



AUDIT

OF

UNDP SAO TOME AND PRINCIPE

GRANTS FROM THE GLOBAL FUND

Report No. 1758
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(REDACTED)

Report on the Audit of UNDP Sao Tome and Principe Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 27 February to 10 March 2017, conducted an audit of four grants from the Global Fund (Output Nos. 97419 [Malaria], 80294 [Malaria], 81638 [HIV], and 95983 [TB]) managed by UNDP Sao Tome and Principe (the Office) as the Principal Recipient. The Office also managed Output No. 97365 (Country Coordinating Mechanism) as the Funding Recipient¹, which was outside the scope of the audit.

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 (quantification 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 July 2015 to 31 December 2016. The Office recorded Global Fund-related expenditures of approximately \$5.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **partially satisfactory / some improvement needed** which means "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in the inventory management and record keeping of pharmaceutical products, and poor management and accounting of assets.

¹ Since the Country Coordinating Mechanism is not a legally incorporated body and cannot receive funds, it designates a Funding Recipient to be responsible for receiving funds on its behalf.

Key recommendations: Total =4, high priority = 2

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

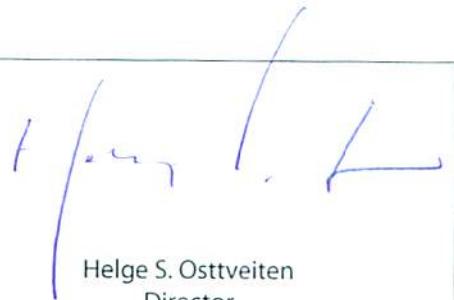
For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Weaknesses in inventory management (Issue 2)	<p>Site visits to the central warehouse, two district health facilities, and one district pharmacy indicated inadequate monitoring of temperature-sensitive pharmaceutical products and weak record keeping of expired products. More specifically, at the district pharmacy level, the audit found evidence of HIV/AIDS medicines issued to patients after the expiry date.</p> <p>Recommendation: The Office should strengthen inventory management procedures by: (a) working with government partners to ensure that temperature-sensitive items are stored within acceptable temperature ranges; (b) avoiding commingling of information on stock cards for similar items with different batch numbers and expiry dates; and (c) recording all pharmaceutical movements on the stock cards at all storage facility levels.</p>
Poor asset management and accounting processes (Issue 4)	<p>The 2016 year-end certification had not yet been finalized at the time of the audit fieldwork. The Atlas Assets In Service Report as at 31 December 2016 was inaccurate and incomplete. Inaccuracies in the Assets In Service Report led to depreciation charges being posted for the wrong assets, and to long closed grants and incorrect projects' Chart of Accounts. There were also delays in finalizing the annual physical verification of Global Fund Programme Management Unit and Sub-recipient assets.</p> <p>Recommendation: The Office should improve asset management and accounting by: (a) immediately opening cases with the Global Shared Services Centre to remove / add assets wrongly included or omitted in the Atlas Assets In Service Report; (b) completing the transfer of assets in the Atlas Assets In Service Report and all outstanding asset related closure procedures for closed grants, as well as getting assistance from UNDP Headquarters to clean up and rectify depreciation charges posted in error; and (c) completing the UNDP Global Fund Programme Management Unit and Sub-recipients' physical verifications within the UNDP prescribed target dates.</p>

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.



Helge S. Ostveiten
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