



**AUDIT**

**OF**

**UNDP BOSNIA AND HERZEGOVINA**

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

**Report No. 1130**  
**Issue Date: 15 January 2014**

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## Report on the audit of UNDP Bosnia and Herzegovina Grants from the Global Fund to Fight Aids, Tuberculosis and Malaria Executive Summary

From 21 January to 1 February 2013, the Office of Audit and Investigations (OAI) conducted an audit of three grants from the Global Fund to Fight Aids, Tuberculosis and Malaria (Global Fund) (Project Nos. 53291 [HIV], 76377 [HIV] and 76387 [TB]) managed by the UNDP Country Office in Bosnia and Herzegovina (the Office) as the Principal Recipient. The audit covered all Global Fund-related activities of the Office during the period from 1 January 2011 to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$19 million. This was OAI's first audit of the Office's Global Fund-related activities.

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 observed relating to the recruitment process, inadequate quality assurance of finished pharmaceutical products, and inadequate documentation for the salary supplementation of government officials. Ratings per audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>1. Governance and strategic management</b>				
1.1 Organizational structure	Partially Satisfactory			
1.2 Staffing	Unsatisfactory			
1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Satisfactory			
1.4 Capacity building and exit strategy	Satisfactory			
<b>2. Programme management</b>				
2.1 Project approval and implementation	Satisfactory			
2.2 Conditions precedent to disbursement and special conditions	Satisfactory			
2.3 Monitoring and evaluation	Satisfactory			
2.4 Grant closure	Partially Satisfactory			
<b>3. Sub-recipient management</b>				
3.1 Selection, assessment, and contracting	Satisfactory			
3.2 Funding	Satisfactory			
3.3 Reporting	Satisfactory			
3.4 Oversight and monitoring	Satisfactory			
3.5 Audit	Satisfactory			

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>4. Procurement and supply management</b>				
4.1 Procurement of health products	Partially Satisfactory			
4.2 Quality assurance of health products	Unsatisfactory			
4.3 Procurement of other goods and services	Satisfactory			
4.4 Supply management (inventory, warehousing, and distribution)	Partially Satisfactory			
4.5 Asset management	Satisfactory			
4.6 Individual contractors	Partially Satisfactory			
<b>5. Financial management</b>				
5.1 Revenue and accounts receivable	Satisfactory			
5.2 Expenditures	Satisfactory			
5.3 Reporting to the Global Fund	Satisfactory			

## Key issues and recommendations

The audit raised 6 issues and resulted in 6 recommendations, of which 3 (50 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

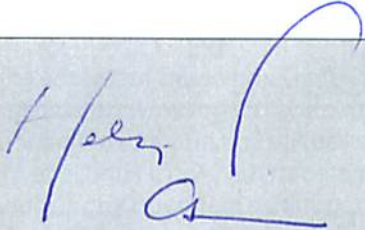
The high priority recommendations are as follows:

Staffing (Issue 1)	<u>Weaknesses in the recruitment process.</u> A series of shortcomings were identified in the Office's human resources function. For example, the Office did not always use a competitive selection process, and in some instances it had waived the academic qualification requirement subsequent to the shortlisting process. Also, written tests were not used consistently and the Office had raised the position level of two service contract holders without conducting a competitive recruitment process. OAI recommends that the Office review and revise its recruitment processes to comply with UNDP policies and procedures and the Recruitment and Selection Framework requirements and ensure that all fixed-term appointments and service contract positions are filled through a transparent and competitive recruitment process.
Quality assurance of health products (Issue 3)	<u>Inadequate quality assurance of finished pharmaceutical products.</u> Anti-TB drugs procured by the Office had not been tested as required by the Global Fund quality assurance policy. 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 lab which meets the requirements of the Global Fund quality assurance policy. OAI further recommends that the Office coordinate with the Global Fund Partnership Team of the Bureau for Development Policy to ensure that the quality assurance plan for the Country complies with Global Fund requirements.
Individual contractors (Issue 6)	<u>Lack of approval for the salary supplementation of government officials.</u> The Office provided salary supplements to government officials without seeking the required approval for such engagements from the Office of the Administrator and the Regional

Bureau. OAI recommends that the Office obtain the approval of the Office of the Administrator and Regional Bureau on the Engagement on National Salary Supplementation and Payment Scheme. The request for the approval should clearly indicate the mechanism for calculating the level of salary supplements.

**Management comments and action plan**

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



Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. Introduction

From 21 January to 1 February 2013, OAI conducted an audit of three grants from the Global Fund (Project Nos. 53291 [HIV], 76377 [HIV] and 76387 [TB]) managed by UNDP Bosnia and Herzegovina as the Principal Recipient. 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; 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 2011 to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$19 million. This was OAI's first audit of the Office's Global Fund-related activities.

## II. Profile of Global Fund grants managed by UNDP Bosnia and Herzegovina

Since 2006, UNDP has been the Principal Recipient of Global Fund grants in Bosnia and Herzegovina (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Dec 2012 (in \$'000)	Implementation Rate	Expenditures as of 31 Dec 2012 (in \$'000)	Global Fund Rating as of March 2013
BIH-506-G01-H	00053291	HIV	Nov 2006	Oct 2011	11,042 Phase II	10,992	100%	1,203	A1 <sup>1</sup>
BIH-910-G03-H	00076377	HIV	Dec 2010	Nov 2012 <sup>2</sup>	14,485 Phase I	12,334	85%	12,255	Not rated
BIH-T-UNDP	00076387	TB	Oct 2010	Dec 2012	10,349 Phase I	9,487	92%	2,806	A2 <sup>3</sup>

<sup>1</sup> Global Fund A1 rating = exceeding expectations

<sup>2</sup> The grant was extended to 31 March 2013

<sup>3</sup> Global Fund A2 rating = meets expectations

### III. Detailed assessment

#### 1. Governance and strategic management

Partially Satisfactory

##### 1.1 Organizational structure

Partially Satisfactory

The Office had established two stand-alone project management units for managing the HIV and TB grants. Each unit had a team of programme, finance, and procurement personnel using similar work processes and interactions with the other units of the Office. Given the similarity of the work processes, particularly in the operations areas, the two teams could have benefited from closer coordination and possibly combining some tasks in order to achieve cost savings. Further, at the time of the audit, the role of the Programme Coordinator was unclear as both unit managers were reporting directly to the Office's senior management. The Office agreed to assess the benefits of consolidating the two units and to reviewing the reporting lines. No other reportable issues were identified.

##### 1.2 Staffing

Unsatisfactory

#### Issue 1 Weaknesses in the recruitment process

Five principles guide the recruitment and selection of UNDP staff members and project personnel: competition, objectivity, transparency, diversity and accountability. OAI reviewed a sample of 7 out of 23 files for Project Management Unit personnel and noted the following:

- (a) The Office directly appointed a candidate to a fixed-term position rather than conducting the required competitive selection process to fill the position. Further, the Office had not provided adequate justification as to why the incumbent had been directly appointed and given a significant salary step increase. The Office explained that they had converted the contract modality for a project manager from service contract to fixed-term appointment through a Note to File signed by the Resident Representative without conducting a competitive selection process.
- (b) In one case, the Office short-listed and recruited a candidate who did not have the required academic qualifications for a project manager position. The Office explained that the attainment of educational requirements had been interrupted by war for many people in the Country, and therefore waiving the requirements for academic qualifications was not an unusual practice. However, the Office had only waived the academic requirement after advertising and completing the selection process, and therefore other potential candidates may not have applied based on the published academic requirements. Changing the requirements for a position after the short-listed candidates have been identified does not meet the guiding principles of competition in regard to the recruitment of project personnel. Further, no documentation was provided to support that the Office had communicated with Headquarters human resource offices or the Global Fund regarding the difficulty in finding candidates who meet the minimum academic requirements and the corresponding need to waive those requirements.
- (c) The Office did not consistently conduct written tests for recruitment purposes. For example, the Office required a written test for candidates for procurement positions but not for finance or programme positions. While conducting written tests is not a mandatory UNDP requirement, it is a recognized good practice, especially for the recruitment of mid- to high-level project positions.

- (d) In another case, a written test showed the candidate's name, and therefore was not evaluated anonymously. The test was also scored by only one individual as opposed to the required review by an ad-hoc panel.
- (e) The Office "promoted" two service contract holders without open competition, meaning the service contract holders were given additional tasks in their terms of reference and their salary was increased. According to UNDP policies and procedures, a service contract holder cannot be promoted to a higher level unless it is done through a competitive recruitment process.

The lack of compliance with recruitment policies and procedures does not provide adequate transparency, or assurance that the process was fair and that the most suitable candidate was selected, and thus may present operational and reputational risks for the Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Office should review and revise its recruitment processes to comply with UNDP policies and procedures and with the Recruitment and Selection Framework requirements and ensure that all fixed-term appointments and service contract positions are filled through a transparent and competitive recruitment process.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office acknowledges the auditor's opinions on all human resource related cases and commits to consistently applying relevant rules and policies specified in the Programme and Operations Policies and Procedures (cases a, b and e). As for cases c and d, appropriate actions were already undertaken to fully comply with the recommendation.	

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

**Satisfactory**

OAI discussed with the Chairperson of the Country Coordinating Mechanism (CCM) the cooperation and coordination with the Office and reviewed the CCM meeting minutes. The Office provides administrative and logistical support to the CCM, which is funded from the TB and HIV grants. The Office did not avail itself of separate funding for the CCM support activities from the Global Fund. According to the Office, a request for such funding was submitted to the Global Fund in February 2010, but it had not received a reply from the Global Fund. The Office agreed to raise the issue again with the CCM. No other reportable issues were identified.

### 1.4 Capacity building and exit strategy

**Satisfactory**

According to the Global Fund eligibility criteria, after Phase II of the TB and HIV (Round 9) grants are completed at the end of 2015, the Country may no longer be eligible for additional funding, based on improvements in statistics relating to average income levels and the number of reported cases of HIV/TB.

Phase I of the grants had not included the requirement for an exit strategy and at the time of the audit, a formal exit strategy or transition plan had not been developed. However, as part of the 2013 Phase II agreement, the Office had made commitments to the donor to prepare and implement a plan to ensure sustainability of the HIV



and TB activities in the Country. As the development of an exit strategy was a new requirement related to the 2013 Phase II grant, a recommendation has not been made. No other reportable issues were identified.

## **2. Programme management**

**Satisfactory**

### **2.1 Project approval and implementation**

**Satisfactory**

Phase I of the TB grant expired on 31 December 2012, and Phase I of HIV (Round 9) expired on 30 November 2012 but was extended to 31 March 2013. Requests for continued funding of both grants had been submitted to the Global Fund in September 2012. The Global Fund Board approval of the TB grant had been received at the time of the audit. However, the Global Fund Board had requested that the HIV grant team resubmit the entire application with a more focused proposal that was in line with the new Global Fund guidelines. Further, the Office had not sought the direct implementation approval/authorization for the new Global Fund grants from the Regional Bureau, as it had assumed that the previously obtained authorization was still valid. The Office agreed to seek the direct implementation authorization from the Bureau for the new period. No other reportable issues were identified.

### **2.2 Conditions precedent to disbursement and special conditions**

**Satisfactory**

OAI assessed the status of the conditions precedent to disbursement and the special conditions of two grant agreements. For the TB grant, all conditions were fully met. For the HIV grant, only two of the three conditions were fully met. The remaining condition, which required the Country Coordinating Mechanism to present an approved government policy for the payment of salary supplements to government officials, was not yet finalized. The Office was following up on this condition with the Global Fund Secretariat (refer to Issue 6 for further details). No other reportable issues were identified.

### **2.3 Monitoring and evaluation**

**Satisfactory**

OAI reviewed the adequacy of the monitoring and evaluation plans, including the documentation in regard to data collection and verification visits carried out by the Office. OAI noted that monitoring missions were well documented. Opportunities for monitoring improvements were discussed with the Office and it agreed to consolidate observations from field visits and standardize data collection documentation to enable more effective monitoring during field visits. No other reportable issues were identified.

### **2.4 Grant closure**

**Partially Satisfactory**

Round 5 of the HIV grant closure was completed on 30 June 2012, but the grant was still operationally and financially open in Atlas. Since the grant had not been closed in a timely manner, the Finance Unit had charged additional costs of less than \$500 to the grant after the deadline set by the Global Fund for additional charges and commitments. Also, there were still two purchase orders valued at \$11,000 which reflected an open status in Atlas even though the procurement and related transactions had been completed. The purchase orders needed to be closed immediately as they continued to show minor balances which meant continued commitment of the grant funds. A recommendation has not been made, as the Office had taken the necessary steps to finalize the financial and operational closure of the grant after the audit fieldwork. No other reportable issues were identified.

### **3. Sub-recipient management**

**Satisfactory**

The Office implemented the grants through 15 Sub-recipients, comprised of 1 United Nations agency, 1 inter-governmental organization, 2 governmental entities and 11 non-governmental organizations. Approximately \$10.2 million was disbursed to these Sub-recipients during the audit period.

#### **3.1 Selection, assessment, and contracting**

**Satisfactory**

A review of the process for selecting, assessing and contracting of Sub-recipients was conducted. No reportable issues were identified.

#### **3.2 Funding**

**Satisfactory**

The \$10.2 million the Office disbursed to the Sub-recipients was reviewed for compliance with the grant work plans and UNDP policies and procedures. No reportable issues were identified.

#### **3.3 Reporting**

**Satisfactory**

A review was conducted of the Sub-recipient reporting processes, including the timeliness and quality of the reports submitted. The Office had developed a follow-up tool to monitor the receipt and verification of the Sub-recipient reports. In addition, the Office provided Sub-recipients with a comprehensive and detailed manual as well as a template to facilitate the preparation of the reports. No reportable issues were identified.

#### **3.4 Oversight and monitoring**

**Satisfactory**

OAI reviewed the Office's Sub-recipient oversight and monitoring processes, including monitoring visits, financial oversight and review of Sub-recipient expenditures. The Office had established a financial monitoring procedure, which involved monthly (TB) and quarterly (HIV) visits to Sub-recipient offices to review periodic expenditures. No reportable issues were identified.

#### **3.5 Audit**

**Satisfactory**

OAI also reviewed the Sub-recipient audit processes, including a review of all Sub-recipient audit reports for the period covered by this audit, as well as assessing the mechanisms implemented by the Office to ensure that issues and recommendations identified in the reports were followed-up and acted upon. No reportable issues were identified.

### **4. Procurement and supply management**

**Partially Satisfactory**

During the audit period, the Office processed 590 purchase orders totalling about \$7 million for the Global Fund grants. OAI reviewed the procurement process by interviewing the Office's staff assigned to the Global Fund grants and testing a sample of 31 purchase orders valued at about \$1.3 million, or 19 percent of the total value of purchase orders issued during the audited period.

Each of the two Project Management Teams included a Procurement and Supply Management Team comprised of five personnel.

#### 4.1 Procurement of health products

**Partially Satisfactory**

##### Issue 2 Delays in the procurement of TB medicines

Delivery of quality products in a timely manner is vital to beneficiaries such as health centres and patients. Delays were noted in the receipt of the second line TB medicines which resulted in stock-outs within the Country. For example, Levofloxacin, the anti-TB medicine, although scheduled to be received in September 2012, had still not been received four months later, when the audit was conducted. The Office had made a temporary arrangement to borrow medicines from a neighboring country to avoid stock-outs. Further, the delivery of first line TB medicines was delayed because the Global Procurement Unit cancelled the order due to the low quantity/small order size. The order was placed in December 2011 but had not been received at the time of the audit.

The Office was aware that because of the small quantities needed, it was possible that there would be delays in the ordering and receipt of TB medicines. Despite the delivery delays, the Country had not experienced a stock-out of TB medicine due to the Office having maintained a high buffer stock and having arranged for the possibility of borrowing from a neighboring country. However, any protracted delays could result in stock-outs and interruption of the medical treatments with severe consequences for patients.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should improve procurement management by placing orders in a timely manner to ensure an optimal stock level to enable the delivery of planned outcomes, and to avoid stock-outs.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
In the case noted by OAI, delays were caused by late responses from the International Development Association and Global Fund, which are factors outside of the immediate control of the Office. Nevertheless, the Office has taken note of the recommendation and further strengthened the procurement system accordingly.	

#### 4.2 Quality assurance of health products

**Unsatisfactory**

##### Issue 3 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 WHO accredited laboratory, or a lab certified in accordance with the International Organization for Standardization (No. 17205: Calibration and Testing Laboratories), or one which has been contracted by the Global Fund.

A review of documentation for the audit period showed that the anti-TB drugs procured by the Office had not been tested at any point in the supply chain as required by the Global Fund quality assurance policy. The Office explained that significant efforts were made with relevant parties to have finished pharmaceutical products sampled and tested by pre-qualified WHO/International Organization for Standardization laboratories, but no agreement had been reached primarily because Phase I of the Single Stream of Funding budget did not allocate sufficient funds for testing.

Failure to test 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)
<b>Recommendation 3:</b>	
The Office should ensure that the finished pharmaceutical products are tested throughout the supply chain by a lab which meets the requirements of the Global Fund quality assurance policy. In addition, the Office should coordinate with the Global Fund Partnership Team of the Bureau for Development Policy to ensure that the quality assurance plan for the Country complies with Global Fund requirements.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The drug testing in line with the Global Fund quality assurance/quality control policy for TB drugs will begin in early 2014.	

#### 4.3 Procurement of other goods and services

**Satisfactory**

OAI reviewed the procurement process for other goods and services amounting to approximately \$4.1 million, by interviewing the Office's staff assigned to the Global Fund grants and by testing a sample of 20 purchase orders valued at about \$1 million. The procurement evaluation committees were properly comprised of staff from the Procurement and General Services Units. The supporting documents for the selected procurement cases included relevant evaluation tables which analysed and compared the various offers received, review meeting minutes and the evaluation reports which explained the review process and conclusions. However, for cases in which the procurement amount was below \$30,000 and therefore not submitted to the Contracts, Assets and Procurement Committee, OAI identified weaknesses in the supporting documentation which were discussed with the Office and which the Office agreed to address. No other reportable issues were identified.

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

**Partially Satisfactory**

##### **Issue 4**      Weaknesses in the management of expired products

According to the Global Fund Quality Assurance Policy for Pharmaceutical Products and article 18 of the Grant Agreement, the Principal Recipient shall comply with, and shall ensure that its Sub-recipients comply with the World Health Organization Guidelines for Good Storage Practices and Good Distribution Practices for Pharmaceutical Products. OAI visited health centres, storage rooms and warehouses in Sarajevo, Tuzla, and Banja Luka and noted the centres/hospitals that dealt with medical supplies and pharmaceuticals had inconsistent policies regarding the handling and disposal of expired products.

OAI noted a case of expired TB drugs in Banja Luka that had been stored in the warehouse since late 2010. The expired TB drugs had been donated by the WHO Global Drug Facility before the Global Fund TB project started. The Office's TB team, as a part of their regular drug management activities, held a training course in early 2012 where the topic of handling expired products was discussed and drug managers were briefed on how to properly handle and report expired products. However, the management of the warehouse in Banja Luka was not aware of the specific instructions on how to handle expired drugs and indicated that they lacked adequate funds to properly dispose of them. OAI noted that the expired drugs had been properly segregated from the rest to avoid accidentally including them during the issuance of drugs from the warehouse.

Appropriate management of expired drugs, including proper and timely disposal, are critical to preventing their accidental issuance to the patients in the Country.

Priority	Medium (Important)
<b>Recommendation 4:</b>	
The Office should work with all the centres/hospitals that deal with medical supplies and pharmaceuticals to ensure they are aware of and able to comply with the requirements related to the proper disposal of expired drugs.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The TB project continued its efforts to build the capacities of the centres/hospitals for dealing with medical supplies and pharmaceuticals by conducting a second round of drug management training in October 2013.	
Both TB and HIV/AIDS teams will continue to pursue the issue of pharmaceutical waste management in line with the local laws, with the relevant health authorities. However, it must be noted that the centres/hospitals dealing with medical supplies are not under the control of the project.	

#### 4.5 Asset management

**Satisfactory**

The audit evaluated the asset management process and documentation, including the annual asset inventory, asset custody and the recording of assets. The Office provided assets and supplies to a wide range of Sub-recipients and non-sub-recipient entities (e.g., national TB programmes, hospitals, laboratories, etc.). While Sub-recipients provided the Office with records of six-month or annual physical asset checks, the non-sub-recipient entities did not have a well-established assets control system involving periodic physical checks and reporting to the Office. The supplies and assets delivered to these entities were only checked through random visits by the Office. The Office had conducted random checks at least annually. No other reportable issues were identified.

#### 4.6 Individual contractors

**Partially Satisfactory**

##### **Issue 5**      No reference checks for contracts less than \$15,000

According to the Programme and Operations Policies and Procedures, all individual contracts which exceed \$5,000 require reference checks.

A review of 12 individual contracts found that in 2 cases where the contracts exceeded \$5,000, the reference checks were not available. The Office explained that the internal standard operating procedures only required reference checks for contracts greater than \$15,000.

This situation may lead to contracting unsuitable individual contractors since no reliable information was obtained from references.

Priority	Medium (Important)
<b>Recommendation 5:</b>  The Office should strengthen its management of individual contracts by ensuring that reference checks are obtained for all individual contractors with contracts exceeding \$5,000.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed  The Office acknowledged this audit recommendation and confirmed that it has already been reflected in the relevant standard operating procedures and has become a standard practice.	

#### **Issue 6**      Lack of approval for the salary supplementation of government officials

UNDP guiding principles prohibit direct payments to government staff for their additional work contributions on development projects. This should not be confused with the standard practice of hiring nationals as UNDP staff, management or technical experts. However, in well-defined exceptional circumstances and provided that specific conditions are met, the UNDP Policy and Procedures for Engagement do permit to engaging in National Salary Supplementation Schemes and National Salary Payment Schemes. Such engagement requires the approval of the Office of the Administrator and the Regional Bureau concerned.

In order to facilitate the implementation of the programme activities, the Office involved the government employees who were the only personnel authorized to access certain information. According to the Office, the salary supplementation paid to these employees was in line with the additional activities and hours on top of their regular working hours.

OAI reviewed a sample of 12 individual contracts totalling approximately \$214,000. Eight out of the 12 individual contracts reviewed totalling about \$145,000 were related to salary supplements for government officials, with a monthly rate ranging from \$300 to \$1,800. While the Office indicated that the amount of the supplement was dependent on the seniority and qualifications of the officials, and that the nationally established salary supplement maximum of 25 percent had never been exceeded, the Office could not provide documentation to clearly support consistent and objective determination of the value of the salary supplements. As mentioned in section 2.2 above, an approved government policy for the payment of salary supplements remains outstanding. Further, the Office had not sought the required approvals for such engagements from the Office of the Administrator and the Regional Bureau.

The Office stated that the officials were nominated by the Government and that the payment scheme was in line with both grant budgets, which had been approved by the donor and reviewed by the Country Coordinating Mechanism. The lack of a properly approved and well documented objective mechanism for determining the value of salary supplements increases the risk that they will not be applied fairly, which could result in the improper use of funds and damage to the reputation of the Office and UNDP.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
The Office should obtain the approval of the Office of the Administrator and Regional Bureau on the Engagement on National Salary Supplementation and Payment Scheme. The request for the approval should clearly indicate the mechanism for calculating the level of salary supplements.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The payment scheme is in line with the grant budget. The actions done so far - the scheme was reviewed by the Country Coordinating Mechanism and endorsed on 7 October 2013; Global Fund approved the incentives scheme as endorsed by the Country Coordinating Mechanism on 9 October 2013. The Office will obtain the approval as recommended.	

## 5. Financial management

**Satisfactory**

During the audit period, the Office processed 10,928 payment vouchers totalling \$17 million for Global Fund projects. OAI reviewed 71 disbursement vouchers with a total value of \$1.9 million or 11 percent of the total value of the vouchers for the period. OAI also tested the adequacy of the financial management arrangements by interviewing the Office's staff, and reviewing financial reports and expenditure documents.

### 5.1 Revenue and accounts receivable

**Satisfactory**

OAI reviewed the recognition and measurement of revenue and accounts receivable according to the International Public Sector Accounting Standards, which included the timely recognition of revenues by the Office upon receipt of disbursement confirmation from the Global Fund. No reportable issues were identified.

### 5.2 Expenditures

**Satisfactory**

The Office used relevant account codes in the Combined Delivery Reports, and based on the result of voucher testing, all payments were properly authorized.

The Office had established a proper budget override policy which was approved by the Office of Financial Resources Management. The policy required Project Managers or the Cluster Coordinator to prepare override requests on a case by case basis, which include detailed justification and clear anticipation of when the related funds would be received. The purpose of the policy was to allow the Office to proceed with initiating procurements and payments to suppliers related to the project once the donor had committed to providing funding, even though the Office did not yet have custody of the funds. On two occasions, one in November 2012 (TB project) and one in January 2013 (HIV/AIDS project), the projects had requested budget overrides totalling approximately \$1.5 million, without having a clear date for the expected receipt of funds. The Office stated that the overrides were authorized based on a signed implementation letter with the Global Fund. However, this document did not provide assurance that the payment had been initiated by the donor. Without this assurance, the Office assumed the legal and financial risk of not having enough resources to pay for project commitments, and to sustain the Office's operations. OAI has not raised a recommendation, as funds equaling the total amount of the overrides were received from the Global Fund in December 2012 for the TB project and in May 2013 for the HIV/AIDS project.

### 5.3 Reporting to the Global Fund

**Satisfactory**

The audit evaluated the process for reporting to the Global Fund by interviewing the Office's staff and reviewing reports submitted to the Global Fund Secretariat. During 2011 and 2012, three out of four submissions of Progress Update and Disbursement Request reports submitted by the HIV project were late, with delays of 15 days to 1.5 months. According to the Office, these short delays occurred because the draft version of the reports had been submitted to the Local Fund Agent for verification before the final version had been submitted to the Global Fund. The Office agreed to improve the timeliness of the report submission process. No other 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 not included in this report.