



**AUDIT**

**OF**

**UNDP DJIBOUTI**

  

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

**Report No. 1278**  
**Issue Date: 11 April 2014**

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## Report on the audit of Djibouti Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 11 to 24 February 2014, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 87111 [HIV] and 88216 [Malaria]) managed by UNDP Djibouti (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 (organizational structure, staffing);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply chain 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 activities of the Office from 1 January to 31 December 2013. The Office recorded Global Fund-related expenditures totalling \$1.73 million.

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 Global Fund grants as **satisfactory**, which means "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."

**Key recommendations:** Total = 5, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are five medium (important) priority recommendations, which means "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." These recommendations include actions to address insufficient quarterly reporting by Sub-recipients, delays in

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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.

finalizing and submitting the Quality Assurance Plan, lack of regular meetings of the Quantification and Forecasting Committee, incorrect recording of project assets, and inconsistent management of the value-added tax.

#### **Management comments and action plan**

The Resident Representative a.i. accepted all the recommendations in the areas of Sub-recipient management, procurement and supply chain management, and financial management 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.



Antoine Khoury  
Officer-in-Charge  
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## I. Profile of Global Fund grants managed by UNDP Djibouti

Since 2013, UNDP has been the Principal Recipient of Global Fund grants in Djibouti.

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Dec 2013 (in \$ '000)	Implementation Rate	Expenditures as of 31 Dec 2013 (in \$ '000)	Global Fund Rating as of 31 Dec 2013
DJB-613-G05-H	00087111	HIV	01.01.2013 (TFM)	31 May 2014 (TFM)	4,499.7 (TFM)	2,894.9	60%	1,801.2	Not available
DJB-013-G06-T	00088216	TB	1 Oct 2013 (Phase I)	30 Sep 2015 (Phase I)	3,344.5 (Phase I)	867.8	N/A	0.37	Not available
Totals					<b>7,844.2</b>	<b>3,762.7</b>		<b>1,801.57</b>	

TFM = Transitional Funding Mechanism

## II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. The control processes for governance and strategic management were generally established and functioning.
- Programme management. Project approval and implementation as well as monitoring and evaluation were adequately monitored by the Programme Management Unit.
- Sub-recipient management. There were four Sub-recipients, comprised of three national governmental entities and one United Nations agency. The selection, assessment and contracting, as well as the funding, oversight and monitoring of Sub-recipients were generally functioning adequately.

OAI proposes five recommendations that are ranked medium (important) priority. Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

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

- Enforce submission of progress reports from Sub-recipients (Recommendation 1).
- Improve quality assurance system over health products (Recommendation 2).
- Organize regular meetings of the Quantification and Forecasting Committee (Recommendation 3).
- Improve asset management (Recommendation 4).
- Improve the management of the value-added tax (Recommendation 5).

The detailed assessment is presented below, per audit area:

## A. Sub-recipient management

### 1. Reporting

#### Issue 1 Insufficient quarterly reporting by Sub-recipients

According to article XI of the agreements signed by the four Sub-recipients regarding their cooperation with UNDP as Principal Recipient, the “Sub-recipients should...periodically report progress according to the implemented work plan on all activities undertaken during the period.”

Although the Project Management Unit had reminded the Sub-recipients, on several occasions, about their obligation to submit the quarterly reports, three Sub-recipients had not submitted any progress reports for the previous quarter, while the fourth one submitted its report late.

Inadequate reporting by the Sub-recipients could jeopardize the accuracy of UNDP's reporting to the Global Fund and consequently impact the disbursements made by the Global Fund.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Enforce the provisions stipulated in article XI of the agreements signed by UNDP and the Sub-recipients regarding the submission of progress reports by the Sub-recipients.	
<b>Management action plan:</b>	
The Project Management Unit implemented a monitoring system to alert and remind Sub-recipients about the completion and submission of their reports. In addition, as part of UNDP's effort to assist in capacity development of national counterparts, a national technical assistant on monitoring and evaluation was recruited for the National Aids Programme in March 2014. Moreover, an international technical assistant was under recruitment to support both the HIV and TB programmes, mainly in their programmatic aspects. One of the tasks of the Office was to establish a sustainable system at the national programme level to develop a monitoring and evaluation framework to track data on the progress of HIV and TB programme implementation. The assistant was expected to start on 1 April 2014, while UNDP would continue to strictly monitor the timeliness of report submission.	
<b>Estimated completion date:</b> 30 April 2014	

## B. Procurement and supply chain management

### 1. Quality assurance of health products

#### Issue 2 Delays in finalizing and submitting the Quality Assurance Plan

The grant agreement requires the Office, in cooperation with the national health partners, to prepare a Quality Assurance Plan based on the Procurement and Supply Management Plan. The Plan should have been submitted to the Global Fund no later than 15 December 2013.

OAI noted that the Quality Assurance Plan was not finalized and was not submitted to the Global Fund. As a result, no quality control tests took place. The Project Management Unit explained that the Procurement and Supply Management Specialist only came on board in November 2013, and there were many conflicting priorities for the Unit.

OAI was informed that the document would be completed and submitted to the Global Fund by the end of March 2014. The Office considered that there was no urgency regarding quality controls on stocks, as the first orders of medical products only arrived in December 2013 and quality assurance certificates were provided.

Inadequate quality control processes expose the Office to the risk that the health products distributed to patients may not be of acceptable quality. This situation could place patient lives at risk and could damage the reputation of UNDP.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Improve the quality assurance system over health products by:	
<ul style="list-style-type: none"> <li>(a) completing the Quality Assurance Plan and submitting it to the Global Fund as soon as possible; and</li> <li>(b) ensuring that the Quality Assurance Plan complies with Global Fund requirements.</li> </ul>	
<b>Management comments and action plan:</b>	
The Quality Assurance Plan was being drafted and a team comprised of national authorities and UNDP was already established. After submitting the Quality Assurance Plan, quality control activities would start in accordance with the sampling plan.	
<b>Estimated completion date:</b> 30 June 2014	

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

### Issue 3 Lack of regular Quantification and Forecasting Committee meetings

As per the 'UNDP Global Fund Operations Manual', "...quantification and forecasting of health products needs to represent fundamental aspects of the procurement and supply chain as any failure could lead to insufficient supply and interruption of patient treatments or waste of resources due to overestimated needs."

According to the terms of reference of the Quantification and Forecasting Committee, meetings of the Executive Board must take place quarterly, while the technical group of the Committee led by UNDP must meet monthly to provide recommendations to the Executive Committee. However, no meetings took place in 2013.

The Office explained that it was difficult to organize those meetings due to the unavailability of most members. The Project Management Unit had initiated a number of efforts to ensure that these meetings occurred, such as revising the composition of the Committee and its terms of reference.

The lack of Committee meetings may impact coordination and national response in cases of emergency.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Organize monthly meetings of the Quantification and Forecasting Committee's technical group led by UNDP and ensure regular meetings of the Committee's Executive Board.	
<b>Management comments and action plan:</b>	
Management stated that the Project Management Unit initiated a number of efforts to organize these meetings. For example, it drafted terms of reference of the Quantification and Forecasting Committee in December 2013 and sent them to the Global Fund for approval. At the time of the audit, the Unit was still waiting for feedback from the Global Fund. Reactivating the Committee was proving to be very challenging, but the Project Management Unit continued to engage with partners on this matter. As a temporary solution, the Unit was successfully using two working groups to manage all HIV and TB products.	
A first meeting will be held during March 2014.	
<b>Estimated completion date:</b> 30 April 2014	



### 3. Asset management

#### Issue 4 Incorrect recording of project assets

According to the 'Assets Management Guidance Note for Global Fund Grants', "assets that are procured for, and used by Country Offices or Global Fund Project Management Units must be entered into Atlas, and reported in line with the International Public Sector Accounting Standards." Assets of projects used and controlled by UNDP should be capitalized and recorded in Atlas. The Global Shared Services Centre processes and records in Atlas all activities involving asset acquisitions, adjustments, disposals, losses and depreciation.

In 2013, the Project Management Unit purchased assets totalling \$66,000, which were incorrectly expensed and were not capitalized as required by the International Public Sector Accounting Standards.

The Project Management Unit explained that this occurred in error as the Office had not used the 'UNDP Catalogue' when raising the requisitions for these procurements in 2013.

Inadequate asset management could weaken the tracking of assets and impact UNDP financial statements.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
Improve asset management and tracking by:	
<ul style="list-style-type: none"> <li>(a) liaising with the Global Shared Services Centre in order to correct assets inaccurately recorded as expenses;</li> <li>(b) appropriately using the 'UNDP Catalogue' when acquiring assets for the programme; and</li> <li>(c) recording assets used and controlled by UNDP as assets and not as expenses in Atlas.</li> </ul>	
<b>Management comments and action plan:</b>	
The Office already took action and prepared the necessary documents, mainly lists of assets with all the necessary information and certification forms, to be shared with the Global Shared Service Centre for correction. All new purchases by the Project Management Unit were correctly recorded in the Atlas Asset Management Module.	
<b>Estimated completion date:</b> 30 June 2014	
<b>OAI Response:</b>	
OAI acknowledges the action taken by management and will validate the progress as part of its follow-up at a later stage.	

## C. Financial management

### 1. Expenditures

#### Issue 5 Inconsistencies in managing and recording the value-added tax

The terms and conditions set out in article IV of the grant agreement provide that “the Principal Recipient shall try to ensure through coordination with the Government of the Host Country and the Country Coordinating Mechanism and otherwise that this agreement and the assistance financed hereunder shall be free from taxes and duties imposed under laws in effect in the Host Country.”

OAI noted that value-added tax amounts included in invoices were recorded under expense accounts and paid instead of being recorded separately in account no. 14056 ‘VAT/Sales Tax’ and subsequently reclaimed from the Government. The Office mentioned that they were not familiar with recording value-added tax amounts separately to account no. 14056.

Failure to adequately manage the value-added tax could expose UNDP to the loss of financial resources, erroneous UNDP financial statements, and delays in the financial closure of projects, as the value-added tax amount would have to be recovered.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
Improve the management of the value-added tax by recording the tax amount paid in account no. 14056, and submitting a request in a timely manner to the national tax authorities for reimbursement of taxes paid by UNDP during 2013.	
<b>Management comments and action plan:</b>	
Management informed OAI that taxes were now being recorded using account no. 14056. In addition, negotiations, on an individual basis, were being conducted with each supplier to request a value-added tax exemption. However, this request was not systematically accepted. The Office has already prepared the document to be used for requesting value-added tax reimbursement for 2013.	
<b>Estimated completion date:</b> 31 December 2014	

## 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.