

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

Report No. 2100
Issue Date: 11 October 2019

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Report on the Audit of UNDP Islamic Republic of Iran Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 25 August to 5 September 2019, conducted an audit of three grants from the Global Fund (Output Nos. 90873 [malaria], 94896 and 109378 [HIV]) managed by UNDP in the Islamic Republic of Iran (the Office) as the Principal Recipient. The Office also managed Output Nos. 97591 and 95319 (Country Coordinating Mechanism) as its Funding Recipient.¹ These grants were managed under the Global Fund's Additional Safeguard Policy.² 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 and strategic management (organizational structure, risk management, staffing and performance management, capacity development and transition strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- (d) procurement (quantification 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, Fund Administrator Role).

The audit covered the Global Fund-related activities of the Office from 1 January 2018 to 30 June 2019. The Office recorded Global Fund-related expenses of approximately \$6.8 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2015.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **partially 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 quality control of health products, and supply management over health products.

¹ Since the Country Coordinating Mechanism is not a legally incorporated body and cannot receive funds, it designates a Funding Recipient to be responsible for receiving funds on its behalf.

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

Key recommendations: Total = **2**, high priority = **0**

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

The two recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 2); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

Management comments and action plan

The Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into 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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I. 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).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 June 2019 (in \$ '000)	Implementation Rate (percent)	Expenses as of 30 June 2019 (in \$ '000)	Global Fund Rating at 30 June 2019
IRN-M-UNDP	90873	To prevent reintroduction of malaria cases	01-Apr-14	30-Sep-17	9,832	7,960	93	9,175	A1
IRN-H-UNDP	94896	Enhancement of National HIV Response with Focus on Target Beneficiary Groups in line with fourth National Strategic Plan 2015-2019	01-Apr-15	31-Mar-18	13,131	11,928	99	12,964	B1
IRN-H-UNDP	109378	Enhancement of National HIV Response with Focus on Target Beneficiary Groups in-line with NSP4 (2015-2019)	01-Apr-18	01-Mar-21	10,687	5,623	26	2,777	B1
IRN-CFUND	97591	Support Country Coordinating Mechanism (CCM) established for the purpose of overall direction of the Global Fund Grant in the country	11-Jan-16	31-Oct-19	270	277	80	217	N/A
EMRC	95319	Support to the Eastern Mediterranean Region Constituency	01-Jan-17	31-Dec-19	377	377	92	349	N/A

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management. The programme management function was well designed and controlled.
- (b) Sub-recipient management. The selection, contracting, funding, oversight and monitoring of Sub-recipients were found to be adequate.
- (c) Financial management. All financial management controls were found to be effectively implemented.

OAI made two recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

- (a) Enhance compliance with quality assurance obligations (Recommendation 1).
- (b) Enhance controls over supply management (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Procurement

1. Quality assurance of health products

Issue 1 Weaknesses in quality assurance process over health products

UNDP Country Offices are guided in the implementation of their quality assurance obligations in respect of health products by the 'Guidance for UNDP Country Offices on Health Products Quality Assurance in the Supply Chain'. The guidance requires UNDP Country Offices to ensure, inter alia, that (1) dataloggers (electronic devices used to record temperature and/or humidity conditions during transport) are retrieved when health products are received and the data is read, analysed and recorded with the reception report; and (2) quality control tests of medicines are performed at reception in-country and after distribution in the supply chain.

Incoming shipments of health products procured using Global Fund grants were received at the central warehouse of the relevant government ministry. The Office did not obtain consistent access to information contained in the dataloggers for the shipment of health products. Indicatively, a review of a sample of seven purchase orders for the procurement of health products during the audit period disclosed that the reception reports did not contain information from the dataloggers. The Office explained that information from dataloggers was not recorded on reception reports for health products as there was no agreement with the government ministry on the process through which access to this information was to be provided to the Office. Subsequent to the audit, the Office stated that it had agreed with the relevant partner on the protocol for accessing the dataloggers.

The Office had established sampling and testing plans for the quality control of health products for the years 2018 and 2019. However, these planned quality control tests were not conducted. The Office explained that it had been unable to dispatch samples of health products for testing to accredited quality control laboratories located outside the Country since the imposition of sanctions in 2018. The matter had been discussed with the Global Fund and the UNDP Global Fund Health Implementation Support Team in order to approach a government laboratory to conduct the required quality control tests. The planned quality control tests were yet to be conducted due to additional requirements specified by the proposed laboratory.

Failure to perform required quality assurance activities for health products may lead to the administration of unsafe medication to patients.

Priority	Medium (Important)
Recommendation 1:	
The Office should enhance compliance with its quality assurance obligations for health products by:	
(a) agreeing with the Government on access to dataloggers and using the information on the loggers to make decisions on appropriate follow-up actions to be taken in case of deviations; and	
(b) ensuring the quality control tests are completed timely and in line with the Quality Assurance Plan.	

Management action plan:

The Office will ensure quality control tests are completed in line with the Quality Assurance Plan.

Estimated completion date: 31 March 2020

2. Supply management (inventory, warehousing and distribution)

Issue 2 Inadequate control over inventory management at central warehouse

The Health Products Guide, referenced in the framework agreement between UNDP and the Global Fund, requires recipients to ensure that operating procedures and controls are put in place to prevent any diversion of health products within the supply chain, including the establishment and maintenance of reliable receiving procedures and inventory management.

The 'Guidance for UNDP Country Offices on Health Products Quality Assurance in the Supply Chain' also requires that batches of health products sent to different facilities be easily traceable; this information should be available upon request through the inventory management system used.

The central warehouse of the relevant government ministry was the main storage location for the receipt and distribution of health products procured using Global Fund grants. The inventory management system used at the central warehouse did not differentiate inventories of health products procured through Global Fund grants. Inventories of health products that were procured both directly by the Government and through Global Fund grants were recorded using common item codes within the central warehouse inventory management system.

Inadequate tracking of health products procured through Global Fund grants may lead to the risk of loss of stock within the supply chain. The lack of traceability of health products by batches may affect the achievement of quality assurance objectives and may ultimately put patients' health at risk.

Priority	Medium (Important)
Recommendation 2:	
The Office should enhance controls over supply management of medical products by ensuring that the relevant government ministry incorporates adequate tracking of such health products in the inventory management system at the central warehouse.	
Management action plan:	
The Office will ensure that the relevant government ministry introduces a donor source and batch number field in the warehouse management system at the central warehouse for traceability of Global Fund funded products.	
Estimated completion date: 31 March 2020	

Definitions of audit terms - ratings and priorities

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 contribute to 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.