UNITED NATIONS DEVELOPMENT PROGRAMME

Office of Audit and Investigations

Empowered lives.
Resilient nations.

CONSOLIDATED REPORT

OF THE AUDITS OF

**UNDP COUNTRY OFFICES AS PRINCIPAL RECIPIENTS OF GRANTS FROM
THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016**

Report No. 1772

Issue Date: 17 April 2017

Table of Contents

Consolidated Report of the audits of UNDP Country Offices as Principal Recipients of grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund)

Executive Summary

Background

The UNDP Office of Audit and Investigations (OAI) analyzed the audit issues noted in the 2016 OAI audits of the Global Fund grants managed by UNDP as Principal Recipient, and reviewed the status of implementation of audit recommendations as of April 2017. OAI also identified recurring audit issues from the reports issued from 2013 to 2016.

As of December 2016, UNDP was the Principal Recipient in 21 countries and 4 regional programmes, and managed 37 Global Fund grants totaling $1.46 billion.

Audit coverage

In 2016, 13 reports were issued pertaining to audits of Global Fund grants managed by UNDP as Principal Recipient. The 13 reports (6 in Africa, 4 in the Arab States, 2 in Latin America and the Caribbean, and 1 in Asia and the Pacific) covered 23 Global Fund grants in 9 Country Offices.

The 13 audits reported a total of 28 audit issues and made a total of 25 recommendations to address those issues. The recurring or key issues noted were weaknesses in:

  (a) programme management
  (b) procurement and supply management (inventory, warehousing, and distribution)
  (c) financial management/project expenditures

There were eight recommendations (32 percent) that were rated as high priority.

To ensure the successful implementation of Global Fund grants, OAI issued audit recommendations to the Country Offices. The critical recommendations included the following:

- Strengthen supply management by:

    (a) developing and implementing the appropriate mechanisms to track and monitor pharmaceutical products throughout the supply chain;
    (b) ensuring the accurate recording of inventory items;
    (c) prioritizing the distribution of the first-to-expire stock; and
    (d) monitoring stock levels on a monthly basis.

- Strengthen programme management by:

    (a) establishing a mechanism to hold non-performing partners accountable, including documenting instances of non-performance and reporting them to appropriate authorities;
    (b) expediting the fulfilment of conditions to allow for the commencement of delayed activities and adjusting the work plan accordingly;
    (c) documenting how grant activities are implemented in hard-to-reach areas; and
    (d) assessing the potential additional costs of implementing grant activities in hard-to-reach areas.

- Improve financial management controls by:

  (a) obtaining and reconciling all advances including reprogrammed amounts to determine and request final balances;
  (b) systematically recording advances in the correct accounts;
  (c) liquidating only those items that have been received;
  (d) enforcing contractual arrangements related to invoicing;
  (e) recovering amounts identified as overpayments; and
  (f) ensuring that expenses reported by other UN agencies are properly presented under the correct Atlas heading.

Implementation of audit recommendation

In close cooperation with the Bureau for Policy and Programme Support, UNDP Global Fund/Health Implementation Support Team, OAI continuously monitors and follows-up on the progress achieved by each Country Office in implementing audit recommendations.

As of 4 April 2017, the rate of implementation of 2016 audit recommendations was 52 percent, as detailed in Section IV of this report.

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 partnership organization and is designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. As of December 2016, UNDP was the Principal Recipient in 21 countries and 4 regional programmes, and managed 37 Global Fund grants totaling $1.46 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.

Objectives and 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,[1] which are Chad, Djibouti, Guinea-Bissau, Haiti, Iran, Iraq, Mali, South Sudan, Sudan, Syria, and Zimbabwe. Global Fund grants in the Additional Safeguard Policy countries were normally audited annually; grants in other countries were audited in accordance with a risk-based audit cycle. In October 2016, a Framework Agreement was reached between UNDP and the Global Fund. In the new agreement, the annual audit requirement for counties falling under the Additional Safeguard Policy was removed, and it formalized the risk-based approach of all OAI audits for the Global Fund.

The 2016 audits were conducted either directly by OAI or outsourced to audit firms. For those audits conducted directly by OAI, the audits aimed to assess the adequacy and effectiveness of governance, risk management and control processes relating to the following areas and sub-areas:

   (a) governance and strategic management (organizational structure, capacity development and exit strategy);
   (b) programme management (project approval and implementation, monitoring and evaluation);
   (c) Sub-recipient management (oversight and monitoring);
   (d) procurement and supply management (procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management); and
   (e) financial management (expenditures, reporting to the Global Fund).

For those audits outsourced to audit firms, financial audits were conducted and the audit firms were required to express an opinion on whether the financial statements presented fairly, in all material aspect, the Project's operations.

The scope of the audits of Global Fund grants included all activities related to the implementation of Global Fund grants by UNDP Country Offices.

A draft version of this consolidated report has been shared with Bureau of Policy and Programme Support, Global/Fund Health Implementation Support Team, and their comments have been taken into account in the final report.

---

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

II.   Overview of the audits

The 13 Global Fund audit reports from 2016 covered 23 grants with total expenditure of $219.2 million. Of the 13 audit reports issued, one was rated "satisfactory" and 4 were rated "partially satisfactory". The remaining 8 reports related to financial audits of projects and outputs in four countries, and the audit firms rendered an "unqualified" opinion for all 8 reports.

Ratings for the audit reports issued in 2016 are presented in Annex I.

III.   Analysis of the audit issues raised

The issues raised in the audit reports dealt with issues stemming from project approval and implementation, procurement and supply management, as well as financial management of expenditures.   Below is a detailed analysis of the main issues raised per sub-section.

A. Procurement and Supply Management

Issue 1.   Weakness in supply management

The standard terms and conditions of the UNDP agreement with the Global Fund stipulate that the Principal Recipient should establish and maintain reliable inventory management and stock levels, as well as first-in first-out stock control systems. A reliable stock management information system should be put in place to monitor the level and movement of stock at the central and regional warehouse, as well as at health centres and should function properly to ensure adequate execution of the Global Funds' grant management mandate.

OAI noted weaknesses in the supply management system in Guinea-Bissau, Mali, Syria and Zimbabwe, as follows:

- Delays in physical verifications of inventories which resulted in discrepancies and stock-outs (Guinea Bissau and Mali); and
- Weaknesses in the storage of medical products (Zimbabwe)
- Weaknesses in the accuracy of stock cards and monthly reports (Syria);

OAI recommended that the Country Offices improve their supply management system by:

- monitoring stock levels on a monthly basis for those facilities contracted by UNDP and/or for Sub-recipients (Syria);
- developing and implementing the appropriate mechanisms to track and monitor pharmaceutical products throughout the supply chain (Guinea Bissau and Mali);
- ensuring the accurate recording of inventory items (Guinea Bissau);
- expediting the process of constructing a new warehouse (Zimbabwe);
- ensuring that functioning thermometers are installed in the warehouses, health facility pharmacies where cold chain items are kept and required temperatures are maintained and logged (Zimbabwe)

B. Programme Management

Issue 1 Delays in implementation of project activities

According to the agreement signed with the Global Fund, UNDP as the Principal Recipient is expected to implement or oversee the implementation of grant activities. To achieve the targets set in the performance framework annexed to the grant agreement, planned project activities should commence as scheduled and delayed activities should be rescheduled to meet programme objectives.

OAI noted delays in the implementation of project activities in Guinea-Bissau, Mali, and Syria. The causes for the delays, as identified by OAI, included: (a) the challenging political context coupled with the high staff turnover and slow recruitment process in Guinea Bissau; (b) the security situation due to internal conflicts in Syria which made several regions isolated and hard to reach; and (c) the challenging operating context and complex relationships with Sub-recipients in Mali.

OAI recommended that the Country Offices:

- establish a mechanism to hold non-performing partners accountable, including documenting instances of non-performance and reporting them to the appropriate authority (Mali);
- expedite the fulfilment of the condition needed for the commencement of delayed activities and adjust the work plans accordingly (Guinea Bissau);
- document how grant activities are implemented in hard-to-reach areas (Syria); and
- assess the potential additional costs of implementing grant activities in hard-to-reach areas (Syria).

C. Financial Management

Issue 2.   Weaknesses in management of project funds and misclassification of expenses

The UNDP Programme and Operations Policies and Procedures stipulate that 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. Payment requests should be validated and reviewed before payment to avoid over payments.

OAI noted inadequate management of payments and advances in Mali and weaknesses in recording of expenses in Iraq, as follows:

- inadequate management of advances disbursed to other United Nations agencies (Mali);
- payments to bank not backed by formal contract and not recorded as advances in Atlas (Mali);
- overpayment of charges for storage of medical supplies (Mali); and
- misclassification of expenses in the Combined Delivery Report (Iraq).

OAI recommended that the Country Office improve oversight of projects funds by:

- obtaining and reconciling all advances to determine and request the final balance, if any, from the agency (Mali);
- ensuring that expenses reported by other UN agencies are properly presented under the correct Atlas heading (Mali);
- liquidating only those items that have been received (Mali);

- enforcing contractual arrangements related to invoicing (Mali);
- recovering the amounts identified as overpayments (Mali); and
- systematically recording advances in the correct account (Iraq).

IV.   Implementation of the audit recommendations

OAI, in close cooperation with the Bureau for Programme and Policy Support, UNDP Global Fund/Health Implementation Support Team, Health and Development Group, 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 25 audit recommendations included in 8 of 13 audit reports issued between 1 January and 31 December 2016 (see Figure 1). The remaining five reports did not contain any recommendations. As of 4 April 2017, 13 out of 25 recommendations (52%) have been fully implemented.

Figure 1: Implementation rate of the recommendations in the 2016 Global Fund audits as of 4 April 2017

Country Office	Report No.	Issue Date	Total No. of Recommendations	Implementation rate
Bangkok Regional Centre	1621	20-Jul-16	1	100%
Guinea Bissau	1735	16-Dec-16	6	0%
Iraq (Republic of)	1654	19-Sep-16	1	0%
Mali	1571	27-May-16	8	75%
South Sudan	1686	23-Sep-16	1	100%
South Sudan	1726	23-Sep-16	1	100%
Syria	1578	13-May-16	5	40%
Zimbabwe	1562	16-Feb-16	2	100%
Total for 2016			**25**	**52%**

V.   Recurring audit issues from 2013-2016

OAI analysed the audit recommendations raised during the last four years to examine the areas where audit issues were most prevalent. The summary is displayed in Figure 2.

Some of the key conclusions are as follows:

1. The number of recommendations in 2016 has been the lowest since 2013.
2. Procurement and supply chain management was the audit area with the most number of recommendations in the last four years. Nevertheless, the number of recommendations has continued to decline.
3. There were no issues with Sub-recipient management in 2016.

Figure 2: Number of audit reports and recommendations per category 2013-2016

	2013 (14 reports)	2014 (18 reports)	2015 (14 reports)	2016 (13 reports)
Procurement and Supply Management	32	26	20	9
Programme management	17	7	9	6
SR management	15	6	8	0
Financial management	5	5	8	6
Governance	5	10	8	4
Total	**74**	**54**	**53**	**25**
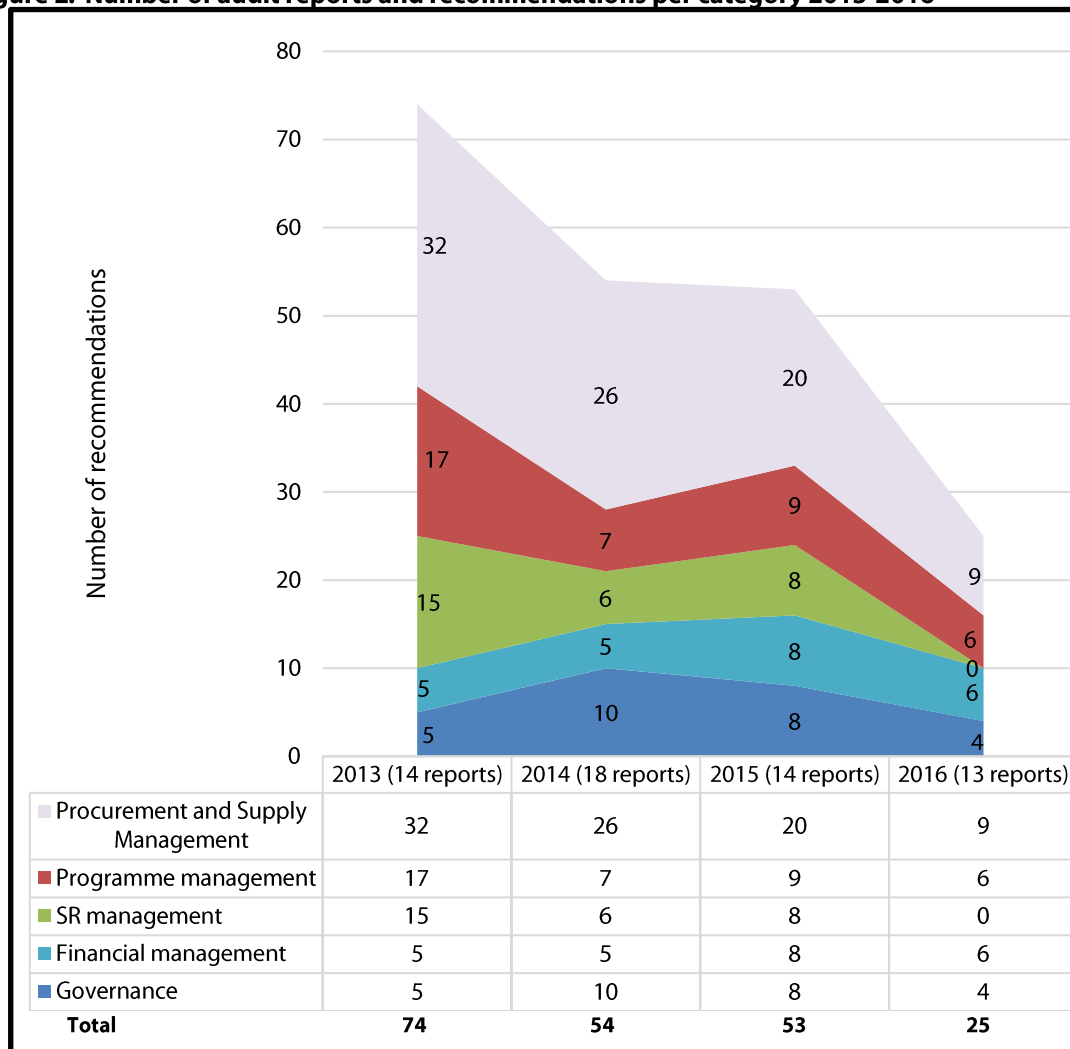
Note: SR management = Sub-Recipient management

Definitions of audit terms - ratings and priorities used in 2016

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 1 Global fund grants audited in Country Offices

Report No.	Country Office	Issue Date	Audit Period		Audit Rating	Expenditure during the audited period (in $millions)	Global Fund grants audited						No. of Audit Issues	No. of Recommen-dations
							Total	HIV	TB	Malaria	CCM/HSS	Other		
1621	Bangkok Regional Centre	20/07/2016	1-Jul-13	31-Dec-15	Satisfactory	9.1	1	1					1	1
1711	Djibouti	13/10/2016	1-Jan-15	31-Dec-15	N/A	0.8	1	1					0	0
1737	Djibouti	13/10/2016	1-Jan-15	31-Dec-15	N/A	0.8	1		1				0	0
1735	Guinea Bissau	16/12/2016	1-Jan-15	30-Jun-16	Partially Satisfactory	5.8	3		1	2			6	6
1659	Haiti	10/8/2016	1-Jan-15	31-Dec-15	N/A	1.7	1		1				0	0
1660	Haiti	10/8/2016	1-Jan-15	31-Dec-15	N/A	6.3	1	1					0	0
1654	Iraq (Republic of)	19/09/2016	1-Jan-15	31-Dec-15	N/A	3.1	1		1				1	1
1571	Mali	27/05/2016	1-Feb-05	31-Jan-16	Partially Satisfactory	13.3	1	1					8	8
1686	South Sudan	23/09/2016	1-Jul-14	31-Dec-15	N/A	14	4	1	1		1	1*	1	1
1725	South Sudan	23/09/2016	1-Jul-15	31-Dec-15	N/A	1.2	1		1				0	0
1726	South Sudan	23/09/2016	1-Oct-15	31-Dec-15	N/A	0.5	1	1					1	1
1578	Syria	13/05/2016	1-Jan-13	31-Dec-15	Partially Satisfactory	2.6	2	1	1				8	5
1562	Zimbabwe	16/02/2016	1-Sep-14	31-Aug-15	Partially Satisfactory	160	5	2	1	1	1		2	2
						219.2	**23**	**9**	**8**	**3**	**2**	**1**	**28**	**25**

* Project 64223/Output 81102 - TB and HIV Collaboration Programme