UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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CONSOLIDATED REPORT

ON THE AUDITS OF

UNDP COUNTRY OFFICES AS PRINCIPAL RECIPIENTS OF GRANTS FROM THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA FOR THE PERIOD JANUARY TO DECEMBER 2014

Report No. 1451

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**Consolidated Report on the audits of UNDP Country Offices as Principal Recipients of grants
from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary**

Background

In March 2015, the UNDP Office of Audit and Investigations (OAI) analysed the lessons learned and recommendations from the OAI audits of the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) grants managed by UNDP as Principal Recipient. As of December 2014, UNDP was the Principal Recipient in 25 countries and 1 regional programme and was managing 50 Global Fund grants totalling $1.84 billion.

Audit coverage

In 2014, 18 reports were issued pertaining to Global Fund grants managed by UNDP as Principal Recipient. Of the 18 audit reports, 16 covered 31 Global Fund grants in 14 Country Offices (5 in the Arab States, 4 in Africa, 3 in Europe and the Commonwealth of Independent States, 1 in Latin America and the Caribbean, and 1 in Asia and the Pacific). OAI also issued two consolidated reports on audits of UNDP Country Offices as Principal Recipient of Global Fund grants and Sub-recipients of Global Fund grants pertaining to 2013.

The 16 audits reported a total of 55 audit issues and made a total of 54 recommendations to address those issues. There were 18 recommendations, or 33 percent, that were rated high priority. The recurring or key issues were:

  (a) weaknesses in the staffing of Global Fund projects;
  (b) weaknesses in warehousing management;
  (c) lack of or delays in quality assurance testing of health products;
  (d) weaknesses in the procurement of health products;
  (e) weaknesses in financial management; and
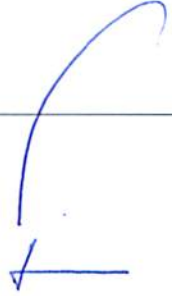 (f) weaknesses in stock management

To ensure the successful implementation of Global Fund grants, OAI recommended that Country Offices:

  ▪ review and revise their recruitment processes to comply with UNDP policies and procedures, and institute procedures for adequate funding and timely recruitment of key posts;
  ▪ ensure that centres/hospitals that deal with medical supplies and pharmaceuticals are aware of and are able to comply with the requirements related to the proper disposal of expired drugs, and the proper storage of medical supplies;
  ▪ ensure that the finished pharmaceutical products are tested throughout the supply chain by a lab which meets the requirements of the Global Fund quality assurance policy;
  ▪ improve procurement management by placing orders in a timely manner to ensure an optimal stock level to enable the delivery of planned outcomes, and to avoid stock-outs; and
  ▪ recover all direct project costs from the Global Fund by charging against project accounts all direct costs incurred by the Programme Management Unit on behalf of Global Fund projects and recover the expenditures that were validated by the Local Fund Agent[1].

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[1] The Global Fund normally designates one Local Fund Agent (typically an external audit firm) in each country to oversee, verify and report on grant performance. During grant implementation, the Local Fund Agent reviews the implementers' progress in achieving the performance targets, and reviews appropriate use of funds in accordance with the grant agreement.

Implementation of audit recommendations

In close cooperation with the Bureau for Policy and Programme Support, UNDP Global Fund Programme Team, OAI monitors and follows up, on a quarterly basis, on the progress achieved by each Country Office in implementing audit recommendations. As of 14 April 2015, the rate of implementation of audit recommendations for the 16 audit reports issued between 1 January and 31 December 2014 was 69 percent, as detailed in Section IV of this report. It will be important to increase the rate of implementation in 2015.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Profile of Global Fund grants managed by UNDP as Principal Recipient

The Global Fund is a global public/private partnership dedicated to attracting and disbursing resources to prevent and treat HIV/AIDS, tuberculosis, and malaria. As of December 2014, UNDP was the Principal Recipient in 25 countries and 1 regional programme, with 50 active grants totalling $1.84 billion.

As Principal Recipients, UNDP Country Offices are required to implement the Global Fund grants according to the terms and conditions of grant agreements signed between UNDP and the Global Fund. On a country-by-country basis, UNDP may agree to a special condition to be included in Annex A of the standard grant agreement, requiring either the delivery of a capacity development plan for national entities to assume the role of Principal Recipients, or a capacity development roadmap. Except in donor-constrained countries (those that are under sanctions from donor governments), the role of UNDP as Principal Recipient is time-bound in countries facing exceptional development challenges and/or complex emergencies.

Scope of the Audits of Global Fund grants

Since 2009, OAI has been conducting dedicated audits of the Global Fund grants in severe and high-risk countries, including countries managed under the Additional Safeguard Policy,[2] which are Chad, Djibouti, Guinea-Bissau, Haiti, Iran, Iraq, Mali, Sudan, South Sudan, Syrian Arab Republic, Programme of Assistance to the Palestinian People, Yemen and Zimbabwe. Global Fund grants in the Additional Safeguard Policy countries are normally audited annually; grants in other countries are audited in accordance with a risk-based audit cycle. The general objectives of these audits are to assess the effectiveness of risk management, the adequacy and effectiveness of controls, and the governance processes of UNDP. They aim to provide reasonable assurance to the Administrator regarding the:

- reliability and integrity of financial and operational information, including 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, policies and procedures, and with the grant agreement signed with the Global Fund.

The scope of the audits of Global Fund grants included all activities related to the implementation of Global Fund grants by UNDP Country Offices. The implementation activities were grouped into the following five categories:

- governance and strategic management;
- programme management;
- Sub-recipient management;
- procurement and supply management; and
- financial management.

A draft version of the consolidated report had been shared with the Bureau for Policy and Programme Support, UNDP Global Fund Programme Team, and their comments had been taken into account in the final report.

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

II.   Overview of the audits

The 16 Global Fund audit reports from 2014 covered 31 grants with total expenditure of $293 million. Of the 16 audit reports issued, 4 were rated "satisfactory", 6 were rated "partially satisfactory", and 1 was rated "unsatisfactory". A total of 5 audit reports for 3 countries[3] were issued without an audit rating (2 reports had audit scope limitations, where the work consisted of a desk review or the work was done remotely; the other 3 reports were financial audits of separate project outputs in the same country). This is almost the same distribution of audit ratings as in 2013 where 4 Global Fund audits were rated "satisfactory", 9 were rated "partially satisfactory", and 1 was rated "unsatisfactory Ratings for the audit reports published in 2014 are presented in Annex l.

III.   Analysis of audit issues raised

The issues raised in the audit reports dealt with issues stemming from the governance and strategic management of the units managing the grants, challenges with the procurement of health products and how pharmaceutical products were tested and stored, as well as financial management. Below is a detailed analysis of the main issues raised per sub-section.

A.   Governance and strategic management

Issue 1   Weaknesses in staffing and human resources management

In order to properly manage Global Fund grants, all of the key positions in the Programme Management Unit need to be filled in a timely manner, and the salary expenses charged against the budget of the Global Fund project(s) for personnel must be commensurate with the services provided by them. In recruiting for these positions, management must adhere to the following core principles that guide the recruitment and selection of UNDP staff members and project personnel: competition, objectivity, transparency, diversity, and accountability. As part of performance-based compensation, and contingent upon the type of contract and actual performance, the UNDP Resident Representative may approve bonuses, subject to the resources available to the project.

OAI noted weaknesses in the staffing and management of personnel of the Global Fund projects in Bosnia and Herzegovina, Chad, Haiti, Sudan, and the Syrian Arab Republic.

In particular, the following was noted:

- inadequate human resource capacity in the Programme Management Unit;
- weaknesses in the recruitment process;
- inadequate justification for charges to a professional post;
- inadequate internal control structure within the project;
- unclear processing of performance bonuses; and
- lack of budget for staff retention and delays in recruitment of key posts.

OAI identified the causes for these deficiencies were lack of capacity to ensure proper human resources management, lack of knowledge of relevant policies and procedures for human resources management, funding for the posts and understanding of required control processes.OAI recommended that Country Offices:

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[3] Syrian Arab Republic, Yemen, and Iran.

- review and revise recruitment processes to comply with UNDP policies and procedures to ensure that all fixed-term appointments and service contract positions are filled through a transparent and competitive recruitment process;
- review and enforce the contractual modality of the Project Management Unit staff involved in key functions to set a proper level of accountability within the project management team;
- process the performance bonus payments in accordance with UNDP rules and regulations;
- ensure that all of the vacant positions are filled as soon as possible; and
- institute procedures for adequate funding and timely recruitment of key posts.

B. Procurement and supply management

Issue 2   Weaknesses in warehouse and supply chain management

Based on the grant agreement signed with the Global Fund, UNDP is responsible for ensuring that its Sub-recipients comply with the WHO 'Guidelines for Good Storage Practices and Good Distribution Practices for Pharmaceutical Products'. Adequate stock management is paramount to having beneficiaries obtain critical medicine on time, which plays a role in adherence to prescribed treatments; however, this can only be achieved effectively and efficiently with reliable reporting and monitoring systems that provide information on activity in the supply chain. OAI noted weaknesses in warehouse management in Bosnia and Herzegovina, Chad, Guinea-Bissau, Haiti, Turkmenistan, Uzbekistan, and Zimbabwe.

In particular, OAI noted:

- weaknesses in the management of expired products;
- ineffective stock management of health products;
- weaknesses in overseeing stock management and supply chain;
- weak procurement supply chain system; and

OAI found that the lack of financial resources, capacity and detailed knowledge on stock and warehouse management in general were the main causes of the issues raised. Specifically, these were noted: (a) management not being aware of any specific instructions on how to handle expired drugs; (b) lack of funds to properly dispose of expired drugs; and (c) heavy workload and the limited number of staff to conduct quarterly physical inventories.

OAI recommended that Country Offices:

- ensure that centres/hospitals that deal with medical supplies and pharmaceuticals are aware of and are able to comply with the requirements related to the proper disposal of expired drugs;
- build the Sub-recipient's capacity with regard to demand-based distribution of health products;
- implement a logistics management information system to track and monitor pharmaceutical products through the supply chain;
- distribute health products in accordance with the distribution plans;
- engage relevant stakeholders to correct deficiencies in storage conditions at the national warehouse;
- reconfirming in writing with the responsible parties on the need to maintain acceptable cold chain transportation and storage conditions as per WHO standards;
- improving consumption, forecasting and quantification data for essential supplies and medicines; and
- planning to hand over stock management to the national counterpart.

Issue 3   Inadequate quality assurance of health 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 WHO-accredited laboratory, or one certified in accordance with the respective International Organization for Standardization requirements, or one which has been contracted by the Global Fund. The grant agreement requires UNDP, in cooperation with the national health partners, to prepare a Quality Assurance Plan based on the Procurement and Supply Management Plan.

OAI noted weaknesses in the quality assurance of health products in Angola, Bosnia and Herzegovina, Chad, Djibouti, Guinea-Bissau, Sudan, and Uzbekistan.

In particular, OAI found:

- inadequate quality assurance testing of finished pharmaceutical products;
- delays in finalizing and submitting for approval a Quality Assurance Plan; and
- failure to implement a Quality Assurance Plan for pharmaceutical products.

The causes for the issues raised included the following: budgets that failed to allocate sufficient funds for testing; the lack of a Global Fund approved quality management plan; and the inability of the Programme Management Unit to perform the required tests in 2014 due to the lack of capacity (there were more than 1,000 health centres in one particular country).

OAI recommended that Country Offices:

- ensure that the finished pharmaceutical products are tested throughout the supply chain by a laboratory which meets the requirements of the Global Fund quality assurance policy;
- ensure that random samples of finished pharmaceutical products are obtained and tested at different points in the supply chain;
- after the initial testing that is done upon the receipt of pharmaceutical products in the country, perform tests every six months; and
- implement the Quality Assurance Plan for testing delivered health products in conjunction with the government counterpart.

Issue 4   Weaknesses in procurement management of health products, equipment and infrastructure

Procurement planning and monitoring is vital to ensure that grant beneficiaries, such as patients and health centres, receive health products in a timely manner. The 'UNDP Operations Manual for Projects Financed by the Global Fund' stipulates the following: "Once a forecast has been made, it is necessary to determine when and for which quantities orders should be placed. The most important factor in this determination is the lead time for a product. Lead time is the time period between placing an order for a product and actually receiving it ready for use." In addition, according to the grant agreements and the work plan, as part of its responsibility as a Principal Recipient of the Global Fund grant, UNDP manages the construction and renovation of buildings and laboratories. When managing construction and renovation, it is crucial to adapt the equipment to the existing infrastructure and local conditions to ensure optimal operation.

OAI noted weaknesses in the procurement of health products in Bosnia and Herzegovina, Programme of Assistance to the Palestinian People, Syrian Arab Republic, Turkmenistan, and Zimbabwe.

In particular, OAI found:

- delays in the procurement of tuberculosis medicines;
- long lead time not adequately considered in procurement planning;
- monthly meetings of the Quantification and Forecasting Committees technical group led by UNDP and regular meetings of the Committee's Executive Board not held;
- non-competitive procurement process and insufficient documentation;
- laboratory equipment that was not functional;
- difficulties in operating ventilation system in bacteriological laboratory and defining responsibilities of different stakeholders; and
- delays in installing laboratory equipment.

OAI found that the causes of the issues raised included the following: (a) delayed delivery of first line tuberculosis medicines because the Global Procurement Unit cancelled the order due to the low quantity/small order size; (b) lack of funding at the national level to replace essential parts of equipment that was not part of the standard service packages and maintenance contracts; (c) failure by management to conduct comparative analysis on procurement bids, citing previous experiences of purchasing through the UNDP Global Procurement Unit that was more expensive; and (d) the absence of an exchange of letter between the Office and the implementing partner to define the responsibility of each stakeholder.

OAI recommended that Country Offices:

- improve procurement management by placing orders in a timely manner to ensure an optimal stock level to enable the delivery of planned outcomes, and to avoid stock-outs;
- organize monthly meetings of the Quantification and Forecasting Committees technical group led by UNDP and ensure regular meetings of the Committee's Executive Board;
- document adherence to the four general principles of UNDP procurement;
- strengthen the planning tool with the addition of expected delivery time and location and perform a comprehensive analysis of the lead times to have relevant feedback for adjusting the procurement planning;
- consider options to improve the maintenance contracts for laboratory equipment to include the provision of peripheral equipment and all essential parts and consumables;
- coordinate with the national counterpart to clearly define the responsibilities for maintenance of the laboratory equipment; and
- install laboratory equipment in a timely manner and address bottlenecks in the delivery of goods and services.

C.	Financial management

Issue 5   Weaknesses in financial management

The policies governing the management and disbursement of funds from Global Fund grants stipulate that the Project Management Unit operates on the basis of a budget approved by the Global Fund. Expenditures for activities not provided for in the budget must be approved by the Global Fund on an exceptional basis. When prepayments are made, they must be recorded in account 16065 (Prepaid Voucher Modality) and immediately reconciled upon delivery of prepaid goods and services to ensure that over or under payments are settled in a timely manner. When direct payments are made to vendors on behalf of Sub-recipients, they must be done only

upon receipt of a written request for payment signed by the person duly authorized to initiate payments on behalf of the Sub-recipient. Lastly, cash advances can only be granted to staff and service contractors.

OAI noted weaknesses in financial management in Chad, Guinea-Bissau, Haiti, and Djibouti.

In particular, OAI noted:

- direct costs not being charged against project accounts;
- inconsistencies in managing and recording the value-added tax;
- weaknesses in management and disbursement of project funds;
- weaknesses in management of project cash advances and deficiencies in implementing the Zero Cash Policy; and
- weaknesses in payments for Customs clearance services and missing supporting documentation.

The causes for the issues raised included the following:; (a) the Country Office not being familiar with recording value-added tax amounts separately to account 14056; (b) the Project Management Unit not being entirely familiar with the policy on project cash advances; (c) the Project Management Unit not being certain of the requirements when making direct payments to vendors on behalf of Sub-recipients.

OAI recommended that Country Offices strengthen the management of disbursements of funds from Global Fund grants by:

- complying fully with the prescribed modalities in the authorization and granting of project cash advances;
- utilizing third party services, including mobile cash partners, to make payments for project activities so as to minimize the need for using UNDP personnel to effect such payments;
- recovering all direct project costs from the Global Fund by charging against project accounts all direct costs incurred by the Programme Management Unit on behalf of Global Fund projects; and
- recovering the expenditures that were validated by the Local Fund Agent.

OAI also recommended that Country Offices improve the management of the value-added tax by recording the tax amount paid in account 14056 and properly recording the tax amount paid and requesting in a timely manner from the national tax authorities the reimbursement of taxes paid by UNDP.

In addition, OAI recommended that Country Offices ensure that prepayments are recorded in account 16065 (Prepaid Voucher Modality) and are promptly reconciled with actual expenditures; and that overpayments made to vendors are recovered and a proper system of archiving documents to support payments is developed.

IV. Implementation of the audit recommendations

OAI, in close cooperation with the Bureau for Programme and Policy Support, UNDP Global Fund Programme Team, continuously monitors the progress achieved by UNDP Country Offices in implementing the audit recommendations made. Country Offices are required to report any progress made directly in the Comprehensive Audit and Recommendation Database System (CARDS) and to upload supporting documentation. This information is subsequently validated by OAI.

The data contained in this section of the report represents 54 audit recommendations included in the 16 reports issued between 1 January and 31 December 2014. The implementation rates for each audit report are described in Figure 1.

Of the 54 recommendations, 18 recommendations (33 percent) were rated high priority. Of these high priority recommendations, 13 (72 percent) had been fully implemented by 14 April 2015.

Figure 1: Implementation rate of the OAI Global Fund audits as of 14 April 2015

Country Office	Report No.	Issue date	No. of recommendations	Implementation rate as of 14 April 2015 (%)[4]
Sudan	1245	12-Mar-14	3	100%
Djibouti	1278	11-Apr-14	5	100%
Haiti	1267	15-Apr-14	7	86%
Uzbekistan	1241	19-Mar-14	3	100%
Bosnia and Herzegovina	1130	15-Jan-14	6	100%
Programme of Assistance to the Palestinian People	1303	9-Jul-14	1	100%
Chad	1293	20-Jun-14	8	75%
Angola	1298	22-May-14	2	100%
Guinea Bissau	1315	12-Dec-14	8	0%
Zimbabwe	1401	12-Dec-14	3	33%
Turkmenistan	1410	26-Dec-14	4	0%
Syrian Arab Republic (Desk Review)	1231	6-Mar-14	4	100%
Iran (Output No. 77633)	1364	22-Aug-14	0-	n/a-
Iran (Output No. 80152)	1363	22-Aug-14	0-	n/a-
Iran (Output No. 84251)	1362	22-Aug-14	0-	n/a-
Yemen (Remote Audit)	1399	31-Dec-14	0-	n/a-
Total			**54**	**69%**

V.   Recurring audit issues (based on analysis of recommendations)

The audit recommendations for the past three years were analysed to determine where most of the audit issues raised were. The overall trend has been an increase in the number of audit recommendations in the area of governance and strategic management and stability in the high number of recommendations within procurement and supply chain management. The total number of recommendations have been reduced from 2012 to 2014.

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[4] 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.

Financial management is an area where, for 2014, there was a low but equal number of recommendations from the prior year.

For the other three areas – programme management, Sub-recipient management, and procurement, the number of audit recommendations decreased in 2014.

Figure 2: Audit recommendations per category
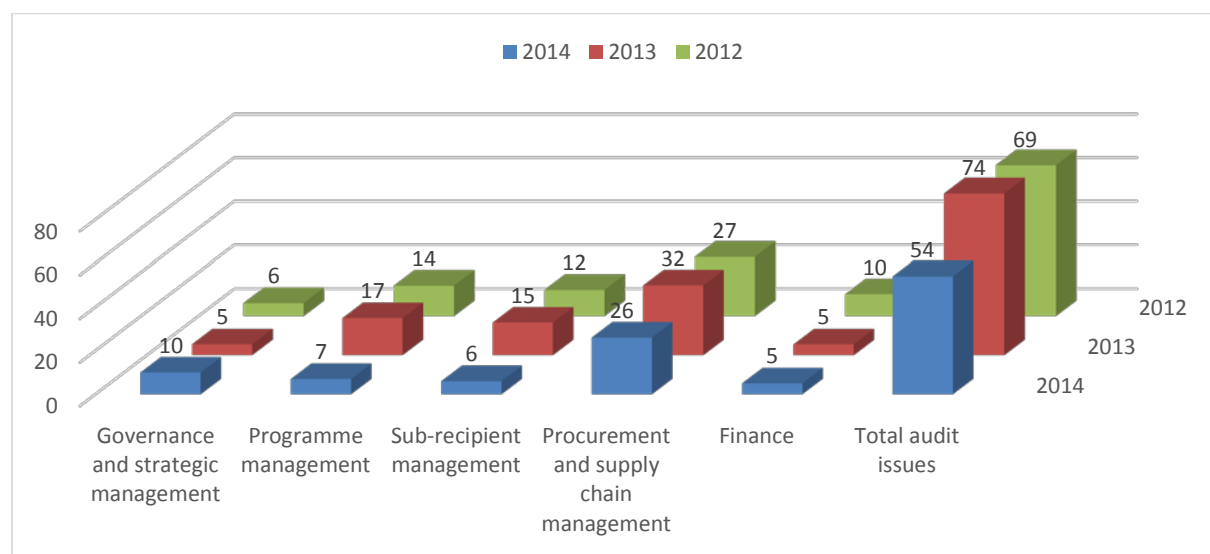
Definitions of audit terms - ratings and priorities

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.

Annex I

Global Fund grants audited in Country Offices sorted by Audit Rating

Country Office	Report No.	Issue Date	Audit Rating	Audited Period	Expenditure during the audited period (in $ million)	Global Fund Grants Audited					No. of Audit Issues	No. of Recommen-dations
						Total	HIV/ AIDS	TB	Malaria	CCM/ HSS		
Chad	1293	20-Jun-14	Unsatisfactory	1-Jan-13 to 28-Feb-14	$6.4	1	-	-	1	-	9	8
Bosnia and Herzegovina	1130	15-Jan-14	Partially Satisfactory	1-Jan-11 to 31-Dec-12	$19.0	3	2	1	-	-	6	6
Uzbekistan	1241	19-Mar-14	Partially Satisfactory	1-Jan-12 to 30-Sep-13	$14.7	2	2	-	-	-	3	3
Sudan	1245	12-Mar-14	Partially Satisfactory	1-Jan-12 to 31-Dec-12	$55.2	7	3	1	3	-	4	3
Haiti	1267	15-Apr-14	Partially Satisfactory	1-Apr-12 to 30-Sep-13	$26.0	2	1	1	-	-	7	7
Guinea Bissau	1315	12-Dec-14	Partially Satisfactory	1-Jan-13 to 31-Jul-14	$6.8	2	-	1	1	-	7	8
Zimbabwe	1401	12-Dec-14	Partially Satisfactory	1-Sep-13 to 31-Aug-14	$140.0	5	2	1	1	1	3	3
Djibouti	1278	11-Apr-14	Satisfactory	1-Jan-13 to 31-Dec-13	$1.7	2	1	-	1	-	5	5
Angola	1298	22-May-14	Satisfactory	1-Jan-12 to 31-Dec-13	$10.7	1	1	-	-	-	2	2
Programme of Assistance to the Palestinian People	1303	9-Jul-14	Satisfactory	1-Jan-12 to 31-Dec-13	$2.1	2	1	1	-	-	1	1
Turkmenistan	1410	26-Dec-14	Satisfactory	1-Jan-13 to 30-Jun-14	$4.7	1	-	1	-	-	4	4
Syrian Arab Republic (Desk Review)	1231	6-Mar-14	N/A	1-Jan-11 to 31-Dec-12	$1.7	2	1	1	-	-	4	4
Iran (Output No. 77633)	1364	22-Aug-14	N/A	1-Jan-13 to 31-Dec-13	$0.7	-	-	-	-	-	0	0
Iran (Output No. 80152)	1363	22-Aug-14	N/A	1-Jan-13 to 31-Dec-13	$1.7	-	-	-	-	-	0	0
Iran (Output No. 84251)	1362	22-Aug-14	N/A	1-Jan-13 to 31-Dec-13	$1.7	-	-	-	-	-	0	0
Yemen (Remote Audit)	1399	31-Dec-14	N/A	1-Jan-13 to 30-Jun-14	$0.1	1	1	-	-	-	0	0
				Total:	**$293.2**	**31**	**15**	**8**	**7**	**1**	**55**	**54**