UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP ANGOLA

GRANTS FROM THE GLOBAL FUND

Report No. 1833

Issue Date: 26 July 2017

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**Report on the Audit of UNDP Angola
Grants from the Global Fund
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 15 to 26 May 2017, conducted an audit of two grants from the Global Fund (Output Nos. 46824 and 101046 [HIV]) managed by UNDP Angola (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 January 2016 to 31 March 2017. The Office recorded Global Fund-related expenditures of approximately $5.35 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 / 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 long delays in the staffing of the Programme Management Unit and inadequate quality assurance over finished pharmaceutical products.

Key recommendations: Total = **4**, high priority = **2**

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

Long delays in the staffing of the Programme Management Unit (Issue 1)	Several positions had remained vacant for extended periods of time which, for several months, rendered the human resource capacity in the Project Management Unit (PMU) inadequate to cope with the project implementation demands. The approved PMU structure comprised of 10 posts for the period from 1 July 2016 to 30 June 2018. Out of these 10 posts, 4 posts remained vacant, ranging from 6 months to 11 months. In addition, at the time of the audit, two newly - created positions, the Logistics Assistant and a Programme Officer United Nations Volunteer, were yet to be filled. The delays were caused by the Office facing difficulties in attracting suitable candidates. The protracted filling of key positions affected the implementation of activities which created the need for an accelerated project implementation plan. Recommendation: The Office should strengthen capacity of the Programme Management Unit by (a) filling all remaining vacant positions as soon as possible; and (b) mapping and aligning the Programme Management Unit human resource capacity to the demands of the accelerated project implementation plan, and revise if needed.
Inadequate quality assurance over pharmaceutical products (Issue 4)	At the time of the audit mission, the update of the Quality Assurance Plan had not yet been finalized under the new grant on 1 July 2016. Furthermore, there had been no quality control testing of pharmaceutical products carried out since the start of the new grant. Recommendation: Improve the quality assurance of pharmaceutical products by (a) finalizing the update of the Quality Assurance Plan, in consultation with the Global Fund /Health Implementation Support Team, HIV, Health and Development Group, Bureau for Policy and Programme Support and the government partner; and (b) ensuring that quality control testing of pharmaceutical products is carried out at central level and along the supply chain and finalized as soon as possible.

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.

Brett Simpson
Officer-in-Charge
Office of Audit and Investigations

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). The table below presents the last two grants managed by the Country Office.

Grant No.	Output No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of 31 March 2017 (in $ '000)	Impl Rate	Expenditures as of 31 March 2017 (in $ '000)	Global Fund Rating at 31 March 2017
AGO-405-G03-H	46824	Reducing the burden of HIV/AIDs in Angola	1 Oct 2005	30 Sept 2014[1]	79,454	79,454	100%	545	B1
AGO-H-UNDP	101046	Strengthening the national response for the control of STI/HIV in Angola	1 Jul 2016	30 Jun 2018	25,150	14,660	58%	4,809	Not available
Totals					104,604	94,114		5,354	

II.   Audit results

Satisfactory performance was noted in the following area:

(a)   <u>Financial Management</u>: The review of a sample of payments did not give rise to any reportable findings and payments had adequate supporting documents. Reporting to the Global Fund Secretariat was done according to the stipulated deadlines.

OAI made two recommendations ranked high (critical) and two 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:
(a)   Improve the quality assurance of pharmaceutical products. (Recommendation 4).
(b)   Strengthen capacity of the Programme Management Unit. (Recommendation 1).

Medium priority recommendations, arranged according to significance:
(a)   Follow up with Global Fund and obtain feedback on the Enhanced Financial Report and subsequently finalize the closure of the Round 4 HIV grant. (Recommendation 2).
(b)   Finalise the contracting of Sub-recipients and accelerate the implementation of the Sub-recipient activities to make up for the delay. (Recommendation 3).

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[1] The Round 4 HIV grant under the Transitional Funding Mechanism (TFM) officially ended on 30 September 2014. A close out plan was approved for the close out period from 1 October 2014 to 31 December 2015. The Office was to continue implementation of quality assurance activities and some sub-recipient activities that had been delayed and to carry out emergency procurement of ARVs to cover the period from June to December 2015. The close out period was extended until 30 June 2016 by the Global Fund in their implementation letter 13. During the first semester of 2016, a six-month transition plan was developed and approved.

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1   Long delays in the staffing of the Programme Management Unit

For the proper management of Global Fund grants, all key positions in the Programme Management Unit (PMU) need to be filled on a timely basis. UNDP as Principal Recipient is expected to put in place adequate staffing capacity to achieve the projects' objectives and performance targets.

For several months, the human resource capacity in the PMU was inadequate to cope with the project implementation demands due to vacancies in a number of positions. The approved PMU structure comprised of 10 posts for the period 1 July 2016 to 30 June 2018. Out of these 10 posts, 4 posts remained vacant for extended periods. These included the key position of Project Coordinator that had been vacant for 6 months, 1 Finance Associate that had been vacant for 10 months, 1 senior Monitoring and Evaluation Associate that had been vacant for 10 months, and 1 driver position that had been vacant for 11 months. At the time of the audit, two newly - created positions, Logistics Assistant and Programme Officer - United Nations Volunteer, had yet to be filled. The delays were caused by the Office facing difficulties in attracting suitable candidates with the required competencies and skills.

The protracted filling of key positions affected the implementation of activities which created the need for an accelerated project implementation plan. Specifically, activities in year 1 that were delayed would be reprogrammed to year 2, which would be implemented with the original activities planned.

There is a risk that project implementation may be further delayed, if human resource capacity needs in the Programme Management Unit are not addressed in a timely manner.

Priority	High (Critical)
Recommendation 1: The Office should strengthen capacity of the Programme Management Unit by: (a) filling all remaining vacant positions as soon as possible; and (b) mapping and aligning the Programme Management Unit human resource capacity to the demands of the accelerated project implementation plan, and revise if needed.	
Management action plan: The Logistics Assistant position has been filled as of 5 June 2017. As far as the national United Nations Volunteer position is concerned, it will not be possible to move forward with the recruitment for the following reasons: absence of a national United Nations Volunteer system in Angola and confirmation by the Global Fund on 14 June 2017 of its unwillingness to fund additional positions. Therefore, the Programme Management Unit staffing is considered closed as of 14 June 2017, as per correspondence from the Global Fund.	

To align the Programme Management Unit human resource capacity to the demands of the accelerated project implementation plan, the Office has requested Global Fund approval for the reallocation of savings to quarterly technical support visits by other UNDP staff to the Programme Management Unit. These visits will focus on strengthening the programme, monitoring & evaluation, capacity within the Programme Management Unit as well as the financial management capacity. Specific Terms of Reference will be developed for each visit to ensure that the visits adequately respond to the needs of the Programme Management Unit.

A first financial management visit has already occurred in May 2017. A second is planned for 24 July – 4 August. Technical assistance providers will be drawn from UNDP's pool of experienced Global Fund Programme Management Unit staff, which ensure access to expertise at a minimal cost.

The Programme Management Unit also plans to recruit a consultant to help execute its Quality Assurance Plan.

Estimated completion date: March 2018

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

B.	Programme management

Issue 2 <u>Delay in the closure of the Round 4 HIV grant</u>

According to the Global Fund Operational Policy Manual, the procedure for closure of grants due to consolidation (i.e. closure of grants as a result of a consolidation with a new grant or another ongoing grant implemented by the same Principal Recipient) is lighter than other closure types. In this case, closure of the existing grant should be planned as part of new grant making. No separate closure plan and budget is required and the indicative period for closure of the old grant is six months after the end of the grant.

The Round 4 HIV grant under the Transitional Funding Mechanism officially ended on 30 September 2014. A close-out plan was approved for the close-out period from 1 October 2014 to 31 December 2015, which was subsequently extended through 30 June 2016.

As part of the grant closure reporting, the Office submitted an Enhanced Financial Report covering the relevant period but the opening balance didn't agree with the previously reported closing balance.   The Global Fund agreed with all the reconciling items except for one amounting to $831,125. According to the Office, this amount pertained to reimbursement to UNDP for Global Fund related expenses incurred during the period 2010 – 2012. The Global Fund did not have a record of the approval for the expenditure and requested the Office to provide evidence of approval; however, this could not be provided by the Office.

The Global Fund decided to conduct a verification of the expenditures in question. At the time of the audit mission, the Global Fund Local Fund Agent had just carried out the verification and the Office was waiting for feedback from the Global Fund.

The delay in the closure of the closed grant may result in cash balances from the closed grant not being made available for use in the new/continuing grants on a timely basis and thus not being put to productive use as planned.

Priority	Medium (Important)
Recommendation 2: The Office should follow up with Global Fund and obtain feedback on the Enhanced Financial Report, and subsequently finalize the closure of the Round 4 HIV grant.	
Management action plan: As of 12 July 2017, the final revised Enhanced Financial Report, together with the Combined Delivery Report and Cash Balance were submitted to the Global Fund. The Global Fund has acknowledged receipt and indicated that they will revert following a review of the Office´s submission. The Office will follow up closely with the Global Fund and ensure prompt closure of Round 4 HIV grant in Atlas and transfer of funds. **Estimated completion date:** July 2017	
OAI response: OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

C.   Sub-recipient management

Issue 3   Delay in contracting Sub-recipients

According to the agreement signed with the Global Fund, UNDP as the Principal Recipient may work with other organizations and engage them as Sub-recipients in the implementation of the Global Fund programme. The approved grant agreement states that Sub-recipients were supposed to start implementation at the start of the grant.

At the time of the audit mission in March 2017, the Office had only contracted two Sub-recipients. The Office intended to contract one Sub-recipient to implement the sex-workers component and five to six Sub-recipients to implement the community component of the grant in order to achieve adequate geographic and technical coverage.

For the implementation of the community component of the grant, the Office received 14 applications after re-advertising the Request for Proposal. At the time of the audit mission, the Office was in the process of vetting the proposals and was planning to finalise the process over the next four weeks.

The delay in contracting Sub-recipients led to a delay in the implementation of activities by the Sub-recipients, which may negatively affect future funding by the Global Fund.

Priority	Medium (Important)
Recommendation 3: The Office should finalise the contracting of Sub-recipients and accelerate the implementation of the Sub-recipient activities to make up for the delay.	

Management action plan:

The number of Sub-recipients under the community component was not set in the Concept Note, nor in the grant workplan/budget. Rather, a lump sum of $768,000 was allocated to the "community component". When the Request for Proposals was issued in late 2016, beginning of 2017, the idea was to recruit one single Sub-recipient. Currently, the Office is negotiating with the Global Fund the possibility of allocating more funding so that there can be more Sub-recipients under this component.

For the sex workers component, the request for direct contracting of the Sub-recipient was submitted to and received by the Regional Advisory Committee on Procurement on 28 June 2017 and their comments were received on 10 July 2017.

As far as the community component is concerned, eight pre-selected Non-Governmental Organizations were notified of their pre-selection on 31 May 2017 and invited for a UNDP training of Sub-recipient Financial Reporting held on 5 June 2017, in order to take advantage of the presence of the Health Implementation Support Team Finance Specialist in the Country. On 16 June 2017, the same eight pre-selected Non-Governmental Organizations were requested to conduct a self-assessment using a tool especially designed for community-based organizations working on community mobilization for HIV.

After the completed self-assessment questionnaires were received (23 June 2017), capacity assessment visits were conducted by the UNDP Programme Management Unit team in order to ascertain the information contained in the tools. The next steps include 1) confirmation of the availability of additional funding by the Global Fund, through the "Proposed Reallocations submission, 2) Contracts, Assets and Procurement review committee submission, 3) signature of Sub-recipient agreements and 4) disbursement for the July – September 2017 period.

Estimated completion date: July 2017

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

D.	Procurement and supply management

Issue 4   Inadequate quality assurance over pharmaceutical products

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 carried out and that random samples of finished pharmaceutical products are obtained at different points in the supply chain, from initial receipt into the country to delivery to the 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' of a laboratory contracted by the Global Fund. In addition, the Office should have an up-to-date quality assurance plan that specifies the quality control activities that need to be implemented.

At the time of the audit mission, there had been no quality control testing of pharmaceutical products carried out since the start of the new grant on 1 July 2016, either upon receipt in the Country at the central level or along the supply chain. The Office indicated that samples were selected from the central warehouse on 25 May 2017, which would be sent to the laboratory for testing.

Furthermore, at the time of the audit mission, the update of the Quality Assurance Plan had not yet been finalized under the new grant.

By not carrying out testing of finished pharmaceutical products, it may lead to the distribution and use of non-compliant products. Furthermore, failure to maintain an updated Quality Assurance Plan may lead to implementation of inadequate quality assurance activities

Priority	High (Critical)
Recommendation 4: The Office should improve quality assurance of pharmaceutical products by: (a) ensuring that quality control testing of pharmaceutical products is carried out at central level and along the supply chain, and finalized as soon as possible; and (b) finalizing the update of the Quality Assurance Plan, in consultation with the Global Fund /Health Implementation Support Team, HIV, Health and Development Group, Bureau for Policy and Programme Support and the government partner.	
Management action plan: Following the initial samples taken on 25 May 2017, sampling and quality control testing will from now on be carried out at central and along the supply chain. The final draft of the Updated Quality Assurance Plan has been shared with Bureau for Policy and Programme Support/Procurement Support Office on 3 July 2017 and is currently under review. The government partner has been consulted throughout the process of updating the Plan. The Plan guarantees the involvement of the government partner during its implementation.	

Estimated completion date: July 2017

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

▪ **Satisfactory**

The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Some Improvement Needed**

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.

▪ **Partially Satisfactory / Major Improvement Needed**

The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

▪ **Unsatisfactory**

The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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 <u>not included in this report</u>.