UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

GRANTS FROM THE GLOBAL FUND

Report No. 2099

Issue Date: 14 February 2020

Table of Contents

Report on the Audit of UNDP Afghanistan
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 24 November to 8 December 2019, conducted an audit of three grants from the Global Fund (Output Nos. 101508 [HIV]; 101509 [Malaria]; and 101510 [TB]) managed by UNDP in Afghanistan (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, grant closure);

(c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);

(d) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and

(e) financial management (revenue and accounts receivable, expenses, reporting to the Global Fund, Fund Administrator Role).

The audit covered the Global Fund-related activities of the Office from 1 January 2018 to 30 September 2019. The Office recorded Global Fund-related expenses of approximately $25.7 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2017.

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 **partially satisfactory/some improvement needed,** which means, "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". This rating is mainly due to weaknesses in the quality assurance process over health products and inadequate control over the electronic Logistics Management Information system.

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. Failure to take action could contribute to negative consequences for UNDP."

The three recommendations aim to ensure the following:

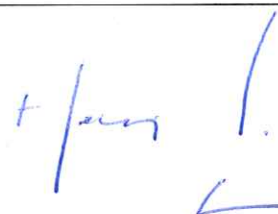| Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	1, 3	Medium
Effectiveness and efficiency of operations	2	Medium

Implementation status of previous OAI audit recommendations: Report No. 1898, 21 December 2017.

The previous audit (Report No. 1898, issued on 21 December 2017 did not result in any recommendations.

Management comments and action plan

The Resident Representative accepted all the three 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 Afghanistan

Since 2015, UNDP has been the Principal Recipient of Global Fund grants in Afghanistan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of 30 Sept 2019 (in $ '000)	Implementation Rate	Expenses as of 30 Sept 2019 (in $ '000)	Global Fund Rating at 30 Sept 2019
AFG-H-UNDP	101508	HIV	2018/01/01	2020/12/31	5,611	5,008	78	4,554	B1
AFG-T-UNDP	101510	TB	2018/01/01	2020/12/31	12,172	8,720	89	7,731	A1
AFG-M-UNDP	101509	Malaria	2018/01/01	2020/12/31	21,745	16,302	79	13,412	A1

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and Strategic Management/Risk Management. The management of risk and associated controls were found to be adequate.

(b) Governance and Strategic Management/Capacity Development. The capacity development plan and implementation thereof were found to be adequate.

(c) Financial Management. There were no issues in relation to revenue management; reporting to Global Fund was done timeously.

OAI made three 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, arranged according to significance:

(a)   Improve monitoring activities and prioritize the contracting of a qualified monitoring service provider (Recommendation 1).
(b)   Enhance quality assurance of health products. (Recommendation 2).
(c)   Improve controls over the Warehouse Management System (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Monitoring and evaluation

Issue 1   Insufficient field visits and data verification

Based on the monitoring and evaluation plan signed between the Office as the Principal Recipient of the grant and the relevant government ministry, monitoring visits and data verification for each grant are to be conducted on a quarterly basis.

Field visits were not consistently conducted as stipulated in the monitoring and evaluation plan. Geographically, field visits to project sites were conducted as detailed in the table below:

Grant	No. of provinces covered by the Global Fund programme	No. of provinces with monitoring activities in 2018 and 2019
HIV	12	8
TB	34	12
Malaria	34	15

The ongoing uncertainty over security was the main challenge affecting the monitoring and evaluation schedule. Monitoring staff explained that the list of provinces with restricted access kept changing due to the volatility of the security situation in the country.

To improve its monitoring and bypass security concerns, the Office was considering engaging a third-party verification at the time of the audit, but due to budgetary constraints it opted to use consultants instead. However, consultants still faced the same challenges of gaining access to all provinces where the grant was being implemented and there was no evidence that the consultants had been adequately trained in data verification.

The lack of independent verification of data collected during monitoring may put the risk of misstating the data and misrepresent the progress of the programme.

Priority	Medium (Important)
Recommendation 1: The Office should improve its monitoring activities and prioritize the contracting of a qualified monitoring service provider to verify data in the provinces where the access is restricted.	
Management action plan: The Office will complete data verification at the provinces where access is restricted. **Estimated completion date:** June 2020	

B.	Procurement and supply management

1.	Quality assurance of health products

Issue 2   Weaknesses in quality assurance process over health products

The "Guidance for UNDP Country Offices on Health Products Quality Assurance in the Supply Chain" requires UNDP Country Offices to ensure that verification is carried out at the reception of health products to ensure conformity of items received, quantities, integrity of packages verification of remaining shelf life and quality control tests of medicines are performed according to the quality control (QC) plan.

The reception reports prepared by the Office for health products did not indicate that the minimum prescribed verifications were correctly performed. The audit noted that receiving reports did not document that the remaining shelf life of health products had been verified and was able to identify one purchase order in which the remaining shelf life of products received were below the remaining shelf life specified on the purchase order.

The Office did not maintain working documents to demonstrate how health procurement plans were used to define its sampling and testing plan in line with its quality control testing obligations. Hence, the completeness of the sampling and testing plans could not be determined.

Failure to perform required quality control activities for health products may lead to the disbursement of unsafe health products.

Priority	Medium (Important)
Recommendation 2: The Office should enhance its quality assurance of health products by: (a) ensuring that all required controls are performed at the reception of health products and are documented on receiving reports; and (b) documenting the justification for the sampling and testing plan for quality control of health products.	
Management action plan: The Office will ensure required controls are performed at the reception of health products and clearly document on receiving reports. **Estimated completion date:** August 2020	

2. Supply management of medical products (inventory, warehousing and distribution)

Issue 3 Inadequate control over Warehouse Management Information System

The Health Products Guide, referenced in the framework agreement between UNDP and the Global Fund, requires recipients to ensure that operating procedures and controls are put in place to prevent any diversion of health products within the supply chain including the establishment and maintenance of reliable receiving procedures and inventory management.

The Office implemented a Warehouse Management System (known as mSupply) in December 2018. The new system replaced the previous method of inventory management using spreadsheets.

The system had been installed on the laptop of one staff member within the procurement and supply chain management unit. The staff member was the sole user created on the system with full administrative access. Data backups were stored on the personal space of the user. A review of the configuration set-up of the system revealed that systematic naming convention had not been adopted for the creation of item codes resulting in duplicate codes for the same products.

The implementation of the Warehouse Management System may not yield the desired functional results based on the existing set-up and runs the risk of loss of data and integrity while being managed by a single user.

Priority	Medium (Important)
Recommendation 3: The Office should improve controls over the Warehouse Management System (WMS) by: (a) ensuring that the system is implemented with restricted administrative access; (b) adopting naming conventions for the creation of item codes thereby eliminating duplicate item codes; and (c) reducing the risk of dependence on a single staff member.	
Management action plan: The Office will: (a) involve its Information and communication technology unit to move the Warehouse Management System (WMS) to a server-based architecture that complies with UNDP ICT standards; (b) design and implement controls over administrative access to the system and incorporate adequate segregation of duties; (c) reassess the need for further customization of the WMS, including creation of stores, storage location, item codes; and (d) complete training of the procurement and supply management staff. **Estimated completion date:** September 2020	

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 <u>not included in this report</u>.