

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP ISLAMIC REPUBLIC OF IRAN**

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

**Report No. 1539**  
**Issue Date: 6 November 2015**

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## Report on the Audit of UNDP Islamic Republic of Iran Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 6 to 17 September 2015, conducted an audit of four grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 84251, 94896 [HIV], 80152, 90873 [Malaria], 77633 [TB] and 88383 [Country Coordinating Mechanism]), managed by UNDP Islamic Republic of Iran (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> 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 (quantification 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 (expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January 2014 to 31 August 2015. The Office recorded Global Fund-related expenditures of approximately \$17 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in August 2014.

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 **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."

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

**Key recommendations:** Total = 3, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means, "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." These recommendations include actions to address staff performance assessments that were not completed in a timely manner, excess procurement of HIV medicines, and lack of an established procedure to monitor payments to NGOs by the Sub-recipient.

The three recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendations 2 and 3); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

There is also one issue caused by factors beyond the control of UNDP: Delays in procurement of insecticides (refer to Issue 3).

**Implementation status of previous OAI audit recommendations:** Report Nos. 1362, 1363 and 1364 issued on 22 August 2014 did not result in any recommendations.

**Management comments and action plan**

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.



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## I. Profile of Global Fund grants managed by UNDP Islamic Republic of Iran

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in the Islamic Republic of Iran (the Country). The details of all grants, including the start and end date, the budget and actual expenditure and the Global fund rating, are shown in the table below.

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$)	Funds Received as of 31-Aug-15	Atlas Delivery	Implementation Rate	Expenditures 1-Jan-14 to 31-Aug-15	Global Fund Rating at 28-Feb-15
IRN-809-G04-H	84251	R8 - HIV Phase 2	1-Apr-12	31-Mar-15	20,655,875	14,982,970	16,132,361	108%	8,700,815	A1
IRN-H-UNDP	94896	NFM - HIV (additional grant received)	1-Apr-15	31-Mar-18	11,961,295	2,713,047	823,084	30%	823,084	N/A
IRN-708-G03-T	77633	R7 - TB Phase 2	1-Jan-11	31-Mar-14	8,582,295	6,729,760	8,156,589	121%	1,400,936	A1
IRN-M-UNDP	80152	SSF (R10&7)- Consolidated - Malaria Phase 1	1-Oct-11	31-Mar-14	13,241,610	11,436,142	11,115,795	97%	1,163,131	A2
	90873	SSF- Consolidated - Malaria Phase 2 (incremental)	1-Apr-14	30-Sep-16	8,250,793	4,253,677	4,158,316	98%	4,158,316	
IRN-CFUND-1303	88383	CCM - Funding - 4	1-Nov-13	31-Oct-15	134,973	144,272	117,609	82%	111,667	N/A

## II. Audit results

Satisfactory performance was noted in the area of Sub-recipient management. Controls established were adequate. Further, the result of the audit report of Sub-recipients audited under the national implementation modality was unqualified.

OAI made three recommendations ranked medium (important) priority.

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

**Medium priority recommendations**, arranged according to significance:

- (a) Improve controls over expired medicines and settle the balance (Recommendation 2).
- (b) Establish procedures requiring the Sub-recipient to forward documented records on dates and amounts reimbursed to the NGOs (Recommendation 3).
- (c) Improve the Performance Management Development assessment process (Recommendation 1).

**A. Governance**

**1. Staffing**

**Issue 1**      Staff Performance Management Development assessments not completed timely

The 'UNDP Programme and Operations Policies and Procedures' require staff to complete the Performance Management Development process within a specified time frame and to establish individual learning plans to address training and development needs.

As at the date of the audit fieldwork, only 3 out of 12 (25 percent) Programme Management Unit staff had completed the 2013 Performance Management Development assessments, even though the deadline for completion was 31 March 2014. Further, only 8 of the total 15 staff had completed the 2014 assessments that had a deadline of 31 March 2015. Because the Performance Management Development assessments were not completed on time, the Office's learning plan did not incorporate any learning requirements for staff.

The Office stated that the incomplete staff assessments were being reviewed by the Talent Management Review Group at the time of the audit fieldwork.

Failure to complete Performance Management Development assessments on time may lead to staff capacity gaps not being adequately identified and addressed. Staff may also not receive important and timely feedback about their performance.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve the Performance Management Development assessment process by:	
<ul style="list-style-type: none"> <li>(a) ensuring that staff and the respective supervisors finalize the assessments within the deadlines stipulated by the 'UNDP Programme and Operations Policies and Procedures' for the Performance Management Development process; and</li> <li>(b) completing the Performance Management Development assessments for 2014 and 2015 as soon as possible and within a defined time frame.</li> </ul>	
<b>Management action plan:</b>	
The Office takes note of this recommendation and will ensure the completion of the Talent Management Review Group review of 2014 Performance Management Development assessments.	

**Estimated completion date:** March 2016

## B. Procurement and supply management

### 1. Procurement of health products

#### **Issue 2**      Excess procurement of antiretroviral drugs

According to the procurement and supply management arrangements with the Sub-recipient, UNDP is responsible for the procurement of antiretroviral drugs and health products based on the forecast provided by the Sub-recipient.

The Sub-recipient had placed a request for 5,670 cc of antiretroviral oral solution drugs in June 2013. These were procured by the Office through another United Nations agency. The agency erroneously calculated the quantity as 5,670 bottles.

This resulted in an excess supply of the quantity requested, with a total cost initially estimated at \$72,530. There was no documented evidence that this cost estimate had been reviewed and validated by the Office.

To make use of the excess supply, drugs valued at \$15,000 were exported to three other countries. The other United Nations agency agreed to share the responsibility and absorbed the cost of \$30,000. The Office and the Global Fund were in discussions to find a solution for the balance of \$27,530. This issue was also highlighted in the Global Fund Management Letter of August 2015.

During fieldwork, the audit identified the following:

- In September 2015, the Sub-recipient confirmed through a letter that 3,538 bottles of antiretroviral oral solution, which had expired in March 2015, had been set aside for destruction, but had yet to be destroyed. Until the time of the audit fieldwork, the Office had not undertaken a physical inspection to independently confirm the exact expired quantity stored in the warehouse. Following an audit request, the Sub-recipient forwarded a statement indicating the quantity expired as 3,538 bottles. However, the Office records showed an expired quantity of 4,206 bottles. Office management commented that based on the Sub-recipient information provided, the difference was due to higher consumption by the Sub-recipient, which further reduced the total final amount of the estimated loss to \$17,800.
- The Office had made no provision in its books for this probable liability, as discussions with the Global Fund were ongoing.

Excess procurement and lack of independent inspections of the warehouse may lead to loss of funds. Delays in determining the treatment of the balance may impact the accuracy and timeliness of liability provisions in the Office's books.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should improve controls over expired medicines and settle the loss by:	
<ul style="list-style-type: none"> <li>(a) undertaking an independent warehouse inspection to confirm the exact quantities that have expired;</li> <li>(b) confirming that the expired antiretroviral drugs are destroyed as per the established national safe drugs disposal protocol; and</li> <li>(c) reaching an agreement on finding a solution for the balance with the Global Fund and the Sub-recipient and communicating the information to the other United Nations agency.</li> </ul>	
<b>Management action plan:</b>	
The Office will implement the recommendations.	
<b>Estimated completion date:</b> January 2016	

## 2. Quality assurance

### Issue 3 Delays in procurement of insecticides

The Global Fund Quality Assurance policy requires the Principal Recipient to undertake quality assurance checks to ensure that the products reach the final consumers in a safe and secure manner.

During the period under review, for the needs of the malaria grant, the Office procured two different types of insecticides through specific vendors already pre-qualified by another United Nations agency that had established Long-Term Agreements with these vendors.

The audit noted that the procurement of these insecticides was delayed for more than one year:

- In one case, the procurement process for 6,200 kg valued at \$539,000 was initiated in June 2014. However, 6,175 kg of the insecticides were received in June 2015, one year after the Sub-recipient's request. The late delivery was due to the repeated failure of pre-shipment quality assurance testing. The first testing conducted on two samples in October 2014 yielded non-compliant results. Another quality assurance test was conducted in February 2015 and also indicated a minor deviation from the standards.
- Another procurement of 3,386 kg of a different insecticide valued at \$274,000 initiated in October 2014 was still pending at the time of the audit. About 1,600 kg were declared non-compliant upon post-shipment quality control inspection in January 2015. The return of the rejected insecticides to the manufacturers was pending clearance by government authorities since August 2015. The manufacturer offered to replace the rejected insecticides; however, the replacement of the insecticides had not been shipped as the quality assurance results indicated a minor deviation from WHO standards. A confirmation from the Sub-recipient on whether the deviation was within acceptable limits was pending.

The Office had established controls for mitigating the risks of the sub-standard quality of insecticides, including the reimbursement of quality assurance related costs for non-compliant samples by the vendors. Further, there was no



stock-out for the insecticides during this period. However, the extended quality assurance tests impacted procurement timeliness and programme delivery rates.

As the insecticides were procured from pre-qualified vendors holding Long-Term Agreements with another United Nations agency, the Office had taken pre-emptive measures to buy the products from what was deemed a suitable source. The cases mentioned above were considered to be beyond the control of the Office, thus no recommendation is being made.

## C. Financial management

### 1. Expenditures

#### Issue 4 Inadequate controls over payments by Sub-recipient to NGOs

The 'UNDP Financial Regulations and Rules' require that operations be carried out in an efficient and effective manner.

The Office had engaged a Sub-recipient to conduct HIV harm-reduction activities, namely, the establishment of Drop-In-Centres, Sleep-In-Centres and outreach activities. The Sub-recipient had contracted 54 NGOs to carry out these activities. During the period under review, 31 payment vouchers, totalling \$2.56 million were paid to the NGOs.

There was no established procedure of monitoring the timely and complete payment of amounts reimbursed to NGOs, as during the audit period, there was no documented evidence of whether the Sub-recipient had transmitted the amounts to the respective NGOs or of the time taken to make these payments.

The Office management reported that during field missions, assigned personnel regularly sought verbal confirmations from the NGOs that their payments were paid timely. Also, the Sub-recipient informed the audit that there had been no complaints from the NGOs on delays of payments during the audit period. Obtaining relevant documents of payments to the NGOs would provide better evidence that payments were made in full and on time.

In the absence of any documented evidence, NGO s may not be paid on time.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should establish procedures requiring the Sub-recipient to forward documented records on dates and amounts reimbursed to the NGOs, and use these records to monitor that payments to the NGOs are timely and complete, and following up on any cases of delays.	
<b>Management action plan:</b>	
The Office will work with the Sub-recipient to identify an approach to seek confirmation of the payments made to the NGOs.	
<b>Estimated completion date:</b> March 2016	

## 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.