AUDIT

OF

UNDP BANGKOK REGIONAL HUB

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

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Report on the Audit of UNDP Bangkok Regional Hub
Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 9 to 23 May 2016, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 88458 [HIV]) managed by the UNDP Bangkok Regional Hub (the Office) as the Principal Recipient. 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 July 2013 to 31 December 2015. The Office recorded Global Fund-related expenditures of approximately $9.1 million. This was the first audit of the Office’s Global Fund-related activities.

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.”

Good practice

The Office had set up a thorough mechanism of reviewing the Sub-recipients’ expenditures reported on their quarterly progress updates (refer to section II, page 1 for details).

Key recommendation: Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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.” The recommendation includes actions to address the transition plan of the grant, which is still outstanding.
The recommendation aims to ensure the achievement of the organization’s strategic objectives.

Management comments and action plan

The Deputy Director for the Regional Bureau for Asia and the Pacific and Director of the Bangkok Regional Hub accepted the recommendation and is in the process of implementing it. 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 the Office

Since 2013, UNDP has been the Principal Recipient of the Multi-Country South Asia Global Fund grant in Thailand (the Country), which was implemented in eight different countries (Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka). In addition, Maldives is involved in regional activities such as training, without implementation activities undertaken. The purpose of the grant was to support the development and strengthening of community-based organizations and systems in multiple countries in South Asia to address the impact of, and vulnerability to HIV of male and transgender populations in the region. The overall goal of the grant was to reduce the impact of HIV by improving the provision of comprehensive HIV prevention, care and support services in all seven countries.

<table>
<thead>
<tr>
<th>Grant No.</th>
<th>Output No.</th>
<th>Description</th>
<th>Start Date</th>
<th>End Date</th>
<th>Budget (in $’000)</th>
<th>Funds Received as of 31 Dec 2015 (in $’000)</th>
<th>Implementation Rate</th>
<th>Expenditures as of 31 Dec 2015 (in $’000)</th>
<th>Global Fund Rating at 31 May 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSA-910-G02H</td>
<td>88458</td>
<td>HIV</td>
<td>01 Jul 2013 (Phase 2)</td>
<td>31 Dec 2016(^1) (Phase 2)</td>
<td>16,762</td>
<td>12,507</td>
<td>74%</td>
<td>9,064</td>
<td>A1(^2)</td>
</tr>
</tbody>
</table>

II. Good practice

OAI identified a good practice, as follows:

**Sub-recipient management/Oversight and monitoring**

The grant activities in the seven different countries were being implemented with the collaboration of local Sub-recipients. Since the Office did not have personnel located in all the seven countries, an additional layer of control regarding the verification of Sub-recipient expenditure was introduced at the local level. The Office had appointed independent audit firms located in the different countries, the Terms of Reference of which, included the verification of supporting financial documents before submission to the Principal Recipient and providing guidance to UNDP with regards to the financial performance of the Sub-recipients. The audit firms also carried out verifications and physical counts of inventory and assets held by the Sub-recipients.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) **Programme management**, Programme activities were implemented according to the implementation plan and within the stipulated timeframe. The Office carried out adequate monitoring of programme implementation.

(b) **Sub-recipient management**, Disbursements were made to the Sub-recipients according to UNDP regulations and rules. Financial and progress reports were received on a quarterly basis and the supporting documents were timely reviewed by the Office. At the time of the audit mission, the Office had National Programme Officers in three of the countries and they assisted with the implementation of the grant and the coordination with the Sub-recipients based in those countries. In the remaining four countries, the Sub-recipients were dealing directly with the Programme Analyst based in Bangkok, Thailand.

\(^1\) The grant received a non-cost extension for one year with a new grant end date of 31 December 2016.

\(^2\) Global Fund rating A1 = Exceeds expectations.
(c) **Procurement and supply chain management.** The procurement of health products was found to be satisfactory and the Office had a plan for addressing the current overstock of products. The procurement of other goods and services was found to be satisfactory. Furthermore, asset management was found to be adequate.

(d) **Financial management.** The audit of payments through the verification of a sample of vouchers did not give rise to any major concerns regarding the reliability and integrity of financial and operational information. Furthermore, reporting to the Global Fund was completed within the stipulated deadlines.

OAI made one recommendation ranked medium (important) priority.

The detailed assessment is presented below, per audit area:

### A. Governance and Strategic Management

#### 1. Capacity Development and Exit Strategy

**Issue 1: Transition plan for the close-out of the grant not completed**

According to the Global Fund guidelines on the transfer of grants from one Principal Recipient to the next, a formal notification must be sent to the outgoing Principal Recipient by the Global Fund. As part of the formal notification, the Global Fund Secretariat requests the outgoing Principal Recipient to compile a close-out plan that details programme activities that should be completed, as well as the respective timing and related costs.

The audit disclosed that the Global Fund had communicated to the Country Coordinating Mechanism Steering Committee that they were planning to change the Principal Recipient as of 1 January 2017. The current grant was due to end on 31 December 2016.

The expectation of the Global Fund was that UNDP, as the current Principal Recipient, would mentor the new Principal Recipient to ensure it would be ready to take over. Therefore, the Office was expected to prepare a transition plan to manage the handover period leading to the end of the grant. The transition plan should include the transfer modalities of the Principal Recipient as well as guidance to build the capacity of the new Principal Recipient. However, for UNDP to be able to prepare this transition plan, the new Principal Recipient should be selected and assessed by the Global Fund. The transition plan would then be tailored to that specific Principal Recipient.

At the time of the audit fieldwork, the Global Fund’s decision on the new Principal Recipient was pending. However, after the audit mission to the Office, the Global Fund announced its plans in June 2016 to endorse a new Principal Recipient for the grant effective 1 January 2017.

If the grant management is not transferred to the new Principal Recipient in a systematic manner, the sustainability of programme activities may be impacted, and there may be reputational risks for UNDP.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
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<tr>
<td>The Office should coordinate with the Bureau for Policy and Programme Support and the Global Fund to ensure that the transition plan, along with the exit strategy, is set up with realistic milestones and timelines.</td>
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Management action plan:

Following the communication from the Global Fund, the Office plans to develop a close-out and transition plan in consultation with the Global Fund, the Regional Country Coordinating Mechanism Steering Committee, the Sub-recipients and other key partners. The transition and close-out plan will be prepared with the Bureau for Policy and Programme Support, and is expected to be completed by 1 September 2016, for implementation within the timelines agreed with the Global Fund.

Estimated completion date: September 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.