UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MYANMAR

Report No. 2272
Issue Date: 3 February 2021

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Report on the Audit of UNDP Myanmar
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Myanmar (the Office) from 23 November to 15 December 2020. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) Governance
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed five performance audit questions to guide the review of the following areas:

(a) Development Activities
  (i) Was programme monitoring undertaken effectively?

(b) Procurement
  (i) Were procurement transactions being completed in a timely manner?
  (ii) Was the Office adequately leveraging economies of scale in its procurement processes?

(c) Financial Management
  (i) Were payments to vendors processed in a timely manner?

(d) General Administration
  (i) Were travel services (airline tickets) being procured at best rates?

The audit covered the activities of the Office from 1 January 2019 to 31 October 2020. The Office recorded programme and management expenses of approximately $54 million. The last audit of the Office was conducted by OAI in 2016.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities.

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe and petty cash contents were not verified.
(f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **satisfactory/some improvement needed**, which means "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." This rating was mainly due to weaknesses in the design of Rakhine Area Based Programme, weaknesses in project management, and direct project costs not being recovered in accordance with policy.

Key recommendations: Total = **3**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP."

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3	Medium

Management comments and action plan

The Resident Representative accepted all three recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Yangon, Myanmar (the Country) and its Country Programme covered the period 2018–2022 with the following development priorities:

a) increasing access to peace and justice, institutional strengthening and combating corruption;
b) addressing climate change and building disaster resilience;
c) reducing poverty and inequalities, empowering people, increasing women's employment and financial inclusion; and
d) aligning national needs and priorities with improved statistics.

During the period from January 2019 to October 2020, the Office spent $50.6 million on development activities, the same as the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan–Dec 2019 $million	Expenditure Jan–Oct 2020 $million
Support to Effective and Responsive Institutions	6.0	2.8
Township Democratic Local Governance Project	4.0	4.0
Accountability and rule of Law	3.3	1.67
Promoting Economic Empowerment and Social Cohesion	2.9	1.1
Rakhine PMU Support	1.6	1.0
Total	**17.8**	**11.6**

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
Japan	13.6
Great Britain	6.4
Global Environment Facility (GEF)	2.0
Australia	1.9
Total	**23.9**

Other critical information

The COVID-19 global pandemic affected the Country, resulting in a period of lockdown and restrictions on movement between March and November 2020. As a result, various government institutions and national implementing partners were unable to operate during this period. Only essential staff were permitted to work in the Office. The Office had implemented its business continuity plan during this period.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. The governance structure and processes, including engagement with staff indicated that adequate controls were established and working effectively.

(b) Operations – Procurement. A review of procurement functions, including samples of procurement transactions and management of individual contractors indicated that adequate controls were in place.

(c) Operations – Human resources. The review of human resources included recruitment and separations and it was noted that adequate controls were established and working effectively.

(d) Operations – Administrative services. The audit disclosed that adequate controls were in place in administrative services reviewed, such as asset management, vehicle management and travel management. The audit team verified samples of assets by viewing photo images of these assets during the audit review.

(e) Operations – Information and communication technology. The Office's business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period. No reportable audit issues were noted.

Satisfactory performance was observed in relation to the following performance audit questions:

(a) Procurement

(i) Were procurement transactions being completed in a timely manner?

The audit team noted that the procurement transactions were processed in a timely manner and were completed within 82 days. This was an acceptable timeframe when compared with two offices of similar size.

(ii) Was the Office adequately leveraging on economies of scale in its procurement process?

The Office had utilized the corporate procurement planning tool sufficiently (PROMPT). At the time of the audit, the Office had entered into 79 local Long-Term Agreements with vendors, supporting a reduction in the work and time needed to complete the procurement process.

(b) Financial management

(i) Were payments to vendors processed in a timely manner?

The audit team reviewed whether payments were made in a timely manner by assessing whether payments were completed within 30 days of receipt of invoices. There were 546 vouchers amounting to $2.2 million out of a total 13,423 vouchers amounting $58 million, where payments were made 30 days after the invoice date. These payments to vendors were made ranging from 30 days to 316 days after the invoice date. The audit team reviewed a sample of 60 out of the 546 cases (sample skewed towards payments made more than 100 days from invoice date), and noted that in 30 cases (50 percent) amounting to $30,000, the delays in payments were attributed to a longer amount of time taken by the Office to process these payments as the invoices were received late. Due to the low materiality of the cases, the issue has been shared with the Office as a low risk.

(c) General administration

(i) Were travel services (airline tickets) being procured at best rates?

The audit team reviewed 10 business class travels (totalling $47,000) out of 12 (totalling $55,000). The audit team noted that the Office had procured airline tickets at best rates due to performing periodic price comparisons with other vendors in the market.

(d) Development Activities

(i) Was programme monitoring undertaken effectively?

The audit team identified issues relating to the monitoring of projects as highlighted within issue 2.

Based the weaknesses identified during the audit, OAI made three recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

(a) Strengthen the design and management of the Rakhine Area Based Programme (Recommendation 1).
(b) implement Direct Project Costing (DPC) methodology (Recommendation 3).
(c) Enhance project management practices (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Project Administration

Issue 1 Programme design weaknesses in the Rakhine Area Based Programme

A development project is a time-bound instrument designed to deliver outputs that contribute to outcome-level development change reflected in the programme document. The programme document should include a consolidated results framework, annual work plan and a monitoring and evaluation plan.

The Rakhine Area Based Programme (RABP) was initiated in 2018 and comprised two separate projects: (a) a multi-year Multi-Partner Trust Fund joint programme; and (b) a Japan funded joint programme. The Office was also implementing five flagship[1] projects, that included activities in the Rakhine area.

A review of the RABP identified the following weaknesses:

a) Absence of a consolidated strategy document: The RABP comprised components from the existing flagship projects, and two separate joint programme documents requested by the donors. However, the request by donors for separate project documents did not preclude the need for the development of a consolidated strategy document. In the absence of a comprehensive strategy document, it was unclear how the different components fit into the overall objective of the programme, including identification of RABP-specific expenditures at any given time. Further, a

[1] The flagship projects are integrated to provide institutional and policy support and to ensure the achievement of the Country Programme Document outputs. The integrated approach enables the Office to work horizontally and vertically, across states and regions and at country level, informing policy through bottom-up approaches.

baseline survey of the Rakhine state had not been undertaken to support the appropriate interventions to be undertaken.

b) Absence of a consolidated results and resources framework: Each component of the programme had its own results framework, with different outcomes, outputs, indicators, and baselines. One of the two projects had 26 indicators, however out of which 10 baselines and 7 targets had yet to be determined.

c) Absence of a consolidated annual work plan: Without an integrated annual work plan, it is not possible to determine the overall results chain and total budget. The Office indicated it had prepared six individual monthly donor reports that included work plans, budgets, and delivery results.

d) A monitoring and evaluation plan was developed in March 2019 for one of the two projects; however, it was in draft form at the time of the audit. The other project did not have a monitoring and evaluation plan.

e) Absence of a consolidated RABP progress/annual report: Separate reports were developed for each of the components based on donor requirements. The Office did not provide an overall, consolidated progress/annual report that outlined combined results based on the programme.

The RABP was to be evaluated in 2020; however, this was delayed due to the COVID-19 pandemic. At the time of audit, the Country Programme Document mid-term evaluation was underway, which was expected to inform the RABP mid-term evaluation.

Without a comprehensive strategy, the Office risks following a fragmented approach due to politically sensitive intervention, which may undermine the achievement of the outcome-level development change.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen the design and management of the RABP by: (a) developing a comprehensive strategy for RABP, including a consolidated results and resources framework, annual work plan, monitoring and evaluation plan; and (b) completing a review of the RABP to assess and identify key areas for strengthening the programme.	
Management action plan: The Office will implement these recommendations, using the RABP mid-term review to prepare the next phase of RABP. The review will assess programme progress, capacities, and structures with the view to strengthening the programme. **Estimated completion date:** June 2021	

Issue 2 <u>Weaknesses in the management of projects</u>

The 'UNDP Programme and Operations Policies and Procedures' outline project quality standards, including: (a) programme and project design; (b) project monitoring and assurance; and (c) accountability.

A project initiation plan can be prepared when resources are required to help finalize project design, initiate the start-up of pilot activities, or respond immediately to a crisis. The duration of the initiation plan may not exceed 18 months.

The audit team reviewed 8 out of 26 projects (of which 5 were flagship projects), representing 54 percent ($16.5 million) and 50 percent ($10 million) of total programme delivery for 2019 and 2020, respectively.

The following weaknesses were noted:

- One project with a budget totalling $5.5 million was executed as a project initiation plan for the period from April 2019 to September 2020 and was still ongoing at the time of the audit. The project initiation plan was operating as a fully-fledged project, contrary to UNDP policy. The project initiation plan was established to continue the activities of a previous initiation plan. The Office confirmed the practice had been discontinued, and therefore, no corresponding recommendation is being made.
- While risk log updates were included in the project progress reports, for 3 out of the 8 projects reviewed, risk logs were not updated in Atlas (enterprise resource planning system of UNDP) during the audit period.
- The 2019 Harmonized Approach to Cash Transfers (HACT) assurance plan included 13 programme monitoring field visits; however, the Office could only provide support for three field visits.
- Outcome-level monitoring was not evident. The standard operating procedures did not include a provision for monitoring though field visits at the programme unit level.

Weaknesses in programme and project management practices may result in the Office not achieving the desired results.

Priority	Medium (Important)
Recommendation 2: The Office should enhance its project management practices by: (a) updating Atlas risk logs regularly; (b) completing HACT assurance monitoring and outcome monitoring in accordance with the assurance plan and corresponding corporate guidelines; and (c) include provisions for field visits in /standard operating procedures to ensure assurance level monitoring is completed in accordance with those planned and in line with corporate guidelines.	
Management action plan: The Office has initiated various actions to implement the recommendations such as updating project risk logs, functional review and updating of business processes. **Estimated completion date:** June 2021	

B. Operations

1. Finance

Issue 3 Recovery of direct project costs (DPC) not in accordance with policy

The 'UNDP Programme and Operations Policies and Procedures' state that direct project costs (DPC) are levied for costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes). These costs are included in the project budget and charged directly to the project budget for the development activity and/or service. The DPC guidelines indicate that services need to be disclosed transparently, agreed to by all concerned parties, and included in the project document and annual work plan.

The audit team noted that the Office recovered DPC amounting to $3.1 million in 2019 and $2.9 million in 2018. As at November 2020, the Office had recovered DPC amounting to $2.5 million.

The Office had been recovering DPC through a fixed percentage of total project expenditure. During the audit period, the Office recovered 13.5 percent of project expenditures from projects funded by donors and 31 percent of TRAC[2] funded projects as DPC. According to the Office, the percentage was determined following a workload study conducted in early 2018 and agreed with donors when signing new contribution agreements. However, the 2018 workload study did not support use of fixed percentages of project expenditures to recover these costs.

If DPC is not implemented in accordance with relevant policies, the amount recovered may not be accurate and representative of the actual time/effort spent on projects and other programming activities This may lead to under/overcharging of DPC to projects.

Priority	Medium (Important)
Recommendation 3: The Office should implement DPC methodology in line with corporate policy, which includes: (a) completing a new workload study that reflects services rendered by personnel to projects that would enable accurate cost recovery; and (b) regularly reassessing the workload study to ensure cost recovery rates remain appropriate.	
Management action plan: The Office will conduct a new workload study for 2021 that reflects services rendered by personnel to projects that would enable accurate DPC recovery. Further standard operating policies would be developed to facilitate establishment of a more robust DPC process. **Estimated completion date:** June 2021	

2 Target for Resource Assignment from the Core, funding from the core budget, arising from voluntary contributions from member states

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully satisfactory** — 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.
- **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** — 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/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — 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.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.