



AUDIT

OF

UNDP IRAQ

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

Report No. 1194

Issue Date: 18 December 2013

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

From 14 to 25 July 2013, the Office of Audit and Investigations (OAI) conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project No. 56801 [TB]), managed by the UNDP Country Office in Iraq (the Office) as the Principal Recipient. The grant was managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$8.5 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

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 identified in the area of procurement and supply management. 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 Capacity development and exit strategy	Satisfactory			
2. Programme management				
2.1 Project approval and implementation	Satisfactory			
2.2 Monitoring and evaluation	Satisfactory			
2.3 Grant closure	Not Applicable			
3. Sub-recipient management				

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

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
3.1 Selection, assessment and contracting 3.2 Funding 3.3 Reporting 3.4 Oversight and monitoring				Satisfactory Satisfactory Partially Satisfactory Satisfactory
4. Procurement and supply management				
4.1 Quantification and forecasting 4.2 Procurement of health products 4.3 Quality assurance of health products 4.4 Procurement of other goods and services 4.5 Supply management (inventory, warehousing and distribution) 4.6 Asset management 4.7 Individual contractors				Satisfactory Satisfactory Partially Satisfactory Satisfactory Partially Satisfactory Partially Satisfactory Satisfactory
5. Financial management				
5.1 Revenue and accounts receivable 5.2 Expenditures 5.3 Reporting to the Global Fund				Satisfactory Partially Satisfactory Satisfactory

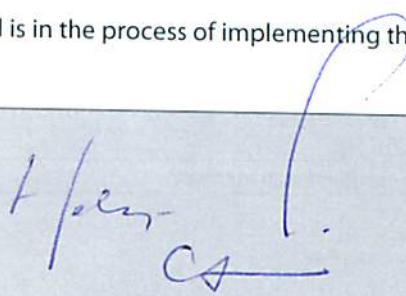
Key issues and recommendations

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: delays in Sub-recipient reporting, weakness in the quality assurance of finished pharmaceutical products, inadequate storage management, weakness in asset management, and inadequate use of the chart of accounts.

The implementation status of previous Global Fund audit recommendations (Report No. 971, 1 June 2012) was also validated. Of the 6 recommendations, 5 were fully implemented and 1 was in progress.

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 14 to 25 July 2013, OAI conducted an audit of one grant from the Global Fund (Project No. 56801 [TB]) and managed by UNDP Iraq as the Principal Recipient. This grant was 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.

Specifically, this audit reviewed the following areas related to the Office's management of Global Fund grants: governance and strategic management, programme management, Sub-recipient management, procurement and supply management and financial management. The audit covered all relevant activities during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$8.5 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The implementation status of previous Global Fund audit recommendations (Report No. 971, 1 June 2012) was also validated. Of the 6 recommendations, 5 were fully implemented and 1 was in progress.

II. Profile of Global Fund grant managed by UNDP Iraq

Since 2008, UNDP has been the Principal Recipient of Global Fund grants in Iraq (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 at Jan 2013
IRQ-T-UNDP (IRQ-S10-G02-T)	00056801	TB	Oct 2010 (Phase 1)	Dec 2012 (Phase 1)	18,271 (Phase 1)	15,554	82%	14,934	B1

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

III. Detailed assessment

1. Governance and strategic management Satisfactory

1.1 Organizational structure Satisfactory

At the time of the audit, the Office was in the process of relocating from Amman, Jordan to Baghdad, Iraq. The relocation was expected to be completed by the end of the first quarter of 2014. The Project Management Unit was created in 2008 and is comprised of a Project Manager and six staff. The current Project Manager joined the Unit in April 2011. Two staff members were physically located within the Ministry of Health, National Tuberculosis Programme to support effective implementation of the project.

1.2 Staffing Satisfactory

Four of the Unit's personnel were based in Baghdad, while one was in Erbil, Iraq and two were located in Amman, Jordan. OAI reviewed the recruitment of the Project Officer based in Erbil, who was hired in 2012, and found that the process was competitive, transparent and efficient. No reportable issues were identified.

1.3 Capacity development and exit strategy Satisfactory

The grant agreement included support in rebuilding the managerial capacity of the National Tuberculosis Program of the Ministry of Health in the Country. In the second half of 2013, the Office completed this capacity assessment. As a result of this assessment, a list of activities was prepared in cooperation with the Global Fund for implementation from 2014 onwards.

2. Programme management Satisfactory

2.1 Project approval and implementation Satisfactory

The Office implemented the recommendations from the previous audit, improving supervision of the project by ensuring that all relevant project management data was recorded in Atlas on time and with sufficient detail.

2.2 Monitoring and evaluation Satisfactory

UNDP policies and procedures on project management require routine monitoring of key elements of the Global Fund grant. Such routine monitoring includes keeping records, observing the health facility, and carrying out client surveys. The project's presence in the Country helped to facilitate monitoring activities. The project staff had carried out visits to 4 of 18 governorates. Visits to the remaining governorates are planned but are dependent on the security situation, which is still volatile in certain areas of the Country.

2.3 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

Partially Satisfactory

3.1 Selection, assessment and contracting

Satisfactory

Similar to the situation in 2011, in 2012 the Office was implementing the project with only one Sub-recipient, the World Health Organization. While the risk related to relying on one Sub-recipient continued during the audit period, OAI is not raising an issue, as beginning in 2013 (with the launch of Phase 2 of the grant implementation), the Office was working with two new Sub-recipients which were previously collaborating with the World Health Organization as Sub-sub-recipients.

3.2 Funding

Satisfactory

OAI reviewed the Office's disbursements to the Sub-recipient totalling \$7.4 million. The disbursements were in accordance with the work plan. No reportable issues were identified.

3.3 Reporting

Partially Satisfactory

As indicated in the previous year's audit, the Sub-recipient's reports to the Office following the end of each quarter continued to be delayed. However, the situation had improved as the delays had been reduced from a maximum of 50 days in 2011 to a maximum of 20 days in 2012. The Sub-recipient acknowledged these reporting delays, and explained that they were mainly caused by changes in its financial management processes. OAI is not issuing a recommendation, as this issue was already raised in its previous audit. However, the implementation status of the specific audit recommendation will be changed to "In progress" to allow proper monitoring and implementation of the recommendation.

3.4 Oversight and monitoring

Satisfactory

During 2012, there was a lack of oversight over the activities of Sub-sub-recipients, as there was limited information relating to the verification of information contained in their financial statements. The matter was referred to the Bureau for Development Policy for follow-up and clarification of implementation arrangements, including the role of Sub-recipients and Sub-sub-recipients. The Office produced a Monitoring and Evaluation Plan which was to be implemented starting in September 2013. The plan included monthly meetings with Sub-recipients to review progress as well as joint supervisory trips. OAI is not raising a recommendation as this issue was addressed shortly after the audit.

4. Procurement and supply management

Partially Satisfactory

During the audit period, the Office processed 166 purchase orders totalling about \$3 million for the Global Fund grant. About 37 percent of this amount was procured through the Procurement Support Office of the Bureau of Management, while 63 percent was procured directly by the Office. OAI reviewed the procurement process by interviewing the Office staff assigned to the Global Fund grant and testing a sample of 24 purchase orders valued at about \$1.7 million, or 58 percent of the total value of purchase orders issued during the audit period.

4.1 Quantification and forecasting

Satisfactory

The National Tuberculosis Programme quantifies first line drugs by using a standard calculation sheet which is based on the number of patient cases reported in the preceding year, and on the treatment category. Quantification of second line tuberculosis drugs involves using a standard calculation sheet based on the number of estimated treatment cases each year. Laboratory supplies are quantified by the National Laboratory based on the previous year's usage and the estimated number of different tests to be performed. While all data on the number of cases was entered into the database developed by an external supplier, this system worked only offline, and its capabilities for monitoring cases, quantifying and forecasting were limited. The National Tuberculosis Programme recommended upgrading the system to enable the use of real-time data. This recommendation was in the process of being addressed, as an amendment for a system upgrade was signed in July 2013. No other reportable issues were identified.

4.2 Procurement of health products

Satisfactory

OAI reviewed the procurement of health products, which included sourcing suppliers, procurement methods, receipt and evaluation of offers, contract awards, and receipt and payment. The review showed that delivery of goods from 5 procurement cases out of 24 reviewed were delayed for more than 5 months, primarily due to the complicated procedures involved in obtaining exemption letters for the Government's Customs clearance process. In one case, the delay was caused by the supplier, who submitted incomplete documentation which resulted in shipping delays. The Office resolved this issue in coordination with the Procurement Support Office in Copenhagen, although the supplier was responsible for the error. The long delivery process did not delay implementation of project activities. No other reportable issues were identified.

4.3 Quality assurance of health products

Partially Satisfactory

Issue 1 Weaknesses in quality assurance of 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 World Health Organization accredited laboratory, or certified in accordance with the International Organization for Standardization Standard (No. 17205: Calibration and Testing Laboratories), or a laboratory contracted by the Global Fund.

Although a Quality Assurance Plan was prepared in February 2013 and approved in June 2013, OAI noted that during the audit period, the quality control of the drugs within the Country was performed by a National Drug Control Quality Laboratory. This laboratory, however, was neither World Health Organization prequalified nor certified by the International Organization for Standardization. The Office received Government approval to contract with a company to test drugs. The contract with the supplier was signed in July 2013, but no testing of the drugs following the Global Fund guidelines had taken place up to the time of the audit.

Moreover, according to the approved Quality Assurance Plan, sampling should be done twice - upon arrival of medicines, and six to nine months after receipt of the products within the Country. OAI noted that the contract signed in 2013 only covers testing of drugs for a period of one year, and on a quarterly basis after distribution to governorates and clinics, but does not indicate testing upon the initial receipt of the shipment in the Country as required by the Quality Assurance Plan.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen its quality assurance over finished pharmaceutical products by complying with the Global Fund quality assurance policies ensuring that: (a) products are tested by an accredited or certified laboratory; and (b) in accordance with the requirements of the approved Quality Assurance Plan, drugs are tested upon the initial receipt of the shipment.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.4 Procurement of other goods and services **Satisfactory**

OAI reviewed the procurement of other goods and services such as travel and computers, which included examining the sourcing of suppliers, procurement methods, receipt and evaluation of offers, contract awards, and receipt and payment for goods and services. No reportable issues were identified.

4.5 Supply management (inventory, warehousing and distribution) **Partially Satisfactory**

Issue 2 Inadequate warehouse management

As per the Programme and Operations Policies and Procedures, all offices are required to conduct an inventory of assets on a quarterly basis, i.e., on 31 March, 30 June, 30 September and 31 December, for each storage location. During 2012, the Office's Programme Management Unit did not conduct inventory of medicines, pharmaceutical products, and other health products, and did not receive inventory reports from the Ministry of Health due to security restrictions and limited access to the main warehouses. This issue was highlighted in the previous audit report, and the Office mentioned that the Project Officer in Baghdad would have regular access to the warehouse to perform physical verifications. However, OAI noted that the Project Officer was authorized by the Ministry of Health to access the warehouse only when new shipments were delivered.

Moreover, although the National Tuberculosis Programme was reporting stock levels to the Office on a monthly basis, it did not provide information on product expiration dates.

Not providing the Office with information regarding expiration dates makes it difficult to identify medicine that is expired and not usable.

Priority	Medium (Important)
Recommendation 2:	
The Office should improve the control of medicines, pharmaceutical products, and other health products by requesting: (a) the Ministry of Health to provide the Baghdad Project Officer in Baghdad with full access to the warehouse in order to conduct physical verifications of stock at least once per year; and (b) the National Tuberculosis Programme to include information on stock expiration dates in its reports.	

Management comments and action plan: Agreed Disagreed

4.6 Asset management **Partially Satisfactory**

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

Issue 3 Asset management weaknesses

In May 2012, the Office entered into a temporary custody agreement with the Ministry of Health, under which the Office purchased assets valued about \$2.6 million for use by the National Tuberculosis Programme. The Office had provided a list of these assets to the Ministry of Health, which had in turn certified the list. However, at the end of 2012, the programme staff had not conducted a physical count of these assets to confirm their existence and to report on their status as required by the asset management policy. Also, without an asset count, the Office could not communicate the list of assets to the Ministry of Health to get their certification. The Office started with a semi-annual count of the assets under the custody of the Ministry as of 30 June 2013, for Baghdad and seven other governorates, but counting was not finalized at the time of the audit.

Failure to conduct an adequate physical verification of assets at year-end increases the risk that missing or obsolete assets will not be identified in a timely manner, which can lead to the inaccurate representation of assets in the financial reports and statements.

Priority	Medium (Important)
Recommendation 3:	
The Office should ensure that mid-year and year-end physical asset verifications are conducted for all warehouses and reconciled with the list of assets. The updated list should be communicated to the Ministry of Health for certification, ensuring the proper control and safeguarding of assets.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.7 Individual contractors **Satisfactory**

The Office had issued 11 individual contracts totalling \$146,000 during the audit period. OAI reviewed the recruitment process for three consultants totalling \$106,000 by interviewing Office staff and examining the contracts and the supporting documents. No reportable issues were identified.

5. Financial management

Satisfactory

During the audit period, the Office processed 355 payment vouchers totalling \$6.6 million for the Global Fund project. In order to test the adequacy of the Office's financial management, OAI reviewed and tested a sample of 14 vouchers valued at \$4.8 million (73 percent) of the vouchers issued during the audit period.

5.1 Revenue and accounts receivable

Satisfactory

The recognition and measurement of revenue and accounts receivable was being carried out in accordance with the International Public Sector Accounting Standards since January 2012. No reportable issues were identified.

5.2 Expenditures

Partially Satisfactory

Issue 4 Inadequate use of the chart of accounts

The correct use of the Chart of Accounts is critical for accurate financial management and donor reporting. It provides the fundamental building blocks of the Atlas financial systems for control, budgeting and reporting.

The Sub-recipient incorrectly aggregated some expenditure. For example, OAI noted that the salaries account for national partners also included travel expenses amounting to about \$160,000 (or 23 percent) of the total account balance of \$700,000. The Sub-recipient used the same classification approach when charging the expenditures to the Office, which resulted in the misclassification of expenditures. While the total expenditures recorded were accurate, the total expenditures recorded by individual categories/accounts had been overstated or understated, and resulted in inaccurate information in regard to the financial significance of certain accounts.

Incorrectly using the Chart of Accounts adversely affects the accuracy of financial data and may mislead users of financial reports.

Priority	Medium (Important)
Recommendation 4:	The Office should ensure the accuracy of financial statements by requiring that Sub-recipients charge expenditures to the correct Atlas account codes.
Management comments and action plan:	<input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed

5.3 Reporting to the Global Fund

Satisfactory

OAI reviewed the process for reporting to the Global Fund by interviewing Office staff and reviewing four reports submitted to the Global Fund. Apart from the delays in reporting by the Sub-recipient, no other reportable issues were noted.

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.