



**CONSOLIDATED REPORT**

**OF THE AUDITS OF**

**UNDP COUNTRY OFFICES AS PRINCIPAL RECIPIENTS OF GRANTS FROM**

**THE GLOBAL FUND**

**FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019**

**Report No. 2220**  
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## Consolidated Report of the Audits of UNDP Country Offices as Principal Recipient of Grants from the Global Fund Executive Summary

### Background

The UNDP Office of Audit and Investigations (OAI) analysed the audit issues noted in the 2019 OAI audits of the Global Fund grants managed by UNDP as Principal Recipient and reviewed the status of implementation of audit recommendations as of 12 February 2020. OAI also identified the categories with recurring audit issues from the reports issued from 2016 to 2019.

In 2019, UNDP was the Principal Recipient, Fund Administrator or Funding Recipient in 19 countries and 3 regional programmes<sup>1</sup> and managed 32 Global Fund grants totalling \$897.64 million.

### Audit coverage

In 2019, five reports were issued pertaining to audits of Global Fund grants managed by UNDP as Principal Recipient, Fund Administrator,<sup>2</sup> and Funding Recipient.<sup>3</sup> These five reports (three in Africa, one in Asia and the Pacific, and one pertaining to the Africa regional grant that is managed by the Bureau for Policy and Programme Support from Istanbul) covered 20 Global Fund grants with total expenses of \$169 million.

Of the five reports issued, one was rated “satisfactory”, two were rated “partially satisfactory/some improvement needed”, one was rated “partially satisfactory/major improvement needed”, and one was rated “unsatisfactory”.<sup>4</sup>

The five audits reported a total of 26 audit issues and made a total of 26 recommendations to address those issues. The recurring issues<sup>5</sup> noted in the five audit reports were weaknesses in:

- (a) Financial management (budget management and oversight)
- (b) Procurement and supply management (inventory and warehousing)
- (c) Sub-recipient management (selection, assessment, and monitoring)

There were six recommendations (23 percent) that were rated as high priority.

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

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<sup>1</sup> The three regional programmes covered another 24 countries in Africa, Southern Asia and Western Pacific.

<sup>2</sup> In Zimbabwe, starting January 2015, UNDP entered into a series of agreements with the Global Fund to provide support services to the Principal Recipient (a government counterpart) managing the TB and Malaria Grants as the Fund Administrator.

<sup>3</sup> In the Islamic Republic of Iran and Zimbabwe, since the Country Coordinating Mechanism is not legally an incorporated body and cannot receive funds, it designates Funding Recipients to be responsible for receiving funds on its behalf.

<sup>4</sup> UNDP Zimbabwe, Report No. 2054

<sup>5</sup> Issues are considered as “recurring” when there are more than three issues and recommendations for a given audit area.

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- Strengthen financial management by:
    - (a) charging the grant for common service costs incurred and adjusting any amount that has been overcharged;
    - (b) addressing the delays in processing cash advances to Sub-recipients, and ensuring that no new advances are given prior to liquidating previous advances;
    - (c) ensuring that cash advances are approved by senior management and balances are reported in the Funding Authorization and Certificate of Expenditures (FACE) forms that have been approved by designated Sub-recipient officials;
    - (d) processing payments only upon the receipt of goods and services and the presentation of a vendor's invoice;
    - (e) adhering to budgeted activities in Atlas and approving non-budgeted activities prior to their implementation; and
    - (f) closely monitoring Sub-recipients' activities and ensuring that budget overruns are pre-approved by UNDP.
  - Strengthen procurement and supply management by:
    - (a) having staff undertake monitoring visits within each level of the supply chain to validate stocks against reports;
    - (b) implementing monthly reconciliations of stocks reported by the warehousing and distribution agency to detect issues in stock management; and
    - (c) working with the Sub-recipients and partners to ensure that temperatures for the storage of medical products are read and recorded on a daily basis and that significant variations are addressed in a timely manner.
  - Strengthen Sub-recipient management by:
    - (a) preparing a capacity development plan and the corresponding action plan to address the findings of the Sub-recipient micro-assessments, audit recommendations and field visit reports;
    - (b) taking necessary measures to address delays in Sub-recipient reporting;
    - (c) issuing timely management letters to allow implementation of recommendations within the next reporting period;
    - (d) conducting a comprehensive capacity assessment using a standard capacity assessment tool of all Sub-recipients, which should be validated during the Local Project Appraisal Committee meeting;
    - (e) performing capacity assessments prior to contracting Sub-recipients; and

- (f) improving contractual arrangements by engaging Sub-sub-recipients directly or have Sub-recipients, rather than the Office, advance funds to Sub-sub-recipients.

### Implementation of audit recommendations

In close cooperation with the Bureau for Policy and Programme Support, 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 30 March 2020, the rate of implementation of 2019 audit recommendations was 80.3 percent as detailed in Section IV of this report.



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## I. Profile of Global Fund grants managed by UNDP as Principal Recipient

The Global Fund is a partnership organization designed to accelerate the end of AIDS, tuberculosis, and malaria as epidemics. As of December 2019, UNDP was the Principal Recipient in 19 countries and 3 regional programmes and managed 32 Global Fund grants totalling \$897.64 million. As Principal Recipients, UNDP Country Offices are required to implement the Global Fund grants according to the Framework Agreement, including the UNDP-Global Fund Grant Regulations signed between UNDP and the Global Fund.

### Objectives and scope of the audits of Global Fund grants

In October 2016, UNDP and the Global Fund signed a Framework Agreement and it formalized the risk-based approach for all OAI audits for the Global Fund. The agreement stipulated that OAI independently plans audits, defines the risk model and undertakes audits of grants managed by UNDP as Principal Recipient, following its audit plans and in accordance with the standards followed by OAI.

The 2019 audits were 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, 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, 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).

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 the Bureau for Policy and Programme Support, Global Fund/Health Implementation Support Team, HIV, Health and Development Group, and their comments have been considered in the final report.

## II. Overview of the audits

The Global Fund audit reports issued in 2019 covered 20 grants with total expenditures of \$169 million. Of the five reports issued, one was rated “satisfactory”, two were rated “partially satisfactory/some improvement needed”, one was rated “partially satisfactory/major improvement needed”, and one was rated “unsatisfactory”.

## III. Analysis of the audit issues raised

The audit recommendations related mainly to issues within financial management, procurement and supply management, as well as Sub-recipient management. A detailed analysis of the issues is presented below.

## A. Financial management

### Issue 1 Inadequate controls in recording expenses

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

OAI noted deviations from these requirements during the audit of the HIV grant managed by UNDP Bureau for Policy and Programme Support, as follows:

- 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. However, common service costs had not been charged to the grant since 2016 for either of the duty stations. The grant had budgeted a total of \$140,000 for office costs during the life of the grant and the costs remained to be recovered from the grant.

- Overcharge 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.

OAI recommended that the Office enhance controls in recording expenses by:

- charging the grant for the common service costs incurred; and
- aligning costs of the international post to the actual 'level of effort' made to the grant and recovering any amounts that have been overcharged, as appropriate.

### Issue 2 Weaknesses in financial management processes

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective financial management and require that cash transfers to implementing partners be adequately monitored to prevent long outstanding advances. No new advance should be given without liquidating prior advances.

OAI noted weaknesses in the processing of cash advances in Burundi and Guinea-Bissau, as follows:

- Inadequate management of cash advances (Burundi and Guinea-Bissau):
  - on average, new advances were paid 42 days after the end of reporting periods (Burundi);
  - new cash advances were given to Sub-recipients without having at least 80 percent of current advances and 100 percent of prior advances liquidated (Burundi); and
  - cash advance vouchers were approved by the Programme Coordinator who did not have the appropriate delegation of authority (Burundi).

- Inadequate payment processes (Guinea-Bissau)
  - Payments amounting \$110,000 were made by the Office without the notes for delivery to confirm receipt of the goods.
- Lapses in the use of Funding Authorization and Certificate of Expenditures (FACE) forms (Burundi):
  - closing balances in the FACE forms did not match with Atlas (enterprise resource planning system of UNDP) records since the Office did not include the balance of previous advances on the FACE form; and
  - FACE forms submitted by Sub-recipients were signed by officials that were not included in the signatory authorization forms.

OAI recommended that the Offices strengthen payment processes by:

- addressing the delays in processing cash advances to Sub-recipients, and ensuring that no new advances are given prior to liquidating advances (Burundi);
- ensuring that cash advances are approved by senior management, and balances are reported in FACE forms that has been approved by designated Sub-recipients' officials (Burundi and Guinea-Bissau); and
- processing payments upon the receipt of goods and services and the presentation of a vendor's invoice (Guinea-Bissau).

### **Issue 3**      Lapses in project budget management and oversight of project activities

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on the adequate management of project budgets. Budgets should be closely monitored to ensure that activities are performed in accordance with the annual work plan, which should stipulate the categories of expenses upon which costs should be charged.

OAI noted weaknesses in the management of project budgets in Burundi, as follows:

- Disconnect between activities budgeted and expenses incurred:
  - activities budgeted at \$3.29 million, equivalent to 28 percent of the total project budget in Atlas for 2018 were not utilized, while expenses valued at \$3.3 million were related to non-budgeted activities; and
  - 289 sub-activities were budgeted in Atlas while expenses incurred were recorded under 729 different sub-activities.
- Budget overruns:
  - there were budget overruns amounting to \$459,152 in 17 activities implemented by the Sub-recipients that exceeded 10 percent of their budgets; and
  - the review of the malaria grant's transactions disclosed that operating expenses amounting to \$0.93 million were incurred in 2018, while only \$0.69 million had been budgeted.

OAI recommended that the Office strengthen the management of project budgets by:

- Adhering to budgeted activities in Atlas and approving non-budgeted activities prior to their implementation; and
- closely monitoring Sub-recipient activities and ensuring that budget overruns are pre-approved by UNDP.

## B. Procurement and Supply management

### Issue 1 Inadequate control over inventory management

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 guide also requires that periodic audits and inspections should be undertaken at all points in the distribution chain as well as reconciliation of the monthly stock reports.

OAI noted weaknesses in the inventory management at the central warehouse in the Islamic Republic of Iran, as follows:

- the inventory management system used at the central warehouse did not differentiate inventories of health products procured through Global Fund grants from those directly procured by the Government; and
- common item codes were used for items procured through Global Fund grants and directly by the Government.

OAI recommended that the Office enhance controls over supply management of medical supplies by:

- ensuring that the relevant government ministry incorporates adequate tracking of such health products in the inventory management system at the central warehouse.

OAI noted weaknesses in the supervision of inventory in Zimbabwe, as follows:

- the procurement and supply management team had not visited regional warehouses or service delivery point during the audit period to oversee pharmaceutical storage and inventory; and
- the Office relied on the monthly stock reports received from the Sub-recipient responsible for warehousing and distribution without completing a reconciliation.

OAI recommended that the Office improve oversight of supply and inventory management by:

- having staff undertake monitoring visits within each level of the supply chain to validate physical stocks against reports; and
- implementing monthly reconciliations of stocks reported by the warehousing and distribution agency to detect issues in stock management.

## Issue 2      Inadequate management of temperature controls

The 'UNDP-Global Fund and Health Implementation Guidance Manual' recommends the use of WHO guidelines for the storage of medical products. Products should be stored within the temperature range defined by the manufacturer. Temperature should be regulated and monitored; significant variations should be dealt with in a timely manner and products should be subjected to emergency testing as necessary.

OAI noted that there were inadequate temperature and environmental controls in the storage of medical products in Zimbabwe:

- there was limited evidence that temperature was monitored, or that corrective action was taken as necessary for warehoused pharmaceuticals at all three sites visited by the audit team;
- in some locations, temperature data loggers had been acquired but were not used; and
- temperature outside of the recommended range was observed in all the three sites visited.

OAI recommended that the Office strengthen the monitoring of temperature by:

- working with the Sub-recipients and partners to ensure that temperature for the storage of medical products is recorded and monitored daily and that significant variations are addressed in a timely manner.

## C. Sub-recipient management

### Issue 1      Inadequate selection, capacity assessment, and reporting

UNDP policies stipulate that a capacity assessment should be completed for all Sub-recipients prior to contracting them and, as necessary, a capacity development plan should be developed to address identified gaps.

OAI noted issues in the management of the Sub-recipient engagement in Burundi, Guinea-Bissau, and Zimbabwe, as follows:

- there was no Sub-recipient capacity-building plan to address the weaknesses identified in the micro-assessment, audit reports, and monitoring visits (Burundi);
- mandatory quarterly reports were submitted with delays of up to two months (Burundi);
- management letters including recommendations to the Sub-recipients were submitted with delays of up to four months from the receipt of the Sub-recipients' quarterly reports (Burundi);
- the Local Project Appraisal Committee did not review the selection of Sub-recipients because the Committee meeting took place prior to the capacity assessment of the Sub-recipients (Guinea-Bissau);
- alternative forms of capacity assessments that did not address the core requirements of the assessments were used for Sub-recipients (Guinea-Bissau and Zimbabwe); and
- the capacity assessment was undertaken for one Sub-recipient three months after the Sub-recipient agreement had been signed (Guinea-Bissau).

OAI recommended that the Offices improve the management of Sub-recipients by:

- preparing a capacity development plan and corresponding action plan to address the findings of the Sub-recipient micro-assessments, audit recommendations and field visit reports (Burundi);
- taking necessary measures to address the delays in Sub-recipient reporting (Burundi);
- issuing timely management letters to allow implementation of recommendations within the next reporting period (Burundi);
- conducting a comprehensive capacity assessment of all Sub-recipients using a standard capacity assessment tool, which should be validated during the Local Project Appraisal Committee meeting (Guinea-Bissau and Zimbabwe); and
- performing capacity assessments prior to contracting Sub-recipients (Guinea-Bissau).

**Issue 2**      Absence of proper contractual agreements with Sub-recipients

According to the agreement signed with the Global Fund, UNDP as the Principal Recipient may work with other organizations and engage them as Sub-recipients in the implementation of the Global Fund programme. The office must sign a Sub-recipient agreement.

OAI noted issues in the contracting of Sub-recipients and Sub-sub-recipients in Zimbabwe, as follows:

- advances totalling \$7 million were directly made by the Office to three Sub-sub-recipients while the Office did not have a signed agreement with them. The contractual agreements were signed between the Office and the Sub-recipients only.

OAI recommended that the Office improve contractual arrangements by engaging Sub-sub-recipients directly as Sub-recipients or have Sub-recipients, rather than the Office, advance funds to Sub-sub-recipients.

**IV. Implementation of the audit recommendations**

OAI, in close cooperation with the Bureau for Policy and Programme Support, UNDP Global Fund/Health Implementation Support Team, HIV, 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 26 audit recommendations included in five audit reports issued between 1 January and 31 December 2019 (see Figure 1). As of 30 March 2020, 16 of the 26 recommendations had been fully implemented.

**Figure 1: Implementation rate of the recommendations in the 2019 Global Fund audits as of 30 March 2020**

Country Office	Report No.	Issue Date	Total No. of Recommendations	No. of Outstanding Recommendations	No. of Outstanding Recommendations Over twelve months	Implementation rate <sup>6</sup> As of 30-Mar-20
Burundi	2091	06-Sep-19	6	5		53.33%
Guinea-Bissau	1926	25-Jan-19	10			100.00%
Iran	2100	11-Oct-19	2			100.00%
Office of the Director	2034	05-Apr-19	2			100.00%
Zimbabwe	2054	04-Jun-19	6	5		59.09%
<b>Total for 2019</b>			<b>26</b>	<b>10</b>		<b>80.31%</b>

## V. Recurring audit issues from 2016-2019

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.

**Figure 2: Number of recommendations by audit category and the total recommendations per year (2016-2009)**

Audit Category	2016 (13 reports)		2017 (10 reports)		2018 (8 reports)		2019 (5 reports)	
	No. of Rec.	%	No. of Rec.	%	No. of Rec.	%	No. of Rec.	%
Procurement and supply management	9	36	11	34	11	34	9	35
Programme management	6	24	9	27	7	22	3	12
Governance	4	16	6	18	4	13	4	15
Sub-recipient management	0	0	7	21	6	19	6	23
Financial management	6	24	0	0	4	12	4	15
<b>Total</b>	<b>25</b>	<b>100</b>	<b>33</b>	<b>100</b>	<b>32</b>	<b>100</b>	<b>26</b>	<b>100</b>

<sup>6</sup> The implementation rate is a weighted average generated by the Comprehensive Audit and Recommendation Database System (CARDS) that takes into consideration the priority of a recommendation and the time taken to implement it.

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## Definitions of audit terms - ratings and priorities used in 2019

### A. AUDIT RATINGS

<b>Satisfactory</b>	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.
<b>Partially Satisfactory / Some Improvement Needed</b>	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.
<b>Partially Satisfactory / Major Improvement Needed</b>	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.
<b>Unsatisfactory</b>	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

<b>High (Critical)</b>	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.
<b>Medium (Important)</b>	Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
<b>Low</b>	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> .

## Annex 1: Global Fund grants audited in Country Offices

Report No.	Country Office	Issue Date	Audit Period		Audit rating	Expenses during the audited period (in \$ millions)	Global Fund Grants Audited								No. of Issues/recommendations
							Total	H I V	T B	Malaria	HIV/ TB	CCM Funding	UNDP Fund Administrator	UNDP Managing Constituency Funding	
2100	Iran	11/10/2019	1-Jan-18	30-Jun-19	Partially Satisfactory/SI	6.8	5			1	2	1	0	1	2
2091	Burundi	6/9/2019	1-Jan-18	31-Mar-19	Partially Satisfactory/SI	11.4	2			1	1				6
2054	Zimbabwe	4/6/2019	1-Jan-18	31-Jan-19	Unsatisfactory	133.0	7	2				1		4 (2 Malaria outputs and 2 TB outputs)	6
2034	Office of the Director	5/4/2019	1-Jan-18	31-Dec-18	Satisfactory	2.2	1	1							2
1926	Guinea-Bissau	25/01/2019	1-Jan-17	30-Jun-18	Partially Satisfactory/MI	15.6	5	1	1	2	1				10
<b>169.0</b>							<b>20</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>5</b>	<b>26</b>