

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP ZAMBIA**

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

**Report No. 1447**

**Issue Date: 9 July 2015**

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

The UNDP Office of Audit and Investigations (OAI), from 13 to 24 April 2015, conducted an audit of seven grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 76782 [HIV], 77862 [Malaria], 79589 [TB], 79590 [Malaria], 79742 [HIV], 79743 [HIV] and 87640 [HIV]) managed by UNDP Zambia (the Office) as the Principal Recipient. 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 October 2013 to 31 March 2015. The Office recorded Global Fund-related expenditures totalling \$134 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 **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 = 4, high priority = 0

The four recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendation 3); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 2 and 4).

The audit did not result in any high (critical) priority recommendations. There are four 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 Sub-recipient reporting, the management and administration of individual contracts, and the quality assurance of temperature-sensitive products.

One of the recommendations related to addressing delays in the procurement of non-health products, partly caused by factors beyond the control of UNDP (refer to Issue 3).

**Implementation status of previous OAI audit recommendations:** Report No. 966, 1 August 2012.

Total recommendations: 3

Implementation rate: 100%<sup>1</sup>

#### 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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Officer-in-Charge  
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<sup>1</sup> This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented.

## I. Profile of Global Fund grants managed by UNDP Zambia

Since 2010, UNDP has been the Principal Recipient of Global Fund grants in Zambia (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received as of 31 March 2015 (in \$ '000)	Implementation Rate	Expenditures (1 Oct 2013 to 31 Mar 2015) (in \$ '000)	Global Fund Rating at 31 March 2015
ZAM-405-G24-H	76782	HIV Round 4	01-Dec-10	30-Apr-11	24,100	24,100	100%	-	N/A
ZAM-411-G25-M	77862	Malaria Round 4	01-Apr-11	30-Apr-11	4,951	4,951	100%	-	N/A
ZAM-711-G26-T	79589	Zambia TB program Stop TB Strategic plan implementation Update 2008 - 2015	01-Nov-11	30-Jun-15 (Phase 2)	15,174	12,930	85%	3,994	A2 <sup>2</sup>
ZAM-711-G27-M	79590	Rapid scale up of malaria interventions for sustained impact in Zambia	01-Dec-11	30-Jun-15 (Phase 2)	37,123	35,447	95%	22,898	A2
ZAM-811-G28-H	79742	Scaling up Prevention and impact mitigation and strengthening Health Systems	01-Sep-11	31-Oct-13* (Phase 1)	65,525	65,525	100%	11,399	A1 <sup>3</sup>
ZAM-011-G29-H	79743	Securing and sustaining equitable access to ART commodities and services	01-Sep-11	31-Oct-13* (Phase 1)	76,029	76,029	100%	31,286	B1 <sup>4</sup>
ZAM-H-UNDP	87640	Securing and sustaining equitable access to ART commodities and services	01-Nov-13	31-Aug-16 (Phase 1)	156,510	130,099	83%	64,675	A2
<b>Totals</b>					<b>379,411</b>	<b>349,081</b>	<b>92%</b>	<b>134,253</b>	

\* Grant numbers ZAM-811-G28-H and ZAM-011-G29-H were consolidated at the end of Phase 1 on 31 October 2013 to form a new grant, i.e., ZAM-H-UNDP starting as of 1 November 2013.

<sup>2</sup> Global Fund A2 rating = Meets expectations

<sup>3</sup> Global Fund A1 rating = Exceeds expectations

<sup>4</sup> Global Fund B1 rating = Adequate

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The organizational structure of the Office was adequate. The review of recruitments carried out during the audit period showed that the process was competitive, transparent and adequately documented. Further, the review of the Office's activities relating to capacity development and exit strategy also resulted in no reportable issues.
- (b) Programme management. The implementation of programme activities was carried out according to the Grant Agreement and was adequately monitored. The monitoring and evaluation of the Global Fund grants was adequate. The Office had developed detailed site visit plans. After each site visit, the monitoring and evaluation team issued reports, including recommendations, which were shared with the relevant implementing partners. Further, the review of the grant closure of the operationally and/or financially closed grants resulted in no reportable issues.
- (c) Financial management. The review of 53 payment vouchers totalling \$54 million (43 percent of the total value of vouchers issued during the period under review) indicated that the Office had complied with the respective policies and procedures, and that the controls were generally adequate. Financial reporting to the Global Fund Secretariat was done in a timely manner. Further, the review of the receipt and recording of funds from the Global Fund resulted in no reportable issues.

OAI made 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.

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

- (a) Collaborate with Sub-recipients to minimize procurement delays (Recommendation 3).
- (b) Improve on the quality assurance of health products (Recommendation 4).
- (c) Improve Sub-recipient reporting (Recommendation 1).
- (d) Improve the management and administration of individual contracts (Recommendation 2).

The detailed assessment is presented below, per audit area:

### A. Sub-recipient management

#### 1. Reporting

##### **Issue 1**      Sub-recipient reporting requirements not adhered to

Article XI, clause 2 of the Sub-recipient Agreement in place for the active grants stipulates, "The Sub-recipient shall provide UNDP with a report in the form and substance acceptable to UNDP within forty-five days after the end of each quarter for the duration of the grant (quarterly report)."

The review of 12 financial reports submitted by four Sub-recipients during the audit period showed the following weaknesses:

- There were no explanations for variations noted between planned and actual expenditures in all 12 financial reports reviewed.
- There were seven reports that had not been submitted by the required deadline at the end of the quarter. Delays in their submission ranged from 6 days to 91 days after the deadline on several occasions.

The Office commented that since April 2015, the review of advance liquidations was being done on a weekly basis. In addition, Sub-recipients were now required to submit to UNDP a monthly 'Funding Authorization and Certificate of Expenditures' form for the liquidation of advances before the 10<sup>th</sup> of each month. This approach was intended to accelerate the process of liquidating advances, to allow Sub-recipients to have sufficient time to perform a variance analysis against the approved budget for quarterly reporting purposes, and to reduce the burden on the finance team towards the end of each quarter.

The Office further commented that Sub-recipients started providing brief comments on variations noted in the reports for the period from October to December 2014 and from January to March 2015. These measures were already bearing fruit, as the Sub-recipients were now reporting in a timely manner and a variance analysis was being performed, though the measures still required further improvements.

Delays and inadequate reporting by the Sub-recipients may affect timely and accurate reporting by the Principal Recipient to the Global Fund, which will have a negative impact on disbursements received from the Global Fund.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Improve Sub-recipient reporting by ensuring that Sub-recipients provide explanations for any variations noted between budgeted and actual expenditures and by ensuring that quarterly reports are received within the stipulated timeframe.	
<b>Management action plan:</b>	
<p>(a) The Office will issue official letters to the Sub-recipients reiterating the required timelines for submission, as well as the basic requirements of quarterly reporting for each period.</p> <p>(b) The UNDP Project Management Unit will continue the weekly review and monthly liquidation approach for the management of advances for all three active grants to ensure that both 'Funding Authorization and Certificate of Expenditures' forms and quarterly financial reports are received within the stipulated timeline (continuously up to December 2015).</p> <p>(c) The UNDP Project Management Unit will have working sessions with the Sub-recipients' finance and programme teams on the preparation of a variance analysis for the upcoming quarterly reports to ensure that Sub-recipients adhere to the minimum requirement stipulated in the Sub-recipient Agreement. A working session will be held by 30 June 2015.</p>	
<b>Estimated completion date:</b> December 2015	

## B. Procurement and supply management

### 1. Individual contractors

#### Issue 2 Inadequate management of individual contracts

UNDP's 'Programme and Operations Policies and Procedures' regarding the management and administration of individual contracts stipulate that any substantive revisions to the Terms of Reference and/or to agreed-upon deliverables require a new competitive process. Further, for individual contracts valued from \$5,000 to \$100,000, professional fees should be determined through a competitive process, by comparing financial proposals of at least three qualified offers. These financial proposals should include all envisaged travel costs.

The review of a selected sample of 7 out of 21 individual contracts issued during the audit period indicated the following exceptions:

- In two cases totalling \$50,978, the Office made substantial amendments to the Terms of Reference, which resulted in a net cost increase of \$31,539. In the first case, the contract cost increased from \$6,212 to \$35,408 (470 percent) and in the second case, it increased from \$2,343 to \$3,187 (36 percent). Despite these revisions, the Office did not initiate a new competitive process.
- In two cases totalling \$71,340, the Office did not include the work inspection schedule with the related mission travel requirements under the Terms of Reference. As a result, the mission travel costs were not included in the consultants' financial proposals or in the initial contracts. The Office subsequently rectified the omission by issuing contract amendments to specify the inspection schedule and per diem rates applicable for locations outside of the capital. Additional travel claims of \$18,459 were thus processed as reimbursable claims.

The poor management and administration practices followed by the Office resulted in individual contractors' Terms of Reference being inadequately scoped. These practices also resulted in multiple contract amendments due to revised deliverables and inclusion of mission travel costs.

Frequent scope amendments and additional reimbursable items in individual contracts may prevent the organization from achieving best value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Improve the management and administration of individual contracts by:	
(a) ensuring all deliverables and activities are well scoped in the Terms of Reference, and by including any anticipated mission travel costs to allow for inclusion in the financial proposal; and	
(b) launching a new competitive selection process in instances where substantive revisions to the Terms of Reference and/or revised deliverables are required.	
<b>Management action plan:</b>	
The Office will:	



- (a) Elaborate and finalize the Individual Contracts Plan for 2015-2016 by 31 July 2015. It will show all planned cases according to the approved budget and work plan and the approved Phase 2 Capacity Development Plan.
- (b) Conduct a workshop on individual contract management, not only for procurement staff, but also for the Project Manager and other programme staff (including the UNDP Capacity Development Advisor) of both UNDP and the national counterpart UNDP Programme Management Unit. This will mainly aim at strengthening participants' knowledge and understanding of standard operating procedures for the procurement of services under individual contracts. A workshop will be held by 30 September 2015.
- (c) Continuously use and update the existing individual contract repository as a management tool.

**Estimated completion date:** December 2015

## 2. Procurement of other goods and services

### Issue 3 Delays in procurement of non-health products

The Principal Recipient is required to carry out procurement activities as agreed to in the Grant Agreement and the Procurement and Supply Management Plan. Procurement processes should be timely and efficient.

The following weaknesses were noted:

- There were lengthy exchanges between the Project Management Unit and the national counterpart relating to the specifications of new laboratory and blood bank equipment procured for the first time to cover the needs of different laboratories. Since new types of medical equipment were requested for purchase, technical expertise from external experts was required to finalize the specifications. This resulted in delays from the date of the request until the competitive selection process could be launched. The delays were partly outside the control of the Office, since the Office could not proceed with the procurement unless the specifications had been cleared and signed off by the national counterpart. According to the Procurement and Supply Management Plan for November 2013 to August 2016 for Rounds 8 and 10 of the HIV grant, an amount of \$1,671,928 was planned for health equipment. Blood bank equipment purchased took 12 to 15 months from the time the items were requested to the time they were received. Various pieces of laboratory equipment, including diagnostic and chemical analyser machines, were requested in November 2013 but had not yet been received at the time of the audit fieldwork, and were therefore outstanding for 19 months. An incinerator for waste management approved for purchase in November 2012 had also not been procured at the time of the audit fieldwork, and as a result was outstanding for 29 months.
- UNDP, as the Principal Recipient, was responsible for the procurement process undertaken for the construction of 39 anti-retroviral treatment (ART) clinics valued at \$4.8 million. There were delays between 6 and 9 months in the handover of completed clinics. At the time of the audit, 38 out of 39 sites were mostly completed and equipped and UNDP shared letters of transfer with the national counterpart for signature in October 2014, January 2015 and again in April 2015, as the clinics were completed in batches. Five months after UNDP had notified the national counterpart on the completion of the ART clinics, the official clearance was still pending, dependent upon the final inspection by the national counterpart.

Delays in the handover and official clearance of the completed clinics may affect the achievement of grant objectives and may expose the Office to potential liabilities.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Collaborate with Sub-recipients to minimize procurement delays by:	
<ul style="list-style-type: none"> <li>(a) getting involved at the early stages of procurement planning with the national counterpart;</li> <li>(b) obtaining technical assistance from qualified experts in the field prior to procuring any new type of products of a technical nature; and</li> <li>(c) working closely with the national counterpart to ensure that the clearance process of the completed anti-retroviral treatment clinics is completed as soon as possible, so they can be used for grant programme activities.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office acknowledges that the request for specifications from the end-users should happen during the planning stage. The Procurement and Supply Management Plan should be submitted along with specification and distribution list/plan for approval to avoid delays during the implementation phase. The Office notes, however, that the clearance/approval of some cases might be beyond their control or even the national counterpart (e.g. incinerator), and this might result in some delays.  The Office will: <ul style="list-style-type: none"> <li>▪ conduct monthly updates on the existing Procurement Tracking Tool and this will show current status against the approved Procurement and Supply Management Plan to identify all outstanding procurement cases and actions to be taken. The Procurement Tracking Tool mainly focuses on the identification of outstanding cases, monitors status of collection of specification from end-users, of tendering process by the Global Procurement Unit and of clearance of specification by the Sub-recipient; and</li> <li>▪ gather specifications for all outstanding cases from end-users and share them with the Global Procurement Unit where applicable.</li> </ul> </li> <li>(b) The Office systematically sent notifications of handover of completed ART sites to the national counterpart within 8 to 21 days maximum after the completion and certification of the sites. UNDP also sent letters of transfer of full titles for the completed ART sites to the national counterpart in batches; however, the national counterpart appealed for a need to conduct inspections of all completed sites prior to the official handover.</li> <li>(c) After the completion and certification of the 39<sup>th</sup> ART site on 21 May 2015, the Office proceeded with the transfer of full titles of all 39 ART sites to the national counterpart, who has since inspected the sites in 8 out of 10 provinces and promised to acknowledge and take ownership of all the completed sites by the end of the month latest.</li> </ul>	
<b>Estimated completion date:</b> December 2015 (a), June 2015 (b) and (c)	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

### 3. Quality assurance of health products

#### Issue 4 Quality assurance of temperature-sensitive products not adequate

The Global Fund quality assurance policy requires that random samples of finished pharmaceutical products be obtained at different points in the supply chain and tested for compliance with the applicable quality standards by a laboratory that is accredited by WHO and certified in accordance with the International Organization for Standardization (Standard No. 17025: General requirements for the competence of testing and calibration laboratories), or one which has been contracted by the Global Fund. The product categories to be tested include temperature-sensitive products. The Office's Quality Assurance Plan stated that various types of products, including temperature-sensitive products (cold chain products) should be selected by the Procurement Unit among the products to be sampled for quality assurance testing.

The results of the quality assurance testing carried out during the period under review showed that no temperature-sensitive samples of cold chain products were sent for quality assurance testing and analysis during 2014 because the Office did not fully implement the requirements in the Quality Assurance Plan.

Inadequate implementation of the Quality Assurance Plan may lead to the inability to detect products that may have been affected by temperature variations during transportation and storage.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
Improve on the quality assurance of health products by also carrying out quality control tests of temperature-sensitive pharmaceutical products along the whole supply chain.	
<b>Management action plan:</b>	
The Office plans to elaborate on a standard operating procedure for quality control within the framework of the existing Quality Assurance Plan. Such a standard operating procedure will establish clear responsibilities of the Project Management Unit's procurement and supply chain management team members for the quality control of pharmaceutical products and it will show the flow and monitoring of the random sample collection process, as well as tests for compliance with the applicable quality standards. It will also contain a Register for Quality Control to systematically and periodically monitor the sampling and testing process and its results.	
As an interim measure, the Office plans to pick immediate samples for testing (including the temperature-sensitive samples) by 30 June 2015. The Office plans to finalize the standard operating procedure by 31 July 2015 and implement it immediately after its finalization.	
<b>Estimated completion date:</b> December 2015	

## 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.