



AUDIT

OF

UNDP KYRGYZSTAN

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

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

From 1 to 12 July 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. 77629 [Malaria], 79839 [HIV] and 77368 [TB]) managed by the UNDP Country Office in Kyrgyzstan (the Office) as the Principal Recipient. The audit covered all relevant activities during the period from 1 January 2012 to 31 May 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$11.86 million. This was the first OAI 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 **satisfactory**, which means "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." Ratings per audit area and sub-areas are summarized below:

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

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
4. Procurement and supply management				
4.1 Procurement of health products	Satisfactory			
4.2 Quality assurance of health products	Partially Satisfactory			
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	Satisfactory			
5. Financial management				
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 four issues and resulted in four recommendations, all ranked medium (important) priority, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address: absence of Headquarters approval of salary supplementation of government officials, weaknesses in Sub-recipient quarterly reporting, inadequate quality assurance of finished pharmaceutical products and weaknesses in stock management and storage conditions.

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 1 to 12 July 2013, OAI conducted an audit of three grants from the Global Fund (Project Nos. 77629 [Malaria], 79839 [HIV] and 77368 [TB]) and managed by UNDP Kyrgyzstan (the Office) 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 2012 to 31 May 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$11.86 million. This was the first OAI audit of the Office's Global Fund-related activities.

II. Profile of Global Fund grants managed by UNDP Kyrgyzstan

Since 2011, UNDP has been the Principal Recipient of Global Fund grants in Kyrgyzstan (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 May 2013 (in \$'000)	Implementation Rate (% budget)	Expenditures as of 31 May 2013 (in \$'000)	Global Fund Rating* at July 2013
KGZ-811-09-M	00077629	Malaria	Jan 2011 (Phase 2)	Dec 2014 (Phase 2)	2,727.5 (Phase 2)	1,695.1	29%	1,619.12	A2
KGZ-H-UNDP	00079839	HIV	Jul 2011 (Phase 1)	Dec 2013 (Phase 1)	30,733.9 (Phase 1)	13,919.0	30%	9,101.55	A1
KGZ-S10-G08-T	00077368 00084923 (Phase II)	TB	Jan 2011 (Phase 1)	Dec 2015 (Phase 2)	19,357.9 (life time)	9,640.5	29%	5,550.59	A2

*A1 = exceeding expectations.

A2 = meets expectations.

III. Detailed assessment

1. Governance and strategic management Satisfactory

1.1 Organizational structure Satisfactory

OAI reviewed the organizational structure and found it to be adequate. No reportable issues were identified.

1.2 Staffing Satisfactory

The Programme Management Unit had 35 personnel consisting of two international fixed-term appointments (a Programme Manager and a Programme Monitoring and Evaluation Specialist) and 33 service contract holders. At the time of the audit, there was one vacant position. OAI reviewed the recruitment of seven service contract holders and noted that the appointment process was transparent and conducted effectively. In addition, the recruitment process to fill the vacant position was in progress. No reportable issues were identified.

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

OAI discussed cooperation and coordination with the Chairperson of the Country Coordinating Mechanism and reviewed minutes of meetings. Despite the A1 performance rating of the HIV/AIDS grant, the Country Coordinating Mechanism decided not to appoint UNDP as the Principal Recipient of the Phase 2 HIV/AIDS grant at a meeting on 1 March 2013.

The meeting was chaired by the representative of the government entity nominated to replace UNDP; the representative did not excuse herself when the vote took place. The Office followed up on the issue of a potential conflict of interest in which members of the Country Coordinating Mechanism were also Sub-recipients and Sub-sub-recipients of Global Fund grants. The Office formally expressed its concerns in a letter addressed to the Country Coordinating Mechanism in May 2013 after having discussed this matter several times during Country Coordinating Mechanism meetings.

The Ethics Committee of the Country Coordinating Mechanism was tasked with reviewing the matter. Even though the Ethics Committee has not made any formal resolution and has not reported back on this matter to the Office, the Country Coordinating Mechanism did appoint a new chairperson and changed members of the Oversight Committee. As the Office has formally raised the issue with the Country Coordinating Mechanism and as decisions of the Country Coordinating Mechanism are outside the control of the Office, OAI is not raising a recommendation.

No reportable issues were identified.

1.4 Capacity building and exit strategy Satisfactory

The Office prepared a capacity building and transition plan. This plan was submitted to the Country Coordinating Mechanism. No reportable issues were identified.

2. Programme management

Satisfactory

2.1 Project approval and implementation

Partially Satisfactory

Issue 1 No Headquarters approval for salary supplementation of government officials

Direct payments to government staff members for additional work on development projects may be acceptable in well-defined exceptional circumstances and provided that specific conditions are met, as stipulated in the UNDP Policy and Procedures for Engagement on 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.

During 2012 and the first quarter of 2013, around \$1.3 million was disbursed by the Office to government officials as salary supplementation (monthly rates from \$20 to \$150) and as salary payment (monthly rates from \$85 to \$704). However, the Office did not seek prior approval of the Office of the Administrator and the Regional Bureau for Europe and the Commonwealth of Independent States.

In order to facilitate implementation of programme activities, the Office involved medical workers and other staff members of state medical facilities, who were the only personnel authorized to perform certain activities and who had access to relevant information. According to the Office, the salary supplementation paid to these government employees was in line with the additional activities and hours spent over and above their regular working hours. The Office stated that the conditions set by the Global Fund were met, i.e. the payment scheme was results based, did not duplicate existing responsibilities and was approved by the Country Coordinating Mechanism. The Office asked for the Regional Bureau for Europe and the Commonwealth of Independent States approval at the time of audit.

The lack of a properly approved objective mechanism for determining the value of salary supplements increases the risk that rates will not be applied fairly, which could result in the improper use of funds and reputational risk to the Office and UNDP.

Priority	Medium (Important)
Recommendation 1:	
The Office should obtain the approval of the Office of the Administrator and the Regional Bureau for Europe and the Commonwealth of Independent States before engaging in national salary supplementation and payment schemes, and clearly indicate the mechanism for calculating the supplement rates. The Office should discontinue the payment scheme if approval is not obtained.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office was in the process of obtaining approval from the Regional Bureau for Europe and the Commonwealth of Independent States and the Office of the Administrator. The salary supplements scheme was already approved by the Global Fund and the Country Coordinating Mechanism. The Office indicated that salary top-ups are results based and are being paid only against achieved results, thus the risk of unfair application of supplements is minimal. The Office noted that the procedure for obtaining such approvals was not mentioned in the policy.	

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 three grant agreements. All conditions were fully met for the TB grant. For the HIV grant, seven of the eight conditions were fully met. The remaining condition, related to implementation of electronic data collection tools for Sub-recipients and Principal Recipients, was not yet finalized. For the malaria grant, seven of the eight conditions were fully met. The remaining condition, related to the assessment and updating of the national monitoring and evaluation plan, had not yet been fulfilled. The Office was following up on these remaining conditions with the Global Fund Secretariat.

No reportable issues were identified.

2.3 Monitoring and evaluation

Satisfactory

OAI reviewed the adequacy of the monitoring and evaluation plans, including data collection and verification visits carried out by the Office. No reportable issues were identified.

2.4 Grant closure

Not Applicable

There was no grant closure during the audit period. Hence, this area was not applicable to the audit.

3. Sub-recipient management

Satisfactory

The Office implemented the grants through 42 Sub-recipients: two United Nations agencies (WHO and UNICEF), 16 government entities and 24 non-governmental organizations. The total amount disbursed to the Sub-recipients during the audited period was about \$5 million.

3.1 Selection, assessment and contracting

Satisfactory

OAI reviewed the Office's compliance with UNDP policies and procedures for selection, assessment and contracting processes of the Sub-recipients and found them to be adequate. No reportable issues were identified.

3.2 Funding

Satisfactory

OAI reviewed 12 advance payments and noted that after April 2013, the Office had been disbursing advances to Sub-recipients for an implementation period of four months, rather than disbursing the amount for the next quarter only, without obtaining clearance from the Bureau of Management. The Office introduced the temporary practice of providing advances for four months after gradually phasing out one Sub-recipient whose performance was not at the expected level. As a result, the Office needed to change over 50 Sub-sub-recipients to Sub-recipients in April 2013. An additional advance for one month was introduced to avoid the interruption of projects while reports were being verified by the Office, taking into account small amounts of up to \$10,000 per month for each Sub-recipient and good performance of Sub-recipients in the past. This practice was discontinued in the second half of 2013 and, therefore, OAI is not raising a recommendation.

No reportable issues were identified.

3.3 Reporting

Partially Satisfactory

Issue 2 Weaknesses in Sub-recipient quarterly reports

Quarterly reports submitted by sub-recipients are required by the Office for its reporting to the Global Fund Secretariat.

OAI reviewed seven quarterly reports submitted by three Sub-recipients and noted the following weaknesses: (a) delays of up to 41 days in the submission of the reports; (b) out of four financial reports submitted by the main Sub-recipient of the HIV grant, only one report was submitted with consolidated expenditures, while for the remaining three reports the Office had to verify the Sub-sub-recipient expenditures and consolidate Sub-sub-recipient figures for reporting purposes; and (c) the main HIV grant's Sub-recipient accepted some ineligible expenditures reported by the Sub-sub-recipients, amounting to \$21,483.

The Office explained that the weaknesses were mainly due to the poor performance of one Sub-recipient. As this Sub-recipient was an international non-governmental organization, the Office could not justify funds for the capacity building of this Sub-recipient and discontinued its cooperation in 2013.

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

Priority	Medium (Important)
Recommendation 2:	
The Office should ensure that Sub-recipients have the appropriate capacity to prepare quarterly reports. To improve their reporting capacity, the Office should work closely with Sub-recipients to identify and analyse weaknesses and set up a plan to address them.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
When UNDP took over the role of Principal Recipient from the Government in 2011, the capacity of the majority of Sub-recipients was very low. Gradually, following regular training, site visits and feedback on the Sub-recipient quarterly reports, significant improvement in the timeliness and quality of reports was noticed, especially for the TB and malaria grants. Regarding the HIV grant, the Office noted that due to constant reporting delays by the international umbrella non-governmental organization, as of 1 April 2013 the Office moved to direct contracting of over 35 non-governmental organizations. After this, the timeliness and the quality of reports improved considerably.	

3.4 Oversight and monitoring

Satisfactory

OAI reviewed the Sub-recipient oversight and monitoring processes, which included monitoring visits, financial oversight and review of expenditures.

During the first quarter of 2013, the Office carried out unannounced visits to two Sub-sub-recipients that were the biggest needle exchange points run by non-governmental agencies. The Office identified unjustified stock discrepancies amounting to around \$10,000, and was following up on these issues with the Sub-sub-recipients.

In May 2013, after the Office discontinued cooperation with one Sub-recipient and introduced more oversight and monitoring visits, five Sub-recipients and four Sub-sub-recipients decided to terminate their contracts with UNDP. The Office agreed and ensured all Global Fund related assets and consumables (office equipment, computers, condoms, syringes, etc.) amounting to around \$35,000, which were under custody of these partners, were returned.

No reportable issues were identified.

3.5 Audit

Satisfactory

OAI reviewed the Sub-recipient audit processes, by reviewing the Sub-recipient audit reports and 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 308 purchase orders totalling about \$13.6 million for the Global Fund grants. The Procurement and Supply Management Team was comprised of four personnel. OAI reviewed the procurement process and tested a sample of 29 purchase orders valued at about \$2.9 million or 21 percent of the total value of purchase orders issued during the audited period.

4.1 Procurement of health products

Satisfactory

OAI noted that products valued at about \$0.5 million were procured with a delay ranging from 3.5 months to 5.5 months. The Office had developed tools for procurement planning and monitoring, and indicated that in the future, procurement lead-times would be monitored. No reportable issues were identified.

4.2 Quality assurance of health products

Partially Satisfactory

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. Testing is to be done by a laboratory contracted by the Global Fund or accredited by WHO and certified in accordance with the International Organization for Standardization (No. 17205: Calibration and Testing Laboratories).

When the shipment of finished pharmaceutical products for TB and HIV were received at the point of entry in the Country, the required testing was not performed for all products by a pre-qualified laboratory. Furthermore, the Office did not fully comply with the Global Fund policy regarding performance testing by a pre-qualified laboratory throughout the supply chain. The Office indicated this was due to local legislation, whereby only registered drugs in the Country are tested and an exemption is made for imported drugs financed by foreign donations. Prior to shipment of pharmaceuticals and health products, the Office receives a certificate of conformity and a certificate of analysis issued by certified laboratories. The supplier guarantees the quality of the product before the point of entry. The Office organized testing of imported pharmaceutical products by the International Organization for Standardization certified laboratory in the Country for four out of six product categories.

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

Priority	Medium (Important)
Recommendation 3:	
The Office should ensure that the finished pharmaceutical products are tested throughout the supply chain by laboratories which are approved by the Global Fund. The Office should coordinate with the Global Fund Partnership Team of the Bureau for Development Policy to ensure the quality assurance plan for the Country complies with Global Fund requirements.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Following recommendations of the Procurement Support Office's Quality Assurance Consultant, close work with reference laboratories was conducted. Two private and one government laboratory applied for International Organization for Standardization No. 17025 certificates. The Office would select two laboratories to perform quality control tests: one would be the reference laboratory and the second would be used for confirmation of results of quality testing as and when necessary, and as a back-up. The Office planned to use the quality control laboratories selected by the Procurement Support Office or conduct its own competitive process using the Global Fund's most recent list of approved Global Fund quality control laboratories.	

4.3 Procurement of other goods and services

Satisfactory

OAI reviewed the procurement process for other goods and services and tested a sample of 15 purchase orders amounting to \$0.8 million. The Office procured food packs and hygiene kits amounting to around \$0.6 million from 14 different vendors, through 34 purchase orders, during the audited period. The Office indicated that it would look into the use of Long Term Agreements for these types of procurement, to make the process more efficient.

No reportable issues were identified.

4.4 Supply management (inventory, warehousing and distribution)

Partially Satisfactory

Issue 4 Weaknesses in stock management and storage conditions

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 WHO Guidelines for Good Storage Practices and Good Distribution Practices for Pharmaceutical Products.

OAI visited three warehouses managed by the Office (rented from private entities) and four storage facilities managed by the Government. Weaknesses were noted as follows: (a) storage conditions - there was no air conditioning in two warehouses and four storage facilities, no temperature monitoring during nights and weekends, and boxes were not stored properly; and (b) stock management - stock logs for test kits at one storage facility did not reflect the existing quantity per item, and discrepancies were noted between the log book and the actual stock of Methadone at another storage facility.

The Office stated that the warehouses without air-conditioning are situated in the basement of a building and with the right temperature. Also, an international consultant evaluated the storage conditions and, based on the consultant's recommendations, the Office is planning renovation work.

Weaknesses in the storage conditions may impact the quality of the pharmaceutical products.

Priority	Medium (Important)
Recommendation 4:	
The Office should collaborate with the Special Advisory Team of the Procurement Support Office to set up a plan to improve storage conditions at the warehouses and the storage facilities used for Global Fund programmes.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Effort was being made to enhance the storage facilities at the AIDS Centres, TB Centres and Narcology Centres, where most of the pharmaceuticals and health products are being stored. The Office planned to complete renovations and installation of shelves and temperature and humidity control devices at all storage facilities at the central and provincial levels by the end of 2014.	

4.5 Asset management

Satisfactory

OAI reviewed the asset management process, including the annual asset inventory, asset custody and recording of assets.

Article 19 of the standard agreement between the Global Fund and UNDP requires adequate management of assets purchased up to and until the assets are transferred to the Global Fund or to a beneficiary agreed to by the Global Fund. The Office adopted the practice of transferring assets shortly after procuring them to Sub-recipients. Transfer was done using a document called 'the Act of Acceptance' that was based on the agreement signed with Sub-recipients and stipulated all agreed terms. Following the updated guidance note on asset management in the context of Global Fund grants issued in February 2013 by the Global Fund Partnership Team of the Bureau for Development Policy, the Office modified the 'Act of Acceptance' document and included an explicit clause stipulating that assets are given to Sub-recipients for temporary use to avoid any ambiguity of the ownership.

No reportable issues were identified.

4.6 Individual contractors

Satisfactory

The Office issued 63 individual contracts totalling around \$180,000 during the audited period. OAI reviewed the recruitment process and examined a sample of 12 contracts. No reportable issues were identified.

5. Financial management

Satisfactory

During the audit period, the Office processed 8,854 payment vouchers totalling \$11.86 million for the Global Fund projects. OAI reviewed 29 disbursement vouchers with an aggregate value of \$2 million, or 17 percent of the total vouchers for the period. OAI also tested the adequacy of financial management arrangements and reviewed financial reports and expenditure documents.

5.1 Revenue and accounts receivable

Satisfactory

The revenue and accounts receivable were reviewed to ensure the timely recognition of the revenue when the Office receives the disbursement confirmation from the Global Fund, in line with the International Public Sector Accounting Standards. No reportable issues were identified.

5.2 Expenditures

Satisfactory

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

The Office established a budget override policy, approved by the Office of Financial Resources Management, requiring Project Managers to prepare override requests on a case-by-case basis with justifications and clear expectation of when funds would be received. The projects had requested budget overrides amounting to \$3.2 million. The Office explained the high override amount resulted from using the wrong currency for one request. The mistake was corrected and the actual amount overridden was only \$0.7 million for all three grants, due to a delay in receipt of funds from the Global Fund. The Office received all pending funds from the Global Fund within four to six weeks.

No reportable issues were identified.

5.3 Reporting to the Global Fund

Satisfactory

OAI reviewed the process for reporting to the Global Fund and the reports submitted to the Global Fund Secretariat. OAI also assessed the readiness of the Office to adopt the International Public Sector Accounting Standards (a cash-based approach). No reportable issues were identified.

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.