AUDIT

OF

UNDP PACIFIC OFFICE IN FIJI

GRANTS FROM THE GLOBAL FUND

Report No. 2239
Issue Date: 23 July 2020
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Report on the Audit of UNDP Pacific Office in Fiji
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 18 May to 4 June 2020, conducted an audit of two grants from the Global Fund (Output Nos. 113363 [HIV/TB] and 113364 [Malaria]) managed by the UNDP Pacific Office in Fiji (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, 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 (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).

The audit covered the Global Fund-related activities of the Office from 1 January 2019 to 30 April 2020. The Office recorded Global Fund-related expenses of approximately $4.2 million. The last audit of the Office’s Global Fund-related activities (Output Nos. 96098 and 96174) was conducted by OAI in 2017.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team’s understanding of the Office’s working environment.
(c) Project site visits were not conducted.
(d) Verification of health product inventory held by the Office and the storage location conditions was performed virtually.
(e) A physical verification was not performed for health products stored by Sub-recipients.
(f) A physical verification of other assets was not performed.

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.”
This rating was mainly due to weaknesses in quality assurance and quality controls over the procurement of health products.

**Key recommendations:** Total = 3, high priority = 1

The three recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 2, medium priority); (b) effectiveness and efficiency of operations (Recommendation 1, medium priority); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3, high priority).

For high (critical) priority recommendations, 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. The high (critical) priority recommendation is presented below:

Weaknesses in quality assurance and quality controls over procurement of health products (Issue 3)  
There was no documentary evidence that the Office performed all required quality assurance verifications upon receiving health products. A review of receiving reports disclosed that the template used by the Office did not contain relevant fields for recording all verifications. The Office did not perform the required quality control tests for the batches of medicines received during the audit period although it had received 39 batches of medicines as per its Health Procurement Action Plan. Furthermore, no medicines had been sampled for quality control testing either upon receipt in country or throughout the supply chain during the audit period.

**Recommendation:** The Office should address weaknesses in its quality assurance and quality controls over health products by: (a) conducting all required compliance controls upon receipt of health products and documenting the required information on receiving reports; and (b) performing the mandatory quality control tests upon receipt and after distribution to ensure that health products in the supply chain meet the required quality standards.

The previous audit (Report No. 1878, issued on 5 July 2017) did not result in any recommendations.

**Management comments and action plan**

The Resident Representative accepted all 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.
Audit Report No. 2239, 23 July 2020: UNDP Pacific Office in Fiji, Global Fund
I. Profile of Global Fund grants managed by UNDP Pacific Office in Fiji

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

<table>
<thead>
<tr>
<th>Grant No.</th>
<th>Output No.</th>
<th>Description</th>
<th>Start Date</th>
<th>End Date</th>
<th>Budget (in $'000)</th>
<th>Funds Received as of 30 April 2020 (in $ '000)</th>
<th>Implementation Rate (percent)</th>
<th>Expenses as of 30 April 2020 (in $ '000)</th>
<th>Global Fund Rating at 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>QUA-C-UNDP</td>
<td>1133631</td>
<td>Multi-Country Western Pacific Integrated HIV/TB Program</td>
<td>01-Jan-18</td>
<td>31-Dec-20</td>
<td>11,369</td>
<td>9,369</td>
<td>68</td>
<td>7,717</td>
<td>A2</td>
</tr>
<tr>
<td>QUA-M-UNDP</td>
<td>113364</td>
<td>Ensure 81% Coverage of LLINs in Vanuatu</td>
<td>01-Jan-18</td>
<td>31-Dec-20</td>
<td>1,186</td>
<td>1,239</td>
<td>61</td>
<td>959</td>
<td>A2</td>
</tr>
</tbody>
</table>

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. Grant activities were implemented in accordance with the grant agreement and were adequately monitored.

(b) Financial management. The review of a sample of payment transactions did not indicate any significant concerns regarding the reliability and integrity of financial and operational information.

OAI made one recommendation ranked high (critical) and 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.

High priority recommendation:

(a) Address weaknesses in the quality assurance and quality controls over health products (Recommendation 3).

Medium priority recommendations, arranged according to significance:

(a) Enhance the risk management of Sub-recipients (Recommendation 1).

(b) Improve controls over the monitoring of Sub-recipients’ financial activities (Recommendation 2).

The detailed assessment is presented below, per audit area:

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1 Grants QUA-C-UNDP and QUA-M-UNDP were operated under Output Nos. 108028 and 108029, respectively, in 2018.
A. Sub-recipient Management

1. Selection, Assessment and Contracting

Issue 1  Inadequate capacity assessments of Sub-recipients

The ‘UNDP-Global Fund and Health Implementation Guidance Manual’ requires UNDP Country Offices, as Global Fund Principal Recipients, to conduct capacity assessments of Sub-recipients before signing agreements with them and transferring funds. Capacity assessments are to be conducted by UNDP Country Offices for each grant cycle, although assessments conducted by other institutions may be taken into consideration. A spreadsheet-based tool is to be used to conduct capacity assessments of Sub-recipients. The assessments enable management to conclude whether Sub-recipients meet minimum UNDP requirements, and to take steps to strengthen their capacity and manage identified risks.

Inadequacies were observed in the capacity assessments of Sub-recipients contracted under the ongoing grants that started in January 2018. Out of 18 Sub-recipients selected by the Office through direct programmatic engagement, the following issues were noted:

- No capacity assessments were available for two Sub-recipients.
- Capacity assessments of 15 Sub-recipients were outdated and/or did not meet the minimum requirements of the capacity assessment tool.
  - Seven assessments were Sub-recipient self-assessments performed in 2015, and these were not only outdated but also unreliable as their objectivity was potentially compromised.
  - Five assessments were conducted in 2017. They did not meet the minimum assessment requirements and lacked basic information, such as who conducted them, when they were conducted, and the final conclusions reached.
  - Three Sub-recipients were assessed in 2015 under the Harmonized Approach to Cash Transfers (HACT) framework. The assessments were outdated and did not cover all required areas for assessment.

The capacity assessments of Sub-recipients failed to identify weaknesses in the internal control systems, as evidenced and reported in the 2018 and 2019 financial audits of three Sub-recipients. The 2019 Sub-recipient performance evaluations also indicated general weaknesses in the areas of financial reporting, inventory monitoring and stock/consumption reporting. The weaknesses identified did not reflect the results of the previously conducted assessments.

The Office stated that new capacity assessments of all Sub-recipients were initiated in February 2020 and would be completed by August 2020.

The lack of reliable, complete and up-to-date capacity assessments prevent the Office from identifying Sub-recipient weaknesses and from developing appropriate capacity development plans, and may put the achievement of agreed targets at risk.
**Priority**  Medium (Important)

**Recommendation 1:**

The Office should enhance its risk management of Sub-recipients by:

(a) completing capacity assessments of Sub-recipients for the next allocation period using the prescribed capacity assessment tool; and

(b) establishing and implementing risk mitigation measures and action plans to address any findings identified in the capacity assessments.

**Management action plan:**

(a) The Office will complete capacity assessments of Sub-recipients for the next allocation period using the prescribed capacity assessment tools.

(b) The Office will develop risk mitigation measures and action plans to address the capacity assessment findings.

**Estimated completion date:** 31 January 2021

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### 2. Financial and Programmatic Activities

**Issue 2**  Weaknesses in the monitoring of Sub-recipients’ financial activities

Under the direct cash transfer modality, Sub-recipients are advanced funds on a quarterly basis based on agreed work plans and report back expenditures through Funding Authorization and Certification of Expenditure (FACE) forms. The ‘UNDP Programme and Operations Policies and Procedures’ and the ‘UNDP-Global Fund and Health Implementation Guidance Manual’ provide guidance on the verification and monitoring of Sub-recipient financial reports and records.

The review of FACE forms for a sample of 16 requests for advances and 16 expenditure reports disclosed the following weaknesses:

- Eight of the advance requests and financial reports submitted by Sub-recipients through the FACE forms were not signed by authorized signatories as per the Office’s records. The record of authorized signatories for Sub-recipients maintained by the Office was outdated.
- Requests for advances in excess of the amounts agreed in the work plans as well as reimbursement claims made after the deadlines were accepted and approved. There were no justifications recorded on file to explain and document the acceptance and approval of these requests.
- Seven Sub-recipients did not maintain separate bank accounts as required under the signed Sub-recipient agreements. The related bank statements that accompanied Sub-recipients’ financial reports were provided in spreadsheet formats, and were not signed by the authorized...
signatories. The use of non-dedicated bank accounts was not agreed in writing and it was unclear what mitigating controls were in place.

These weaknesses were exacerbated by the vacancy of a full-time finance specialist post, which was vacant for nine months until the post was filled in April 2020.

Non-compliance with organizational policies and procedures in the monitoring of Sub-recipients’ financial activities exposes the Office to legal and reputational risks. There is also a risk of inaccurate reporting of the use of funds and cash balances.

<table>
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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tr>
<td><strong>Recommendation 2:</strong></td>
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</table>

The Office should improve controls over the monitoring of Sub-recipients’ financial activities by:

(a) keeping up-to-date records of authorized signatories and verifying that FACE forms are appropriately signed;

(b) ensuring that FACE forms have the required supporting documentation, including authorized bank statements and proper justifications for any deviations from the work plans; and

(c) documenting the reasons why separate bank accounts are not maintained by Sub-recipients and implementing mitigating controls to reduce the risk of inaccurate reporting of funds utilization.

**Management action plan:**

(a) The Office will ensure up-to-date records are maintained of their authorized signatories and that FACE forms are signed in accordance with the signatory listing for each Sub-recipient.

(b) Considering that advances disbursed with funding for more than one quarter were done on an exceptional basis, the Office will consider adding the delayed activities from prior periods to the advance if these will be implemented in the next quarter, which will be reflected in the cash forecast to support advance requests. The Office will ensure that advances are issued on a three-month (quarterly) basis. For any advances of more than three months, authorization will be sought from the Office of Financial Resources Management.

(c) The Office will review the reasons provided by the Sub-recipients for not opening separate bank accounts and if justifications are acceptable to the UNDP Programme Manager, approval will be requested from the Head of Operations or Finance. As a risk mitigation measure, the Office will closely monitor the transactions within the sub-accounts of the relevant government ministry that are used to generate bank reconciliation forms.

**Estimated completion date:** 31 March 2021
B. Procurement and Supply Management

1. Quality Assurance of Health Products

**Issue 3** Weaknesses in quality assurance and quality controls over procurement of health products

The ‘Guidance for UNDP Country Offices on Health Products Quality Assurance in Supply Chain’ requires UNDP Country Offices to perform, *inter alia*, minimum prescribed verifications upon receipt of health products, and quality control testing of medicines upon receipt in country and after distribution in the supply chain.

There was no documentary evidence that the Office performed all required quality assurance verifications upon receiving health products. A review of receiving reports during the audit period disclosed that the template used by the Office did not contain relevant fields to record certificates of analysis (confirming the product meets the specifications), verification of remaining shelf life, and reading and analysis of transport temperature conditions (where dataloggers were used).

The Health Procurement Action Plan prepared by the Office indicated that there were 39 batches of different medicines received during the audit period, for which a quality control testing plan was in place. However, the Office did not perform the planned quality control tests for the medicines received. Furthermore, no medicines had been sampled or sent for quality control testing either upon receipt in country or throughout the supply chain during the audit period.

The Office acknowledged the need to amend its receiving reports to include the required information. The Office explained that due to the small grant size and the procurement valued at about $113,000 in TB, HIV and malaria medicines, there was a concern that the cost of quality control testing may have exceeded the value of the procurement. However, the Office did not provide evidence that a cost-benefit analysis was performed to support this decision. The Office also stated its intention to use other measures to mitigate the risks by conducting tests when quality issues were suspected upon receipt and focussing on product categories that were not pre-approved for procurement.

If required verifications and quality control tests are not carried out, there is a risk of distribution of unsafe health products which may affect UNDP’s reputation.

<table>
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<th>Priority</th>
<th>High (Critical)</th>
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**Recommendation 3:**

The Office should address weaknesses in its quality assurance and quality controls over health products by:

- (a) conducting all required compliance controls upon receipt of health products and documenting the required information on receiving reports; and
- (b) performing the mandatory quality control tests upon receipt in country and after distribution to ensure that health products in the supply chain meet the required quality standards.
**Management action plan:**

(a) The Office will establish compliance controls systems that are performed upon receipt of health products and documenting the required information on receiving reports in compliance with the programme approved Quality Assurance Plan.

(b) The Office will complete the sample testing of health products in line with the approved Quality Assurance Plan.

**Estimated completion date:** 31 January 2021
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.