



AUDIT

OF

UNDP ZIMBABWE

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

Report No. 1238

Issue Date: 10 December 2013

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

From 16 September to 2 October 2013, the Office of Audit and Investigations (OAI) conducted an audit of four grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 72970 [HIV], 72971 [TB], 72973 [HSS] and 82260 [Malaria]) managed by the UNDP Country Office in Zimbabwe (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 September 2012 to 31 August 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$123 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 **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	Partially 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.

3.1	Selection, assessment and contracting	Satisfactory		
3.2	Funding	Satisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Satisfactory		
4.	Procurement and supply management			
4.1	Quantification and forecasting	Partially Satisfactory		
4.2	Procurement of health products	Satisfactory		
4.3	Quality assurance of health products	Satisfactory		
4.4	Procurement of other goods and services	Satisfactory		
4.5	Supply management (inventory, warehousing and distribution)	Partially Satisfactory		
4.6	Asset management	Partially Satisfactory		
4.7	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 4 issues and resulted in 4 recommendations, of which 1 (25 percent) was ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

Among the four issues raised, one was noted to be caused by factors beyond the control of UNDP (Issue 2).

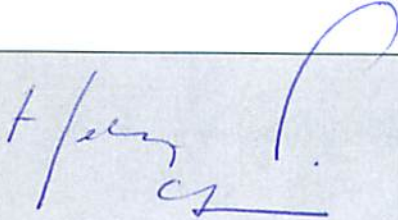
The high priority recommendation is as follows:

Quantification and forecasting (Issue 2) Weaknesses in quantification and forecasting. There were no documented standard operating procedures shared with the partners detailing procedures and critical steps in the quantification and forecasting processes. The complete data output and resulting forecasted procurement needs at national levels were not shared with all the partners. As a result, partners did not have complete and detailed information at the national level to provide for the management of stock levels in a timely manner. OAI recommends that the Office work with the relevant government ministry to ensure that proper terms of reference or standard operating procedures are developed and that detailed and complete information at the national level on quantification and procurement is shared with all the partners on a regular basis.

The implementation status of previous Global Fund audit recommendations (Report No. 1089, 5 March 2013) was also validated. All four recommendations were noted to be fully implemented.

Management comments and action plan

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



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Introduction

From 16 September to 2 October 2013, OAI conducted an audit of four grants from the Global Fund (Project Nos. 72970 [HIV], 72971 [TB], 72973 [HSS] and 82260[Malaria]) and managed by UNDP Zimbabwe 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.

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 September 2012 to 31 August 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$123 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. 1089, 5 March 2013) was also validated. All four recommendations were noted to be fully implemented.

II. Profile of Global Fund grants managed by UNDP Zimbabwe

Since 2009, UNDP has been the Principal Recipient of Global Fund grants in Zimbabwe (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$000)	Implementation Rate in %	Expenditures* (in \$000)	Global Fund Rating*
ZIM-809-G11-H	72970	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2010 (Phase 1)	31 Dec 2013 ³ (Phase 2)	238,367	216,476	91	81,839	A1 ⁴

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

³ The end date of the HIV grant was changed from 31 December 2014 to 31 December 2013 because the final year of the Phase 2 of this grant was consolidated with the new HIV grant under the New Funding Model which has a start date of 1 January 2014.

⁴ Global Fund A1 rating = Exceeding Expectations

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$000)	Implementation Rate in %	Expenditures* (in \$000)	Global Fund Rating*
ZIM-809-G12-T	72971	Towards universal access: Improving accessibility to high quality DOTS in Zimbabwe	1 Jan 2010 (Phase 1)	31 Dec 2014 (Phase 2)	48,106	39,475	82	6,438	A2 ⁵
ZIM-809-G14-S	72973	Health System Strengthening Cross-Cutting Interventions	1 Jan 2010 (Phase 1)	31 Dec 2014 (Phase 2)	74,664	68,008	91	19,038	A1
ZIM-M-UNDP	82260	Towards achieving pre-elimination in the Southern region scaling up effective malaria control interventions	1 Apr 2012 (Phase 1)	31 Dec 2016 (Phase 1)	34,878	24,388	70	15,561	B1 ⁶
ZIM-H-UNDP ⁷	TBD	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2014	31 Dec 2016	311,175	-	-	-	N/A
Totals					707,189	348,347		122,876	

* As of 31 August 2013

III. Detailed assessment

1. Governance and strategic management

Partially Satisfactory

1.1 Organizational structure

Partially Satisfactory

Issue 1 Need for additional capacity

The Principal Recipient is responsible and accountable to the Global Fund for all resources under the grant agreement and for the results to be achieved, and is therefore required to have adequate capacity to meet these obligations.

OAI noted the following:

- The current portfolio of Global Fund grants for which implementation will continue after 2013 have a grant amount of \$158 million. The Global Fund has approved a new HIV grant for an additional \$311 million starting 1 January 2014, bringing the total grant portfolio to \$469 million. Furthermore, two new TB and malaria grants will likely be approved during 2014.
- Out of the planned \$311 million in the new grant, \$179.8 million (58 percent) is to be dedicated to procurement. The current staffing level within the Procurement and Supply Management Unit consists of

⁵ Global Fund A2 rating = Meets Expectations

⁶ Global Fund B1 rating = Adequate

⁷ New HIV grant under the New Funding Mechanism with grant agreement signed in June 2013. This new grant was consolidated with the existing HIV grant effective 1 January 2014.

one Procurement Manager, two Associates and one United Nations Volunteer as a Logistics and Supply Chain Officer. The current capacity in the Procurement and Supply Management Unit is adequate for the existing grants, but may prove insufficient in light of the upcoming new grants and the higher number of transactions anticipated.

- Currently, the Monitoring and Evaluation Unit is headed by an international staff member with the various Programme Officers reporting directly to him. Increased programme activities will call for greater monitoring and evaluation oversight both at the Principal Recipient and Sub-recipient levels. The current capacity level may need to be upgraded in order to meet the new challenges.

Without increased capacity, the Office as the Principal Recipient may be unable to adequately manage the new grants when implementation commences.

Priority	Medium (Important)
Recommendation 1:	
The Office should consider negotiating with the Global Fund for a review of the current organization structure with the view to boost operational capacity notably in the areas of procurement and programme management in light of the upcoming grants.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office plans to take the following action to implement the recommendation: <ul style="list-style-type: none"> ▪ Enhance the current Global Fund Programme Management Unit structure in response to the increase in grant activities under the Global Fund grants starting January 2014. The proposed structure was endorsed by the Office's senior management and will be tabled with the Global Fund in December 2013 for approval. 	

1.2 Staffing

Satisfactory

At the time of the audit mission in September 2013, the Global Fund Programme Management Unit had a total of 33 personnel which comprised of 27 service contract holders, 5 international staff members and 1 international United Nations Volunteer. OAI reviewed 6 out of 10 recruitment cases (60 percent) and 10 out of 25 (40 percent) service contracts and no reportable issues were identified.

The Finance Specialist and Administrative Assistant positions which had been vacant were filled during the time of the audit mission. There were no other vacant posts. The current staffing level was deemed to be adequate, though it may need to be strengthened in the future as per Issue 1 above.

1.3 Capacity development and exit strategy

Satisfactory

OAI reviewed the status of implementation of the activities detailed in the approved Capacity Development Plan. The capacity development activities were monitored by a Capacity Development Associate. The Associate was assisted by a Capacity Development Consultant through a series of short-term consultancy contracts.

The new Capacity Development Plan, to be implemented under Phase 2 of the Round 8 grants, was approved by the Global Fund in July 2012 with a total budget of \$2.1 million, which included a contribution by UNDP of

\$367,000. Phase 2 of the plan aims at strengthening organizational level or institutional systems. The targeted organizations under the plan all serve as Sub-recipients implementing the Round 8 grants.

Despite some minor implementation delays in 2013, a number of activities were implemented under this plan and a mid-year capacity development progress report was prepared showing the key achievements and challenges for the period January to June 2013. Major activities implemented included the following: (a) installation, networking and training of Pastel Finance Accounting Software to selected Sub-recipients and Sub-sub-recipients; (b) infrastructure enhancement of the organization responsible for storage of health products; (c) supporting improvement of internet connectivity in 82 health facilities; (d) procurement of a refrigerated truck for a cold chain distribution system; (e) assessment of the health facilities used for storage of health products and formulation of an action plan including estimated costs for improving storage conditions; (f) formation of an Audit Committee and conducting audit and risk management workshops across all provinces; and (g) conducting a comprehensive staff satisfaction and motivation survey that will contribute to the development of a non-financial incentive plan.

During the year under review, the Global Fund approved the use of additional funding amounting to \$635,000 to support the government warehouse roadmap as part of the capacity development implementation.

No reportable issues were noted.

2. Programme management

Satisfactory

2.1 Project approval and implementation

Satisfactory

OAI reviewed the adequacy of controls concerning the project approval and implementation process. During the period under review, a new HIV grant was signed under the "New Funding Model," a new allocation system for funds. The start date for the new grant was scheduled for 1 January 2014. The Country was one of six countries known as 'early applicant' countries that were selected by the Global Fund to pilot the new system.

The Country Coordinating Mechanism and the responsible government ministry, supported by the Office, prepared a report reflecting the initial experiences and the views of the stakeholders in the Country in regard to the "New Funding Model."

OAI met with Sub-recipients participating in this new funding model. They shared their concerns about the minimal amount of time they were given to prepare for their participation in the exercise, and included those concerns in their report. However, the Country participated as one of the early applicants with the understanding that timelines would be compressed.

No reportable issues were identified.

2.2 Monitoring and evaluation

Satisfactory

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

2.3 Grant closure

Not Applicable

There was no grant closure carried out during the period under review. Therefore, this area was not subject to review.

3. Sub-recipient management

Satisfactory

The Office implemented grants through 5 Sub-recipients consisting of 4 government entities and 1 non-governmental organization. The Sub-recipients were assisted by 15 Sub-sub-recipients.

3.1 Selection, assessment and contracting

Satisfactory

OAI reviewed the selection, assessment and contracting of Sub-recipients. During the period under review, there was no Sub-recipients were selected. During 2012, with the exception of one, the Sub-recipients were asked to continue implementation under Phase 2 of the grants.

The Sub-recipient that was excluded was suspended and there was a plan for their contract to be cancelled. The Office was in the process of identifying a new civil society Sub-recipient to implement the HIV grant under the new funding model. During this period, one of the other current Sub-recipients was proposed to the Country Coordinating Mechanism as an interim Sub-recipient to continue implementation under the Health Systems Strengthening grant until a new Sub-recipient was selected. At the time of the audit mission, the Office was in the advanced stages of the selection process for the new Sub-recipient.

3.2 Funding

Satisfactory

OAI reviewed the funding mechanism to the Sub-recipients and noted that funding was carried out through advances. Furthermore, subsequent advances were made when at least 80 percent of the previous advances had been accounted for. During the period under review, the Office disbursed \$39 million to the Sub-recipients and Sub-sub-recipients. No reportable issues were identified.

3.3 Reporting

Satisfactory

OAI reviewed, on a sample basis, the reporting requirements for the Sub-recipients and noted that their financial reporting was done on a monthly basis and their programme reporting on a quarterly basis. The reporting deadlines for the Sub-recipients and Sub-sub-recipients were 30 and 15 days after the end of the month, respectively. This was to ensure timely reporting by the Office on a semi-annual basis.

3.4 Oversight and monitoring

Satisfactory

OAI reviewed the Office's oversight and monitoring of Sub-recipients and noted that the weaknesses identified in the previous audit mission regarding the support provided to the Sub-recipients had been duly addressed. In addition, the previous recommendation on compliance with statutory payroll deductions is being addressed in the financial monitoring of the Sub-recipients.

The Office had carried out visits to Sub-recipients and had regular meetings during the audit period. The Office has a standard checklist that is used during the field visits and the visits are documented in a report. No reportable issues were identified.

4. Procurement and supply management

Partially Satisfactory

During the audit period, the Office processed 276 purchase orders totalling about \$155 million for the purchase of both health and non-health products under the Global Fund grants. OAI reviewed the procurement processes through a random sample of 23 purchase orders valued at about \$47 million, or 30 percent of the total value of purchase orders issued during the audit period.

4.1 Quantification and forecasting

Partially Satisfactory

Issue 2 Weaknesses in quantification and forecasting

The quantification and forecasting of drugs is an annual exercise conducted by the Government. Results and data output from this exercise are critical to the ensuing procurement planning and supply management of the Principal Recipient.

The quantification and forecasting exercise is led by the government ministry, which convenes a meeting and invites all stakeholders to participate in the five-day exercise. Under the auspices of the relevant government ministry, the Office currently participates as one of the stakeholders and contributes to the discussions on the expectations for this exercise.

OAI noted the following weaknesses in the quantification and forecasting exercise, which had an impact on the Office's procurement plan as the Principal Recipient:

- There were no documented standard operating procedures shared with the partners detailing procedures and critical steps in the quantification and forecasting processes.
- The complete data output and resulting forecasted procurement needs at national levels were not shared with all the partners. As a result, partners did not have complete and detailed information at the national level to provide for the procurement and management of medical supplies inventory in a timely manner.

Insufficient sharing of quantification and forecasting data results may compromise the quality and accuracy of the Principal Recipient's own procurement planning process and lead to poor management of the supply chain.

Priority	High (Critical)
Recommendation 2:	
The Office should work with the relevant government ministry to ensure that proper terms of reference or standard operating procedures are developed and that detailed and complete information at the national level on quantification and procurement is shared with all the partners on a regular basis.	

Management comments and action plan: Agreed Disagreed

The Office plans to take the following actions to implement the recommendation:

- Impress on the Country Coordinating Mechanism the importance of setting up a Quantification and Forecasting Committee spearheaded by the government ministry, with clear terms of reference and proper standard operating procedures.
- Ensure that the request to the Country Coordinating Mechanism also stress the timely dissemination of the quantification results along with periodic data updates.

4.2 Procurement of health products

Satisfactory

OAI reviewed 11 purchase orders for a total of \$43.5 million for the procurement of health products and no issues were noted.

4.3 Quality assurance of health products

Satisfactory

OAI reviewed the quality assurance systems that are in place to ensure that sampling and testing of health products are carried out on arrival in the Country and throughout the supply chain. A Quality Assurance Plan was approved by the Global Fund in September 2012 to be used for these activities. During the period under review, the Office recruited a United Nations Volunteer as a Logistics and Supply Chain Officer who was the focal point for the implementation of the Quality Assurance Plan. The Logistics and Supply Chain Officer commenced duties in March 2013.

The implementation of the Quality Assurance Plan throughout the distribution chain effectively began after the recruitment of the Logistics and Supply Chain Officer, and at the time of the audit, implementation was ongoing. No reportable issues were noted.

4.4 Procurement of other goods and services

Satisfactory

OAI reviewed a total of 12 purchase orders with a total value of approximately \$3.4 million for the procurement of other goods and services. No reportable issues were identified.

4.5 Supply management (inventory, warehousing and distribution)

Partially Satisfactory

Issue 3 Weak controls over storage

The Principal Recipient is required to ensure that the Sub-recipients establish and maintain reliable stock management systems. In addition, the UNDP Operations Manual for Projects Financed by the Global Fund (September 2008) recommends the use of the World Health Organization guidelines for the storage of medical products.

OAI visited two hospital pharmacies, the government warehouse in Harare and the UN agency-managed warehouse. The following exceptions were noted at the respective locations:

At the government warehouse:

- Unexplained variances between the stock on hand and stock balances on the stock cards for two items (Coartem and Abacavir Sulphate 300mg) out of four items tested.

At the two hospitals:

- The stock cards at the two hospital pharmacies did not contain information about the maximum stock level, minimum stock level or re-order stock level for the various items and were not updated for the Antiretroviral (ARV) section at one hospital.
- Unexplained variances between the stock on hand and stock balance on the stock cards for three items.
- At the two pharmacies, no thermometers for temperature monitoring were installed and no temperature logs were maintained.

At the warehouse managed by a United Nations agency:

- Combining of inventories in the warehouse - Global Fund products and items belonging to other United Nations agencies and a government ministry were not segregated. Global Fund inventory items could not be easily identified by warehouse location, unique item code or description in the stock management system.
- The newly piloted electronic inventory system could not collate stock quantities on hand, could not track stock movement or indicate stock location, thus making the verification and reconciliation of stocks impossible. Manual reconciliation between the results of the stock take verification, the new electronic inventory system data and hard copy records were needed. Reports generated from the electronic system needed considerable data manipulation in Excel before information could be used to fulfil monthly reporting requirements.

Inventory control weaknesses may lead to errors in reporting inventory levels or missing/stolen items not being detected in time.

Priority	Medium (Important)
Recommendation 3:	
At the government warehouse and hospital pharmacies, the Office should:	
(a) in collaboration with relevant stakeholders, improve storage conditions at the national warehouse and at the hospital pharmacies by ensuring that WHO storage guidelines are complied with.	
At the United Nations agency, the Office should bring the weaknesses to the attention of the United Nations agency and:	
(b) ensure Global Fund items are kept in a clearly demarcated area and they need to be identified in the electronic and stock card systems by location and unique item code or description; and	
(c) consider improvements to the pilot electronic inventory system to facilitate inventory management, accounting and reporting.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office plans to take the following action to implement the recommendation:	
<ul style="list-style-type: none"> ▪ The challenges in the health storage facilities at government and non-government facilities are 	

being assessed in the current Assessment of the Supply Chain for Health Commodities in the Public Sector of Zimbabwe. Implementation of the report findings will commence in 2014.

- Work closely with the United Nations agency on enhancing the piloted stock management software to address inventory localization and reporting challenges.
- Explore possibilities of a dedicated/demarcated area for storage of Global Fund commodities at the United Nations Agency stores, provided there is adequate budget for this activity in the grants.

4.6 Asset management **Partially Satisfactory**

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

Issue 4 Delay in the distribution of laboratory equipment to Sub-recipients

As Principal Recipient, the Office is responsible for the procurement and timely distribution of equipment to the Sub-recipients. According to the “Assets management guidance note for Global Fund grants”, assets that are procured for, and used by Country Offices or Global Fund Programme Management Units must be entered into, and reported in line with International Public Sector Accounting Standards (IPSAS) 17. The standard requires UNDP to apply the general asset recognition principle to all property, plant, and equipment costs at the time they are incurred, including initial costs and subsequent expenditure. It further requires UNDP to begin depreciating an item of property, plant, or equipment when it is put to use and to continue depreciating it until it is derecognized.

OAI noted the following exceptions:

- Some laboratory equipment procured since 2010 and 2012 to be distributed to Sub-recipients was still kept in storage.

Date of acquisition	Description	Quantity Procured	Actual Stock balance	Unit Price	Value of actual stock
10-Dec-2012	LX400 Binocular Fluorescence Microscope with IKVA Power Supply	10	3	\$1,334.70	\$4,004.10
26-Nov 2010	Olympus CX31with accessories	65	21	\$6,120.92	\$128,539.32
21-Feb-2012	Digital X-Ray machine, Genet, Desktop, 3x monitors, 3x UPS plus printer	13	6	\$178,825.46	\$1,072,952.76
					\$1,205,496.12

The Office explained that the reason for the delay was due to the unavailability of personnel at the health facilities qualified to operate the equipment and/or health facilities not prepared for the installation of the equipment.

- Ten computers valued at \$20,000 that were procured by the Global Fund project for the Programme Management Unit were incorrectly expensed and not capitalized as required by IPSAS.

Inadequate management and delayed distribution of Global fund assets could lead to their deterioration and undelivered results from the health facilities. The incorrect understanding and interpretation of the updated Programme and Operations Policies and Procedures on the accounting treatment of Programme Management Units assets with the adoption of IPSAS could result in erroneous financial statements.

Priority	Medium (Important)
Recommendation 4:	
The Office should:	
<ul style="list-style-type: none"> (a) liaise with the government ministry to take the necessary actions to ensure that the Government prepares the facilities for the equipment to be installed and provide the required personnel; and (b) ensure that capitalization policy is adopted in accordance with IPSAS. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office plans to take the following action to implement the recommendation:	
<ul style="list-style-type: none"> ▪ Collaborate with the government ministry to ensure that the required laboratory scientists are recruited to operate the laboratory sites in health facilities and that the equipment procured under the Global Fund grants are being used for their intended purposes. 	
The following action was taken:	
<ul style="list-style-type: none"> ▪ Made the required corrections in Atlas for the 10 computers that were not capitalized. 	

4.7 Individual contractors

Satisfactory

During the period under review, the Office hired 15 individual contractors. OAI reviewed eight individual contracts (53 percent) and no reportable issues were identified.

5. Financial management

Satisfactory

5.1 Revenue and accounts receivable

Satisfactory

OAI reviewed the Global Fund disbursements to the Office and identified no reportable issues, as all disbursements were accounted for by the Office.

5.2 Expenditures

Satisfactory

OAI reviewed a sample of 46 vouchers with a total value of \$38.3 million (31 percent) out of a total expenditure of \$123 million. No reportable issues were identified.

5.3 Reporting to the Global Fund

Satisfactory

According to the timeline set in the grant agreements, the Principal Recipient was required to provide to the Global Fund Secretariat periodic reports of all funds and activities financed by the grant. All reports must be channelled through the Local Fund Agent and copied to the Country Coordinating Mechanism.

Since August 2012, the Global Fund changed the reporting schedule from quarterly to semi-annually starting with the period covering June to December 2012. OAI reviewed reports for the period covering January to June 2013 for all the active grants, and noted that all reports were submitted on time.

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.