UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP SUDAN

GRANTS FROM THE GLOBAL FUND TO FIGHT

AIDS, TUBERCULOSIS AND MALARIA

Report No. 1072

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United Nations Development Programme
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Executive Summary

From 30 September to 10 October 2012, the Office of Audit and Investigations (OAI) conducted an audit of seven grants from the Global Fund to Fight Aids, Tuberculosis and Malaria (Global Fund) (Project Nos. 44710 [Malaria], 44832 [HIV], 54334 [HIV], 54201 [TB], 70280 [Malaria], 73875 [TB], 73876 [TB], 77037 [TB] and 77038 [TB]) managed by the UNDP Country Office in Sudan (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 2011. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $33 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2011.

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." This rating was mainly due to weaknesses in Sub-recipient quarterly reports, weaknesses in procurement monitoring and a lack of monitoring and oversight of Sub-sub-recipients. 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 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders — Satisfactory				
1.4 Capacity building and exit strategy — Not applicable				
2. Programme management			■	
2.1 Project approval and implementation — Partially Satisfactory				
2.2 Conditions precedent to disbursement and special conditions — Satisfactory				
2.3 Monitoring and evaluation — Satisfactory				
2.4 Grant closure — Partially Satisfactory				

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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.

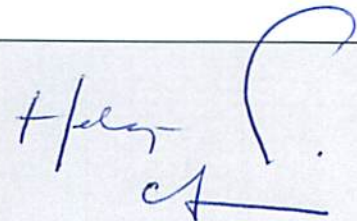| Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
3. Sub-recipient management			▮	
3.1 Selection, assessment, and contracting	Satisfactory			
3.2 Funding	Partially Satisfactory			
3.3 Reporting	Partially Satisfactory			
3.4 Oversight and monitoring	Partially Satisfactory			
3.5 Audit	Partially Satisfactory			
4. Procurement and supply management			▮	
4.1 Procurement of health products	Partially Satisfactory			
4.2 Quality assurance of health products	Unsatisfactory			
4.3 Procurement of other goods and services	Partially satisfactory			
4.4 Supply management (inventory, warehousing, and distribution)	Satisfactory			
4.5 Asset management	Satisfactory			
4.6 Individual contractors	Satisfactory			
5. Financial management			▮	
5.1 Revenue and accounts receivable	Not Applicable			
5.2 Expenditures	Partially Satisfactory			
5.3 Reporting to the Global Fund	Satisfactory			

Key issues and recommendations

The audit raised eight issues and resulted in eight recommendations, of which one (13 percent) was 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."

Quality assurance of health products (Issue 8)	<u>Inadequate quality assurance of finished pharmaceutical products</u>. The Office had not performed laboratory testing of finished pharmaceutical products throughout the supply chain as required by the Global Fund. OAI recommends that the Office coordinate with the Global Fund Partnership Team of the Bureau for Development Policy to ensure that the finished pharmaceutical products are tested throughout the supply chain by a laboratory that is pre-qualified by WHO or the International Organization for Standardization.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 30 September to 10 October 2012, OAI conducted an audit of seven grants from the Global Fund (Project Nos. 44710 [Malaria], 44832 [HIV], 54334 [HIV], 54201 [TB], 70280 [Malaria], 73875 [TB], 73876 [TB], 77037 [TB] and 77038 [TB]) and managed by UNDP Sudan 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 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 scope and objectives

OAI Global Fund audits 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 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 2011. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $33 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2011.

The implementation status of previous Global Fund audit recommendations (Report No. 847, 25 January 2012 and Report No. 749, 25 March 2011) was also validated. Of the 14 recommendations, 13 were fully implemented and 1 was withdrawn as the recommendation was related to a service provider agreement that was terminated.

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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.

II.　　Profile of Global Fund grants managed by UNDP Sudan

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in Sudan (the Country).

Grant No.	Project No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of 31 Dec 2011 (in $ '000)	Implementation Rate	Expenditures as of 31 Dec 2011 (in $ '000)	Global Fund Rating as of Nov 2012
SUD-202-G03-M-00	00044710	Malaria	Apr 2005	Sept 2009	33,078 in closure	33,078	100%	90	A1[3]
SUD-305-G04-H	00044832	HIV	Apr 2005	Sept 2010	20,028 in closure	20,028	100%	1,005	B1[4]
SUD-506-G08-H	00054334	HIV	Jan 2007	Mar 2013	84,976 Phase II	68,120	80%	18,344	B1
SUD-506-G07-T[5]	00054201	TB	Jan 2007	Dec 2011	11,685 Phase II Consolidated	11,685	100%	NA	B1
SUD-708-G10-M	00070280	Malaria	Apr 2009	Mar 2014	64,937 Phase II	50,293	77%	6,934	A2[6]
SUD-809-G12-H	00073876 00073875	TB	Jan 2010	Dec 2011	3,886 Consolidated	3,886	100%	NA	NA
SUD-T-UNDP	00077037 00077038	TB	Jul 2010	Dec 2012	19,224 Phase I	14,400	75%	6,372	B2[7]
						201490		32745	

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[3] Global Fund A1 rating = exceeding expectations

[4] Global Fund B1 rating = adequate

[5] Grant Nos. SUD-506-G07-T and SUD-809-G12-H were consolidated to Grant No. SUD-T-UNDP

[6] Global Fund A2 rating = meets expectations

[7] Global Fund B2 rating = inadequate but potential demonstrated

III.   Detailed assessment

1. Governance and strategic management	Satisfactory

1.1 Organizational structure	Satisfactory

OAI reviewed the adequacy of the organizational structure and, at the time of the audit, the Office was in the process of recruiting two key positions: a Programme Manager and a Procurement Specialist. The positions had been vacant for 4 and 12 months, respectively. The Deputy Programme Manager had been appointed as the interim Programme Manager after the resignation of the Programme Manager in June 2012. No reportable issues were identified.

1.2 Staffing	Satisfactory

The Programme Management Unit had 53 positions which were comprised of: 6 international fixed-term appointments, 1 Programme Manager, 1 Programme Monitoring and Evaluation Specialist, 2 Procurement Specialists, 1 Finance/Administration Specialist, 1 Project Specialist as well as 40 service contract holders and 1 United Nations Volunteer. At the time of the audit, there were 8 vacant positions: 2 international fixed-term appointments, 5 service contracts and 1 United Nations Volunteer. As none of the recruitments for international fixed-term appointments had been finalized during the audited period, no testing was performed. OAI reviewed the recruitment of seven service contract holders and noted that the appointment process was transparent and conducted effectively, and that the recruitment of the vacant positions was in progress. During the time of audit the Office was in the process of recruiting two keys positions, i.e. Programme Manager and Procurement Specialist. The positions were vacant for 4 and 12 months respectively. The protracted time to fill the Procurement Specialist position was due to circumstances beyond the Office's control, as the Office had to re-advertise the position three-times due the lack of response by qualified candidates. No reportable issues were identified.

1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Satisfactory

OAI discussed the cooperation and coordination between the Office and the Country Coordinating Mechanism with the Country Coordinating Mechanism Chairperson. OAI also reviewed the Country Coordinating Mechanism's meeting minutes. No reportable issues were identified.

1.4 Capacity building and exit strategy	Not Applicable

As the grant is managed under the Additional Safeguard Policy, the Global Fund grant agreement did not require the Office to engage in capacity building of Sub-recipients or to develop an exit strategy. Therefore, this area was not applicable to this audit.

2.	Programme management	Partially Satisfactory

2.1	Project approval and implementation	Partially Satisfactory

Issue 1   <u>Delay in implementation of the Malaria grant</u>

Phase 2 of the Global Fund grant, Round 7 Malaria, was not signed until December 2011, a delay of eight months after the end of Phase 1 of the grant (five months after the Q9 extension of Phase 1). The delay was, among other issues, due to a request for additional documentation by the Global Fund Secretariat to verify the training activities that had been completed by WHO, the Sub-recipient during Phase 1 of the grant. The Office received the first disbursement from the Global Fund Secretariat for Phase 2 of the grant in February 2012.

The work plan for the grant was designed to be implemented over a period of three years from April 2011 to March 2014. While the Office had updated the performance framework to account for the delay in grant implementation for Phase II, the Office had not adjusted the work plan for the remaining implementation period of two years.

The delay in grant implementation and failure to accelerate planned activities could negatively impact achievement of the grant objectives.

Priority	Medium (Important)
Recommendation 1:	
The Office should, in collaboration with the Global Fund Partnership Team of the Bureau for Development Policy, agree formally with the Global Fund Secretariat on accelerating the implementation of activities under the Malaria grant and adjust the work plan accordingly for the remaining implementation period.	
Management Comments: __√__ Agreed ____ Disagreed The Office agrees and would like to note that an acceleration plan was developed in coordination with the Sub-recipients and is being implemented for the remaining period of the grant.	

2.2	Conditions precedent to disbursement and special conditions	Satisfactory

OAI assessed the fulfilment status of the conditions precedent to disbursements and the special conditions of six grant agreements. For five of the grants, all conditions were fully met. For the sixth, which was a TB grant, only four of the five conditions were fully met. The remaining condition, which was related to having a detailed budget and work plan for renovation work, was still awaiting the approval of the Global Fund at the time of the audit. The Office is following-up on this condition with the Global Fund Secretariat. No reportable issues were identified.

2.3	Monitoring and evaluation	Satisfactory

OAI reviewed the adequacy of the monitoring and evaluation plans, including the data collection and verification visits carried out by the Office. OAI discussed opportunities for monitoring improvements with the Office and the Office agreed to consolidate observations from field visits and to standardize documentation

relating to data collection to enable more effective monitoring during field visits. No reportable issues were identified.

2.4 Grant closure	Partially Satisfactory

Issue 2   Delay in the grant closure

When a grant has reached its agreed programme ending date, the Office has to take necessary actions to close the grant promptly in accordance with the agreement and UNDP policies and procedures.

According to the approved grant closure plans, the dates of the grant closure on Round 2 Malaria and Round 3 HIV were 30 September 2011 and 30 June 2011, respectively. However, at the time of the audit, neither of the grants had been closed.

In reviewing the supporting documentation, OAI noted that the protracted delay in grant closures was due to: (a) late reimbursement by the Sub-recipient of about $1 million owed to the Global Fund, which had not been received by the Office until September 2012; and (b) the inability of the Sub-recipient to provide a complete list of procurements for Round 3 HIV, which was requested by the Office in November 2010. The Office subsequently indicated that it had requested the list of procurements from the Sub-recipient in order to determine the actual expenditures against the advances provided to the Sub-recipient, and to enable the closure of the grants with the Global Fund Secretariat.

Delays in grant closure could negatively impact the reputation of the Office as a Principal Recipient of Global Fund grants.

Priority	Medium (Important)
Recommendation 2:	
The Office should, in collaboration with the Global Fund Partnership Team of the Bureau for Development Policy, escalate to the appropriate management level of the Sub-recipient, the unresolved lack of documentation to support the closure of the grants.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees, and would like to note that the issue has subsequently been resolved.	

3. Sub-recipient management	Partially Satisfactory

The Office implemented the grants through five Sub-recipients, which were comprised of three United Nations agencies and two non-governmental organizations. The total amount disbursed to the Sub-recipients during the audited period was about $19.5 million.

3.1 Selection, assessment, and contracting	Satisfactory

OAI reviewed the process for selection, assessment and contracting of Sub-recipients. No new Sub-recipients were appointed during the audited period. The Office had implemented a prior OAI audit recommendation to

conduct an evaluation of the previous performance and target achievements of the Sub-recipient prior to the renewal of the Sub-recipient's contract for subsequent phases. No reportable issues were identified.

3.2 Funding	Partially Satisfactory

Issue 3   Disbursing advances to Sub-recipients without liquidating prior advances

The Programme and Operations Policies and Procedures require Country Offices to verify that at least 80 percent of the cash advances disbursed to implementing partners each quarter have been liquidated prior to approving new advances.

The Office had not complied with this requirement, as it had approved payment of new advances to Sub-recipients (which are United Nations agencies), even though no documentation of liquidation of the prior advances had been submitted. Also, the Office disbursed advances in amounts covering up to three future quarters, totalling $19 million, rather than disbursing the amount only for the next quarter. Further, prior to 2012, the Office was incorrectly recording disbursements to Sub-recipients as expenditures instead of as advances in Atlas.

Weak monitoring of Sub-recipient advances may compromise the achievement of the planned activities and might lead to UNDP resources being misappropriated.

Priority	Medium (Important)
Recommendation 3:	
OAI recommends that the Office implement a system to ensure verification of the liquidation of at least 80 percent of prior advances before approving new advances.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees. As of January 2012, advances are systematically recorded as such in Atlas and cleared based on 80 percent liquidation.	

3.3 Reporting	Partially Satisfactory

Issue 4   Weaknesses in Sub-recipient quarterly reports

The Office relies on quarterly reports submitted by Sub-recipients for its reporting to the Global Fund Secretariat. OAI reviewed five quarterly reports submitted by three of the Sub-recipients and noted the following discrepancies: (a) budgets by activity were not included; (b) budget variances were not explained; (c) expenditures by category were not provided; (d) details were not provided on expenditures incurred by Sub-sub-recipients and the funds disbursed by Sub-recipients to Sub-sub-recipients; and (e) supporting documents were missing, for example, documents in support of training activities reported by one of the Sub-recipients.

The Office is cognizant that Sub-recipient agreements with United Nations agencies are not always explicit on the financial information required by the Office for its reporting to the Global Fund Secretariat, such as an analysis of expenditures by category. The Office indicated that it has since established a follow-up mechanism

with the Sub-recipients to ensure submission of missing documents and information. The Office further stated that it has begun issuing management letters for each Sub-recipient report that included detail regarding any report weaknesses.

Weak reporting by Sub-recipients may lead to difficulties in monitoring activities and obtaining adequate assurance that the activities undertaken were in line with the governing rules and policies and contributed to the expected results and outcomes. Further, it may result in additional workload for the Office in reviewing the quarterly reports.

Priority	Medium (Important)
Recommendation 4:	
The Office should, in collaboration with the Global Fund Partnership Team of the Bureau for Development Policy, identify the gaps between the financial information received from United Nations agencies and the Global Fund quarterly reporting requirements, in order to address them when revising the current agreements with United Nations agencies.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees. In addition to the recommended action, the Programme Management Unit has established bi-monthly management meetings with Sub-recipients to address the issue systematically and regularly.	

3.4 Oversight and monitoring	Partially Satisfactory

Issue 5   Lack of monitoring and oversight of Sub-sub-recipients

The Office, as Principal Recipient, is accountable for any project implementation by both Sub-recipient and Sub-sub-recipient, even when the Sub-recipient is a United Nations agency. The Office maintains responsibility for all Sub-sub-recipient activities and must review and approve all such agreements, as Sub-sub-recipient appointments carry high risks for UNDP. If a Sub-sub-recipient is appointed, the Office is required to monitor the Sub-recipient's management of the Sub-sub-recipient. This monitoring should be a key component in the Office's risk management plan.

The Office did not ensure that the Sub-recipient had established a plan to oversee and monitor the activities of its Sub-sub-recipients. The result was that the Office could not obtain adequate assurance regarding the activities and expenditures of the Sub-sub-recipients. However, the Office agreed to put forth more effort to obtain these financial documents.

Priority	Medium (Important)
Recommendation 5:	
The Office should collaborate with the Sub-recipient to ensure that the documentation and reporting requirements are clearly communicated to the Sub-sub-recipient and that the Sub-recipient has set up a monitoring and oversight plan for Sub-sub-recipients of Global Fund grants.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees. The bi-monthly management meetings with Sub-recipients are used to systematically review Sub-sub-recipient management.	

3.5 Audit   Partially Satisfactory

Issue 6   Sub-sub-recipients not audited

Three United Nations agencies serving as Sub-recipients had appointed Sub-sub-recipients that were not United Nations entities. Sub-sub-recipients that are not United Nations entities are required to be audited at least once during the grant period. None of the Sub-sub-recipients had been audited since the start date of the grant in 2005. As a result, the Office did not have assurance on the use of a significant portion of the grant funds.

The Office commented that one of the Sub-recipients had recently informed them that the audit of non-United Nations Sub-sub-recipients had been completed. However, the Sub-recipient had not shared the audit reports with the Office. Without access to the audit reports, the Office, as Principal Recipient, cannot obtain adequate assurance that funds have been expended for the intended purposes.

The Office recognized that UNDP policies and procedures require the audit of Sub-sub-recipients that are not United Nations agencies. The Office pointed out that the standard Letters of Agreement signed with the United Nations agencies appointed as Sub-recipients stipulate that audits of the United Nations agencies as Sub-recipients should be carried out in accordance with those agencies' audit rules and procedures. However, the standard agreements had not been explicit regarding the audit requirements for Sub-sub-recipients which were not United Nations entities. The UNDP Global Fund Partnership Team of the Bureau for Development Policy is addressing the lack of clarity regarding audits of Sub-sub-recipients which are not United Nations agencies, in the standard Letters of Agreement.

Priority	Medium (Important)
Recommendation 6:	
The Office should continue to encourage the United Nations agency Sub-recipients to arrange for regular audits of the Sub-sub-recipients, and to share the resulting audit reports with the Office.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees. The bi-monthly management meetings with Sub-recipients are used to systematically review and discuss Sub-sub-recipient management, including Sub-sub-recipient audits.	

4. Procurement and supply management	Partially Satisfactory

During the audited period, the Office processed 323 purchase orders totalling about $19 million for the Global Fund grants. OAI reviewed the procurement process by interviewing the Office staff assigned to the Global Fund grants and testing a sample of 21 purchase orders valued at about $7.9 million or 42 percent of the total value of purchase orders issued during the audited period. The Procurement and Supply Management Team is comprised of 11 personnel.

4.1 Procurement of health products	Partially Satisfactory

Issue 7   Weaknesses in procurement monitoring

Procurement planning and monitoring is vital to ensuring that grant beneficiaries, such as health centers and patients, receive health products in a timely manner. OAI noted that approximately $0.7 million in products representing about 5 percent of total health products required for the 2010 Global Fund grants were not procured until 2011. In some cases, the product procurements were delayed by a full year. Although the Office had developed tools for procurement planning and monitoring, it was not using the tools to monitor procurement lead-time or to track delivery dates.

Given the lack of proper monitoring of the procurement activities, the Office had not delivered goods and services in a timely manner and in accordance with the grant agreements.

Priority	Medium (Important)
Recommendation 7:	
The Office should strengthen procurement planning and monitoring to ensure that products and services are procured in a timely manner and made available to the intended beneficiaries.	
Management Comments: __√__ Agreed ____ Disagreed	
The Office agrees. During 2012, it has introduced lead-time tracking and delay analysis.	

4.2 Quality assurance of health products	Unsatisfactory

Issue 8   Inadequate quality assurance of finished pharmaceutical products

The Global Fund quality assurance policy requires that random samples of finished pharmaceutical products be obtained at different points in the supply chain and tested for compliance with the applicable quality standards by a laboratory that is accredited by WHO and certified in accordance with the International Organization for Standardization (No. 17205: Calibration and Testing Laboratories), or which has been contracted by the Global Fund.

When the shipment of finished pharmaceutical products for TB, HIV, and malaria were received at the point of entry in the Country, the required testing was performed by a laboratory pre-qualified by WHO and the International Organization for Standardization. However, the Office did not comply with the Global Fund policy regarding performance testing by a pre-qualified laboratory throughout the supply chain. Subsequent to the

initial testing upon entry into the Country, no further testing was performed at any point in the supply chain for the TB and HIV drugs. The Office indicated this was due to the absence of pre-qualified WHO or International Organization for Standardization laboratories in the Country. For the malaria health products, quality controls were carried out, though not by a pre-qualified WHO or International Organization for Standardization laboratory.

Failing to test the finished pharmaceutical products at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard drugs to treatment facilities, thereby placing patient lives and the reputations of the facilities and UNDP at risk.

Priority	High (Critical)
Recommendation 8:	
The Office should coordinate with the Global Fund Partnership Team of the Bureau for Development Policy to ensure that the finished pharmaceutical products are tested throughout the supply chain by a laboratory that is pre-qualified by WHO or the International Organization for Standardization.	
Management Comments: __√__ Agreed ____ Disagreed The quality assurance plan was developed, approved and financed by the Global Fund and the Global Fund Partnership Team in 2012.	

4.3 Procurement of other goods and services   Partially Satisfactory

OAI reviewed the process for procurement of other goods and services such as travel, civil work and computers. The review included examination of the sourcing of suppliers, procurement methods used, receipt and evaluation of offers, contract awards, and receipt of and payment for goods and services. OAI noted that for the Single Stream Funding TB grant there were delays of up to two years in the civil work activities. Management explained that the Office had not been involved in the design of the grant proposal at the specific request of the Country Coordinating Mechanism. The budget for the civil work activities had been understated and changes were made to the project scope after a long period of negotiation with the Global Fund Secretariat. As a lesson learned, the Office was involved in the design of the Round 10 Malaria and HIV grant proposals. No other reportable issues were identified.

4.4 Supply management (inventory, warehousing, and distribution)   Satisfactory

UNDP policies and procedures recommend the use of the WHO storage guidelines for finished pharmaceutical products. These guidelines require adequate storage space that is clean, dry and does not have excessive heat or light exposure.

During the audit, OAI visited the central medical supplies warehouse, and noted that the Office had improved the storage facilities in compliance with the WHO guidelines. OAI also noted the existence of finished pharmaceutical products close to the expiration date. The Office explained that the product was not accepted due to its short shelf life, but that it was being kept in the warehouse in order to be returned to UNICEF. No reportable issues were identified.

| 4.5 | Asset management | Satisfactory |

OAI reviewed the asset management process and documentation, including the annual asset inventory, asset custody and the recording of assets. The Office had implemented an OAI audit recommendation on the physical verification of assets. No reportable issues were identified.

| 4.6 | Individual contractors | Satisfactory |

The Office had contracts with five individual consultants totalling $82,000 during the audited period, of which three were under special service agreements and two under individual contracts. OAI reviewed the recruitment process by interviewing Office staff and examining contract documents. OAI noted that the Personal History form was missing for two of the consultants. Further, OAI noted a delay of six days in issuing contract renewals for two consultants. The Office had agreed to take corrective actions to improve the process. No other reportable issues were identified.

| 5. | Financial management | Partially Satisfactory |

During the audited period, the Office processed 1,027 payment vouchers totalling $31.3 million for the Global Fund projects. OAI reviewed 24 disbursement vouchers aggregately valued at $7.9 million or 25 percent of the total vouchers for the period. OAI also tested the adequacy of finance management arrangements through interviews with the Office staff, and the review of financial reports and expenditure documents. No reportable issues were identified.

| 5.1 | Revenue and accounts receivable | Not Applicable |

This area was not reviewed for the audit period, but may be reviewed in future audits in accordance with the adoption of the International Public Sector Accounting Standards.

| 5.2 | Expenditures | Partially Satisfactory |

OAI reviewed the disbursement process and the Chart of Accounts used to code the vouchers for entry into Atlas. OAI noted that in 2012, the Office had implemented a prior audit recommendation and was recording disbursements to Sub-recipients as advances rather than expenditures.

Implementation Support Services is the cost recovery mechanism through which the Country Offices recover the direct costs of services provided by the Country Office in support of programmes and projects. These direct costs are an integral part of project delivery and, therefore, should be charged to the same budget line as the project input itself. According to UNDP policy, the amount charged to the programme or project should be based on the cost of actual services provided.

In 2011, the Office charged the Global Fund grants based on a percentage fee rather than actual costs per project. The Office adopted the practice of allocating Implementation Support Service costs on a percentage basis because it was considered easier to administer.

Consequently, projects using fewer Implementation Support Services were subsidizing those projects or

programmes using more.

OAI has not made a recommendation as during the conduct of the follow-up review (Report No. 821) to the 2010 audit, OAI observed that the Office has begun charging Implementation Support Services based on identified direct project costs since 2012.

5.3 Reporting to the Global Fund	Satisfactory

OAI reviewed the process for reporting to the Global Fund through interviews with Office staff and review of four reports submitted to the Global Fund Secretariat. No reportable issues were identified.

ANNEX I. 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 <u>not included in this report</u>.