UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP ISLAMIC REPUBLIC OF IRAN

GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA

Report No. 1195

Issue Date: 19 December 2013

Table of Contents

Report on the audit of UNDP Islamic Republic of Iran
Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary

From 11 to 26 August 2013, the Office of Audit and Investigations (OAI) conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), Project Nos. 73329 [HIV], 80152 [Malaria], and 77633 [TB]) and managed by the UNDP Country Office in the Islamic Republic of Iran (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.[1] The audit covered all Global Fund-related activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $12.9 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office's management of Global Fund grants as **partially satisfactory**, which means "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." The main reasons for the rating were due to weaknesses in programme management, Sub-recipient management, and procurement of other goods and services. Ratings per audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				■
1.1 Organizational structure	Satisfactory			
1.2 Staffing	Satisfactory			
1.3 Capacity development and exit strategy	Satisfactory			
2. Programme management			■	
2.1 Project approval and implementation	Partially Satisfactory			
2.2 Monitoring and evaluation	Partially Satisfactory			
2.3 Grant closure	Not Assessed			
3. Sub-recipient management			■	

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[1] The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

3.1	Selection, assessment and contracting	Not Applicable				
3.2	Funding	Partially Satisfactory				
3.3	Reporting	Satisfactory				
3.4	Oversight and monitoring	Satisfactory				
4.	**Procurement and supply management**					
4.1	Quantification and forecasting	Satisfactory				
4.2	Procurement of health products	Satisfactory				
4.3	Quality assurance of health products	Satisfactory				
4.4	Procurement of other goods and services	Partially Satisfactory				
4.5	Supply management (inventory, warehousing and distribution)	Not Assessed				
4.6	Asset management	Satisfactory				
4.7	Individual contractors	Satisfactory				
5.	**Financial management**					
5.1	Revenue and accounts receivable	Satisfactory				
5.2	Expenditures	Satisfactory				
5.3	Reporting to the Global Fund	Satisfactory				

Key issues and recommendations

The audit raised 4 issues and resulted in 4 recommendations, of which 3 (75 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

The high priority recommendations are as follows:

Project approval and implementation (Issue 1)	<u>Inadequate oversight of service contract holders</u>. The Office hired 32 service contract holders who were assigned to work at the offices of Sub-recipients and/or Sub-sub-recipients, and were reporting directly to these recipients instead of the Office. While the Office paid for their renumeration, they had limited control over the management and performance of these service contract holders. OAI recommends that the Office seek advice from the Office of Human Resources on the appropriate type of contract to use when service contract holders do not report directly to the UNDP Office. Considerations should include a direct agreement between the service contract holders and the Sub-recipient or Sub-sub-recipient.
Funding (Issue 3)	<u>Delays in settlement of claims and processing of payments to Implementing Partners</u>. OAI noted that the time taken by the Sub-recipient and the Office to review NGO claims and payments varied between 14 to 88 days. The time taken by the Sub-sub-recipient to process the claims was not available. The Office explained that the delays were mainly due to implementation of the new payment modality and the exchanges between the Office and the Sub-recipients throughout the reporting process to ensure the completeness of the supporting documents. OAI also noted other reasons for the delay, such as changes in claim submissions, and not having payment processes and procedures in place for the review of claims. OAI recommends that the Office establish procedures for the submission of NGO claims to ensure processing of the payments of the claims efficiently and promptly. This should include: (a) clarifying the supporting

documents required for claims processing and the timelines for review by the Sub-recipient and the Sub-sub-recipient; (b) exploring the feasibility of providing advances using a payment scheme to offset delays; and (c) establishing procedures so that the Sub-sub-recipient and Sub-recipient can promptly follow up and inform the NGOs if their claims are not complete.

Procurement of other goods and services (Issue 4)	<u>Wasteful expenditure due to delays in taking action</u>. The customs clearance of 27 imported vehicles valued at $700,000 took more than one year during which alternative transportation arrangements had to be made resulting in wasteful expenditure. Further, the Office procured 13 centrifuges (valued at $100,000) that were delivered in March 2011. One year later, in May 2012, the Office became aware of defects in the centrifuges and subsequently informed the vendor. The centrifuges were returned to the vendor for repair in July 2013, more than two years after delivery, and were yet to be received back. OAI recommends that the Office ensure that the items procured are put to use promptly. This should include: (a) learning from the lessons in the past to avoid similar delays in getting government clearance in the future; (b) ensuring prompt inspection of all delivered products; and (c) following up with the centrifuge vendor for the return of the equipment within the deadline.

The implementation status of previous Global Fund audit recommendations (Report No. 1080, 9 May 2013) was also validated. Of the 6 recommendations, 5 were fully implemented and 1 was in progress.

Management comments and action plan

The Resident Representative accepted all four recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 11 to 26 August 2013, OAI conducted an audit of three grants from the Global Fund (Project Nos. 73329 [HIV], 80152 [Malaria], and 77633 [TB]) and managed by the UNDP Islamic Republic of Iran as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.[2] The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI Global Fund audits to assess the effectiveness of risk management, and the adequacy and effectiveness of controls and the governance processes, in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, including the accuracy of financial reports submitted to the Global Fund; effectiveness and efficiency of operations; safeguarding of assets; and compliance with legislative mandates, regulations and rules, and policies and procedures, including grant agreements signed with the Global Fund. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas related to the Office's management of Global Fund grants: governance and strategic management, programme management, Sub-recipient management, procurement and supply management and financial management. The audit covered all relevant activities during the period from 1 January to 31 December 2012. Due to time constraints, the audit did not cover the Procurement and Supply Management site visits. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $12.9 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in October 2012.

The implementation status of previous Global Fund audit recommendations (Report No. 1080) was also validated. Of the 6 recommendations, 5 were fully implemented and 1 was in progress.

II.   Profile of Global Fund grants managed by UNDP Islamic Republic of Iran

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in the Islamic Republic of Iran (the Country). The details of all grants, including the start and end dates, the budget and actual expenditure and the Global Fund rating is shown in Table 1 below. OAI noted that the total Global Fund expenditure of $12.9 million for 2012 was approximately 82 percent of the total Office programme delivery of $15.8 million.

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[2] The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

Table 1: Details of the Global Fund Grants managed by the Office

Grant No.	Project ID	Description	Start date	End date	Grant Budget (in $'000)	Funds Received as of 31 Dec 2012 (in $'000)	Expenditu-res as of 31 Dec 2012 (in $ '000)	Implem-entation rate	Global Fund Rating as of 31 May 2013
IRN-809-G04-H	73329	R8 - HIV Phase 1	1-Apr-10	31-Mar-12	28,894	15,111	10,744	37%	B1
	84251	R8 - HIV Phase2	1-Apr-12	31-Mar-15					
IRN-708-G03-T	Old projects; 63122-63126 New project: 73573 Financially Closed	R7 - TB Phase 1	1-Oct-08	30-Sep-10	18,957	16,649	14,825	78%	A2
	77633	R7 - TB Phase 2	1-Jan-11	30-Mar-14					
IRN-708-G02-M	Old projects; operationally closed: 62947-62951 / New project: 73572	R7 - Malaria Phase 1	1-Oct-08	30-Sep-10	6,897	6,897	6,844	99%	A1
	77675	R7 - Malaria Phase 2	1-Jan-11	30-Sep-11					
IRN-M-UNDP	80152	R10-Consolidated - Malaria Phase 1	1-Oct-11	31-Mar-14	13,147	9,108	6,554	50%	B1
Total					**67,895**	**47,765**	**38,967**	**57%**	

Source: Programme Management Unit, -GF Iran

III.   Detailed assessment

1. Governance and strategic management	Satisfactory

The Office was operating in a complex environment, which constrained operations and programme delivery. The Country was under sanctions, which impacted the procurement of goods and services since they entail more rigorous vetting of vendors and obtaining regulatory approvals from the exporting countries.

According to the Office, TB has been a major health problem in the Country. WHO estimates that TB affects around 15,700 people, and 2,200 people succumb to this disease annually. The majority of the TB cases were concentrated in the seven poorest provinces. Since the implementation of the Global Fund grants, the Country has shown remarkable progress in managing the national TB control programme, and is now considered as one of the best within the region. Phase II of the TB grant, which was initially planned to finish in September 2013, was renegotiated to end in March 2014.

The Office informed OAI that the Country was host to the large number of immigrants from neighbouring countries and countries with the highest number of TB cases. Hence, an interruption in the implementation of the TB programme or a lack of alternative programme to fight TB could lead to a setback on the progress already made. The Office's management reported that the Global Fund was made aware of the issue. In addition, the Office was also facilitating preliminary discussions between national counterparts, WHO, and the Global Fund, to explore possibilities of developing a regional initiative between the Country and neighbouring countries to address the TB related issues.

1.1 Organizational structure	Satisfactory

The Office established the Programme Management Unit to provide support services for implementing Global Fund activities. OAI reviewed the organizational structure and noted that reporting lines and segregation of duties were consistent with the Internal Control Framework of the Office. No reportable issues were identified.

1.2 Staffing	Satisfactory

At the time of the audit, the Programme Management Unit had 18 approved posts (17 national staff with fixed-term appointments and one service contract). The post of Procurement Officer was vacant for four months and the recruitment was ongoing.

All Office staff had completed all of the mandatory training courses. Also, OAI reviewed the accuracy of the salaries and benefits charged to Global Fund projects. No reportable issues were identified.

1.3 Capacity development and exit strategy	Satisfactory

As mentioned earlier, the TB grant was scheduled to close at the end of March 2014. A transitional plan was developed in March 2013, and the Programme Management Unit was working with the Sub-recipient to ensure a smooth transition of activities to national counterparts, in order to accomplish the goals set out in the transition plan. No reportable issues were identified.

2. Programme management	Partially Satisfactory

The Grant Performance Reports issued by the Global Fund showed that the overall performance ratings for the Office were satisfactory (refer to Table 1). The rating of the TB Round 7 grant was at A2, Round 7 Malaria was A1, Round 8 HIV and the IRN malaria grants were at B1. However, OAI identified an issue which could have affected the successful implementation of the grants as discussed below.

2.1 Project approval and implementation	Partially Satisfactory

Issue 1   Inadequate oversight of service contract holders

The Programme and Operations Policies and Procedures state that payments to service contractors are based on services satisfactorily provided in accordance with their terms of reference, which must include the reporting structure and the measurable outputs of the work assignment. Further, their service contracts require that they report to the Deputy Resident Representative.

Since 2006, the Office had hired service contract holders and had them based at the offices of the Sub-recipient and Sub-sub-recipient, to perform functions such as monitoring and reviewing financial documents. At the time of the audit, there were 32 service contract holders. OAI noted that these service contract holders directly reported to the Sub-recipient or Sub-sub-recipient and not to the Programme Management Unit that was headed by the Deputy Resident Representative.

The Office informed OAI that the reporting arrangements of the service contract holders had been an ongoing discussion with the Sub-recipients. The Office's suggestion to establish a dual reporting mechanism was, however, not accepted. In the interim, the Office established a practice of informing the direct supervisors of the service contract holders' individual performance for consideration in the supervisors' overall assessments. In cases when the Office's views were not considered, a note to the file was placed in the personnel record of the concerned service contract holder to ensure that performance assessment was properly documented.

OAI noted that although the service contract holders were hired on a UNDP contract, and their renumeration was paid by the Office, the Office had limited control over the service contract holders' performance. Therefore, there was a risk that the Office was paying for services that were not being performed in accordance with the contract.

Priority	High (Critical)
Recommendation 1: The Office should seek advice from the Office of Human Resources on the appropriate type of contract to use when service contract holders do not report directly to the UNDP Office. Considerations should include a direct agreement between the service contract holders and the Sub-recipient or Sub-sub-recipients.	
Management comments and action plan: __√__ Agreed ____Disagreed The Office will resume negotiations with Sub-recipients and Sub-sub-recipients to look into the possibility of direct contracts between Sub-recipient/Sub-sub-recipient and service contract holders. They will also consult with Office of Human Resources.	

2.2 Monitoring and evaluation	Partially Satisfactory

Issue 2　　　　Weaknesses in monitoring visits

UNDP's Global Fund Operations Manual defines monitoring as "the tracking of the key elements of project performance, through adequate record keeping, regular reporting and surveillance systems, as well as undertaking health facility observation and client surveys." Further, the job description of Programme Managers requires them to undertake monitoring and evaluation of the Global Fund projects, to identify programmatic, operational and financial problems as well as the solutions to address them.

OAI noted the following weaknesses in the monitoring visits:

- The HIV grant was implemented through a number of NGOs as Sub-recipients that undertook activities including outreach, training and psychosocial support for people living with HIV. OAI selected three HIV field trip reports and noted that although the reports pointed out pertinent issues, the reports did not include accounting and financial aspects, such as the review and validation of expenses of the NGOs. The Office explained that since it did not provide advances to the Sub-recipient/Sub-sub-recipients, expense management was not included. OAI's view is that the benefit of including financial aspects in the reports is include providing the Office with a comprehensive understanding of the Implementing Partners' activities, as well as their strengths and weaknesses.

- Reports on subsequent trips to the same locations where weaknesses were noted did not make references to previous issues raised, and whether those issues were addressed or not. For example, OAI noted that a report dated 20 May 2012, indicated concerns with the following: (a) the quality of services provided to the beneficiaries; and (b) the inadequate stock of safety boxes to collect used needles. The subsequent trip report from the same location did not provide any information on whether the concerns raised in the previous report were addressed. In addition, follow-up activities (training workshop, sending formal letter to the Sub-recipients/Sub-sub-recipients, arranging meetings, repair of equipment) were undertaken although not recorded in the trip reports given the timeline and nature of the issues. OAI believes that issues raised in previous monitoring visits should be the first item on the agenda for the succeeding trips, so that the relevant partners can confirm whether the issues were addressed or remain outstanding.

Incomplete field trip reports would not contribute to the Office's and the Sub-recipient's understanding of the activities on the ground and may leave issues unaddressed, which could negatively affect the achievement of programme objectives.

Priority	Medium (Important)
Recommendation 2: The Office should further enhance its monitoring by: (a) incorporating an operational review of the concerned Sub-recipient activities as part of the field visit objective; and (b) ensuring that procedures are established for follow up on the risks or concerns noted during the field visits and subsequent field visits document if previous concerns have been addressed.	
Management comments and action plan:　　__√__ Agreed　　____ Disagreed	

2.3 Grant closure	Not Assessed

The issue relating to the operational and financial closure of projects was reported in the previous audit (Report No. 1080, Recommendation No. 3). As the report was issued on 9 May 2013 and the Office was taking steps to address the closure of the projects, this area was not assessed.

3. Sub-recipient management	Partially Satisfactory

OAI reviewed the completeness and timeliness of the settlement of claims for reimbursement submitted by NGOs. Based on a sample of a number of NGOs, OAI reviewed relevant documents to determine the completeness and timeliness of these reimbursements. OAI noted that the claims for reimbursement of expenses that were made by the NGOs were fully settled. OAI noted some delays in the general flow of funds to the NGOs, mainly caused by processing time. In one instance, OAI found the delay to be excessive and equivalent to about five months. However, the amount involved was not material, as it amounted to approximately $15,000 and represented only 1 percent of the total flow of funds. Furthermore, the Office had since revised the payment processes to NGOs, in an effort to streamline them.

3.1 Selection, assessment and contracting	Not Applicable

OAI reviewed the process for selection, assessment and contracting of Sub-recipients. No new Sub-recipients were contracted during the audited period.

3.2 Funding	Partially Satisfactory

The Sub-sub-recipients contracted NGOs to implement programmatic activities for the HIV grant. These activities included managing drop-in-centres, organizing training workshops and supporting outreach teams. As mentioned above, starting with Phase II, Round 8 of the HIV grant in April 2012, the payment modality was revised so that upon receipt of funds from the Office, the Sub-sub-recipient would make direct payments to NGOs. One issue that was noted is discussed below:

Issue 3   Delays in settlement of claims and processing of payments to Implementing Partners

The NGOs conduct the programme activities using their own funds and submit their claims to the Sub-sub-recipient for reimbursement. The Sub-sub-recipient then verifies the claims and submits them to the Sub-recipient, who after review forwards it to the Office for payment. Upon receipt of funds from the Office, the Sub-sub-recipient makes payment to NGOs.

OAI noted that the time taken by the Sub-recipient and the Office to review claims and payments varied between 14 to 88 days. The time taken by the Sub-sub-recipient to process the claims was not available. Of the four claims paid, only one was paid in 14 days and the remaining claims took excessively long (88 days, 56 days and 36 days). The NGOs interviewed opined that the delay was not reasonable. The Office explained that the delays were mainly due to implementation of the new payment modality and the exchanges between the Office and the Sub-recipients throughout the reporting process to ensure the completeness of the supporting documents.

OAI noted that the other reasons for the delay in Round 8 Phase II were as follows:
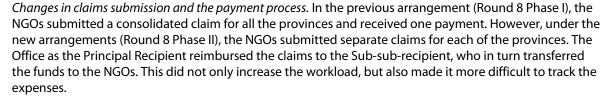
- *Changes in claims submission and the payment process.* In the previous arrangement (Round 8 Phase I), the NGOs submitted a consolidated claim for all the provinces and received one payment. However, under the new arrangements (Round 8 Phase II), the NGOs submitted separate claims for each of the provinces. The Office as the Principal Recipient reimbursed the claims to the Sub-sub-recipient, who in turn transferred the funds to the NGOs. This did not only increase the workload, but also made it more difficult to track the expenses.

- *Procedures not established for review of claims.* The timelines for the review and payment of claims by the Sub-sub-recipient, Sub-recipient and the Office had not been established. The documents required to support payments had also not been agreed upon. In one case, the full payment of the NGO was held up by the Office since April 2013, as the lease agreement was not submitted with the claim. If there were established guidelines in place clarifying which documents were required, then the missing lease agreement would have been detected in the early stages of the review process.

Failure to promptly process the payments to NGOs may impact on programme delivery and the quality of programmatic activities, and may negatively impact the reputation of UNDP.

Priority	High (Critical)
Recommendation 3: The Office should establish procedures for the submission of NGO claims to ensure processing of the payments of the claims efficiently and promptly. This should include: (a) clarifying the supporting documents required for claims processing and the timelines for review by the Sub-recipient and the Sub-sub-recipient; (b) exploring the feasibility of providing advances using a payment scheme to offset delays; and (c) establishing procedures so that the Sub-sub-recipient and Sub-recipient can promptly follow up and inform the NGOs if their claims are not complete.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office informed OAI that, in view of the changes in the payment methodology, some challenges were expected in the initial stages. However, the Office had taken capacity building initiatives for the partners. This included a one day session in September 2013 with the Sub-recipient and Sub-sub-recipient to review all the existing procedures and followed by three-day workshop with the focal points to discuss the challenges, procedures, and tools. The Office stated that they will strive to improve efficiency of the procedures by closely following up with the Sub-recipient and Sub-sub recipient.	

3.3 Reporting   Satisfactory

OAI reviewed the quarterly programmatic reports from the Sub-recipient for the completeness and timeliness of submissions to the Office. No exceptions were noted.

3.4 Oversight and monitoring   Satisfactory

An audit of the Sub-recipient was conducted in accordance with national implementation modality audit guidelines. OAI reviewed the audit reports issued in April 2013 and also interviewed the capacity of the audit firm that conducted the national implementation modality audit. No reportable issues were noted.

4.   Procurement and supply management   Satisfactory

The Procurement Team was comprised of four staff. At the time of the audit, the post of Head of Procurement Unit had been vacant for four months. The recruitment process for the post was ongoing and at the final stage.

During the period under review, the Office processed 196 purchase orders with a total value of $7 million, of which $4.4 million was for the procurement of health products. OAI reviewed a total sample of 30 purchase orders valued at $4.6 million (66 percent). No reportable issues were noted.

4.1 Quantification and forecasting   Satisfactory

OAI reviewed the adequacy of the planning process and noted that Office conducted quality assurance of the forecasting process and ensured that planned quantities ordered were sufficient to prevent stock-outs. No reportable issues were identified

4.2 Procurement of health products   Satisfactory

OAI reviewed 13 purchase orders (valued at $2.8 million) representing 64 percent of the procurement of health products (total value of $4.4million). The Office's procurement of health products was in line with UNDP policies and procedures, and approved Global Fund procurement and supply management plans. All health products sampled were purchased using the existing Long Term Agreements and through UNDP's Global Procurement Unit. No reportable issues were identified.

4.3 Quality assurance of health products   Satisfactory

OAI reviewed the quality assurance plan prepared with the support of the Procurement Support Office and noted that the Office conducted quality control tests of the health products procured. No reportable issues were identified.

4.4 Procurement of other goods and services   Partially Satisfactory

OAI reviewed 17 purchase orders (total value of $1.8 million) representing 69 percent of the procurement of other goods and services (total value of $2.6 million) during the audited period. OAI also reviewed 29 local and international travels of the 248 travels undertaken in 2012. The review included the sourcing of suppliers, procurement methods used, receipt and evaluation of offers, contract awards, and receipt of and payment for goods and services. Though most of the procurement was in compliance with the procedures, OAI noted two cases where items procured were not put to use promptly and resulted in wasteful expenditure, as discussed below:

Issue 4   <u>Wasteful expenditure due to delays in taking action</u>

▪   Delay in customs clearance of 27 vehicles

The Office purchased 27 motor vehicles for the malaria project at a total cost of $700,000 (Purchase Order No. 1643). The vehicles were delivered to Port Bandar Abas Customs on 6 July 2012. It was already agreed that the Sub-recipient would obtain the Customs clearance. However, the Customs clearance process took more than one year, and the vehicles were only cleared from the Customs warehouse in July 2013. The Office indicated that the delay was due to the Sub-recipient's failure to avail Custom duty fees on time and changes in tax regulations midway through the clearance process. The Office indicated that these factors were beyond their control. However, similar delays had occurred in the past and were included in OAI Report No. 729, and lessons learned should have prevented such recurrence. The delay led to additional costs, including: (a) the Implementing Partners were authorized to make alternative transport arrangements that cost $22,000; and (a) the reduction in value of the 27 vehicles left idle for one year in the Customs warehouse.

▪   Failure to inspect centrifuge equipment upon delivery

The Office procured 13 centrifuges for the TB project at a total cost of $100,000 (Purchase Order No. GP259595-2). The items were delivered in March 2011 and did not match the manufacturer's technical specifications in purchase order and were defective. The PMU was only informed of the defect in May 2012 and subsequently informed the vendor, when it was already more than one year from the date of the delivery. The main reason for the delay was that prompt inspection of equipment was not conducted upon delivery. In addition, the faulty equipment was stored at the warehouse for 10 months before it was distributed to the provinces where the defect was detected. This complicated the logistics of collecting and shipping them back to the vendor. The centrifuges were returned unused to the manufacturer for repair in July 2013, more than two years after delivery.

At the time of the audit, the 13 centrifuges were still with the vendor and had not been returned. The Office informed OAI that the users of the centrifuges adopted alternative temporary measures and so the project had not been significantly impacted. However, these temporary measures that included the use of old centrifuges, buying of smaller centrifuges and referring patients to the nearest city for culture tests, involved additional costs that could have been otherwise saved, and could have resulted in more efficient service delivery. Furthermore, the additional delay in receiving back the repaired or replacement centrifuges could further affect the completion of the TB project, which is scheduled to close in March 2014.

Failure to take prompt action can result in wasted expenditures and delayed delivery of project results.

Priority	High (Critical)
Recommendation 4: The Office should ensure that the items procured are inspected upon delivery and put to use promptly. This should include: (a) learning from the lessons in the past to avoid having similar delays in getting government clearance in the future; (b) ensuring prompt inspection of all delivered products; and (c) following up with the centrifuge vendor for the return of the equipment within the deadline.	

> **Management comments and action plan:** __√__ Agreed ____ Disagreed
>
> The Office informed OAI that it is actively following up with the vendor, and expects to receive the items in December 2013.

4.5 Supply management (inventory, warehousing and distribution)	Not Assessed

This audit area was not assessed due to time constraints and the relative low level of stock at the warehouse during the field work. The national implementation modality audit report issued in April 2013 with an unqualified opinion did not highlight any issue on the review of the inventory. This area will be reviewed during the next audit.

4.6 Asset management	Satisfactory

The Office had 9,649 assets with a total value of $10.8 million as at 31 December 2012. OAI reviewed the asset management process, including the annual asset inventory, asset custody and regular monitoring of the assets by the Office. No reportable issues were identified.

4.7 Individual contractors	Satisfactory

The Office had issued contracts with 10 individual contractors totalling $200,000 during the audited period. OAI reviewed the recruitment process by interviewing Office staff and examining contract documents of five individual contracts and noted that their selection process was competitive. The Office had implemented a 2011 OAI audit recommendation to limit the use of waiver of a competitive process when hiring on individual contracts and had obtained proper identification documents from all individual contractors before they were engaged.

No reportable issues were identified.

5. Financial management	Satisfactory

5.1 Revenue and accounts receivable	Satisfactory

Based on the review of grant agreements and previous audit reports, this area was assessed as low risk at the planning stage and therefore no further work was deemed necessary. No reportable issues were identified.

5.2 Expenditures	Satisfactory

For the period under review, the Office processed 2,015 payment vouchers totalling $11.3 million. OAI reviewed 35 vouchers totalling $4.1 million or 36 percent of the paid vouchers. This review covered the delegation of authority, the Sub-recipient's reported expenditures and the procurement payment voucher verification. The Office had implemented the OAI audit recommendation on the overstatement of the Combined Delivery Report.

No reportable issues were identified.

5.3 Reporting to the Global Fund	**Satisfactory**

This area was assessed as low risk based on the review of the Grant Performance Report, discussions with the Fund Portfolio Manager and the Local Fund Agent. The Progress Update and other reports were submitted in a timely manner and there were no noticeable delays of fund transfers to the Office.

ANNEX. Definitions of audit terms - Ratings and Priorities

A.   AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **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 entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **Unsatisfactory**   Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)**   Action is required to ensure that UNDP is not exposed to significant 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 not included in this report.