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. 1080
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United Nations Development Programme
Office of Audit and Investigations

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Executive Summary

From 21 October to 1 November 2012, 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 [Round 8 HIV Phase I], 77633 [Round 7 TB Phase 2], 77675 [Round 7 Malaria Phase 2] and 80152 [Round 10 Consolidated Malaria Phase 1]) 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 2011. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $10.6 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 incorrect recording of expenditures, delays in closing inactive projects and weaknesses in the procurement process. 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 Coordination Mechanism and other stakeholders	Partially Satisfactory			
1.4 Capacity building and exit strategy	Satisfactory			
2. Programme management			▉	
2.1 Project approval and implementation	Satisfactory			
2.2 Conditions precedent to disbursement and special conditions	Satisfactory			
2.3 Monitoring and evaluation	Partially Satisfactory			
2.4 Grant closure	Partially Satisfactory			
3. Sub-recipient management			▉	
3.1 Selection, assessment, and contracting	Satisfactory			
3.2 Funding	Partially Satisfactory			
3.3 Reporting	Satisfactory			
3.4 Oversight and monitoring	Satisfactory			
3.5 Audit	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.

4.	Procurement and supply management				
5.	**Financial management**				
	5.1 Revenue and accounts receivable	Satisfactory			
	5.2 Expenditures	Partially satisfactory			
	5.3 Reporting to the Global Fund	Satisfactory			

Key issues and recommendations

The audit raised seven issues and resulted in six recommendations, of which one (17 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."

Financial management (Issue 7)	Overstatement of the 2011 Combined Delivery Report. The Combined Delivery Report for 2011 included an amount of $825,000 for 2012 salary that had neither been incurred nor paid. Recording the 2012 salary expenses in 2011 resulted in overstating the 2011 report by 8 percent. OAI recommends that the Office ensure that salaries are recorded as expense in the same period in which they are actually disbursed so that the Combined Delivery Report gives a true and accurate picture of a project's expenses.

Management's comments and action plans

The Resident Representative a.i. accepted all six recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 21 October to 1 November 2012, OAI conducted an audit of three grants from the Global Fund (Project Nos. 73329, 77633, 77675 and 80152) managed by the UNDP Islamic Republic of Iran as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy. 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 the Global Fund; the 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 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 areas related to the Office's management of Global Fund grants relating to 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, including subsequent improvements noted in 2012 in regard to the issues identified in this report. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $10.6 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. 824 issued on 24 August 2011) was validated. One recommendation made in that report was noted to be fully implemented. Prior to issuance of that report, OAI conducted an audit in 2010 (Report No. 729) which resulted in eight recommendations. Of the eight recommendations, one in regard to discontinuing the issuance of service contracts to individuals outside of the Project Management Unit remains open.

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).

Grant No.	Project ID	Description	Start Date	End Date	Total Budget as per Grant Agreement- (in $'000)	Total Budget of Grant as of 31 Dec 2011 (in $'000)	Funds Received as of 31 Dec 2011 (in $ '000)	Expenditures as of 31 Dec 2011 (in $ '000)	Impleme-ntation Rate Expenditures vs. Budget	Global Fund Rating
IRN-202-G01-H	45120-45124	R2 - HIV Phase 1	1-May-05	31-Jul-07	15,923	15,923	15,094	15,136	0.95	A1
	59054-59058	R2 - HIV Phase 2	1-Aug-07	30-Apr-10						
IRN-809-G04-H	73329	R8 - HIV Phase 1	1-Apr-10	31-Mar-12	9,295	7,666	7,994	7,556	0.99	A1
IRN-708-G03-T	Old projects; operationally closed: 63122-63126 / New project: 73573	R7 - TB Phase 1	1-Oct-08	31-Dec-10	18,957	13,853	14,169	12,941	0.93	A2
	77633	R7 - TB Phase 2	1-Jan-11	30-Sep-13						
IRN-708-G02-M	Old projects; operationally closed: 62947-62951 / New project: 73572	R7 - Malaria Phase 1	1-Oct-08	31-Dec-10	6,897	6,897	6,897	6,850	0.99	A1
	77675	R7 - Malaria Phase 2	1-Jan-11	30-Sep-13						
IRN-M-UNDP	80152	R10-Consolidated - Malaria Phase 1	1-Oct-11	31-Mar-14	13,242	2,771	852	1,250	0.45	B1
Total					**64,314**		**45,006**	**43,733**		

III.   Detailed assessment

1. Governance and strategic management	Satisfactory

The Office is entrusted with the Principal Recipient role with regard to managing and supporting Global Fund grants. However, the Office is operating in a complex environment, which has constrained operations and programme delivery. The Country is under sanctions that have impacted the procurement of goods and services, as they entail more rigorous vetting of vendors and obtaining regulatory approvals from the exporting countries.

1.1 Organizational structure	Satisfactory

The Office had established that the Programme Management Unit provide support services for implementing Global Fund activities. OAI reviewed the organizational structure and noted that appropriate reporting lines and division of responsibilities, including adequate segregation of duties, had been implemented. The Resident Representative had delegated the approving manager authority up to level 1 ($100,000) to the Head of the Programme Management Unit. However in the Argus system, his profile was stated as "Senior Manager." The Office rectified this discrepancy subsequent to the audit fieldwork. No other reportable issues were identified.

1.2 Staffing	Satisfactory

As of October 2012, the Programme Management Unit had 18 personnel (17 national staff with fixed-term appointments and one service contract holder). One issue was noted in this area, as described below.

Issue 1   Incomplete mandatory training

All UNDP staff members are required to complete a series of mandatory training programmes in the Learning Management System. Nine of the 18 Programme Management Unit staff (50 percent) had not completed all of the required mandatory training. These included the UNDP Legal Framework, Ethics Training, HIV/AIDS in the UN Workplace, Gender Journey and Workplace Harassment.

Failure to complete these mandatory trainings may negatively impact staff knowledge and capacity to deal with issues and situations within the Office relating to the topics covered by the mandatory training courses.

Priority	Medium (Important)
Recommendation 1: The Office should ensure that all Project Management Unit staff members complete the required mandatory training within a specified time frame, by implementing a process for monitoring and reporting status on a regular basis.	
Management Comments and action plans: __√__ Agreed ____ Disagreed The Office commented that remedial action was taken and staff members have completed the mandatory courses subsequent to the audit fieldwork.	

1.3 Cooperation and coordination with Country Coordination Mechanism and other stakeholders	**Partially Satisfactory**

OAI reviewed the adequacy of the cooperation and coordination with the Country Coordination Mechanism (CCM). One issue noted is discussed below:

Issue 2   Limited Country Coordination Mechanism meetings

The Country Coordination Mechanism, composed of various stakeholders, is intended to provide coordination and oversight of Global Fund project work plans and grant proposals which are to be submitted to the Global Fund, including the development of an oversight plan. The CCM had agreed (on 13 June 2010) to meet up to four times each year from 2011 to 2013. However, the CCM met only twice in 2011 and once in 2012, as of the date of the audit fieldwork (the Office indicated that there may have been a third meeting in 2011, but provided minutes for only two meetings).

Through discussions with the Vice Chair of the CCM and the Office, OAI inquired as to the possibility of appointing alternates to the CCM in order to facilitate more frequent meetings. It was explained that due to the sensitive nature of some of the programme issues, the preference was to forego using alternates, and ensure that all decision making was done by members having the full knowledge and experience of prior events and discussions. The Office explained that CCM meetings were not regularly held because the CCM Coordinator position was vacant for four months and some members were high level officials with busy schedules. The limited number of meetings and infrequent oversight activities restrict the CCM from carrying out its coordination and oversight functions. Since the Office agreed to liaise closely with the CCM in order to ensure that more regular meetings are held in the future, a recommendation has not been made.

1.4 Capacity building and exit strategy	**Satisfactory**

Phase 2 of the TB grant (IRN-708-G03-T) was scheduled to end in September 2013 and the Country may have no longer been eligible to obtain new grants as it had exceeded the Global Fund's qualifying criteria regarding income levels and burden of disease. Other Global Fund grants for Malaria and HIV were scheduled to end in 2015 and 2016, respectively. However, a formal exit plan had not been developed to assist in addressing capacity gaps within national institutions to ensure the sustainability of programme interventions. The Office informed OAI that it would be contracting two consultants who would undertake capacity assessments of national health institutions and systems and devise a plan to address the capacity gaps identified.

No reportable issues were identified.

2. Programme management	**Partially Satisfactory**

2.1 Project approval and implementation	**Satisfactory**

OAI reviewed the adequacy of controls concerning Global Fund project approval and the implementation process. The Office had used the Atlas project module to record details such as project baselines, indicators and targets. According to the latest Global Fund management letters, the TB grant was given an A2 performance rating (met expectations) for the period July to December 2011, while the Malaria and HIV grants received an A1 rating (exceeded expectations). The Malaria single stream fund grant (Rounds 7 and 10 combined) was rated B1 (moderate). There was some delay in meeting targets for a few project indicators that management was attending to. No other reportable issues were identified.

2.2 Conditions precedent to disbursement and special conditions	Satisfactory

The Office had generally met the Global Fund's grant conditions precedent to disbursements and its special conditions. No reportable issues were identified.

2.3 Monitoring and evaluation	Partially Satisfactory

In carrying out its oversight function, the Office conducted field visits to Sub-recipients and Sub-sub-recipients' premises. During 2011, three field visits were undertaken to TB projects, five to Malaria projects and 11 to HIV projects. During 2012 (as of the audit fieldwork date), 15 field visits had been made to TB projects, while two visits were made to Malaria projects and 17 to HIV projects. The September and December 2011 Global Fund management letters reiterated the need for the Office to increase its field visits to enable the on-site verification of programmatic data which is essential given the large number of Sub-sub-recipients operating at the provincial levels. For instance, there were 41 Sub-sub-recipients for HIV grants, 8 Sub-sub-recipients for TB and 13 for Malaria grants. The Office commented that given the staffing and heavy workload of the Programme Management Unit, performing more field visits could affect the speed with which other project activities are carried out, and adversely impact project implementation.

Issue 3   Programme evaluation weaknesses

The Global Fund Monitoring and Evaluation Toolkit states that programme reviews and evaluations are an essential component of a monitoring and evaluation system, therefore evaluations should be undertaken at the midpoint and end of the programme implementation period. Programme review provides managers with the opportunity to review matters such as the continued relevance of the programme, interim results with regard to performance indicators, the effectiveness of the approach used to produce results and the efficiency of programme management.

The Office provided two evaluation reports: one dated June 2010 relating to the Malaria grant (Phase 1, Round 7) while the other report related to the HIV grant (Phase 1, Round 8) dated September 2011. Neither of these reports had been uploaded onto the UNDP Evaluation Resource Centre website. The Office was of the view that the evaluation results belonged to the government, which might have had reservations in sharing them with others. Therefore, the Office preferred not to upload evaluation reports onto the website. OAI informed the Office that although the Global Fund agreement does not require the uploading of evaluation reports, the UNDP 2011 evaluation policy states that the data regarding all evaluations conducted should be uploaded onto the Evaluation Resource Centre website, which is owned by UNDP. The Office agreed to follow up with the Evaluation Office to confirm if they are to upload the Global Fund evaluation reports and the corresponding management responses onto the Evaluation Resource Centre website. Further, the Office had not established a formal tracking mechanism to track and monitor implementation of recommendations made in these evaluation reports.

Subsequent to the fieldwork, the Office forwarded to OAI two other evaluation reports (Evaluation of Round 2 HIV and Round 7 TB Phase 1 conducted in 2007 and 2010, respectively). These had also not been uploaded onto the Evaluation Resource Centre website. The Office indicated that given the turnovers in programme management and staff within the Programme Management Unit which handles the Global Fund programme in the Office, they were not aware of these evaluation reports at the time of the audit fieldwork. As the Office had not tracked and monitored the recommendations and issues highlighted in these evaluation reports, it raises a question as to the usefulness of these evaluations.

Priority	Medium (Important)

Recommendation 2:

The Office should:
(a) liaise with Evaluation Office on whether the Office can do away with the need to upload all evaluation reports and the management response into the evaluation resource centre; and
(b) review and revise the Office's programme review and monitoring processes to ensure that the information contained in the evaluation reports is monitored and tracked to allow assessment of the progress made in addressing recommended corrective actions.

Management Comments and action plans:	__√__ Agreed ____ Disagreed

The Office commented that they have been in contact with the Evaluation Office to inquire as to whether Global Fund projects are required to upload evaluation results into the Evaluation Resource Centre website. The Office also indicated it would be initiating actions to improve programme review and monitoring processes.

2.4 Grant closure	**Partially Satisfactory**

Issue 4   Failure to close projects in a timely manner

The Programme and Operations Policies and Procedures state that a project is operationally complete when the last UNDP financed inputs have been provided and the related activities have been completed. Further, according to the Programme and Operations Policies and Procedures, a project should be considered "operationally closed" at its end date as shown in the signed cost-sharing agreement or Project Document. Projects should be financially closed within 12 months after being operationally completed.

As of the end of the audit fieldwork date, 23 projects had not been closed operationally in a timely manner as required under the Programme and Operations Policies and Procedures. According to management, these delays occurred because the Office had been waiting to finalize certain financial information such as the general management service fees and recording all financial transactions in Atlas before undertaking operational closure of projects.

Delay in closing projects may delay external reporting that may impact donor relations.

Priority	Medium (Important)

Recommendation 3:

The Office should ensure that projects are monitored in compliance with the Programme and Operations Policies and Procedures. This should include ensuring that projects are operationally closed as soon as possible upon completion project activities; and financially closed within 12 months of their operational closure.

Management Comments and action plans:	__√__ Agreed ____ Disagreed

The Office agreed with the principles outlined in the recommendation above and will implement them diligently.

3. Sub-recipient management	Partially Satisfactory

The following four Sub-recipients implemented the Global Fund grants during the audit period: Centre for Communicable Disease Control of the Ministry of Health and Medical Education, the Health and Nutrition Bureau of the Ministry of Education, the Treatment Department of the Prisons Organization and the World Health Organization (WHO).

3.1 Selection, assessment and contracting	Satisfactory

All four Sub-recipients were named by the CCM when grant proposals were submitted to Global Fund. Standard letters of agreement were used and no exceptions were noted. No reportable issues were noted in this area.

3.2 Funding	Partially Satisfactory

The Office had adopted an incorrect accounting practice for recording advances made to a Sub-recipient and another entity contracted by a Sub-sub-recipient. This is described in detail below.

Issue 5   Incorrect recording of advances

(a)   The Office made quarterly advances to a Sub-recipient (a United Nations agency) for programmatic activities. The Programme and Operations Policies and Procedures state that when UNDP pre-funds United Nations agency implemented projects with a cash advance, the transaction should be recorded as an advance in the financial accounts of UNDP. However, the Office recorded these quarterly advances to the United Nations agency as expenses in UNDP accounts ($1.2 million in 2011, $0.5 million up to June 2012) which resulted in the overstatement of project expenditures in the Combined Delivery Report. Further, recording the advances in the Project Clearing Account would have facilitated a more adequate tracking and follow-up process with the United Nations agency.

(b)   According to the Programme and Operations Policies and Procedures, when UNDP advances cash quarterly to an implementing partner, these funds are to be reported as advances in UNDP books. A Sub-sub-recipient had contracted with an entity to perform its financial management functions related to a grant under the HIV programme. The Office made quarterly advances to this entity to finance the implementation of activities in the annual work plan. However, the Office had recorded these quarterly advances as project expenses. The Office provided advances totalling $0.5 million to this entity in 2011 and $0.3 million in 2012, which resulted in the overstatement of project expenditures in the Combined Delivery Report. Furthermore, according to UNDP guidelines on managing national implementation modality/NGO advances, offices should make new advances to implementing partners only upon liquidation of 80 percent of the previous advance and 100 percent of all earlier advances. The Office had not complied with this requirement, as the Office was treating advances as expenses. The Office subsequently informed OAI that it had stopped working with this entity in August 2012.

The Office's accounting practices described above did not comply with the Programme and Operations Policies and Procedures and International Public Sector Accounting Standards adopted by UNDP. Further, these accounting practices resulted in overstating expenses in the project's Combined Delivery Reports.

Priority	Medium (Important)

Recommendation 4:

The Office should ensure compliance with the Programme and Operations Policies and Procedures on pre-funding and recording of advances to United Nations agency implemented projects. Thus, the Office should not treat advances made to the United Nations agency as expenditures but record them as advances. Further, the Office should ensure that no new advances are made until at least 80 percent of the previous advance has been liquidated.

Management Comments and action plans: __√__ Agreed   ____ Disagreed

The Office informed OAI that subsequent to the audit field work and after consultation with the Office of Financial Resources Management, they have stopped recording quarterly advances to the United Nations agency as expenses.

3.3 Reporting   Satisfactory

OAI reviewed the Office's reporting process established to manage reports received from Sub-recipients. Generally, Sub-recipients submitted regular progress reports to the Office. However, one Sub-recipient did not provide any quarterly reports during the audit period concerning the TB programme. The Office planned to bring this matter to the attention of CCM.

No other reportable issues were identified.

3.4 Oversight and monitoring   Satisfactory

The Office had carried out visits to Sub-recipients and had regular meetings during the audit period. No reportable issues were identified.

3.5 Audit   Satisfactory

The Office's Global Fund portfolio was included in the 2011 national implementation modality/NGO audit plan and an audit was conducted. OAI reviewed the audit process and the Office's monitoring of audit recommendations. No reportable issues were identified.

4. Procurement and supply management   Partially Satisfactory

During the period under review, the Office processed 171 purchase orders with a total value of $4.9 million. The auditors reviewed a sample of 30 purchase orders valued at $3.6 million (73 percent), as well as the recruitment of 16 out of the 19 individual contractors hired in 2011. Several weaknesses were noted in this area as described below.

Issue 6   Procurement and supply management weaknesses

(a)   Unjustified denomination of local contracts in US dollars

The local currency, the Iranian Rial, had undergone significant devaluation against the US dollar over the 12 months prior to the audit. In September 2012, the Central Bank of Iran established a dual

exchange rate, i.e. reference and non-reference rates. With that, the US dollar exchange rate was fixed at 12,260 Rial, and 23,860 Rial, respectively. A third exchange rate (not designated as such by the Central bank) in the open market quoted as high as 35,000 Rial. The United Nations, as per established practice, switched its rate of exchange in October 2012 to a non-reference rate as it was the best available rate in the country. The auditors noted that 12 local contracts amounting to $330,000 were denominated in US dollars instead of Rials without appropriate justification. This practice exposed the project to significant foreign exchange and operational risks and it would have been prudent to have local contracts in the local currency. The Office informed the auditors that the major reason for using US dollars was to avoid the impact of budget deviation and gain/loss caused from the fluctuation in exchange rates. However, given the recent dramatic increase in exchange rates, and hence unpredictable ramifications on the ongoing contracts, management will instruct staff members that all local contracts be executed in local currency.

(b)   Physical verification of inventory needs improvement

In 2011, a review of the field visit reports indicated that the Office verified the project inventories and assets. However, the findings and corrective actions were neither recorded nor followed up on in a consistent manner. For example, even though the Procurement Unit visited project sites to verify the existence and condition of inventories, there was no plan identifying which sites to be visited and/or what the priority locations were. Further, the observations made during the field visits included idle, out of order, and missing/undelivered assets that increase the potential for negative impacts on project deliverables.

Improvement was noted in 2012 as the Procurement Unit had prepared a plan that scheduled its visits in order to save on staff and logistical costs. Also, a case log had been prepared to ensure site visit observations were resolved.

(c)   Shortcomings in managing individual contracts

OAI reviewed 22 individual contracts issued during the audit period, and noted the following regarding the recruitment and contracting of individual contractors:
▪   Four of the individual contracts did not provide any form of identification.
▪   Nine of the individual contracts were contracted under a waiver of a competitive process.

The most common justification given for using waivers was that the consultant was hired on the recommendation of the Sub-recipient. However, the Programme and Operations Policies and Procedures require that the use of waivers should be restricted to exceptional cases and must be in conformity with UNDP Financial Regulations and Rules (121.05). OAI is of the opinion that some of these justifications did not meet the requirements of the Programme and Operations Policies and Procedures to warrant a waiver of the competitive process. The Office indicated that in the context of the Global Fund grants, the partnership with the government and its technical capacity in the areas of implementation, calls for attention to the local needs and requirements, which in some cases require flexibility. The Office further stated that in such cases the Office has ensured proper documentation of the rationale for waiver and the approvals thereof.

(d)   Lack of compliance with UNDP travel policy

The Programme and Operations Policies and Procedures provide that when government officials are required to travel using UNDP programme funds, they should travel on the lowest cost or economy class basis. Exceptions to this requirement, such as those for senior level officials, require prior approval by the Bureau of Management.

During the audit period, there were 39 instances of official travel. OAI noted that seven government officials travelled in business class when using UNDP programme funds. Even though these individuals were high ranking government officials, the Office had not obtained Bureau of Management approval prior to incurring these expenses.

Priority	Medium (Important)

Recommendation 5:

The Office should comply with UNDP Programme and Operations Policies and Procedures by:
(a) ensuring that local contracts are denominated in the local currency and only in exceptional instances permit contracts to be denominated in non-local currency;
(b) limiting the use of waivers of a competitive process to only exceptional cases when hiring on individual contracts and obtaining proper identification documents from all individual contractors before execution of the contract; and
(c) ensuring that all travel, including travel relating to government officials travelling in business class is compliant, including seeking the required authorizations and approvals.

Management Comments and action plans: __√__ Agreed   ____Disagreed

The Office agreed with the recommendations and indicated that they would be implemented.

5. Financial management	**Partially Satisfactory**

For the period under review, the Office processed 5,405 payment vouchers totalling $9.6 million. OAI reviewed 60 vouchers totalling $3.8 million or 39 percent of the paid vouchers. This review covered delegation of authority, cash advance payments relating to project activities and procurement payment voucher verification.

5.1 Revenue and accounts receivable	**Satisfactory**

The OAI review of this area indicated that adequate controls were implemented. No other issues were noted.

5.2 Expenditures	**Partially Satisfactory**

OAI noted discrepancies which resulted in the 2011 Combined Delivery Report being overstated, as discussed below:

Issue 7   Overstatement of the 2011 Combined Delivery Report

The International Public Sector Accounting Standards require the recording of expenses when services or goods are received by the reporting entity. The Office had booked the amount of $0.9 million as expenses in the Global Fund's programme accounts for 2011 for Award 00040048, although only $99,000 related to 2011 while the balance amounting to $825,000 was for 2012 salary expenses. Expenses recorded in the 2011 Combined Delivery Report for Award 00040048 totalled $10.6 million. Recording the 2012 salary expenses in 2011 resulted in overstating the 2011 Combined Delivery Report by 8 percent.

The Office explained that, as fixed-term appointments cannot be issued for less than a year, the Global Fund agreed to allocate funds for 12 months pro-forma staff cost. The Office further stated that although the

arrangement resulted in an overstatement in the expenses of 2011 and an understatement in 2012 expenses, given that this is a recurring process, the understatement in 2012 will be offset against the salary of 2013.

The above practice had the impact of distorting the expenses reported in the Combined Delivery Report for 2011 and 2012. Further, this practice will have a recurring impact on the accuracy of the Combined Delivery Report for future years.

Priority	High (Critical)
Recommendation 6: Unless a different recording method is duly authorized in writing by the Office of Financial Resources Management, the Office should ensure that salaries are recorded as expense in the same period in which they are actually disbursed so that the Combined Delivery Report gives a true and accurate picture of a project's expenses.	
Management Comments and action plans: __√__ Agreed ____ Disagreed The Office agreed with the recommendation and has started liaising with the Office of Financial Resources Management to address the issue above.	

5.3 Reporting to the Global Fund   Satisfactory

OAI reviewed the Office's reporting process established to prepare and submit reports to Global Fund. The Office as the Principal Recipient is required to submit quarterly progress updates and submit reports to the Global Fund 45 days after the end of each quarter. In 2011, the Office submitted these quarterly reports late on nine out of 12 instances. The primary reasons for these delays were due to the late submission of quarterly reports by Sub-recipients to the Office which in turn resulted in the Office submitting reports late to the Global Fund. However, in 2012 the Office had improved its performance as it submitted all quarterly reports to the Global Fund within the established deadline.

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 not included in this report.