



AUDIT

OF

UNDP ANGOLA

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

Report No. 1298
Issue Date: 22 May 2014

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

The UNDP Office of Audit and Investigations (OAI), from 17 to 28 March 2014, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project No. 46824 [HIV]) managed by UNDP Angola (the Office) as the Principal Recipient. OAI also reviewed the closure of another Global Fund grant (Project No. 04219 [Malaria]), particularly the delays in financially closing that grant. 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 activities of the Office from 1 January 2012 to 31 December 2013. The Office recorded Global Fund-related expenditures totalling \$10.7 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2011 (Report No. 872, issued on 21 March 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 **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 = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two 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 the delay in the grant closure of the Round 3 Malaria grant and the non-implementation of the Quality Assurance Plan for pharmaceutical products.

Implementation status of previous OAI audit recommendations: Report No. 872, 21 March 2012.

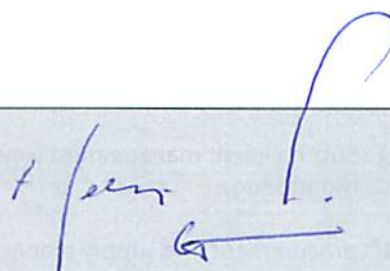
Total recommendations: 3

Implementation status: 100%

Management comments and action plan

The Resident Representative accepted both of the recommendations in the areas of grant closure and quality assurance of health products 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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I. Profile of Global Fund grants managed by UNDP Angola

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in Angola (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$ '000)	Funds Received as of 31 Dec 2013 (in \$ '000)	Implementation Rate	Expenditures (1 Jan 2012 to 31 Dec 2013) (in \$ '000)	Global Fund Rating at 31 Dec 2013
AGO-405-G03-H	46824	Reducing the burden of HIV/AIDS in Angola	1 Oct 2005 (Phase 1)	30 Sep 2014 (TFM ¹)	80,700	76,907	95%	10,762	A2 ²
AGO-305-G01-M	04219	Support to the National Malaria Control programme	1 Apr 2005 (Phase 1)	30 Sep 2008	33,689	33,689	100%	-	N/A ³

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. OAI reviewed the organizational structure, staffing, capacity building and exit strategy, and identified no exceptions. A review of four staff recruitment cases (57 percent of all recruitments carried out during the review period) and four individual contracts (67 percent of all such contracts entered into during the review period) concluded that the relevant processes were in place.

(b) Sub-recipient management. The Office implemented the grant through one Sub-recipient, which was a governmental entity. OAI reviewed the selection, funding, Sub-recipient reporting to the Office, and the Office's oversight and monitoring of the Sub-recipient. For all of the areas reviewed, there were adequate controls in place and no notable exceptions in procedures were noted.

(c) Financial management. The review of revenue, financial reporting to the Global Fund, and 18 payment vouchers totalling \$9.1 million (83 percent of the total value of vouchers issued) indicated that the Office had complied with the respective policies and procedures, and that the controls were generally adequate.

OAI has made two 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:

- Liaise with the Global Fund and the Sub-recipient to resolve the outstanding issues affecting the financial closure of the Round 3 Malaria grant (Recommendation 1).
- Implement the Quality Assurance Plan for testing delivered health products in conjunction with the government counterpart, and before the end of the grant period (Recommendation 2).

The detailed assessment is presented below, per audit area:

¹ TFM stands for Transitional Funding Mechanism.

² Global Fund rating A2 = Meets Expectations

³ The last available performance rating was in 2008, which was B1. The grant was in the process of closing.

A. Programme management

1. Project approval and implementation

The current grant (HIV grant No. AGO-405-G03-H) is under the Transitional Funding Mechanism that was established by the Global Fund to mitigate the impact of funding disruptions before the new funding model was rolled out under the new strategy, which according to the grant agreement, started on 1 October 2012 for a two-year period ending on 30 September 2014. The grant has followed the Continuity of Services phase, which ended on 30 September 2012.

OAI noted that although the grant agreement showed a start date of 1 October 2012, the agreement was only signed by all respective parties in March 2013. As a result of this eight-month delay, the first disbursement under the Transitional Funding Mechanism was only made by the Global Fund in June 2013.

Due to the delay in the disbursement of funds under the Transitional Funding Mechanism, the Office borrowed approximately \$870,000 from the UNDP extrabudgetary reserves to be able to purchase anti-retroviral (i.e., anti-HIV/AIDS) drugs in order to avoid a stock-out in the Country and mitigate implementation risks of the grant. The funds were reimbursed in August 2013 after the Office had received the disbursement from the Global Fund.

2. Grant closure

Issue 1 Delay in the financial closure of the Round 3 Malaria grant.

UNDP's 'Financial Regulations and Rules' stipulate that the financial closure of a project must take place within 12 months of its operational closure.

The programme end-date for the Round 3 Malaria grant (Grant No: AGO-305-G01-M) according to the agreement was 30 September 2008, and the closure date according to the approved grant closure plan was 31 March 2009. During the last audit conducted in 2011, the Office was in the process of closing the operationally completed grants. However, the grant had not been closed financially at the time of the current audit, due to unresolved accounting issues. Disagreements about account balances with one Sub-recipient were finally resolved after two successive audits by external auditors in 2012 and 2013. Another issue regarding the disposal of earned income totalling \$274,400 by a Sub-recipient following a query from the Global Fund had yet to be resolved, as the Office was still awaiting supporting documentation from this Sub-recipient.

Projects that are not promptly closed financially may be at risk of being charged unauthorized expenses.

Priority	Medium (Important)
Recommendation 1:	
Liaise with the Global Fund and the Sub-recipient to resolve the outstanding issues affecting the financial closure of the Round 3 Malaria grant and to ensure that closure of the grant is documented in the Global Fund "Grant Closure Letter."	
Management action plan:	
<p>The Office has been unable to fully close the grant since the Global Fund ordered a re-audit of one Sub-recipient (which was undertaken in 2011), and due to the subsequent issues that emerged in 2013 and 2014 in regard to accounting for use of earned incomes by the Sub-recipient. The Office is facilitating follow-up with the Sub-recipient. In the meanwhile, the Office has returned all remaining funds from the grant to the Global Fund and has deactivated the account to avoid any risk of any new charges being made against this old grant. The remaining issue described to the auditors (i.e., the pending receipt of documentation from the Sub-recipient) is outside the control of the Office, which continues to support expeditious resolution of the matter to enable the Global Fund to issue the closure letter. The Office will continue to follow up for a resolution to this issue.</p>	
Estimated completion date: September 2014	

B. Procurement and supply management

1. Quality assurance of health products

Issue 2 Quality Assurance Plan for pharmaceutical products not implemented

According to the 'Global Fund Quality Assurance Policy for Pharmaceutical Products' and Article 18 of the grant agreement, Principal Recipients must ensure that product testing is done and that random samples of finished pharmaceutical products are obtained at different points in the supply chain, from initial receipt in-country to delivery to end-users/patients. Such samples must be tested for compliance with applicable quality standards by a WHO pre-qualified laboratory, or accredited in accordance with 'ISO Standard 17205: Calibration and Testing Laboratories', or a laboratory contracted by the Global Fund.

During the Continuity of Services implementation period (1 October 2010 to 30 September 2012), the Office, as Principal Recipient, was not required to carry out quality assurance of health products. However, this became a requirement under the Transitional Funding Model implementation period which started on 1 October 2012.

A joint Quality Assurance Plan was developed in 2013 for both the HIV and the Malaria grants. A number of implementation activities had already started, which included the selection of a quality control laboratory and consultants for the quality assurance workshop, and an assessment visit of peripheral level warehouses. Additional activities included the procurement process of data loggers for temperature monitoring, as well as the procurement of equipment for the Pharmacovigilance Unit, which was concerned with detecting, assessing and preventing adverse reactions to drugs. The Office was in the process of identifying the laboratories that

would be used for the quality assurance testing, since the Country did not have a laboratory that was WHO pre-qualified.

However, the grant implementation period was scheduled to end in September 2014 and the quality assurance activities as noted in the Quality Assurance Plan were not yet fully implemented.

Failing to test the pharmaceutical products at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard drugs to treatment facilities.

Priority	Medium (Important)
Recommendation 2:	
Implement the Quality Assurance Plan for testing delivered health products in conjunction with the government counterpart, and before the end of the grant period.	
Management action plan:	
The quality testing consultants have been selected and implementation of the testing of finished commodities will start soon. The Office does not have responsibility for drugs management beyond the delivery to the government central warehouse in Luanda. Testing along the supply chain is not the Office's responsibility, but the Government's. The Office is assisting with strengthening quality assurance institutional capacity, to reinforce national systems for improved quality assurance/quality control beyond HIV/AIDS to include malaria and TB (outside of UNDP's area of responsibility). The absence of enabling legislation and resources prevents the government entity mandated to undertake quality assurance from enforcing drug testing.	
Estimated completion date: 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.