



AUDIT

OF

UNDP IRAQ

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

Report No. 1445

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

The UNDP Office of Audit and Investigations (OAI), from 1 to 5 February 2015, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 56801 [TB]) managed by UNDP Iraq (the Office) as the Principal Recipient. This grant was managed under the Global Fund's Additional Safeguard Policy.¹ The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure, staffing, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January to 31 December 2014. The Office recorded Global Fund-related expenditures totalling \$4.8 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2013 and covered financial year 2013.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the 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 the insufficient monitoring of Sub-recipients and Sub-sub-recipients, and weaknesses in the management of project assets.

Key recommendations: Total = 3, high priority = 2

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

The three recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 3); (b) effectiveness and efficiency of operations (Recommendation 1); and (c) safeguarding of assets (Recommendation 2).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Insufficient monitoring of Sub-recipients and Sub-sub-recipients (Issue 1)	During 2014, the Office completed only 6 out of the 16 planned visits to the Sub-recipients and the respective Sub-sub-recipients. The Office indicated that the planned site visits did not take place due to the unstable security situation across the Country.
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Recommendation 1: Improve the monitoring of Sub-recipients by preparing and implementing an alternative monitoring plan for 2015.

Weaknesses in the management of project assets (Issue 3)	A number of weaknesses in the maintenance of assets were identified were identified. For instance, the location and condition of 115 assets had yet to be confirmed (the Office indicated that 3 out of 15 governorates where these assets were held had not been visited due to the security situation). The asset list prepared by the Office did not include cost information tags or serial numbers. In addition, the Office did not have a systematic approach in place to complete regular documented reviews of assets held by the government counterpart.
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Recommendation 2: Enhance asset management of project inventory by: identifying the location and condition of all asset items, tagging the items and updating the asset cost, tag, serial number, custodian and location on the asset list in those areas that can be accessed; combining spot checks of assets during field visits, in those areas that can be accessed, ensuring all assets verified are documented, and any exceptions highlighted for follow up; and concluding discussions with the donor on the inclusion of a limited liability clause in the contract in the event of loss or damage of assets in areas which are insecure. For assets purchased under the programme that are located in locations which cannot be accessed due to security concerns, the Office also should approach the Global Fund to consider the transfer of title.

Implementation status of previous OAI audit recommendations: Report No. 1194, 18 December 2013.

Total recommendations: 4

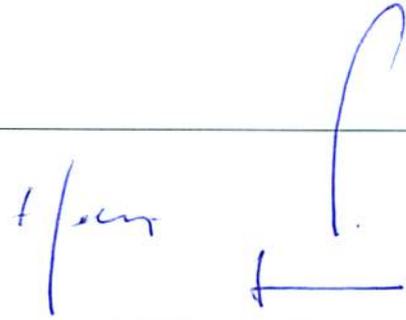
Implementation rate: 100%²

Management comments and action plan

² This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented. Recommendation 2 supersedes Recommendation 3 of Report No. 1194, which was withdrawn.

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Iraq

Since 2008, UNDP has been the Principal Recipient of Global Fund grant in Iraq (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Dec 2014 (in \$ '000)	Implementation Rate	Expenditures as of 31 Dec 2014 (in \$ '000)	Global Fund Rating at 30 June 2014
IRQ-T-UNDP	00056801	Support to National TB and HIV/AIDS Control Programs	October 2010	September 2015	26,054	22,262	96%	24,978 ³	B1

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. OAI reviewed the organizational structure, staffing, capacity building and exit strategy, and identified no reportable issues.
- (b) Programme management. Programme activities were implemented within the stipulated timeframe and with adequate monitoring. Reporting to the Global Fund Secretariat was done in a timely manner and with no delays.

OAI made two recommendations ranked high (critical) and one recommendation ranked medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

- (a) Improve the monitoring of Sub-recipients and Sub-sub-recipients (Recommendation 1).
- (b) Improve asset management (Recommendation 2).

Medium priority recommendation:

- (a) Provide refresher training for finance staff on using the correct account codes (Recommendation 3).

The detailed assessment is presented below, per audit area:

³ \$ 3.6 million of unused budget was carried forward from the previous funding round. This figure is not reflected in the amounts disbursed, and explains why the expenditure figure is higher than the amounts received.

A. Sub-recipient management

1. Oversight and monitoring

Issue 1 Insufficient monitoring of Sub-recipients and Sub-sub-recipients

The 'Sub-recipient Management Toolkit for UNDP Country Offices' stipulates that visits should be made to the Sub-recipient to ensure that funds and physical items provided through the Sub-recipient agreement are being used and maintained according to the agreement, and that record keeping is up to date.

During 2014, the Office completed only 6 out of 16 planned visits to the Sub-recipients and Sub-sub-recipients. The Office indicated that not all planned site visits took place due to the unstable security situation across the Country and due to restrictions on movement for international and national staff. However, the Office did not conduct desk reviews to make up for the lack of accessibility.

Inadequate monitoring of Sub-recipients may lead to financial discrepancies and may result in weak performance not being identified or addressed in a timely manner.

Priority	High (Critical)
Recommendation 1:	Improve the monitoring of Sub-recipients and Sub-sub-recipients by preparing and implementing an alternative monitoring plan for 2015.
Management action plan:	The Office will prepare a revised supervisory visit plan for 2015 taking into account the existing security situation.
Estimated completion date:	April 2015

B. Procurement and supply management

1. Quality assurance of health products

Issue 2 Weaknesses in quality assurance of finished pharmaceutical products

The Global Fund quality assurance policy stipulates that random samples of finished pharmaceutical products must be obtained at different points in the supply chain and tested for compliance with the applicable quality standards of a laboratory accredited by the World Health Organization. Sampling should be completed at the national level and at the governorate level stores in the north, middle and south of the Country.

The quality assurance plan for the project requires finished pharmaceutical products to be tested upon arrival in the Country within six to nine months after receipt.

A site visit plan for 2014 had not been prepared, and during the course of the year, samples had been taken from two locations only. Management indicated that the required testing had not been conducted since the Office was in the process of identifying a new testing laboratory, following concerns over processing delays with the existing laboratory.

Not carrying out appropriate testing throughout the supply chain may lead to the distribution of low quality finished pharmaceutical products.

Comment

Given that finished pharmaceutical products have been procured directly by the Government since February 2014, OAI is not making a recommendation.

2. Supply management (inventory, warehousing and distribution)

Issue 3 Weaknesses in the management of project assets

The 'UNDP Operations Manual for Projects Financed by the Global Fund' stipulates that the Principal Recipient is responsible for the proper custody, maintenance, and care of all goods and property, and is responsible for ensuring that all equipment and materials are used for the project. At the end of the grant agreement, all property financed by the Global Fund must be transferred to the Global Fund, unless the Global Fund agrees with UNDP otherwise. The Office should carry out regular asset verifications to confirm the location and condition of the assets.

Since its inception in 2008, the Office had procured 643 assets valued at \$4.9 million, all of which resided with the government counterpart. The assets consisted of laboratory and computer equipment. A new list of items was produced in 2012 through an analysis of procurement orders, as the original list was not properly updated at the time of purchases during the period from 2008 to 2012. A similar issue was raised in the 2013 audit, however, OAI withdrew the recommendation from that audit report and replaced it with the recommendation from this report, as it takes into account the Country's current overall context.

A number of weaknesses in the maintenance of these assets were identified. For instance, the location and condition of 115 assets had yet to be confirmed (the Office indicated that 3 out of 15 governorates where these assets were held had not been visited due to the security situation). The asset list prepared by the Office did not include cost information tags or serial numbers. In addition, the Office did not have a systematic approach in place to complete regular documented reviews of assets held by the government counterpart.

The Office indicated that it was negotiating with the Global Fund to include a limited liability clause in the existing agreement with the donor to cover assets that may be lost or damaged due to security reasons.

Not physically verifying assets increases the risk of assets being lost or being used for purposes other than intended.

Priority	High (Critical)
Recommendation 2:	
Improve asset management by:	
<ul style="list-style-type: none"> (a) identifying the location and condition of all asset items, tagging the items and updating the asset cost, tag, serial number, custodian and location on the asset list in those areas that can be accessed; (b) combining spot checks of assets during field visits, in those areas that can be accessed, ensuring all assets verified are documented, and any exceptions highlighted for follow up; and (c) concluding discussions with the donor on the inclusion of a limited liability/ force majeure clause in the contract in the event of loss or damage of assets in areas which are insecure. For assets purchased under the programme that are located in locations which cannot be accessed due to security concerns, the Office also should approach the Global Fund to consider the transfer of title. 	
Management action plan:	
The Office will perform spot checks and verify assets only in accessible governorates and will seek further guidance from the Global Fund for governorates that are not accessible due to the security situation.	
Estimated completion date: August 2015	

C. Financial management

1. Expenditures

Issue 4 Incorrect account coding

The 'Sub-recipient Management Toolkit for UNDP Country Offices' stipulates that advance payments to Sub-recipients should be recorded as advances.

The correct use of the Chart of Accounts is critical for accurate financial management and donor reporting, as it supports the fundamental principles of UNDP regarding financial control, budgeting and reporting, in line with the International Public Sector Accounting Standards.

Advances relating to two of the three Sub-recipients (amounting to \$433,614 and \$175,709, respectively) were incorrectly recorded as expenditures. In addition, an insurance payment for six months was expensed instead of being treated as a prepayment.

The detailed testing of payment vouchers (27 payment vouchers amounting to \$1,864,901 or 48 percent of total payments for the period) indicated that an incorrect account code was used on five occasions. For instance, medical equipment was coded as machinery valued at \$149,000 and insurance costs of \$54,000 were coded as claims and adjustments. Management acknowledged that following the closure of the Office in Amman and its relocation to Erbil in 2014, new finance personnel were recruited who required further training on the use of accounting codes.

Incorrect use of the Chart of Accounts affects the accuracy of financial data and may mislead readers of financial reports.

Priority	Medium (Important)
Recommendation 3:	
Provide refresher training for finance staff on using the correct account codes, and the principles to be followed for reporting under International Public Sector Accounting Standards.	
Management action plan:	
The Office has already brought two finance staff from the Kyrgyzstan and India Country Offices to support and strengthen capacity in the Finance Unit by providing on job training to staff. In addition, the Office plans to conduct a series of training activities on financial management.	
Estimated completion date: July 2015	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.
- **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.
- **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.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.