR - PRINCIPAL RECIPIENT - UNOPS |
| PROJECT NUMBER: | 77260 |
| COUNTRY: | MYANMAR |
| AUDITOR: | MOORE STEPHENS LLP |
| PERIOD SUBJECT TO AUDIT: | 1 JANUARY TO 31 DECEMBER 2017 |

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Acronyms and abbreviations

| | |
|-------|---|
| GF | Global Fund |
| GFATM | The Global Fund to Fight Aids, Tuberculosis and Malaria |
| IAASB | International Auditing and Assurance Standards Board |
| IAIG | Internal Audit and Investigations Group |
| IPSAS | International Public Sector Accounting Standards |
| LFA | Local Fund Agent |
| M&E | Monitoring and Evaluation |
| OC | Operations Centre |
| PR | Principal Recipient |
| PUDR | Progress Update Disbursement Request |
| RO | Regional Office |
| SR | Sub-recipient |
| TB | Tuberculosis |
| 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 to Fight AIDS, Tuberculosis and Malaria (GFATM) Principal Recipient – Myanmar - Principal Recipient – UNOPS’ (oneUNOPS project ID 77260), (“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\$ 7,012,549 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 to Fight AIDS, Tuberculosis and Malaria (GFATM) Principal Recipient – Myanmar - Principal Recipient – UNOPS | | 1 January – 31 December 2017 | 77260 |
| Financial statement | | Statement of non-expendable property | |
| Amount US\$ | Opinion | Amount US\$ | Opinion |
| 7,012,549 | Unmodified | 189,742 | Unmodified |

Table 2: Internal control rating summary for project

| Rating summary by functional area | | |
|---|--|--|
| Functional area | Rating | |
| Programme management | Partially satisfactory (some improvement needed) | |
| 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 reporting and submission of Progress Update and Disbursement Requests | Medium | - |
| 2 | Programme management | Discrepancies in performance reporting in Progress Update and Disbursement Requests | 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

20 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. The programme implementation period ended on 30 June 2018.

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 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 style="text-align: center;">MYN-H-UNOPS</td> <td style="text-align: center;">1 January to 30 June 2017</td> <td style="text-align: center;">14 August 2017</td> <td style="text-align: center;">11 October 2017</td> <td style="text-align: center;">58</td> </tr> </tbody> </table> | Contract reference | Period | PUDR due date | Date delivered (signed version) | No. of days late | MYN-H-UNOPS | 1 January to 30 June 2017 | 14 August 2017 | 11 October 2017 | 58 | <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.</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 | | | | | | | | | | |
| MYN-H-UNOPS | 1 January to 30 June 2017 | 14 August 2017 | 11 October 2017 | 58 | | | | | | | | | | |

| | | | | | | | |
|--|----------------------------|----------------|-----------------|----|--|--|--|
| MYN-H-UNOPS | 1 July to 31 December 2017 | 1 March 2018 | 11 April 2018 | 41 | | | |
| MYN-T-UNOPS | 1 January to 30 June 2017 | 14 August 2017 | 11 October 2017 | 58 | | | |
| MYN-T-UNOPS | 1 July to 31 December 2017 | 1 March 2018 | 11 April 2018 | 41 | | | |
| MYN-M-UNOPS | 1 January to 30 June 2017 | 14 August 2017 | 11 October 2017 | 58 | | | |
| MYN-M-UNOPS | 1 July to 31 December 2017 | 1 March 2018 | 11 April 2018 | 41 | | | |
| <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: Project management | | | | |
| 2 | <p>Title</p> <p>Discrepancies in performance reporting in Progress Update and Disbursement Requests</p> <p>Comparison criteria</p> <p>Annex A, Section D of the Grant Agreement states that:</p> <p>“The Performance Framework attached to this Annex A sets forth the main objectives of the Program key indicators, intended results, targets and reporting periods of the Program”.</p> <p>The Global Fund Operational Policy Manual also states that the following should be included in the PUDR:</p> <p>“- Annual progress against impact, outcome and coverage indicators and/or work plan tracking measures</p> <p>- Disaggregated results on relevant indicators”.</p> <p>Facts / observation</p> <p>As illustrated below, a number of discrepancies were noted with regards reporting of performance in the PUDRs.</p> | <p>Management should ensure that all elements of the PUDR are subject to two levels of final review before being sent to the donor, in order to detect and correct errors and to improve the explanation offered in the narrative sections of the report.</p> | <p>The Program Director acknowledges and agrees with the observations and recommendations and will put in place an action plan for their implementation.</p> <p><u>MDR TB-4: Percentage of cases with RR-TB and/or MDR-TB started on treatment for MDR-TB who were lost to follow up during the first six months of treatment</u></p> <p>The M&E Unit/PR will continue its efforts to eliminate errors in typing and calculation by ensuring multiple levels of the management reviews in place prior to the final delivery of the reports to the LFA.</p> <p><u>CM-4: Proportion of health facilities without stock-outs of key commodities during the reporting period</u></p> <p>The warehouses with missing data were excluded from the denominator in the WHO’s calculation of the result in the 2017 survey. The exclusion</p> | <p>Responsible manager:</p> <p>Programme Director / Programme M&E Specialist</p> <p>Due date:</p> <p>31 December 2018</p> <p>Priority:</p> <p>Medium</p> |

| <p><u>TB</u></p> <p><u>MDR TB-4: Percentage of cases with RR-TB and/or MDR-TB started on treatment for MDR-TB who were lost to follow up during the first six months of treatment</u></p> <p>The achievement ratio for this negative indicator is incorrectly calculated. The achievement ratio calculated in the PUDR is 60%, which is incorrect due to a formula error in the Global Fund template. The target percentage is 3% and the achieved percentage is 1.81%. UNOPS noted in their comments that the 60% calculation is incorrect and stated that the correct ratio is 166%, calculating it as 3% divided by 1.81% (target over achieved result). The correct calculation should divide achieved result over target, in this case calculated as 140% (100%+(3-1.81)/3%).</p> <p>The indicator was presented as follows in the PUDR:</p> <table border="1" data-bbox="277 794 1079 1026"> <thead> <tr> <th>Indicator</th> <th>Target numerator</th> <th>Target denominator</th> <th>Target %</th> <th>Result numerator</th> <th>Result denominator</th> <th>Result %</th> <th>Achievement ratio</th> <th>Ratio per narrative</th> <th>Correct ratio</th> </tr> </thead> <tbody> <tr> <td>MDR TB-4:</td> <td>96</td> <td>3,200</td> <td>3%</td> <td>49</td> <td>2,709</td> <td>1.81%</td> <td>60%</td> <td>166%</td> <td>140%</td> </tr> </tbody> </table> <p>Comments: Reasons for programmatic deviation from intended target and deviations from the related workplan activities</p> <p>Among 2,709 patients who started treatment in the 12 months period from April 2016 to March 2017, 49 patients were reported to be lost to follow up during the first 6 months of treatment. This represents a loss-to-follow-up rate of 1.81%, which is significantly lower than the 3% target set for this reporting period. The ratio shown in "Achievement ratio" column should be 166 % as opposed to 60%.</p> | Indicator | Target numerator | Target denominator | Target % | Result numerator | Result denominator | Result % | Achievement ratio | Ratio per narrative | Correct ratio | MDR TB-4: | 96 | 3,200 | 3% | 49 | 2,709 | 1.81% | 60% | 166% | 140% | | <p>was also applied by WHO to the 2016 survey results, based on which the PR's PUDR was accepted by the LFA.</p> <p><u>CM-6(M): Percentage of malaria foci fully investigated and classified</u></p> <p>The LFA team was familiar with the issues pertaining to the ambitious numerical target and the National Programme's delay in the finalization of the guidelines and roll-out of the training, through the acceptance of the PU15DR16 and discussions with the Global Fund OIG participated by the LFA team. It was deemed redundant to discuss this issue in this PU.</p> <p><u>TB – Grant Management</u></p> <p>This section of the Grant Management is pre-populated by the GF. The FMO PR will apply more due diligence in reviewing the content of the PUDR prior to submission to the GF.</p> | |
|--|------------------|--------------------|--------------------|------------------|--------------------|--------------------|-------------------|---------------------|---------------------|---------------|-----------|----|-------|----|----|-------|-------|-----|------|------|--|--|--|
| Indicator | Target numerator | Target denominator | Target % | Result numerator | Result denominator | Result % | Achievement ratio | Ratio per narrative | Correct ratio | | | | | | | | | | | | | | |
| MDR TB-4: | 96 | 3,200 | 3% | 49 | 2,709 | 1.81% | 60% | 166% | 140% | | | | | | | | | | | | | | |

| | | | |
|--|--|--|--|
| <p><u>Malaria</u></p> <p><u>CM-4: Proportion of health facilities without stock-outs of key commodities during the reporting period</u></p> <p>There is a lack of transparency in the calculation of this indicator. PUDR reports 170 out of 226 warehouses having no stock outs. However, according to the underlying data, 11 additional warehouses had no data available and therefore were excluded from this calculation. Whilst it appears reasonable that these 11 warehouses are excluded from the indicator calculation, this exclusion should be explained in the narrative column to improve the transparency of this indicator.</p> <p><u>CM-6(M): Percentage of malaria foci fully investigated and classified</u></p> <p>This indicator has a target of 120 / 240 set at the beginning of the year. The actual achievement reported was 19 / 19 due to a changing understanding of guidelines in the year. There is no explanation provided in the narrative column as to why the achieved numbers are so different to the target.</p> <p><u>TB – Grant Management</u></p> <p>In the July – December 2017 TB PUDR, a discrepancy was noted relating to the Grant Management Section A ‘A. PR and LFA Comments on the Fulfilment of Grant Requirements’. A high number of grant requirements were reported as “In Progress” (16) rather than “Met”, but 13 out of 16 have narrative stating “The PR complies”. Five further requirements were reported as “Not started” despite relating to new SRs, of which there were none. These ratings have changed since the January – June 2017 PUDR in which all but one grant requirement were considered met. The other projects have between one and three requirements not met so 16 is an anomaly and appears to be an error.</p> | | | |
|--|--|--|--|

| | | | | |
|--|--|--|--|--|
| | <p>Impact</p> <p>Insufficient detail and errors when reporting against performance measures in the PUDR reduce the transparency of the report and therefore reduce the potential for oversight and scrutiny by the donor and other users.</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. For example, the certified financial statement states 'We enclose the Annual Financial Statement for project 77260 - GFATM PR-Myanmar-PR-UNOPS, which commenced in year 2011 and indicates the incurred expenditure as at 31/12/2017'.</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</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.</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>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 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="264 576 689 727"> <thead> <tr> <th>Project/ GL account</th> <th>77260 GF PR</th> </tr> </thead> <tbody> <tr> <td>58010</td> <td>917</td> </tr> <tr> <td>78020</td> <td>3,865</td> </tr> <tr> <td>Total (gain)/loss</td> <td>4,782</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 | 77260 GF PR | 58010 | 917 | 78020 | 3,865 | Total (gain)/loss | 4,782 | | | |
|---|------------------------|----------------|-------|-----|-------|-------|--------------------------|--------------|--|--|--|
| Project/ GL account | 77260 GF PR | | | | | | | | | | |
| 58010 | 917 | | | | | | | | | | |
| 78020 | 3,865 | | | | | | | | | | |
| Total (gain)/loss | 4,782 | | | | | | | | | | |

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.