AUDIT

OF

UNDP Bureau for Policy and Programme Support - HIV, Health and Development

GRANTS FROM THE GLOBAL FUND

Report No. 2034
Issue Date: 5 April 2019
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Report on the Audit of UNDP BPPS - HIV, Health and Development
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 13 to 22 February 2019, conducted an audit of one grant from the Global Fund [Output No. 97219 [HIV]] managed by UNDP BPPS - HIV, Health and Development (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, risk management, staffing and performance management, capacity development and transition strategy);
(b) programme management (project approval and implementation, monitoring and evaluation);
(c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
(d) procurement (individual contractors, procurement of other goods and services), and asset management; and
(e) financial management (revenue and accounts receivable, expenses reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January to 31 December 2018. The Office recorded Global Fund-related expenses of approximately $2.2 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 grant as satisfactory, which means that “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.”

Good practice

The Office periodically prepared newsletters highlighting the accomplishments of project activities managed by UNDP and funded by the Global Fund, which were shared with stakeholders and posted on a public web page. This initiative helped inform stakeholders and the public on the achievements and success stories of the project and served as a good marketing tool for both UNDP and the Global Fund.

Key recommendations: Total = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address the absence of delegations of authority, and inadequate controls in recording expenses.
The two recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 1); and (b) effectiveness and efficiency of operations (Recommendation 2).

Management comments and action plan

The Team Leader of the HIV, Health and Development team for Africa of the Bureau for Policy and Programme Support accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Low risk 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. Profile of Global Fund grants managed by UNDP BPPS - HIV, Health and Development

Since 2016, UNDP has been the Principal Recipient of a multi-country Global Fund grant covering 10 countries in Africa.

<table>
<thead>
<tr>
<th>Grant No.</th>
<th>Output No.</th>
<th>Description</th>
<th>Start Date</th>
<th>End Date</th>
<th>Budget</th>
<th>Funds Received as of 31 Dec 2018</th>
<th>Implementation Rate</th>
<th>Expenses as of 31 Dec 2018</th>
<th>Global Fund Rating at 26 May 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>QPA-H-UNDP</td>
<td>97219</td>
<td>Africa regional grant - removing legal barriers</td>
<td>1-Jan-16</td>
<td>31-Dec-19</td>
<td>$10.2 million</td>
<td>$8.9 million</td>
<td>79%</td>
<td>$8.1 million</td>
<td>A1</td>
</tr>
</tbody>
</table>

II. Good practice

OAI identified a good practice as follows:

The Office periodically prepared newsletters highlighting the accomplishments of project activities managed by UNDP and funded by the Global Fund, which were shared with stakeholders and posted on a public web page. This initiative helped inform stakeholders and the public on the achievements and success stories of the project and served as a good marketing tool for both UNDP and the Global Fund.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) **Risk management**, The Office had implemented risk management practices commensurate with the context of the grant implementation.

(b) **Capacity development and transition strategy**, The Office had put together a capacity development plan that was being implemented during the life of the grant.

(c) **Sub-recipient management**, The selection, contracting, funding, oversight and monitoring of Sub-recipients were found to be adequate.

(d) **Procurement of other goods and services**, Procurement cases were carried out competitively and the contracting process was in order.

(e) **Individual contractors**, Contractors engaged were selected competitively and the contracting process was in order.

(f) **Revenue and account receivables**, All disbursements made by the Global Fund had been recorded as revenue in the grant and the supporting documents were uploaded in Atlas (enterprise resource planning system of UNDP).

(g) **Reporting to the Global Fund**, Mandatory reports were submitted timely and the data in the reports was deemed to be of sufficient quality.

OAI made two recommendations ranked medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.
Medium priority recommendations
(a) Improve accountability (Recommendation 1)
(b) Enhance controls in recording expenses (Recommendation 2).

The detailed assessment is presented below, per audit area:

<table>
<thead>
<tr>
<th>A. Governance and strategic management</th>
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</thead>
<tbody>
<tr>
<td>1. Organizational structure</td>
</tr>
</tbody>
</table>

**Issue 1**  
Absence of delegation of authority

The UNDP Accountability Framework underscores the importance of clear elements of stakeholder and managerial accountabilities. These are discharged through the precise articulation of roles, responsibilities and authorities. Based on the concept of mutual accountability, the person who holds the accountability for outcomes, delegates appropriate levels of authority to staff. In doing so, the delegator of authority remains accountable for outcomes and the control of resources. One of the key controls when staff receive delegated authorities is to ensure segregation of duties so that different controls in a single transaction are not executed by the same person.

The Global Fund grant agreement was signed by the UNDP Assistant Administrator and Director, Bureau for Policy and Programme Support. However, there was no delegation of authority granted to the Office staff to manage the grant and to take the responsibility and accountability in managing resources and intended results.

In addition, the audit team noted four transactions amounting to $23,000, where approving and certifying authorities were exercised by the same staff member, which was not in accordance with the segregation of duties requirement. These exceptions arose because lines of accountability were not clarified and documented when the grant was initiated in 2016.

The absence of delegation of authority may result in accountability gaps and lack of compliance.

<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 improve accountability by ensuring that:</td>
<td></td>
</tr>
<tr>
<td>(a) delegations of authority are issued to staff who approve and manage resources of the grant; and</td>
<td></td>
</tr>
<tr>
<td>(b) requirements regarding segregation of duties are met.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management action plan:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) The Programme Management Team will seek revision of the delegations of authority from the Regional Service Centre for Africa, so that only approvers of the Global Fund grant will be staff from the HIV, Health and Development Africa team. The revised delegations of authority will be uploaded to Comprehensive Audit and Recommendation Database System.</td>
</tr>
<tr>
<td>(b) The Office notes the separation of duties and will ensure compliance.</td>
</tr>
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</table>
Estimated completion date: September 2019

B. Financial management

1. Expenses

   Issue 2  Inadequate controls in recording expenses

   The Global Fund approved budget break downs for all costs that are to be charged to a grant during the life of a project. There are rules that define how funds within a specific budget line are to be used and procedures to be followed when the need for deviations arise.

   The review of the financial management of the grant disclosed the following weaknesses:

   a) Non-attribution of direct costs to the project

      The Office relocated three staff members to its office in Turkey in 2017, and two staff members remained in its office in Ethiopia. The audit team noted that common service costs had not been charged to the grant since 2016 for either of the duty stations. For the Ethiopia office, the Regional Service Centre for Africa billed the Office, which covered all the costs and, in the process, inadvertently subsidized the Global Fund project. The grant budgeted a total of $140,000 for office costs during the life of the grant and the subsidized costs remained to be recovered from the grant.

   b) Overcharging of human resources costs

      One national officer post was budgeted for a 100 percent ‘level of effort’ in the grant budget. In 2017, the national officer post was converted to an international post. Also, the ‘level of effort’ was changed from 100 percent to 21 percent. Although there was a reduction in the ‘level of effort’, the Office continued charging the grant the same amount.

   Failure to exercise due diligence over payments could lead to irregularities and unjustified payments not being detected and addressed.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
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<tbody>
<tr>
<td>Recommendation 2:</td>
<td></td>
</tr>
<tr>
<td>The Office should enhance controls in recording expenses by:</td>
<td></td>
</tr>
<tr>
<td>(a) charging the grant for the common service costs incurred; and</td>
<td></td>
</tr>
<tr>
<td>(b) aligning costs of the international post to the actual ‘level of effort’ made to the grant and recovering any amounts, as appropriate, that have been overcharged thereon.</td>
<td></td>
</tr>
</tbody>
</table>
Management action plan:

(a) The costs for 2016 and 2018, which were charged to another donor, will be reversed. For 2017 costs paid by BPPS, the Office has followed up with BPPS/ROM and is awaiting confirmation as to whether there are any costs that should be reimbursed.

(b) The Office is seeking approval from the Global Fund for the grant to cover 100 percent of the national officer post with remedial action being taken if not approved.

**Estimated completion date:** September 2019
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 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**.