AUDIT

OF

THE GLOBAL HEALTH INNOVATIVE TECHNOLOGY FUND PROJECT
(PROJECT NO. 74638)

Report No. 1889

Issue Date: 13 October 2017
# Table of Contents

Executive Summary i
I. About the Project 1
II. Audit results 1
   A. Governance 2
   B. Operations 3
Definitions of audit terms - ratings and priorities 4
United Nations Development Programme
Office of Audit and Investigations

Report on the Audit of The Global Health Innovative Technology Fund Project
Executive Summary

The UNDP Office of Audit and Investigations (OAI) from 24 July to 13 September 2017, conducted an audit of the Global Health Innovative Technology Fund Project, Project No. 74638 (the Project), which is implemented by the Bureau for Policy and Programme Support (the Office). The audit assessed the Project’s organizational structure, governance, risk management, monitoring, donor relations and operations. The audit included an assessment of the Project’s progress in achieving its objectives as outlined in the Project Document.

The audit covered the activities of the project from 1 January 2016 to 30 June 2017. The Office recorded total expenditures of approximately $20 million during the audit period. This was the first audit of the Project.

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

Overall audit rating

OAI assessed the Project as satisfactory, which means, “The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area”.

Key recommendations: Total = 2, high priority = 0

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability and integrity of financial and operational information</td>
<td>2</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>1</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Management comments and action plan

The Director of the Bureau for Policy and Programme Support accepted both recommendations and is in the process of implementing them. Management comments and/or additional information provided have been incorporated in the report, where appropriate.

Low priority issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations
I. About the Project

The Project is a Japanese-led public-private partnership aimed at promoting the development of new health technologies for Tuberculosis, Malaria and Neglected Tropical Diseases. It was established in 2013 by three key partners, namely: the Government of Japan, Bill & Melinda Gates Foundation and the Japanese pharmaceutical industry.

UNDP managed contributions to the Project of $53.7\textsuperscript{1} million for Phase 2 of the Project, covering the period from April 2014 to March 2018. UNDP has the responsibility of ensuring that the contributions are dispersed to the Project in a timely manner, and in accordance with the Project Document. It is also the responsibility of UNDP to ensure that the relevant monitoring and reporting is conducted as per the Project Document.

Additionally, UNDP assists the Project in assessing the access and delivery aspect on research and development for Neglected Tropical Diseases and Malaria and Tuberculosis. This role is outlined in a separate project document, “Building Capacity for Access and Delivery of New Global Health Technologies for Tuberculosis, Malaria, Neglected Tropical Diseases, and other Diseases in Low and Middle-Income Countries” (Project No. 75333).

Audit objective

The overall audit objective was to assess the Project’s organizational structure and governance, risk management, monitoring, donor relations and operations. The audit included an assessment of the Project’s progress in achieving its objectives as outlined in the Project Document.

Audit period covered: 1 January 2016 to 30 June 2017.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Risk Management: The audit noted that risks were adequately monitored by the Office.
(b) Donor relations: The audit noted that the Government of Japan was satisfied with UNDP’s implementation of the Project.

OAI made two recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

(a) Revise the Project Document to reflect change in the implementation modality. (Recommendation 1).
(b) Compliance with the Project Document and the Project Cooperation Agreement (Recommendation 2).

The detailed assessment is presented below, per audit area:

\textsuperscript{1} The Project Document outlined $41.1 million, but the government of Japan contributed an additional $12.6 million to UNDP in March 2016, resulting in a total contribution of $53.7 million.
A. Governance

Issue 1  Implementation modality not in accordance with the Project Document

According to the ‘UNDP Programme Operations Policies and Procedures’ on global and regional programming, the implementation of global projects may be entrusted to UNDP, other United Nations agencies, governments, intergovernmental organizations or civil society organizations. UNDP may play the role of Administrative Agent for Multi-Donor Trust Funds, One UN Funds and Joint Programmes using the pass-through modality established in the UN system. The pass-through modality is used for United Nations inter-agency pooled funds that operate in the humanitarian, transition, development, and climate change context. It is used for global, regional, sub-regional and country-level inter-agency pooled funds. A Non-Governmental Organization (NGO) may serve as implementing partner when it has an adequate capacity.

The audit noted that while the Project Document signed by the Office stated that the Project would be implemented using the NGO implementation modality. However, in practice, the implementation was consistent with the pass-through management modality.

The Office indicated that the NGO implementation modality was initially identified as the modality for implementing the Project. However, this modality was amended after further discussion with the donor. The Office informed that there was no implementation modality or guidance in the ‘UNDP Programme Operations Policies and Procedures’ that allowed for implementation of a project of this nature. In order to meet the needs of the donor, after discussions with the Bureau for Management Services, the Executive Office, the Japan Unit in the Bureau for External Relations and Advocacy, and the Japanese Mission, the decision was made to exceptionally adopt the pass-through modality in implementing the Project.

The audit noted that the Project Document does not reflect the agreement outlined above, and the consequence of having a project document that reflects the use of only an NGO implementation modality is that BPPS remained accountable to the rules and regulations corresponding to the NGO implementation modality. This includes the requirement to adhere to monitoring standards and policies, such as: (i) tracking performance through the collection of appropriate and credible data and other evidence; and (ii) reporting on performance and lessons to facilitate learning and support accountability.

Failing to properly reflect in the Project Document the change in implementation modality, the Project may be held accountable for actions that are beyond its revised roles and responsibilities.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should revise the Project Document to reflect the change in the implementation modality as agreed between UNDP and the Government of Japan.</td>
<td></td>
</tr>
<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
</tr>
<tr>
<td>Given that the Project will end on 31 March 2018, the Office will ensure that the correct implementation modality, as agreed with the donor (Government of Japan) is reflected in the next phase of the Project.</td>
<td></td>
</tr>
<tr>
<td><strong>Estimated completion date:</strong></td>
<td>30 April 2018</td>
</tr>
</tbody>
</table>
B. Operations

Issue 2  Limited assurance on the proper use of funds

According to the Project Document and the Project Cooperation Agreement, UNDP annually disburses funds to the NGO subject to the submission of quarterly financial reports and supporting documentation to the Office to provide assurance on the satisfactory management and use of funds. The annual disbursement of funds to the Project is cleared by the Director of Bureau for Management Services. Further, Article XI of the Project Cooperation Agreement signed between UNDP and the NGO states that: “The NGO shall submit to the UNDP responsible official a certified annual financial statement on the status of funds advanced by UNDP”.

On a quarterly basis, the NGO submitted financial reports providing the breakdown on the use of funds disbursed by UNDP. However, OAI noted that aside from the Excel sheets, there were no supporting documents on file, such as evidence of transfers to and acknowledgement of receipt of funds from the sub-grantees.

In addition, the audited financial statements of the NGO prepared by an audit firm did not provide sufficient assurance on the use of funds advanced by UNDP to the Project (a total of approximately $53 million from April 2014 to 30 June 2017 for Phase 2 of the project).

The Office stated that due to the highly confidential and sensitive nature of research and development information, the contracts between the NGO and its sub-grantees were confidential. Since UNDP did not have access to this information, obtaining additional information on funds transfer to sub-grantees and from the NGO might not be possible.

Without maintaining a sufficient supporting documentation to financial reports and a certified annual financial statement outlining the use of UNDP’s portion of the funds, there was no assurance that funds were used for their intended purpose.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
</table>

**Recommendation 2:**
The Office should ensure compliance with the Project Document and the Project Cooperation Agreement by ensuring that:

(a) certified annual financial statement submitted by the NGO provides sufficient details on the use of funds; and

(b) quarterly financial reports submitted by the NGO includes adequate supporting documentation such as a list of grantees.

**Management action plan:**
The Office will:

(a) work with the NGO to provide certified annual financial statements which show how the funds specifically provided by UNDP have been used. A request for such statements has already been made.

(b) request the NGO to submit to UNDP, a list of grantees as part of the signed financial reports certified by the NGO Comptroller.

**Estimated completion date:** 30 June 2018
Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**
  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**
  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**
  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**
  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.