



AUDIT

OF

UNDP NIGER

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

Report No. 1139

Issue Date: 9 December 2013

Table of Contents

Executive Summary	i
I. Introduction	1
II. Profile of Global Fund grants managed by UNDP Niger	1
III. Detailed assessment	2
1. Governance and strategic management	2
1.1 Organizational structure	2
1.2 Staffing	2
1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	3
1.4 Capacity building and exit strategy	3
2. Programme management	3
2.1 Project approval and implementation	3
2.2 Conditions precedent and special conditions of the grant agreements	3
2.3 Monitoring and evaluation	3
2.4 Grant closure	3
3. Sub-recipient management	5
3.1 Selection, assessment and contracting	6
3.2 Funding	6
3.3 Reporting	6
3.4 Oversight and monitoring	6
3.5 Audit	7
4. Procurement and supply management	7
4.1 Procurement of health products	7
4.2 Quality assurance of health products	7
4.3 Procurement of other goods and services	8
4.4 Supply management (inventory, warehousing and distribution)	8
4.5 Asset management	9
4.6 Individual contractors	10
5. Financial management	10
5.1 Revenue and accounts receivable	10
5.2 Expenditures	10
5.3 Reporting to the Global Fund	10
ANNEX Definitions of audit terms - Ratings and Priorities	12

Report on the audit of UNDP Niger Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 17 February to 1 March 2013, the Office of Audit and Investigations (OAI) conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project IDs 00052596 [TB] and 00052624 [Malaria]) managed by the UNDP Country Office in Niger (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered the Office's activities related to the closure of the Global Fund grant during the period from 1 January to 31 December 2012, as well as the follow-up on a previous audit report which had been rated as "unsatisfactory". In view of the fact that the two grants have been in the closure phase (since 31 December 2011 for TB and since 30 June 2012 for Malaria), the audit did not cover the areas relevant to the initial stages of grant management. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$0.3 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 the audit process of Sub-recipient activities, lack of oversight over medical supply inventory and weaknesses in asset inventory transfer. 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	Not Applicable			
1.4 Capacity building and exit strategy	Not Applicable			
2. Programme management				
2.1 Project approval and implementation	Not Applicable			
2.2 Conditions precedent and special conditions of the grant agreements	Not Applicable			
2.3 Monitoring and evaluation	Not Applicable			
2.4 Grant closure	Partially Satisfactory			

¹ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

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

Key issues and recommendations

The audit raised 6 issues and resulted in 3 recommendations, of which 2 (67 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:

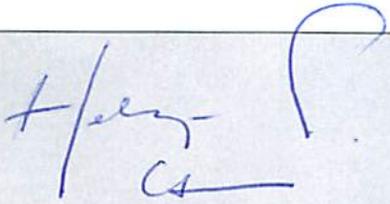
- Grant closure (Issue 1) Delays in the close-out process. OAI noted that 20 months after the end of the Tuberculosis (TB) R5 grant, and 8 months after the end of the Malaria R5 grant, official closure implementation letters had not been received from the Global Fund to facilitate operational and financial closure of the grants. Closure implementation procedures and related reports had been subject to clarification from the Global Fund. Furthermore, many elements, such as agreement on cash balances, submission of progress reports and transfer of assets, among others were still outstanding. OAI recommends that the Office: : (a) identify key closure activities which will extend beyond the departure of project personnel and assign responsibility for their completion to remaining personnel; (b) prepare and submit the final progress reports as well as the revised closure plan for TB R5; (c) complete the revision of the TB R5, and Malaria R5 cash balances and submit them to the Global Fund for concurrence; (d) submit formal notification to the Global Fund regarding the pre-financing of Malaria R5 activities with TB R5 funds; and (e) engage with the Global Fund via the Bureau for Development Policy, to expedite and obtain agreement on outstanding points, including the cash balances, and to facilitate issuance of closure implementation letters to officially trigger the grant closure activities.
- Asset management (Issue 5) Delay in transfer of assets and failure to insure assets. The transfer of assets financed by Global Fund resources had not yet been finalized, even more than 12 months after grant closure. The Office did not ensure that the insurance provision stipulated in the Sub-recipient agreement was adhered to. As a result, vehicles and motorcycles were uninsured and exposed to risk of theft. Furthermore, one stolen vehicle has not been reported to the Contracts, Assets, and Procurement Committee and removed from the

asset listing 13 months after the theft occurred. OAI recommends that the Office strengthen its asset management process by: (a) ensuring the insurance provision in the Sub-recipient agreement is adhered to until final transfer; (b) liaising with the Global Fund and the Country Coordinating Mechanism in order to facilitate the urgent transfer of the assets to the Global Fund; and (c) submitting the supporting documentation on the theft of the vehicle to the Contracts, Assets, and Procurement Committee for review and decision.

The implementation status of previous Global Fund audit recommendations (Report No. 845 issued December 2012 with an "unsatisfactory" rating) was also validated. Of the 16 recommendations, 13 were assessed to be implemented. The remaining three recommendations were withdrawn based on the Office's decision to discontinue the management of the Global Fund grants in Niger.

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 17 February to 1 March 2013, OAI conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project IDs 00052596 [TB] and 00052624 [Malaria]) managed by UNDP Niger 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 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.

The audit covered the Office's activities related to the closure of the Global Fund grant during the period from 1 January to 31 December 2012, as well the follow-up on a previous audit report which had a rating of "unsatisfactory". In view of the fact that the Global Fund grants managed by UNDP in the country were closed since 31 December 2011 for TB and since 30 June 2012 for Malaria, the audit did not cover the areas relevant to the initial stages of grant management. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$0.3 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. 845 issued December 2012 with an "unsatisfactory" rating) was also validated. Of the 16 recommendations, 13 were assessed to be implemented. The remaining three recommendations were withdrawn based on the Office's decision to discontinue the management of the Global Fund grants in Niger.

II. Profile of Global Fund grants managed by UNDP Niger

Between 2006 and 2011, UNDP was the Principal Recipient of Global Fund grants in Niger (the Country).

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

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) cumulative	Global Fund Rating ³ at 31 Dec 2012
NGR-506-G06-T	00052596	TB	(Phase I&2 Round 5) 1 Jun 2006	(Phase I&2 Round 5) 31 Dec 2011	(Lifetime Budget) 13,270	10,824	80%	10,805	B2
NGR-506-G04-M	00052624	Malaria	(Phase I& II Round 7) 1 Dec 2008	(Phase I& II Round 7) 30 Jun 2012	(Lifetime Budget) 11,293	9,075	77%	8,998	C

III. Detailed assessment

1. Governance and strategic management

Satisfactory

1.1 Organizational structure

Satisfactory

The Global Fund grants managed by the Office as the Principal Recipient were implemented by four national Sub-recipients, all under the Ministry of Health's organizational structure. The Malaria and TB programmes were implemented at the regional level and/or health centres under the supervision of the area Regional Directors from the Ministry of Health.

In May 2011, the Country Coordinating Mechanism designated two Principal Recipients, one of which was UNDP, for the TB R10 grant. Many recommendations by the Global Fund were acted upon, including drafting a capacity building plan and an exit strategy for the grant. However, the Office did not pursue the role of Principal Recipient for the following reasons:

- there was no clear value added to having multiple Principal Recipients implement the proposal;
- the budget did not include funding for the UNDP Programme Management Unit; and
- there was a risk of conflicting roles if UNDP was simultaneously recovering funds from Sub-recipients from previous grants (based on audit and investigation results) and channeling financial resources to the same Sub-recipients.

Since no reportable issues were identified, this audit area was rated "satisfactory".

1.2 Staffing

Satisfactory

The Programme Management Unit lacked the capacity to carry out closure activities since only two staff members out of eight remained and their contracts were set to expire on 31 March 2013. This weak capacity contributed to delays in the grant closure.

³ B: Inadequate but potential demonstrated; C: Unacceptable

Furthermore, the Office's senior management had made the decision to extend certain contracts beyond the dates set by the Global Fund in order to ensure the proper and timely closure of the two grants. However, at the time of the audit, there was no commitment that the Global Fund would reimburse the amount pre-financed by the Office.

Since both grants were closing, OAI did not issue a recommendation on staffing issues.

1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Not Applicable
--	-----------------------

This area was not assessed since it was not relevant to the grant closure phase.

1.4 Capacity building and exit strategy	Not Applicable
--	-----------------------

This area was not assessed since it was not relevant to the grant closure phase.

2. Programme management	Partially Satisfactory
--------------------------------	-------------------------------

While both grants were past the agreed programme ending dates, neither had been closed operationally. The TB R5 grant had an end date of 30 June 2011, while the Malaria R5 grant had an end date of 30 June 2012.

Despite not having received the official grant closure implementation letters, the Office was implementing some grant closure activities, including preparing final progress reports, revising the cash balances and negotiating with the Government to clear pending advances.

2.1 Project approval and implementation	Not Applicable
--	-----------------------

This area was not assessed since it was not relevant to the grant closure phase.

2.2 Conditions precedent to disbursement and special conditions of the grant agreements	Not Applicable
--	-----------------------

This area was not assessed since it was not relevant to the grant closure phase.

2.3 Monitoring and evaluation	Not Applicable
--------------------------------------	-----------------------

This area was not assessed since it was not relevant to the grant closure phase.

2.4 Grant closure	Partially Satisfactory
--------------------------	-------------------------------

Issue 1 Delays in the close-out process

According to UNDP's *Grant Closure How-To-Guide*, following the Local Fund Agent review of the grant close-out plan and budget, the Global Fund will carry out its review within a period of two months. Once the Global Fund has approved the grant close-out plan, it will notify the Office with an implementation letter (Approval of the Grant Closure Plan). This letter will confirm the grant closure date and provide any comments on the grant close-out plan and budget. The implementation letter will also list the documents the Office is requested to submit to

the Global Fund, as well as the date by which the documents must be submitted. It will also contain information relating to any potential refund of grant monies to the Global Fund. As part of closure planning, staffing needs must be carefully considered to ensure adequate capacity to manage the activities and reporting that will occur after the programme ending date.

OAI noted that, although at the time of the audit fieldwork the TB R5 grant had ended 20 months earlier and the Malaria R5 grant had ended 8 months earlier, official closure implementation letters had not been received from the Global Fund for either grant to facilitate operational and financial closure. OAI noted several outstanding items were delaying the receipt of the closure implementation letters, as presented below.

(a) TB R5 grant

- The final progress report (covering the period ending 17 August 2011), which must accompany the grant close-out plan as per UNDP's *Grant Closure How-To-Guide*, had not been submitted to the Global Fund.
- The Office had not submitted a revised TB R5 closure plan in response to Global Fund comments received on 19 November 2012. Six of eight closure plan elements required a response from the Office. These responses were still being drafted at the time of the audit. Nevertheless, the implementation of these activities was at risk of not being completed in advance of the departure of project staff members.
- The cash balance for this grant as of December 2010 had been revised by the Office due to previously unidentified exchange rate differences amounting to \$392,000 and the revision would require Global Fund acceptance. The Office was working on a draft technical note to explain the root cause of the change in cash balance.
- The Office used \$157,000 of the TB R5 funds to pre-finance Malaria R5 activities (in the early stages of the malaria grant) without the approval of the Global Fund. Subsequent to the Global Fund mission to the Country in mid-2012, the Global fund requested that the Office confirm that TB R5 project funds were used to finance staff member salaries. OAI noted that the Office had not yet responded to this request.

(b) Malaria R5 grant

- The Malaria R5 closure plan had been submitted on 12 December 2012; however, no feedback had been received from the Global Fund since then. Five of the eight closure plan elements that required a response from the Office had been attended to.
- The cash balance for the Malaria R5 grant dating back to June 2012, which had previously been submitted to the Global Fund, required revision by the Office due to the identification of additional expenses that were not captured in the interim Combined Delivery Reports used to calculate the cash balance. These interim Combined Delivery Reports did not capture General Management Service fees amounting to \$122,000 that were only reflected in the final Combined Delivery Reports. In addition, \$157,000 in salaries for project staff members (in the early stages of the malaria grant) which were pre-financed from the TB R5 grant had not been expensed in the Malaria R5 grant accounts. These adjustments to the cash balance, amounting to \$279,000, will require Global Fund approval.

Priority	High (Critical)
Recommendation 1:	
To expedite the closure of the TB R5 and Malaria R5 grants, the Office should immediately:	
<ul style="list-style-type: none"> (a) identify key closure activities which will extend beyond the departure of project personnel and assign responsibility for their completion to remaining personnel; (b) prepare and submit the final progress reports as well as the revised closure plan for TB R5; (c) complete the revision of the TB R5, and Malaria R5 cash balances and submit them to the Global Fund for concurrence; (d) submit formal notification to the Global Fund regarding the pre-financing of Malaria R5 activities with TB R5 funds; and (e) engage with the Global Fund via the Bureau for Development Policy, to expedite and obtain agreement on outstanding points, including the cash balances, and to facilitate issuance of closure implementation letters to officially trigger the grant closure activities. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The following actions were initiated to implement the recommendation:	
<ul style="list-style-type: none"> (a) The Office submitted all documents relative to the closure of the two grants to the Executive Director of the Global Fund through letter NGR-506-G05-T/FM P-078 dated 29 March 2013. These documents took into consideration all remarks and observations previously received from the Global Fund. The letter also informed the Global Fund that since the last cash disbursement dated back to December 2010, the Office had pre-financed closure activities for \$233,672 from July 2012 to March 2013, in order to allow effective closure of the two grants. (b) The Office met with the Global Fund Portfolio Manager on 1 May 2013 and it was agreed to proceed with the closure of the projects in two phases: first transfer all equipment, and then complete the financial closure. (c) The asset distribution plan was approved by the Global Fund and submitted to UNDP on 8 October 2013 for signing. 	

3. Sub-recipient management **Satisfactory**

There were four Sub-recipients for the two Global Fund grants in the Country.

Use of the advance payment modality was discontinued in June 2011 following an investigation conducted by the Office of the Inspector General of the Global Fund. Nevertheless, \$580,000 that had been issued to Sub-recipients prior to the discontinuation of the advance modality continued to be used by three of the Sub-recipients while the fourth Sub-recipient refunded most of the cash that had been previously advanced. OAI identified Sub-recipient advances of about \$84,000 (of the \$580,000) which remained outstanding.

In addition, the Global Fund had requested a refund of \$192,000 of expenditures reported by Sub-recipients which it deemed as unjustified.

3.1 Selection, assessment and contracting

Not Applicable

This area was not assessed since it was not relevant to the grant closure phase.

3.2 Funding

Not Applicable

This area was not assessed since it was not relevant to the grant closure phase.

3.3 Reporting

Not Applicable

This area was not assessed since it was not relevant to the grant closure phase.

3.4 Oversight and monitoring

Satisfactory

Issue 2 Long-outstanding advances

Payments made to all Sub-recipients, including government agencies and non-governmental organizations, must be recorded as advances. Furthermore, advances must be liquidated within three months and no new advances are to be made until 80 percent of the prior advance and 100 percent of all earlier advances have been justified and liquidated.

OAI identified outstanding advances relating to three Sub-recipients amounting to about \$84,000 dating back to early 2011.

The largest of these advances was \$77,000 outstanding with the Sub-recipient under the Malaria R5 grant. The Office was working to clear the outstanding amount (\$77,000) and had received a letter from the Implementing Partner indicating its intent to refund the full amount. Nevertheless, OAI noted that the letter did not provide a timeline for when the funds would be released to UNDP.

The remaining \$7,000 related to the TB R5 grant, with outstanding advances in the amount of \$5,500 for one Sub-recipient and \$1,500 for another Sub-recipient. The Office had received and reviewed the supporting documents from the Sub-sub-recipient for the \$5,500 in expenditures and concluded that the documents did not support these expenditures and thus, the Sub-recipient would need to be refunded. Documents in support of the \$1,500 advance had been received, but had yet to be reviewed by the Office.

Comment:

OAI is not issuing a recommendation, as the Office was engaged with the relevant Sub-recipients to ensure any unsupported advances were refunded.

3.5 Audit

Satisfactory

Issue 3 Weaknesses in the auditing of Sub-recipient activities

Article 3.d of the Standard Terms and Conditions of the UNDP/Global Fund Agreement require UNDP to arrange an audit of Sub-recipient expenditures in accordance with a plan agreed upon with the Global Fund.

OAI noted weak management of the 2011 Sub-recipient audit process, which resulted in a qualified opinion for the Malaria R5 grant. Expenditures totalling \$192,000 made through advance payments were deemed unjustified.

According to the Office, supporting documents for some amounts considered unjustified were available and, therefore, they were not unjustified. However, these documents were not provided to the auditors prior to the signing of the audit report. For example, the Office indicated that all supporting documentation for the payment of a performance bonus to a Sub-recipient amounting to \$72,000 was available; however, the Office could not confirm why the Sub-recipient did not present these documents to the auditors at the time of the audit.

Consequently, the Global Fund requested that the Office refund the expenditures deemed unjustified.

Inadequate management of Sub-recipient audit exercises could lead to an inaccurate audit opinion or inaccurate determination of net financial impact, which could damage the Office's reputation.

Comment:

Given that the Office was already engaged with the Sub-recipients to address this issue, a recommendation has not been raised.

4. Procurement and supply management

Partially Satisfactory

A total of 16 purchase orders amounting to \$16,000 were processed by the Office for the Global Fund projects and consisted mostly of Daily Subsistence Allowance payments and travel expenses. In addition, OAI reviewed asset and supply management, including the distribution of medicines and arrangements at two storage facilities.

4.1 Procurement of health products

Not Applicable

This area was assessed as low risk during the planning phase. Therefore, no further testing was performed.

4.2 Quality assurance of health products

Not Applicable

This area was assessed as low risk during the planning phase. Therefore, no further testing was completed.

4.3 Procurement of other goods and services

Not Applicable

This area was assessed as low risk during the planning phase. Therefore, no further testing was completed.

4.4 Supply management (inventory, warehousing and distribution)

Partially Satisfactory

Issue 4 Lack of oversight over medical supply inventory

Grant agreements between the Principal Recipient and the Global Fund require proper management of stock inventory and distribution channels in order to avoid the delivery of perished or expired drugs to end users and loss of drugs/drugs used for personal gain.

OAI noted a lack of oversight and an absence of a mechanism to validate the stock inventory at the two warehouses where all medical supplies financed by the Global Fund were delivered for the Malaria and TB projects. The Programme Management Unit undertook an inventory at the warehouses and at health centres in November 2012; however, this was limited to verification of the existing stock. There was no analytical review completed which included reconciliation between the distribution plan, consumption report and physical inventory to establish if there had been loss, or proper handling and disposition of expired or damaged medical supplies.

The Programme Management Unit stated that no inventory remained at the warehouses, but a physical review performed by OAI demonstrated that some medical supplies purchased by the Global Fund remained in the warehouses, including Streptomycin, Rifampicin, Isoniazid, Pyrazinamide and Ethambutol. OAI also noted that some drugs belonging to Global Fund inventory, including Cotrimoxazole and Amoxiline were not included in the inventory sheet maintained by the warehouse where TB drugs were kept; therefore stock movement of these drugs was not monitored.

OAI further undertook a verification of Artemisinin-based Combination Therapy inventory sheets at the warehouse where malaria drugs were kept. The inventory sheets for three Artemisinin-based Combination Therapies were incomplete and inconsistent and the movement of stock was not always certified. While all three inventory sheets showed remaining stocks of Artemisinin-based Combination Therapy, there was no physical stock.

Failure to properly monitor and reconcile physical inventory with distribution plans could lead to loss or theft of medical supplies.

Priority	Medium (Important)
Recommendation 2:	
To facilitate the transfer of the remaining medical supplies inventory, the Office should: (a) conduct a complete physical inventory of Global Fund-financed medical supplies at the storage facilities and immediately transfer the remaining stock to the Global Fund's designated representative; and (b) engage with the Local Fund Agent to compare the calculation methodology used by the Local Fund Agent versus the inventory management system used by the warehouses, and reconcile the difference between the data reported to the Global Fund by the Office and the Local Fund Agent.	

Management comments and action plan: Agreed Disagreed

The Office has addressed this recommendation as follows:

- (a) Physical inventory of medical supplies acquired for Round 5 TB was completed on 5 March 2013 by the Global Fund Technical Advisor, a General Service staff member from UNDP and a representative from PNLT (Programme National de Lutte contre la Tuberculose).
- (b) Physical inventory of medical supplies acquired for Round 5- Affordable Medicines Facility – Malaria was completed on 6 March 2013 by the Global Fund Technical Advisor, a General Service staff member from UNDP and two representatives of the Sub-recipient. Analysis of inventory sheets showed that there was no stock of Rapid Screening Tests and Artemisinin-based Combination Therapies remaining.
- (c) The inventories were included in the closure plan submitted to the Global Fund through letter NGR-506-G05-T/FM P-078 dated 29 March 2013.

4.5 Asset management

Partially Satisfactory

Issue 5 Delay in transfer of assets and failure to insure assets

The standard agreement between UNDP and the Global Fund requires that assets must be adequately managed until transferred or disposed of. Furthermore, Article 7 of the Sub-recipient agreement states that Sub-recipients must subscribe to an insurance policy to cover the asset value as agreed upon by the parties in the budget. Additionally, for the disposal of an asset, the Office must consult the relevant committee, such as the Contracts, Assets and Procurement Committee.

OAI noted that more than 12 months after both grants had closed, the transfer of assets financed by the Global Fund had not been finalized. Based on the grant agreement, the Office was still considered the custodian and therefore was liable for these assets. Additionally, the Country Coordinating Mechanism did not finalize the asset distribution plan according to the asset transfer procedure. This delay was beyond UNDP control, although UNDP was still accountable until approval of the distribution plan by the Global Fund and finalization of the transfer.

Furthermore, the Office did not ensure that the insurance provision as stipulated in the Sub-recipient agreement was adhered to. As a result, assets such as vehicles were left without insurance and were exposed to the risk of theft or misuse.

One of the uninsured vehicles distributed to the National Tuberculosis Programme was stolen in February 2012 and the Global Fund requested a full refund of the acquisition cost of \$16,000. Furthermore, this incident was not referred to the Contracts, Assets, and Procurement Committee for review and decision.

Failure to comply with grant provisions could lead to additional financial liabilities.

Priority	High (Critical)
Recommendation 3:	
The Office should strengthen its asset management process by:	
<ul style="list-style-type: none"> (a) ensuring the insurance provision in the Sub-recipient agreement is adhered to until final transfer; (b) liaising with the Global Fund and the Country Coordinating Mechanism in order to facilitate the urgent transfer of the assets to the Global Fund; and (c) submitting the supporting documentation on the theft of the vehicle to the Contracts, Assets, and Procurement Committee for review and decision. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Following the audit field work, an asset distribution plan was submitted by the Country Coordinating Mechanism to the Global Fund. The plan was finally approved by the Global Fund, and a confirmation was sent to UNDP for signing.	
Supporting documents relative to the theft of the vehicle were attached to letter NGR-506-G05-T/FM P-078 dated 29 March 2013.	

4.6 Individual contractors **Not Applicable**

This area was not relevant to the audit as no individual contractor was hired during the period under review.

5. Financial management **Partially Satisfactory**

5.1 Revenue and accounts receivable **Not Applicable**

As there was no Global Fund disbursement to the Office during the period under review, this area was not relevant to this audit.

5.2 Expenditures **Satisfactory**

There were no disbursements to the Sub-recipients in 2012. During the field work, OAI noted that Sub-recipient documentation (for outstanding advances at the time the advance modality was discontinued in 2011) was reviewed by the Office, which rejected some expenses due to poor quality documentation.

No reportable issues were identified.

5.3 Reporting to the Global Fund **Partially Satisfactory**

OAI reviewed the process for reporting to the Global Fund by holding discussions with the Local Fund Agent, the Fund Portfolio Manager and by reviewing the latest submission to the Global Fund Secretariat. The exceptions noted are described below.

Issue 6 Weaknesses in the management of Progress Update/Disbursement Request

The Office is required to submit a Progress Update/Disbursement Request on a quarterly or half-yearly basis to the Global Fund.

In the previous audit Report No. 845, OAI noted the late submission to the Global Fund Secretariat of 11 Progress Update/Disbursement Requests out of 12, with delays ranging from 32 to 134 days. During this audit, OAI noted that the Office continued making late submissions, with three out of five Progress Update/Disbursement Requests delayed from 30 to 150 days.

The Programme Management Unit stated that the reporting issues were due to a lack of human resource capacity and disagreement with the Global Fund on the cash balance.

Failure to comply with Global Fund reporting requirements could impact further on the grant closure activities and on UNDP's reputation.

Comment:

OAI is not issuing a recommendation, as this issue was already raised in its previous audit Report No. 845. However, the implementation status of the specific audit recommendation has been changed to "Not Implemented" to allow proper monitoring and implementation of the recommendation.

ANNEX. 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.