



CONSOLIDATED REPORT

OF THE AUDITS OF

UNDP COUNTRY OFFICES AS PRINCIPAL RECIPIENTS OF GRANTS FROM

THE GLOBAL FUND

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

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Consolidated Report of the Audits of UNDP Country Offices as Principal Recipients of Grants from the Global Fund

Executive Summary

Background

The UNDP Office of Audit and Investigations (OAI) analysed the audit issues noted in the 2017 OAI audits of the Global Fund grants managed by UNDP as Principal Recipient and reviewed the status of implementation of audit recommendations as of February 2018. OAI also identified the categories with recurring audit issues from the reports issued from 2014 to 2017.

In 2017, UNDP was the Principal Recipient in 18 countries and 3 regional programmes¹ and managed 34 Global Fund grants totalling \$1.24 billion.

Audit coverage

In 2017, 10 reports were issued pertaining to audits of Global Fund grants managed by UNDP as Principal Recipient. The 10 reports (4 in Africa, 2 in Europe and the Commonwealth of Independent States, 2 in Asia and the Pacific, 1 in the Arab States, and 1 in Latin America and the Caribbean) covered 29 Global Fund grants in 10 Country Offices.

Of the 10 reports, 5 were rated “satisfactory”, 3 were rated “partially satisfactory/some improvement needed”, 1 was rated “partially satisfactory/major improvement needed” and 1 was rated “unsatisfactory”.²

Eight of the 10 audits reported a total of 32 audit issues and made a total of 33 recommendations to address those issues. The remaining two audit reports did not raise any issues. The recurring or key issues noted in the eight audit reports were weaknesses in:

- (a) supply management (inventory, warehousing, distribution)
- (b) programme management (project implementation, monitoring and evaluation)
- (c) Sub-recipient management (funding and reporting)

There were 13 recommendations (39 percent) that were rated as high priority.

To ensure the successful implementation of Global Fund grants, OAI issued audit recommendations to the Country Offices. The critical recommendations included the following:

- Strengthen supply management by:
 - (a) updating the quality assurance plan in consultation with the Bureau for Policy and Programme Support Global Fund team and the government partner;
 - (b) finalizing and implementing a quality assurance plan that includes testing throughout the supply chain;
 - (c) establishing a system to track the movement of samples to ensure that testing is performed in a timely manner;
 - (d) visiting health centres on a regular basis to ensure good storage conditions; and

¹ The three regional programmes covered another 29 countries in Africa, Caribbean and Western Pacific.

² UNDP Chad Report No. 1732

- (e) recording all pharmaceutical movements on stock cards at all storage facility levels.
- Strengthen programme management by:
 - (a) improving the coordination with all stakeholders and facilitating an assessment of data collection in health care facilities;
 - (b) conducting monitoring and evaluation visits more regularly and according to plan;
 - (c) collating and sharing systemic issues with the government counterpart;
 - (d) updating the standard monitoring checklist in cooperation with the government counterpart;
 - (e) improving the coordination with the implementing partner to ensure the activities planned are accomplished on time;
 - (f) finalizing ongoing reprogramming and initiating measures to accelerate the implementation of project activities; and
 - (g) setting up an implementation plan to achieve grant targets.
- Strengthen Sub-recipient management by:
 - (a) finalizing the contracting of Sub-recipients and accelerating the implementation of activities;
 - (b) committing to use the standard Sub-recipient agreement template when contracting Sub-recipients in the future;
 - (c) ensuring close follow-up with each Sub-recipient for submission of quarterly reports and liquidation of advances within the stipulated timeframe;
 - (d) implementing a mechanism to track the resolution of challenges that are recorded in the quarterly reports and working with the Sub-recipients to ensure compliance in quarterly financial reporting; and
 - (e) issuing a management letter describing weaknesses identified and providing recommendations in relation to the Sub-recipient reports.

Implementation of audit recommendation

In close cooperation with the Bureau for Policy and Programme Support, UNDP Global Fund/Health Implementation Support Team, OAI continuously monitors and follows up on the progress achieved by each Country Office in implementing audit recommendations.

As of 20 February 2018, the rate of implementation of 2017 audit recommendations was 93 percent, as detailed in Section IV of this report.



Helge S. Osttveiten
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I. Profile of Global fund grants managed by UNDP as Principal Recipient

The Global Fund is a partnership organization and is designed to accelerate the end of AIDS, tuberculosis, and malaria as epidemics. As of December 2017, UNDP was the Principal Recipient of Global Fund grants in 18 countries and 3 regional programmes and managed 34 grants totalling \$1.24 billion. As Principal Recipients, UNDP Country Offices are required to implement the Global Fund grants according to the Framework Agreement, including the UNDP-Global Fund Grant Regulations signed between UNDP and the Global Fund.

Objectives and scope of the audits of Global Fund grants

Since 2009, OAI has been conducting dedicated audits of the Global Fund grants in severe and high-risk countries, including countries managed under the Additional Safeguard Policy,³ which are Chad, Djibouti, Guinea-Bissau, Iran, Mali, South Sudan, Sudan, and Zimbabwe. Global Fund grants in the Additional Safeguard Policy countries were normally audited annually; grants in other countries were audited in accordance with a risk-based audit cycle. In October 2016, a Framework Agreement was reached between UNDP and the Global Fund. In the new agreement, the annual audit requirement for countries falling under the Additional Safeguard Policy was removed, and it formalized the risk-based approach of all OAI audits for the Global Fund.

The 2017 audits were conducted directly by OAI. The audits aimed to assess the adequacy and effectiveness of governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement (qualification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and
- (e) financial management (revenue and accounts receivable, expenses, reporting to the Global Fund).

The scope of the audits of Global Fund grants included all activities related to the implementation of Global Fund grants by UNDP Country Offices.

A draft version of this consolidated report has been shared with the Bureau for Policy and Programme Support, Global Fund/Health Implementation Support Team, HIV, Health and Development Group and their comments have been considered in the final report.

II. Overview of the audits

The 10 Global Fund audit reports from 2017 covered 29 grants with total expenditure of \$176 million. Of the 10 reports, 5 were rated “satisfactory”, 3 were rated “partially satisfactory/some improvement needed”, 1 was rated “partially satisfactory/major improvement needed” and 1 was rated “unsatisfactory”.

³ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of risk management processes.

III. Analysis of the audit issues raised

The issues raised in the audit reports dealt with issues stemming from supply management, programme management, as well as Sub-recipient management. Below is a detailed analysis of the main issues raised.

A. Procurement and supply management

Issue 1 Inadequate quality assurance of pharmaceutical products

The Global Fund Quality Assurance Policy for Pharmaceutical Products stipulates that the Principal Recipient must ensure that product testing is done and that random samples of finished pharmaceutical products are obtained at different points in the supply chain, from initial receipt into the country to delivery to end users/patients.

OAI noted weaknesses in the quality assurance of pharmaceutical products in Angola, Chad, and Sudan, as follows:

- Delays in finalization of quality assurance plan (Angola).
- Quality control testing done only upon receipt at the central and regional warehouses, but no further periodic testing undertaken (Chad).
- Inadequate controls in ensuring that samples reach the laboratory and that proper testing is done in a timely manner (Sudan).

OAI recommended that the Country Offices improve the quality assurance of pharmaceutical products by:

- finalizing the quality assurance plan in consultation with the Bureau for Policy and Programme Support Global Fund team and the government partner (Angola);
- finalizing and implementing a quality assurance plan that includes testing throughout the supply chain (Chad); and
- establishing a system to track the movement of samples to ensure that testing is performed in a timely manner (Sudan).

Issue 2 Weaknesses in stock management system

The Principal Recipient and its Sub-recipients are required to comply with the WHO guidelines for the adequate storage and distribution practices of pharmaceutical products.

OAI noted weaknesses in the stock management system in Chad, Sao Tome and Principe, and Sudan as follows:

- Inadequate monitoring of temperature-sensitive pharmaceutical products:
 - no thermometer found in the central warehouse (Chad)
 - failed temperature displays (Sao Tome and Principe)
 - non-operational air conditioner at the district pharmacy level (Sao Tome and Principe)
- Discrepancies between the stock logs and actual inventory counts (Chad).
- No warehouse floor plan for medical equipment (Sudan).
- Unit item reference not used for the labeling of the actual inventory and lot number and expiry data incorrectly recorded (Sudan).

- No inventory report of incoming stocks as well as inconsistencies in the stock balance (Sudan).
- Inadequate record keeping of expired items between peripheral (Sao Tome and Principe).

OAI recommended that the Country Offices improve their stock management system by:

- visiting the central, regional and health centres on a regular basis to ensure good storage conditions (Chad);
- working with government partners to ensure that temperature-sensitive items are stored within acceptable temperature ranges (Sao Tome and Principe);
- coordinating with the government counterpart to develop a plan to improve inventory management and storage conditions (Sudan); and
- recording all pharmaceutical movements on the stock cards at all storage facility levels (Sao Tome and Principe).

B. Programme management

Issue 1 Weaknesses in monitoring and evaluation activities

The Principal Recipient is responsible for the overall monitoring and evaluation of the grants. It should carry out periodic monitoring and supervision visits and on return, the results should be documented in a written report.

OAI noted weaknesses in the monitoring and evaluation activities in Chad, South Sudan, and Turkmenistan as follows:

- The monitoring and evaluation plan was not fully implemented as the health district facilities were unable to aggregate the monitoring data collected from the health centres and the hospitals (Chad).
- Monitoring and evaluation visits were not conducted according to plan. In 2017, no site visit had occurred (South Sudan).
- Systemic issues identified during monitoring visits were not shared in writing with the government counterpart (Turkmenistan).
- The standard monitoring checklist had not been revised since 2010 (Turkmenistan).

OAI recommended that the Country Offices improve their monitoring and evaluation activities by:

- coordinating with all stakeholders and facilitating an assessment of data collection in health care facilities (Chad);
- conducting monitoring and evaluation visits more regularly and according to plan (South Sudan);
- collating and sharing systemic issues with the government counterpart (Turkmenistan); and
- updating the standard monitoring checklist in cooperation with the government counterpart (Turkmenistan).

Issue 2 Delays and challenges in implementation of project activities

As the Principal Recipient, the office is required to ensure that the implementation of the grant is carried out per the signed agreement, which defines the activities to be implemented and when they will be implemented. The set activities use inputs with an associated budget to produce the agreed upon deliverables.

OAI noted delays and challenges in the implementation of project activities in Cuba, South Sudan and Sudan.

- The project delivery rate for 2016 was 75 percent. For 2017, it was below 50 percent as of October 2017 (Cuba).
- The 2016 absorption rates of the HIV grant and TB grant were 65 percent and 51 percent, respectively. This was mainly due to a political crisis in July 2016 and to the period of recovery to stabilize implementation (South Sudan).
- The implementation rate at the end of 2016 was 50 percent due to (a) delays in implementing activities at the level of the Principal Recipient and the Sub-recipients, (b) contracting of Sub-recipients, and (c) liquidating of advances given to Sub-recipients (Sudan).

OAI recommended that the Country Offices:

- increase coordination efforts with the implementing partner to ensure the activities planned are accomplished on time (Cuba);
- finalize the ongoing reprogramming and initiate measures to accelerate the implementation of project activities (South Sudan); and
- set up an implementation plan during 2017 to achieve grant targets (Sudan).

C. Sub-recipient management

Issue 1 Weaknesses in the selection and contracting of Sub-recipients

UNDP as the Principal Recipient engages government entities and/or non-governmental organizations as Sub-recipients for the implementation of the Global Fund programme. A standard Sub-recipient agreement is signed with these entities and implementation of activities must begin at the start of the grant.

OAI noted delays in the contracting of Sub-recipients resulting in delayed implementation of the community component of the programme in Angola.

OAI also noted that the Country Office in Chad signed a letter of agreement that did not include standard clauses such as audit requirement, maintenance of books and records, and submission of supporting documentation with quarterly reports.

OAI recommended that the Country Offices:

- finalize the contracting of Sub-recipients and accelerate the implementation of activities to make up for the delay (Angola); and
- comply with the UNDP Operations Manual for Projects Financed by the Global Fund by committing to use the standard Sub-recipient agreement template when contracting Sub-recipients in the future (Chad).

Issue 2 Delays in liquidating advances and inadequate reporting

Sub-recipients are granted cash advances for expenses and commitments to be made in support of activities agreed upon with the Principal Recipient. Funds advanced to the Sub-recipients are under their responsibility and must be used for the related activities. Furthermore, UNDP's accountability and reporting shall encompass the funds disbursed to all Sub-recipients and to the activities Sub-recipients carry out using the grant funds.

OAI noted delays in liquidating advances in Sudan and Turkmenistan, and incomplete or inadequate quarterly reporting in Chad, South Sudan, and Turkmenistan.

OAI recommended that the Country Offices:

- prioritize the liquidation of advances given to Sub-recipients and ensure that the Finance Unit is adequately staffed (Sudan);
- issue a management letter describing weaknesses identified and provide recommendations in relation to the Sub-recipient reports (Chad);
- implement a mechanism to track the resolution of challenges that are recorded in the quarterly reports and work with the Sub-recipients to ensure compliance in quarterly financial reporting (South Sudan);
- ensure close follow-up with each Sub-recipient for submission of quarterly reports and liquidation of advances within the stipulated timeframe (Turkmenistan); and
- request Sub-recipients to provide a narrative description for significant budget variances (Turkmenistan).

IV. Implementation of the audit recommendations

OAI, in close cooperation with the Bureau for Programme and Policy Support, UNDP Global Fund/Health Implementation Support Team, HIV, Health and Development Group, continuously monitors the progress achieved by UNDP Country Offices in implementing the audit recommendations made. Country Offices are required to report any progress made directly in the Comprehensive Audit and Recommendation Database System (CARDS) and to upload supporting documentation. This information is subsequently validated by OAI.

The data contained in this section of the report represents 33 audit recommendations included in 8 of 10 audit reports issued between 1 January and 31 December 2017 (see Figure 1). The remaining two reports did not contain any recommendations. As of 20 February 2018, 21 of the 33 recommendations had been fully implemented.

**Figure 1: Implementation rate of the recommendations in the 2017 Global Fund audits
as of 20 February 2018**

Country Office	Report No.	Issue Date	Total No. of Recommendations	Implementation rate
Angola	1833	26-Jul-17	4	100%
Chad	1732	13-Jan-17	9	100%
Cuba	1884	1-Dec-17	3	0%
Kyrgyzstan	1742	26-Jan-17	1	100%
Sao Tome and Principe	1758	15-May-17	4	100%
South Sudan	1892	13-Oct-17	5	97%
Sudan	1761	28-Apr-17	5	50%
Turkmenistan	1832	26-Jul-17	2	85%
Total for 2017			33	93%

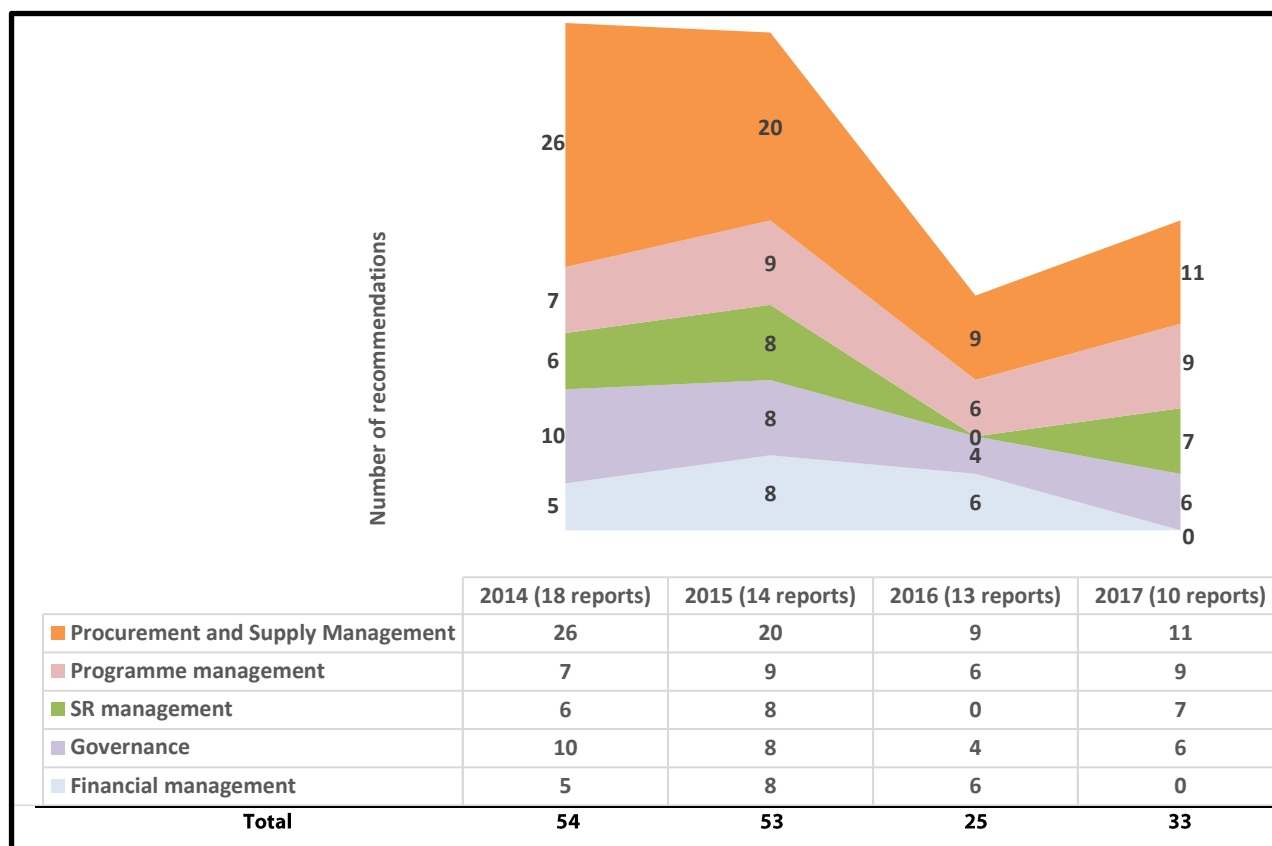
V. Recurring audit issues from 2014-2017

OAI analysed the audit recommendations raised during the last four years to examine the areas where audit issues were most prevalent. The summary is displayed in Figure 2.

Some of the key conclusions are as follows:

1. There were no issues under the financial management category in 2017.
2. Procurement and supply chain management was the audit area with the most number of recommendations in the last four years. The number of recommendations slightly increased between 2016 and 2017.
3. Programme management, governance, and Sub-recipient management had an increase in the number of recommendations from 2016 to 2017, although there has been an overall shift in the severity level of these recommendations, with more of them being medium.

Figure 2: Number of audit reports and recommendations per category 2014-2017



Definitions of audit terms - ratings and priorities used in 2017

A. AUDIT RATINGS

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.
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	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> .

Annex 1 Global fund grants audited in Country Offices

Report No.	Country Office	Issue Date	Audit Period		Audit Rating	Expenses during the audited period (in \$millions)	Global Fund grants audited						No. of Audit Issues	No. of Recommendations
							Total	HIV	TB	TB/ HIV	Malaria	HSS		
1898	Afghanistan	21/12/2017	1/1/2016	31/10/2017	Satisfactory	29.0	4	1	1		1	1	0	0
1833	Angola	26/07/2017	1/1/2016	31/03/2017	Partially Satisfactory/ Some Improvement Needed	5.4	2	2					4	4
1732	Chad	13/01/2017	1/1/2014	31/12/2015	Unsatisfactory	10.5	1				1		8	9
1884	Cuba	1/12/2017	1/1/2016	30/06/2017	Satisfactory	9.9	1	1					3	3
1878	Fiji (Multi-Country Office)	5/7/2017	1/7/2015	31/05/2017	Satisfactory	6.7	2			1	1		0	0
1742	Kyrgyzstan	26/01/2017	1/1/2015	30/09/2016	Satisfactory	21.2	4	1	1	1	1		1	1
1758	São Tomé and Príncipe	15/05/2017	1/7/2015	31/12/2016	Partially Satisfactory/ Some Improvement Needed	5.3	4	1	1		2		4	4
1892	South Sudan	13/10/2017	1/1/2016	30/06/2017	Partially Satisfactory/ Some Improvement Needed	25.8	6	2	3			1	5	5
1761	Sudan	28/04/2017	1/1/2016	31/12/2016	Partially Satisfactory/ Major Improvement Needed	60.0	3	1	1		1		5	5
1832	Turkmenistan	26/07/2017	1/1/2016	31/03/2017	Satisfactory	2.5	2		2				2	2
						176.3	29	9	9	2	7	2	32	33