



**AUDIT**

**OF**

**UNDP GUINEA-BISSAU**

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

**Report No. 1735**  
**Issue Date: 16 December 2016**

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## Report on the Audit of UNDP Guinea-Bissau Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 19 to 30 September 2016, conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 87240 [TB], 87241 and 99429 [malaria]) managed by UNDP Guinea-Bissau (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> 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 (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);
- (d) procurement and supply management (quality assurance of health products, supply management [inventory, warehousing and distribution], asset management); and
- (e) financial management (expenditures).

The audit covered the Global Fund-related activities of the Office from 1 January 2015 to 30 June 2016. The Office recorded Global Fund-related expenditures of approximately \$5.8 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 the lack of quality testing for pharmaceutical and health products, and an inadequate inventory management system.

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<sup>1</sup> The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

**Key recommendations:** Total = 6, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Effectiveness and efficiency of operations	2	Medium
Safeguarding of assets	4	High
	6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3	Medium
	5	High

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. All high (critical) priority recommendations are presented below:

Lack of testing for pharmaceutical and health products (Issue 4)

The Quality Assurance Policy of the Global Fund emphasizes the responsibility of the Principal Recipients to monitor the quality of pharmaceutical and health products they procure from the time of purchase until they are used by the patients.

The Quality Assurance Plan approved by the Global Fund in April 2015 (for both TB and malaria grants) was due for an annual update no later than 31 March 2016, in line with the agreement made with the Global Fund. The audit team noted that the plan was never updated.

Under the 2015 Quality Control Testing Plan for both the TB and malaria grants, 15 pharmaceutical products were identified to be tested upon receipt, out of which 10 were to be tested along the in-country supply chain. The audit team noted that only 1 product out of the 15 was tested. Furthermore, there was no Quality Control Testing Plan in place for the Malaria New Funding Model grant that came into force in 2016.

**Recommendation:** The Office should test pharmaceutical products upon receipt in-country and at different points in the supply chain as per the Global Fund requirements.

Inadequate inventory management system (Issue 5)

The inventory management information system used to track and monitor pharmaceutical products throughout the supply chain was not adequate, as noted below:

- For TB medicines, monthly stock reports received by the Office covered only the central warehouse in the Country but none of the nine regional warehouses. Starting in January 2016, a similar issue was noted with the malaria medicines.

The Office did not receive monthly stock reports from health centres, which meant that it had no ongoing visibility of the stock levels at the service delivery points.

**Recommendation:** The Office should Improve its inventory management system by developing and implementing mechanisms to monitor pharmaceutical products.

**Implementation status of previous OAI audit recommendations:** Report No. 1315, 12 December 2014.


Total recommendations: 8

Implemented: 8

**Management comments and action plan**

The Resident Representative accepted all of the 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.



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Director  
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## I. Profile of Global Fund grants managed by UNDP Guinea-Bissau

Since 2013, UNDP has been the Principal Recipient of Global Fund grants in Guinea-Bissau (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 June 2016 (in \$ '000)	Implementation Rate	Expenditures as of 30 June 2016 (in \$ '000)	Global Fund Rating at 30 June 2016
GNB-913-G13-T	87240	Tuberculosis	1 Jul 2013	30 Jun 2016	9,680	5,005	45	4,323	B1 <sup>2</sup>
GNB-M-UNDP	87241	Malaria	1 Jul 2013	3 Mar 2016	11,679	11,046	92	8,480	B1
GA No 1009	99429	Malaria	1 Apr 2016	31 Dec 2017	18,555	8,873	5	349	NA
<b>Totals</b>					<b>39,914</b>	<b>24,924</b>		<b>13,152</b>	

## II. Audit results

Satisfactory performance was noted in the following areas:

- Sub-recipient management. There were no new Sub-recipients selected during the period under review. All of the Sub-recipient agreements were up to date. Disbursements were made to the Sub-recipients according to UNDP rules and regulations. Programmatic reports were received from the Sub-recipients on a quarterly basis and reviewed by the Office.
- Financial management. Payments reviewed had adequate supporting documents. Reporting to the Global Fund Secretariat was done within the stipulated deadlines.

OAI made two recommendations ranked high (critical) priority and four 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 recommendations, arranged according to significance:

- Test pharmaceutical products upon receipt in-country and at different points in the supply chain (Recommendation 4).
- Improve the inventory management system (Recommendation 5).

### Medium priority recommendations, arranged according to significance:

- Improve project implementation (Recommendation 2).
- Strengthen the capacity of the Programme Management Unit (Recommendation 1).
- Facilitate the timely closure of the TB Global Fund grant (Recommendation 6).
- Comply with the policy on payments to government staff (Recommendation 3).

The detailed assessment is presented below, per audit area:

<sup>2</sup> Global Fund B1 rating = Adequate

## A. Governance and strategic management

### 1. Staffing

#### Issue 1 Positions vacant for extended periods of time

For the proper management of the Global Fund grants, all of the key positions in the Programme Management Unit need to be filled on a timely basis, in order to contribute to delivery and meet objectives.

The audit team noted that several key posts had been vacant for extended periods and were negatively affecting the implementation of project activities. The following delays were noted:

- The Monitoring and Evaluation Specialist position remained vacant from January 2016 up to the time of the audit fieldwork (i.e., for a total of 10 months). Even though the Office brought in temporary resources for the purposes of developing the Progress Update reports, key activities such as the development and implementation of the Monitoring and Evaluation Plan that were dependent on this position were not implemented.
- The Administrative Assistant position had been vacant for seven months, since February 2016, when the incumbent separated from the project.
- The post of Community Health Associate had been vacant for nine months, since December 2015.
- The two Supply Chain Monitor positions were vacant for 18 months, from December 2014 up to June 2016.
- The Procurement and Supply Management Specialist post was vacant for seven months, from May 2015 to January 2016. The post was temporarily covered by an individual contractor.
- The Procurement Specialist position was vacant for 21 months, from April 2014 to January 2016. The post was also temporarily covered by the use of an individual contractor.

The Office's management acknowledged the above issues and explained that it had a heavy workload, as it offered services to other United Nations agencies, and that it underwent a restructuring in 2016, all of which warranted the attention of the Human Resources Unit. Moreover, it was difficult to attract international staff to work in light of the working conditions in the Country, which made the recruitment and selection process challenging with two of the recruitments warranting more than five attempts during the 2015-2016 period. The audit team acknowledged these challenges but also noted that there were internal delays in the recruitment process for both local and international staff. As an example, it took six months to complete the shortlisting task for the Monitoring and Evaluation Specialist post. While a couple of months may be an acceptable amount of time for shortlisting in the most challenging situations, based on best practice, six months may be considered as being delayed.

Extended vacancies caused delays in implementing project activities and resulted in low absorption of the Programme Management Unit budget, in particular for the TB grant, which had an absorption rate of only 45 percent by the time it closed.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should strengthen the capacity of the Programme Management Unit by ensuring that the remaining vacant positions are filled.	
<b>Management action plan:</b>	
The recruitment of the Monitoring and Evaluation Specialist is currently at the Compliance Review Board for approval. Recruitment processes for the Administrative Assistant and the Community Analyst positions are underway.	
<b>Estimated completion date:</b> March 2017	

## B. Programme management

### 1. Project approval and implementation

#### Issue 2 Delays in implementation of project activities

To achieve the targets set in the performance framework annexed to the grant agreement, planned project activities should commence as scheduled and delayed activities should be rescheduled in order to meet programme objectives. For effective monitoring of projects, the Monitoring and Evaluation Plan is required to measure programme results at various levels to provide a basis for accountability and informed decision-making. The plan is required to be a working document that can be amended as needed.

The dynamic and challenging political context in the Country, coupled with the high staff/personnel turnover and slow recruitment processes, caused delays in the implementation of project activities, especially with respect to the new malaria grant that started in April 2016. The following were noted:

- Delays in the implementation of the Health and Community Systems Strengthening (HCSS): Activities under the HCSS worth \$1.9 million had not started at the time of the audit fieldwork, due to the fact that a 'condition precedent' required the Office to describe and provide the implementation plan of the HCSS had not been fulfilled.

The Office's management attributed the delayed submission to the need to broaden the HCSS to cover both the TB and HIV grants managed by other Principal Recipients. While the audit team understood the value of broadening the HCSS's coverage to grants beyond the accountability of UNDP, the performance framework for the UNDP-managed grant was not revised to account for the delays. This may negatively impact the rating of the grant for the period from April to December 2016, when the HCSS activities were put on hold.

- Delays in the approval of the Monitoring and Evaluation Plan: The Monitoring and Evaluation Plan, with a budget of \$656,000, was approved in August 2016, whereas the grant commenced in April 2016. At the time of the audit, 27 out of 43 activities planned for 2016, worth \$294,000, were either already late or had not started. These delays may challenge the completion of these activities in the remaining 15 months of the grant. While an initial draft of the Plan was shared with the Global Fund in December



2015, it warranted several rewrites before final approval was received. The Office's management explained that the delay in signing the Monitoring and Evaluation Plan and the delay in its implementation were caused by the fact that the monitoring and evaluation function was short staffed throughout 2016 (i.e. Monitoring and Evaluation Specialist position vacant, Monitoring and Evaluation Associate away on leave, and Community Health Associate position vacant p – refer to Issue 1).

Delays in grant implementation and the failure to accelerate planned activities could negatively impact the achievement of the grant objectives.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should improve project implementation by:	
<ul style="list-style-type: none"> <li>(a) expediting the fulfilment of the condition precedent to allow for the commencement of activities; and</li> <li>(b) accelerating the implementation of activities and adjusting the work plan accordingly for the remaining implementation period.</li> </ul>	
<b>Management action plan:</b>	
The Office will:	
<ul style="list-style-type: none"> <li>(a) complete responses to the five outstanding comments on the Health and Community Systems Strengthening from the Global Fund with a view to obtaining final authorization by the end of November; and</li> <li>(b) implement the Health and Community Systems Strengthening upon receipt of Global Fund authorization.</li> </ul>	
<b>Estimated completion date:</b> January 2017	

### **Issue 3**      Payments of incentives to government staff

The United Nations policy on payments to government staff disallows any monetary compensation to government counterparts for their work and/or participation in donor-funded programmes and projects. UNDP's Global Fund Network had also reminded Country Offices about the importance of complying with the 'UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes and National Salary Payment Schemes', since 2011 when the policy was established. UNDP may only engage in salary supplements and salary payment schemes as part of a larger wage or civil service reform process, with clear guidelines on the payments to be made. A risk assessment should be included in such an engagement, and direct service support can be provided for an agreed-upon limited duration with a monitored exit strategy. This arrangement requires approval from the Office of the Administrator and the Regional Bureau concerned.

The audit team noted that the round 9 malaria and TB grants that ended in April 2016 and June 2016, respectively, had built-in monthly incentive payments set at 60 percent of the gross pay for government staff working on the two grants. For the new malaria grant that started in April 2016, similar incentive payments were envisaged with the caveat that the 60 percent pay was subject to a multiplier defined by the Global Fund and

aligned with the performance of the grant in the previous reporting period. The total amount set aside for this activity amounted to \$90,000.

These incentives had been established in order to motivate staff to absorb the additional workload brought on by the specific grants. However, the Office did not seek approval for the payments to government staff from the Office of the Administrator or from the Regional Bureau as required by UNDP policy, due to lack of awareness of the particular requirement.

Payments of incentives to government staff may not be sustainable and are not in line with the UNDP policies and procedures.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should comply with the policy on payments to government staff. In cases where the Office considers the payments necessary, it should obtain the approval of the Office of the Administrator and of the Regional Bureau.	
<b>Management action plan:</b>	
The Office plans to submit a request for a waiver to the Administrator by the end of December.	
<b>Estimated completion date:</b> January 2017	

## C. Procurement and supply management

### 1. Quality assurance of health products

#### Issue 4 Lack of testing for pharmaceutical and health products

The Global Fund's Quality Assurance Policy emphasizes the responsibility of the Principal Recipients to monitor the quality of pharmaceutical and health products they procure from the time of purchase until they are used by the patients.

##### (i) Quality Assurance Plan

A Quality Assurance Plan was approved by the Global Fund in April 2015 (for both TB and malaria grants), as a reference for the in-country quality monitoring of pharmaceutical products in the Global Fund supported programmes managed by the Office. The Plan was due for an annual update no later than 31 March 2016, in line with the agreement made with the Global Fund. The audit team noted that the plan was never updated.

##### (ii) Quality Control Testing Plan

- Under the 2015 Quality Control Testing Plan for both the TB and malaria grants, 15 pharmaceutical products were identified to be tested upon receipt, out of which 10 were to be tested along the in-country supply chain. The audit team noted that the testing plan was not followed. Of the 15 medicines that were to be tested between January 2015 and June 2016, only 1 had been tested.

- There was no Quality Control Testing Plan in place for the Malaria New Funding Model grant that came into force in 2016. According to the Office, the process of updating the Plan was still in progress.

According to the Office's management, testing was not undertaken due to the insufficient quality assurance budget established since the inception of the grants in 2013. However, there were savings in both grants that could have been reallocated with authorization of the donor to allow for testing. The Office's management stated that the sample testing of malaria medicines at the central and regional levels was initiated at the end of August 2016 and that the samples would be sent out for testing by the end of November 2016.

In the previous OAI audit, quality control testing had also been raised as an issue. The respective recommendation was assessed as implemented based on OAI's desk review of evidence provided by the Office in June 2015. The current audit disclosed that the issue reoccurred; therefore, OAI is issuing a new recommendation.

Failure to test pharmaceutical products at different points in the supply chain may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patients' lives and the reputation of the Office and UNDP at risk.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
The Office should test pharmaceutical products upon receipt in-country and at different points in the supply chain as per Global Fund requirements.	
<b>Management action plan:</b>	
The sample testing of malaria medicines at the central and regional levels was initiated at the end of August. The sampled malaria medicines will be sent to a WHO prequalified/Quality Control Laboratory under a Long Term Agreement with UNDP by the end of November 2016, and thereafter testing will be undertaken in line with the Quality Control Testing Plan.	
<b>Estimated completion date:</b> September 2017	

## 2. Supply management (inventory, warehousing and distribution)

### Issue 5 Inadequate inventory management system

The standard terms and conditions of the UNDP agreement with the Global Fund stipulate that the Principal Recipient should establish and maintain reliable inventory and stock management levels, as well as first-in first-out stock control systems. A reliable stock management information system monitors the level and movement of stock at the central and regional warehouses, as well as at health centres. It uses manual or electronic stock cards that should be updated after every stock movement. There should be a mechanism to receive and consolidate data from the periphery so as to have a countrywide view of the stock status.

The inventory management information system used to track and monitor pharmaceutical products throughout the supply chain was not adequate, as noted below:

- For TB medicines, monthly stock reports received by the Office covered only the central warehouse in the Country, but none of the nine regional warehouses. Starting in January 2016, a similar issue was noted with the malaria medicines, as the report generated by the Sub-recipient covered only the central warehouse and none of the nine regional warehouses.
- The Office did not receive monthly stock reports from health centres, which meant that it had no ongoing visibility of the stock levels at the service delivery points. The Office's management explained that monthly site data was being collected and analysed by an international NGO, and that such data was available at the central warehouse. Moreover, management stated that it did not have the mandate to collect or receive the monthly reports from the sites. This was due to the fact that the system for collecting data from the periphery was assigned to a third party by the Government. Thus, if the Office were to establish a different mechanism for collecting data, this would have constituted a parallel system. Nevertheless, the data was available at the central warehouse, but the Office had yet to take advantage of it.

Inadequate inventory management information systems may prevent the Office from adequately monitoring stock at various levels of the supply chain and may make it difficult to anticipate issues such as stock outs, and expired and irrational use of products.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
The Office should improve its inventory management system by developing and implementing the appropriate mechanisms to monitor pharmaceutical products.	
<b>Management action plan:</b>	
The Office will undertake the following actions:	
<ul style="list-style-type: none"> <li>(a) update and validate the Standard Operational Procedures (SOPs) on Logistics Management Information System as well as Stock Management;</li> <li>(b) train and/or as necessary re-train (refresher course) the staff of the central warehouse on the use of the computerised Logistics Management Information System; and</li> <li>(c) prepare and participate in joint semi-annual supervisions at the regional level between UNDP and other Sub-recipients.</li> </ul>	
<b>Estimated completion date:</b> September 2017	

### 3. Asset management

#### **Issue 6**      Inadequacies in the transfer of assets to the incoming TB Principal Recipient

The 'UNDP Guide on Grant Closure' provides that the Grant Closure Plan must explain how non-cash assets will be dealt with after the programme ending date. Three options exist: (a) retain ownership; (b) transfer ownership

to another entity; and (c) sell the assets. According to the Grant Closure Plan for the TB grant prepared by the Office and approved by the Global Fund, assets were to remain with the Sub-recipients until their titles were transferred to the incoming Principal Recipient.

The audit identified inadequacies in the transfer of ownership of the Global Fund assets to the incoming Principal Recipient for the TB grant, as follows:

- The final list of non-medical assets provided to the Global Fund regarding the closure of the TB grant was not accurate. It included 4 motorcycles (worth \$6,228), 45 bicycles (worth \$4,185) and 1 laptop that had not been validated during the last physical count in December 2015. The Office explained that the list provided to the Global Fund was a draft and that a final inventory would be undertaken by the end of November 2016.
- The Office had not issued the letter required to transfer the assets to the incoming Principal Recipient. In addition, license plates mounted on the motorcycles had not been returned to the Office for onward forwarding to the relevant government ministry.

Subsequent to the audit, the Office undertook the inventory of the assets and issued the documentation required to transfer the assets to the incoming Principal Recipient.

Inadequate management and safekeeping of assets may expose the Office to reputational risks and to the risk of the loss of assets, which may have to be reimbursed to the Global Fund by the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should retrieve all license plates from motorcycles assigned to Sub-recipients and return them to the relevant government ministry, to facilitate the timely closure of the TB Global Fund grant.	
<b>Management action plan:</b>	
The official request for the return of the license plates from the nine motorcycles was signed by the relevant government ministry and UNDP on 10 November 2016. The plates will be recovered by the end of the closure period of the grant.	
<b>Estimated completion date:</b> December 2016	

## 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.