



AUDIT

OF

UNDP ZIMBABWE

GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA

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Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Zimbabwe	1
II. Good practice	2
III. Audit results	3
A. Governance and strategic management	4
Capacity development and exit strategy	4
B. Procurement and Supply Management	5
Supply management (inventory, warehousing and distribution)	5
Definitions of audit terms - ratings and priorities	7

Report on the Audit of UNDP Zimbabwe Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 16 to 30 November 2015, conducted an audit of five grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 72970 [HIV], 72971 [TB], 72973 [Health System Strengthening], 82260 [Malaria], 88278 [HIV], managed by UNDP Zimbabwe (the Office) as the Principal Recipient and three projects 93055 [TB], 93641 [Malaria] and 94787 [Capacity Development]) managed by UNDP Zimbabwe as the Fund Administrator¹. These grants were managed under the Global Fund's Additional Safeguard Policy.² 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, staffing, 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, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 September 2014 to 31 August 2015. The Office recorded Global Fund-related expenditures of approximately \$160 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2014.

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**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to a weaknesses in the supply chain management.

¹ On 1 January 2015, UNDP entered into an agreement with the Global Fund to provide support services to the new Principal Recipient (a government counterpart) managing the new TB and Malaria grants as the Fund Administrator. The agreement stated that UNDP was to contribute its own resources towards building functional capacities required by national entities. UNDP would facilitate and design a prioritized capacity development plan owned by the new Principal Recipient, in order to build on the capacity assessments that have already been carried out and the ongoing work in the areas of strengthening of the financial and risk management at the Principal Recipient.

² The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

Good practice

The Office has according to its own estimates managed to attain significant savings in the purchase of antiretroviral (ARV) medicines. This applied to the purchase of the one-pill combination of three HIV medicines known as TLE (Tenofovir, Lamivudine and Efavirenz). Savings of over \$11 million were realized in the latest round of procurement as compared to previous orders and what had been budgeted (refer to Section II, page 2 for details).

Key recommendations: Total = 2, high priority = 1

The two recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); and (b) effectiveness and efficiency of operations (Recommendation 2).

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 the storage of medical products
(Issue 2)

Storage conditions in the national and regional warehouses, and health facilities were poor. In the national warehouse, health products were on the floor due to limited space and there were expired health products amounting to \$3 million. In the regional warehouse, no thermometer was installed to monitor the temperature. In one health facility, cold chain items were kept in a refrigerator but the thermometer was not working and in the second facility, no thermometer was installed in the pharmacy.

Recommendation: The Office should improve on the controls over supply chain management and storage conditions by (a) expediting the process of the construction of the new warehouse to address the challenges of not having enough space at the current warehouse; (b) working with the government counterpart and the Sub-recipient to ensure that the amount of expired products is minimized including better managing the supply chain and inventory levels so as to anticipate future changes in treatment protocols and new lines of medication; and (c) working with the government counterpart so that functioning thermometers are installed in the warehouses, health facility pharmacies and refrigerators where cold chain items are kept and required temperatures are maintained and logged.

Implementation status of previous OAI audit recommendations: Report No. 1401, 12 December 2014.

Total recommendations: 3
Implemented: 3
In progress: 0

Management comments and action plan

The Resident Representative 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.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Osttveiten
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I. Profile of Global Fund grants managed by UNDP Zimbabwe

Since 2009, UNDP has been the Principal Recipient for the following Global Fund grants in Zimbabwe (the Country):

Grant No.	Output No.	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received as of 31 Aug 2015 (in \$ '000)	Implementation Rate	Expenditures as of 31 Aug 2015 (in \$ '000)	Global Fund Rating at 31 Aug 2015
ZIM-809-G11-H	72970	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2010 (Ph 1)	31 Dec 2013 (Ph 2)	238,367	216,476*	91	(453)	A1 ³
ZIM-809-G12-T	72971	Towards universal access: Improving accessibility to high quality DOTS in Zimbabwe	1 Jan 2010 (Ph 1)	31 Dec 2014 (Ph 2)	48,106	39,475*	82	7,937	A2 ⁴
ZIM-809-G14-S	72973	Health System Strengthening Cross-Cutting Interventions	1 Jan 2010 (Ph 1)	31 Dec 2014 (Ph 2)	74,664	68,008*	91	3,491	A1
ZIM-M-UNDP	82260	Towards achieving pre-elimination in the Southern region scaling up effective malaria control interventions	1 Apr 2012 (Ph 1)	31 Dec 2016 (Ph 1)	34,878	24,388	70	7,490	A1
ZIM-H-UNDP	88278	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2014	31 Dec 2016	437,273	147,971	34	139,789	A2
Totals					833,238	496,318		158,254	

*Funds received as of the end date of the grant.

³ Global Fund A1 rating = Exceeds expectations

⁴ Global Fund A2 rating = Meets expectations

Beginning 2015, UNDP has been the Fund Administrator⁵ for the following Global Fund grants in the Country:

Grant No.	Output No.	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received as of 31 Aug 2015 (in \$ '000)	Implementation Rate	Expenditures as of 31 Aug 2015 (in \$ '000)	Global Fund Rating at 31 Aug 2015
ZWE-T-MOHCC	93055	Getting to zero TB deaths in Zimbabwe: Intensifying efforts to find, treat and cure all TB cases	1 Jan 2015	31 Dec 2017	38,789	9,471	24	424	A2
ZWE-M-MOHCC	93641	Getting to zero Malaria deaths in Zimbabwe: Scaling up effective malaria control interventions in Zimbabwe	1 Jan 2015	31 Dec 2017	59,460	18,981	32	1,178	A1
N/A	94787	Capacity Development	1 Jan 2015	31 Dec 2017					N/A
Totals					98,249	28,452		1,602	

II. Good practice

OAI identified a good practice, as follows:

Procurement of health products. According to UNDP's Press Release in November 2015, UNDP achieved significant reductions in the price of HIV medicines that it procured, bringing down the cost of the most common treatment from around \$150 to \$100 per patient per year in six countries where it was the Principal Recipient, including Zimbabwe.

The recent price reduction achieved by UNDP applies to the one pill combination of three HIV medicines known as TLE (Tenofovir, Lamivudine and Efavirenz), a regimen recommended by the World Health Organization (WHO) and most widely-used as first-line antiretroviral therapy. A range of actions by UNDP led to this significant saving and important milestone. These included establishing long-term agreements and improved procurement planning with countries and manufacturers; volume discounts on large, pooled orders; reductions in transport and handling costs; increased competition between manufacturers through a broad supplier base; and essential support from partners including the Global Fund, UNICEF, and WHO. As a notable success story, the Country is

⁵ As the Fund Administrator, UNDP was to contribute its own resources towards building functional capacities required by national entities. UNDP would facilitate and design a prioritized capacity development plan owned by the new Principal Recipient, in order to build on the capacity assessments that have already been carried out and the ongoing work in the areas of strengthening of the financial and risk management at the Principal Recipient.

set to increase the number of people receiving HIV treatment from 850,000 to 1 million people next year, with the support of the Global Fund, President's Emergency Plan for AIDS Relief, Department for International Development and UNDP.

The Office indicated that in the latest round of procurement, UNDP was able to purchase 4.8 million packs of medicines for \$40 million for Zimbabwe, resulting in savings of over \$11 million as compared to previous orders and what had been budgeted. With these savings, an additional 110,000 people in the Country can now be put on HIV treatment. OAI has not verified the savings but takes note of the actions taken to achieve the savings.

III. Audit results

Satisfactory performance was noted in the following areas:

- a) Programme management. The programme activities were implemented in line with the implementation plan. The grant closure plans for the Round 8 Malaria grant and the Round 8 TB grant were implemented according to the grant closure date of 30 June 2015. The grant closure period for the Round 8 Health System Strengthening grant was extended until 31 December 2015. The Office was on track to implement the grant closure plan by the deadline of 31 December 2015.
- b) Sub-recipient management. There were no new Sub-recipients selected during the period under review. All the Sub-recipients agreements were up to date. Disbursements were made to the Sub-recipients according to UNDP rules and regulations. Financial reports were received on a monthly and/or quarterly basis and the Office reviewed the supporting documents. Programmatic reports were received from the Sub-recipients on a quarterly basis and reviewed by the Office.
- c) Financial management. The review of 28 payment vouchers totaling \$40 million (20 percent of the total value of payment vouchers issued during the audit period) noted that payments had adequate supporting documents. Reporting to the Global Fund Secretariat was done within the stipulated deadlines.

OAI made one recommendation ranked high (critical) and one recommendation 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 recommendations, arranged according to significance:

- (a) Strengthen supply chain management (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Expedite the development and endorsement of the accelerated Capacity Development plan (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Capacity development and exit strategy

Issue 1 Delayed implementation of the Capacity Development plan

As part of the agreement with the Global Fund, the Office is required to build the capacity of the Principal Recipient. The agreement required UNDP to contribute its own resources towards building functional capacities required by national entities – across five identified areas - to implement national responses to the three diseases (HIV, TB, Malaria) under the Global Fund. The agreement also required UNDP to facilitate and design a prioritized capacity development plan towards strengthening the Principal Recipient's financial and risk management functions.

With the help of a consultant, the Office prepared a budget to cover a 3-year (2015-2017) implementation period with a total cost of \$3.7 million consisting of a UNDP contribution of \$2 million and Global Fund contribution of \$1.7 million. Out of the consolidated budget, the 2015 budget was \$2.85 million. This included costs of equipment and training (\$2 million), and activities (\$0.85 million) to be implemented by different implementing partners.

At the time of the audit, it was noted that there was a delay in the implementation of the Capacity Development plan. Some of the planned activities for 2015 had not been implemented. The Capacity Development plan update showed that out of a planned 2015 budget of \$0.85 million for activities to be implemented by implementing partners, the expenditure as of 31 October 2015 was \$0.17 million only or 20 percent implementation rate. At the time of the audit, the Office was in the process of adjusting the current Capacity Development plan in an effort to accelerate the implementation.

The Office explained that some of the reasons for the delay were due to late recruitment of the Capacity Development Officer and the Capacity Development Associate who started in August 2015 and September 2015, respectively. In addition, implementation by one implementing partner could not start as it needed to sign a memorandum of understanding with the Principal Recipient. At the time of the audit, the Office was assisting the Principal Recipient to draft the memorandum of understanding. The Office further clarified that some activities related to the Public Financial Management System could not be implemented because some documents like the standard operating procedures had not been finalized and some equipment had not been installed. The Office further reported that the Public Financial Management System was later on installed.

The anticipated capacity development of the Principal Recipient might not be achieved due to delays in implementing the Capacity Development plan, which could negatively affect the project implementation.

In response to the draft report, the Office indicated that an accelerated 2016 work plan has been developed and finalized. It is awaiting endorsement by the Project Steering Committee. The accelerated plan included all activities not completed in year 1 activities as well activities planned in year 2. Further, all vacant positions for the project have been filled and the source of funding issue for the Capacity Development Plan have been resolved.

Priority	Medium (Important)
Recommendation 1:	
The Office should expedite the development and endorsement of the accelerated Capacity Development plan and coordinate with the implementing partners to ensure timely implementation of the accelerated plan.	
Management action plan:	
Agreed.	
Estimated completion date: Ongoing	

B. Procurement and supply management

Supply management (inventory, warehousing and distribution)

Issue 2 Weaknesses in the storage of medical products

The UNDP Operations Manual for Projects Financed by the Global Fund (September 2008) recommends the use of WHO guidelines for the storage of medical products. The Principal Recipient is required to ensure that Sub-recipients establish and maintain reliable stock management systems.

The following weaknesses were noted during on-site visits to the national warehouse, one regional warehouse, and two health facilities:

- (a) In the national warehouse, storage conditions were not optimal as health products were on the floor in between the racks due to limited space. Furthermore, the total amount of health products contributed by the Global Fund that had expired since January 2015 was \$3 million. The government counterpart explained that these were mainly first line antiretroviral therapy (ART) drugs that expired because the patients previously using them were moved to second line ART drugs.
- (b) In the regional warehouse, there was no thermometer in the warehouse to monitor and log the temperature. The warehouse also did not have air conditioners. The manager explained that the warehouse ceiling was built in a special way to allow cooling of the warehouse. Since there was no working thermometer in the warehouse, this could not be verified
- (c) In one health facility, cold chain items were kept in a refrigerator that had a thermometer which was not working and the pharmacy did not maintain a temperature log for the refrigerator temperature.
- (d) At the second health facility, there was no thermometer kept in the pharmacy to record the temperature and no temperature logs were maintained as well. Although the cold chain items were kept in a refrigerator that had a thermometer, the pharmacy was not maintaining a temperature log to monitor the temperature for the cold chain items.

Management commented that although the value of the expired drugs (\$3 million) appears high, this is within international and national acceptable threshold for expired drugs. Management further noted that the current expiry is actually linked to earlier procurements (2012 and 2013) and changes in treatment guidelines that the system could not completely absorb. Although the drugs were expired in 2015, they were procured in 2012 and 2013 before the announcement of the 2013 WHO new guidelines. The adoption and roll out of the 2013 Guidelines in the Country in 2014 brought about changes in the treatment regime. The Office management explained that the plan to phase out the first line drugs had been discussed and agreed upon at the Country Coordinating Mechanism meeting and this involved continuing the old patients on the previous treatment regime and starting the new treatment regime only for new patients.

Poor storage conditions and inadequate monitoring could damage or reduce the quality of health products.

Priority	High (Critical)
Recommendation 2:	
<p>The Office should strengthen supply chain management by:</p> <ul style="list-style-type: none"> (a) expediting the process of constructing the new warehouse to address the challenges of not having enough space at the current warehouse; (b) working with the government counterpart and the Sub-recipient to ensure that the amount of expired products is minimized, including better managing the supply chain and inventory levels so as to anticipate future changes in treatment protocols and new lines of medication; and (c) working with the government counterpart so that functioning thermometers are installed in the warehouses, health facility pharmacies and refrigerators where cold chain items are kept and required temperatures are maintained and logged. 	
Management action plan:	
<p>Management takes note of the observations and will address them as follows:</p> <p>To address the limited storage space, antiretroviral drugs procured for the southern sector of the Country has since been delivered directly to the regional warehouse for storage and distribution beginning of 2015. In addition and through support from the Global Fund, about \$23 million has been secured to support supply chain strengthening, including the construction of the central warehouse.</p> <p>The Government has secured additional funding for the construction of a new warehouse. The preparatory activities (e.g. access road, electricity, water, and leveling of the grounds) will be handled by UNDP.</p> <p>To avoid the recurrence of the expiry in future, the Terms of Reference of the Quality Assurance Task Force will be updated to include regular monitoring of commodities with limited shelf life. The status of the stock of health commodities will be discussed in the Task Force meetings. The Government will continue to give guidance to health facilities on the transitioning of patients to new regimens.</p> <p>To address temperature control and monitoring measures, thermometers and temperature data loggers, will be installed in the regional warehouses and health facilities. In addition, UNDP has made provision in the Capacity Development Plan (2015-2016) to support supply chain strengthening in the country and will discuss with government counterpart how best some of the facilities can be supported.</p>	
Estimated completion date: Ongoing	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

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 that are considered moderate. 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.