

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



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP GUINEA-BISSAU**

**GRANTS FROM THE GLOBAL FUND**

**Report No. 1926**  
**Issue Date: 25 January 2019**

## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. Profile of Global Fund grants managed by UNDP Guinea-Bissau</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Governance and strategic management</b>	<b>2</b>
1. Organizational structure	2
2. Risk management	3
3. Capacity development and transition strategy	4
<b>B. Programme management</b>	<b>5</b>
1. Project approval and implementation	5
<b>C. Sub-recipient management</b>	<b>7</b>
1. Selection, assessment and contracting	7
2. Financial and programmatic activities	8
<b>D. Procurement</b>	<b>10</b>
1. Quality assurance of health products	10
2. Asset management	11
3. Individual contractors	11
<b>E. Financial management</b>	<b>13</b>
1. Expenses	13
<b>Definitions of audit terms - ratings and priorities</b>	<b>15</b>

## Report on the Audit of UNDP Guinea-Bissau Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 5 to 16 November 2018, conducted an audit of five grants from the Global Fund (Output Nos. 93628 [HIV], 99429 [Malaria], 103029 [TB Procurement], 107168 [Malaria], and 107344 [TB/HIV Procurement & Capacity Building]) managed by UNDP Guinea-Bissau (the Office) as the Principal Recipient or Procurement Agent. 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, risk management, staffing and performance management, capacity development and transition strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- (d) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and
- (e) financial management (revenue and accounts receivable, expenses, reporting to the Global Fund, Fund Administrator Role).

The audit covered the Global Fund-related activities of the Office from 1 January 2017 to 30 June 2018. During this period, the Office recorded Global Fund-related expenses of approximately \$15.6 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2016.

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/major improvements needed**, which means "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." This rating was mainly due to weaknesses in supply chain management.

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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.

**Key recommendations:** Total = **10**, high priority = **1**

The 10 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2	Medium
	3	High
Reliability and integrity of financial and operational information	6, 10	Medium
Effectiveness and efficiency of operations	1, 4	Medium
Safeguarding of assets	8	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	5, 7, 9	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. The high (critical) priority recommendation is presented below:

Weaknesses in supply chain management (Issue 3)

The Office had not documented a comprehensive plan for the construction of a warehouse, including the steps, milestones, phased budgets and risk matrix. The funding of the construction had not been secured, and it depended on grant savings and the potential mobilization of additional resources. At the time of the audit, the construction of the new warehouse was delayed for more than 11 months.

The procurement of a new inventory management system was delayed because an external consultant did not provide information on what functionality was required, initiated the procurement process without involvement of the Procurement Unit, and did not disclose that he was a former Director for the vendor promoted by him.

Recommendation: The Office should improve controls over supply chain management by: (a) establishing and documenting the construction project work plan with deliverables and milestones, including a risk matrix and monitoring logs; and (b) complying with UNDP policies and procedures for vendor selection, including sourcing, evaluation of candidates, and contract management carried out by the UNDP Procurement Unit and disclosing, when necessary, any instances of conflicts of interest.

**Implementation status of previous OAI audit recommendations:** Report No. 1735, 16 December 2016

Total recommendations: 6

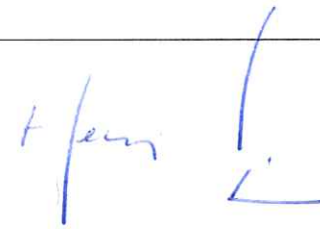
Implemented: 6

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**Management comments and action plan**

The Resident Representative a.i., accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink is enclosed in a black rectangular box. The signature is stylized and appears to read 'H. Ostveiten'.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. Profile of Global Fund grants managed by UNDP Guinea-Bissau

Since 2016, UNDP has been the Principal Recipient of Global Fund grants in Guinea-Bissau (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 June 2018 (in \$ '000)	Implementation Rate In %	Expenses as of 30 June 2018 (in \$ '000)	Global Fund Rating as of 30 June 2018
GNB-HIV-SNLS NFM	93628	HIV Procurement & Capacity Building NFM	Jan-16	Dec-17	2,987	4,046	<b>74</b>	2,991	B1
GNB-M-UNDP NFM	99429	Fight Against Malaria NFM	Apr-16	Dec-17	18,555	16,198	<b>65</b>	10,607	B1
GNB-TB-MOH NFM	103029	TB Procurement & Capacity Building	Jan-16	Dec-17	708	740	<b>95</b>	700	B1
GNB-M-UNDP NFC	107168	Fight Against Malaria NFC	Jan-18	Dec-20	18,098	7,071	<b>17</b>	1,227	A2
GNB-C-MOH NFC	107344	TB-HIV Procurement & Capacity Building NFC	Jan-18	Dec-20	7,556	5,565	<b>1</b>	47	B1

## II. Audit results

Satisfactory performance was noted in the following areas:

- Programme management/Monitoring and evaluation: Controls were established and working properly.
- Procurement and supply management/Procurement of health products: Controls were well established and working effectively. Health products were procured through Long Term Agreements.

OAI made one recommendation ranked high (critical) and nine 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 recommendation:

- Improve controls over supply chain management (Recommendation 3).

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

- Link Global Fund projects to the Office's strategic priorities (Recommendation 1).
- Strengthen the risk management process (Recommendation 2).
- Strengthen project set-up and implementation (Recommendation 4).
- Improve the selection, assessment and contracting of Sub-recipients (Recommendation 5).
- Strengthen oversight over financial and programmatic activities of Sub-recipients (Recommendation 6).

- (f) Strengthen quality control testing (Recommendation 7).
- (g) Improve asset management (Recommendation 8).
- (h) Improve individual contract management (Recommendation 9).
- (i) Strengthen payment processes (Recommendation 10).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Organizational structure

#### Issue 1 Global Fund projects not linked to Office priorities

The Integrated Work Plan establishes annual programmatic and operational priorities and outlines what Country Offices plan during the year in response to corporate priorities as well as other country-specific priorities.

The Global Fund Programme Management Unit operated in a silo structure and separate from the rest of the Office in terms of programmatic arrangements. It did not identify the Global Fund grants as part of its organizational priorities or risk management. The outputs were not linked to the Strategic Plan in Atlas (enterprise resource planning system of UNDP), which prevented the Office from reporting on important results that had been achieved by the Global Fund projects. This set-up did not allow for effective oversight, which could have detected and timely addressed weaknesses in financial management and supply chain management.

Staff members within the Programme Management Unit were assigned conflicting roles and access rights within Atlas. For instance, two staff members were both assigned level 1 and level 2 manager roles without having received the appropriate delegations of authority, as required by the Internal Control Framework.

These weaknesses were caused by the set-up of the Global Fund projects and ineffective oversight. The set-up could hinder the effective management of Global Fund projects.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should link Global Fund projects to the Office's strategic priorities by:	
<ul style="list-style-type: none"> <li>(a) including the management of the Global Fund grants and its challenges in the Integrated Work Plan and organizational priorities; and</li> <li>(b) exercising effective oversight over project activities and operations, including review of Atlas profiles, and ensuring the segregation of duties.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Global Fund projects will be linked to the Country Programme Document during the upcoming mid-term review in 2019.</li> </ul>	

- (b) Oversight of the Programme Management Unit will be strengthened from programmatic, financial, and procurement perspectives, including regular reviews of Atlas profiles to ensure the proper segregation of duties.

**Estimated completion date:** December 2019

## 2. Risk management

### Issue 2 Ineffective risk management process

Effective risk management supports good governance and provides reasonable assurance that:

(a) significant risks are identified and monitored; (b) risk mitigating measures are well designed and managed; and (c) objectives, as set out in the organization's Strategic Plan are achieved. The Integrated Work Plan (at the strategic level) and the Atlas system (at the project level) create a framework for effective risk management.

A review of the risk management process identified the following weaknesses:

(a) Global Fund risks not captured in the Office's Integrated Work Plan

Neither the 2017 nor the 2018 Integrated Work Plan identified strategic risks specific to the management of the Global Fund grants. Critical areas, such as managing the decreasing Global Fund budget, taking responsibility for the procurement agent role of the TB/HIV grant as well as the accountability for health system strengthening, managing the lack of resources to finance the construction of the new central warehouse, and managing the weak human resources capacity, had not been identified as critical risks in the Integrated Work Plan and could have impacted the achievement of objectives. The Office explained that these risks had been considered, though not formalized and captured in a risk register.

Without effective risk management and the regular monitoring and updating of risks in Atlas, there is limited assurance that critical risks to project implementation will be adequately captured and mitigated.

(b) Weak risk management framework at the project level

Risk identification was not efficient to capture the most important risks that impact the organization's ability to achieve its objectives. The project documents, including risk registers, were not being updated regularly and were not incorporated in Atlas. Risk formulation was neither specific nor adequate. The risk mitigation measures were not sufficiently elaborated and lacked details. The Office reported that risks and risk mitigating actions were reviewed on a semi-annual basis, but not always adequately and not always timely reflected in Atlas.

While the audit team acknowledged that the Office had taken several risk mitigating actions, this approach was not sufficiently structured into a risk management framework with clearly defined steps and actions to mitigate financial and reputational risks in operating in a challenging and complex environment.



These issues were caused by a lack of effective oversight and a lack of risk management procedures. Without a proper risk management and monitoring mechanism, the Office may not act or make decisions on a timely basis to mitigate risks and address issues, which could negatively impact the achievement of its objectives.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should strengthen its risk management process by:	
<ul style="list-style-type: none"> <li>(a) identifying and capturing strategic risks pertaining to the management of the Global Fund grants in its Integrated Work Plan; and</li> <li>(b) managing project risks in Atlas, ensuring risk formulation is specific and adequate, and ensuring mitigation actions are assessed through the lifespan of the grants to enable prompt decisions based on achieved results.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) As part of the Country Programme Document Outcome Evaluation and the new Results Oriented Analysis Report, the Global Fund grant project is now integrated into the Country Programme Document and the risks will be identified in the Integrated Work Plan.</li> <li>(b) The Office will implement the audit recommendation.</li> </ul>	
<b>Estimated completion date:</b> December 2019	

### 3. Capacity development and transition strategy

#### Issue 3 Weaknesses in supply chain management

Due to the possible diversion of health products and their potential sale in private pharmacies, the Global Fund issued a series of preventive and corrective actions aimed at addressing the weaknesses in supply chain management. Among other things, the Office was to switch from a paper/Excel based system to an enterprise resource planning (ERP) system, and build a new warehouse with better standards starting in December 2017.

The review of the supply chain activities disclosed weaknesses in preventive and corrective actions. The following weaknesses were noted:

(a) Delays in construction project

The Office had not documented a comprehensive plan for the construction of the warehouse, including the steps, milestones, phased budgets and risk matrix. The funding of the construction had not been secured, and it depended on grant savings and the potential mobilization of additional resources.

At the time of the audit, the construction of the new warehouse was delayed for more than 11 months. The Office explained that the construction faced many challenges, which led to shifting the strategy from construction to the acquisition of a Warehouse In a Box (WIB) to deliver a basic infrastructure for a

warehouse. While the WIB was delivered in March 2018, the restoration of the selected building for the warehouse and the procurement process for other goods had not been completed.

(b) Delays in the procurement of new inventory management system

The procurement of a new inventory management system was delayed because an external consultant did not provide information on what functionality was required, initiated the procurement process without involvement of the Procurement Unit, and did not disclose that he was a former Director for the vendor promoted by him.

Implementation weaknesses were caused by ineffective oversight, creating risks in controls over supply chain management.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
The Office should improve controls over supply chain management by:	
<ul style="list-style-type: none"> <li>(a) establishing and documenting the construction project work plan with deliverables and milestones, including a risk matrix and monitoring logs; and</li> <li>(b) complying with UNDP policies and procedures for vendor selection, including sourcing, evaluation of candidates, and contract management carried out by the UNDP Procurement Unit and disclosing, when necessary, any instances of conflicts of interest.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will establish and document the construction project work plan with deliverables and milestones including a risk matrix and monitoring logs by June 2019.</li> <li>(b) Vendor selection, including sourcing, evaluation of candidates, and contract management to systematically involve the UNDP Procurement Unit, and disclose when necessary any instances of conflicts of interest, effective January 2019.</li> </ul>	
<b>Estimated completion date:</b> December 2019	

## B. Programme management

### 1. Project approval and implementation

#### Issue 4 Weaknesses in project set-up and implementation

UNDP uses Atlas as the corporate system to track project information and expenses. Up-to-date project information is crucial to ensuring accurate reporting on the performance of the project. Adequate project performance allows timely decision-making to address delivery challenges.

The audit disclosed the following:

(a) Inadequate project set-up and reporting in Atlas

The New Funding Model grant projects were incorrectly recorded as “Ongoing” even though all operational activities had been completed. In addition, five Global Fund outputs were incorrectly set up as management projects. Project risk logs for two grants were entered in September and October 2018, 9 to 10 months into the implementation phase. None of the risks had an associated management response. Project results were not reported for the first three quarters of 2018.

(b) Low and inadequately managed absorption rates

Four Sub-recipients had low absorption rates of 6, 34, 42 and 53 percent as of September 2018. The New Funding Model grants had an absorption rate of 83 percent as of 31 December 2017 due to the delay in reprogramming savings. As of 30 September 2018, the new TB/HIV and Malaria grants had an absorption rate of 24 and 122 percent, respectively. The high absorption rate was caused by the frontloading into 2018 of procurement activities pertaining to 2019 and 2020.

The Office explained that the supporting documentation for the justification of advances to two Sub-recipients was pending validation, and was expected to improve the absorption rate at year end.

Weaknesses in project set-up and absorption rates were caused by an inadequate oversight mechanism and the ineffective use of Atlas as a project management tool. These weaknesses could mislead decision-making on grant implementation and fund allocation.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should strengthen project set-up and implementation by:	
<ul style="list-style-type: none"> <li>(a) setting up the Global Fund projects correctly as development projects and updating their status as operationally or financially closed in Atlas depending on their actual status;</li> <li>(b) completing risk logs, issue logs and monitoring logs in Atlas, as well as management responses to allow accurate reporting; and</li> <li>(c) taking additional measures to optimize delivery and continue its regularly follow up with the Sub-recipients for timely submission of expense reports.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) Global Fund projects will be correctly set up as development projects (following the mid-2019 Mid Term Review by September 2019).</li> <li>(b) Risk logs, issue logs, monitoring logs and management responses in Atlas will be completed in addition to their inclusion into mandatory Global Fund reporting via Progress Update and Disbursement Requests (March 2019).</li> <li>(c) The Office will implement the audit recommendation.</li> </ul>	
<b>Estimated completion date:</b> December 2019	

## C. Sub-recipient management

### 1. Selection, assessment and contracting

#### Issue 5 Weaknesses in selection and contracting of Sub-recipients

After a grant is signed, a capacity assessment should be completed for all Sub-recipients prior to contracting them and, as necessary, a capacity development plan should be developed to bridge identified gaps. Additionally, a Local Project Appraisal Committee (LPAC) meeting must be held to validate, among other things, the selection of the Sub-recipients based on the results of the capacity assessment.

The Office contracted four Sub-recipients for the two grants. The review of the selection, assessment and contracting of the Sub-recipients indicated several shortcomings, as follows:

(a) Capacity assessment not reviewed by the LPAC

The LPAC did not review Sub-recipients because the LPAC meeting took place prior to the capacity assessment of the Sub-recipients. While the Sub-recipients were named in the minutes of LPAC meeting, there was no evidence that they were reviewed along with the results of the capacity assessment.

(b) Use of non-standard capacity assessment tool

The Office did not use the standard capacity assessment tool for the Sub-recipients. While a risk assessment of Sub-recipients was undertaken, it did not align with UNDP Global Fund project practices (use of the capacity assessment tool) and did not attribute an overall risk rating for the Sub-recipients. Critical areas, including financial management, procurement, logistics and information management, or comparative advantage of the Sub-recipients, were not assessed. The audit team visited a Sub-recipient and noted significant weaknesses in financial management, warehouse management, storage conditions and procedures for disposal of expired health products. These weaknesses should have been captured in the capacity assessment to draft a capacity development plan to bridge the gap.

(c) Capacity assessment undertaken after contracting the Sub-recipient

The capacity assessment for one Sub-recipient took place on 19 March 2018, after the Sub-recipient agreement had been signed on 12 January 2018, which is contrary to the policies.

The misunderstanding of policies and inadequate oversight contributed to the exceptions observed. Weaknesses in the selection and contracting of Sub-recipients engaged by the Office may result in the inefficient use of project resources, which may have a negative impact on the achievement of objectives.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
The Office should improve the selection, assessment and contracting of Sub-recipients for future grants by:	
<ul style="list-style-type: none"> <li>(a) conducting a comprehensive capacity assessment using a standard capacity assessment tool of all Sub-recipients, which should be validated during the Local Project Appraisal Committee meeting;</li> <li>(b) developing and implementing an action plan to improve weak areas identified in capacity assessments; and</li> <li>(c) performing capacity assessments prior to contracting Sub-recipients.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will implement this recommendation for future grants awarded to UNDP.</li> <li>(b) The capacity development plan was drafted in line with the outcome of the Sub-recipient audits in 2017, and its implementation will be monitored monthly. Concomitantly, the assurance plan has been integrated in the quarterly Sub-recipient progress report templates for regular monitoring.</li> <li>(c) The Office will implement this recommendation for future grants awarded to UNDP.</li> </ul>	
<b>Estimated completion date:</b> December 2019	

## 2. Financial and programmatic activities

### Issue 6 Ineffective monitoring of financial and programmatic activities

According to the standard Sub-recipient agreements, all Sub-recipients are required to provide quarterly programmatic and financial reports. In addition, capacity assessments and micro-assessments of Sub-recipients determine their risk level and dictate the cash transfer modality commensurate with their capacity and risk ratings. Finally, audit recommendations by external auditors of the Sub-recipients should only be considered implemented when supporting evidence has been validated by the Office.

The review of Sub-recipients' financial and programmatic activities disclosed the following shortcomings:

#### (a) Delays in submitting mandatory reports

For the first quarter of 2018, two out of four Sub-recipients submitted their mandatory reports with delays of up to three months. The remaining two Sub-recipients did not submit the required reports to the Office. For the second quarter of 2018, one Sub-recipient submitted its reports on time, and another one submitted its reports with a two-month delay. The remaining two Sub-recipients had not submitted their reports. The lack of timely report submissions did not allow the Office to efficiently and timely follow up on weaknesses in the Sub-recipient reports.

Neither of the two Sub-recipients that received cash advances had provided quarterly financial reports in the form defined in the Sub-recipient agreements. They provided a Funding Authorization and Certificate of Expenditures (FACE) form to report on the expenditures incurred, whereas a quarterly

financial report including a variance analysis was required according to the signed Sub-recipient agreement.

(b) Advances not commensurate with Sub-recipient risk level

Two advances amounting to \$1.8 million were paid to one Sub-recipient even though the Sub-recipient did not demonstrate sound financial management capability in its capacity assessment. Despite its weak financial management as reported by the Office, the Sub-recipient was still entrusted with large cash advances that were not aligned with its quarterly work plan. Consequently, it had to refund \$600,000 out of an advance of \$1.4 million, or 42 percent, after six months.

(c) Audit recommendations implemented without supporting evidence

The annual audit of the Sub-recipients by external auditors in 2018 provided a qualified opinion based on the absence of supporting documentation for an advance amounting to \$89,577. The Office assessed this recommendation as implemented without reviewing and validating the required supporting evidence. Additional audit recommendations were also assessed as implemented even though the underlying causes, such as reporting delays, had not been addressed.

Weaknesses in monitoring financial activities were caused by an ineffective oversight mechanism. Without timely financial and programmatic reports, the monitoring of Sub-recipient activities may not be efficient, and delays in the implementation of activities may not be timely detected and addressed. In addition, advances not aligned with risk ratings could lead to the loss of funds. Furthermore, inadequate assessments of audit recommendations could lead to not undertaking appropriate actions to address root causes.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should strengthen oversight over financial and programmatic activities of Sub-recipients by:	
<ul style="list-style-type: none"> <li>(a) ensuring that Sub-recipients submit their mandatory reports in a timely manner and making recommendations to allow for performance improvements;</li> <li>(b) providing advances to Sub-recipients based on their risk assessments and quarterly work plans; and</li> <li>(c) reviewing and validating supporting documentation prior to updating Sub-recipient audit recommendations.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) Effective January 2019, the Office will continue to follow up with Sub-recipients, as follows: <ul style="list-style-type: none"> <li>i. Monthly review meetings of the implementation of audit recommendations (summary table of follow-up actions and minutes of the meeting).</li> <li>ii. Continuous coaching to ensure the smooth implementation, quality of internal processes and Sub-recipient progress reporting within 15-21 days of end of the quarter.</li> <li>iii. Quarterly programmatic and financial review of implementation progress.</li> <li>iv. Quarterly management letters to Sub-recipients acknowledging the status of implementation, successes and issues to be addressed within defined timeframes.</li> </ul> </li> </ul>	

- (b) Advances will be granted according to the FACE procedures, and thus in accordance with the risk assessment of the Sub-recipients and their respective work plan effective January 2019.
- (c) A system is already in place for the verification and validation of supporting documents. To strengthen this system from January 2019, a working session with the Sub-recipients concerned will be held 15 days before the end of the quarter in view of:
  - i. Updating budget implementation (budget tracking).
  - ii. Providing support for the preparation of the new request (FACE procedure).

**Estimated completion date:** December 2019

## D. Procurement

### 1. Quality assurance of health products

#### Issue 7 Delays in quality control tests

The 'Global Fund Quality Assurance Policy for Pharmaceutical Products' requires Principal Recipients to ensure that product testing is carried out and random samples of finished pharmaceutical products are obtained at different points in the supply chain. Samples must be tested for compliance with applicable quality standards by a WHO pre-qualified laboratory, or a laboratory accredited in accordance with ISO Standard 17205, or a laboratory contracted by the Global Fund.

At the time of the audit, there had been no quality control testing of pharmaceutical products since the start of the new grant. The 2018 testing samples were sent to the laboratory only following OAI's inquiry.

Failing to timely test health products at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patient lives and the reputations of the facilities and UNDP at risk.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
The Office should strengthen its quality control testing by timely testing health products at least twice a year.	
<b>Management action plan:</b>	
The implementation of the 2019-2020 Quality Control sampling and testing plan will be strengthened, through its review and commensurate update, contingent on the revised procurement plan, in accordance with the National Procurement and Supply Management Committee approved Quality 2017-2020 Assurance Plan.	
<b>Estimated completion date:</b> June 2019	

## 2. Asset management

### Issue 8 Inadequate management of assets under custody of Sub-recipients

According to the standard terms and conditions of the agreement signed with the Global Fund, UNDP is ultimately responsible for all assets procured using the grant funds. Where UNDP procures assets on behalf of a government Sub-recipient and transfers title of those assets to that Sub-recipient, it must ensure that all assets are used for programme activities, unless specifically agreed otherwise with the Global Fund.

During the audit period, the government Sub-recipient had not reported on the assets transferred and did not provide validation of the existence and condition of assets under its custody. There was no evidence of asset verification during the monitoring visits conducted by the Office. At the time of the audit, the value of assets transferred to the Sub-recipients could not be estimated. Furthermore, a total of six laptops and two vehicles purchased for approximately \$76,000 in 2018 were not recorded in Atlas.

Inadequate reporting of assets held by the Sub-recipients and incomplete asset records in Atlas could lead to the misuse or loss of assets.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>	
The Office should improve asset management by:	
<ul style="list-style-type: none"> <li>(a) establishing periodic reporting of assets, including assets in Sub-recipients' custody, and validating assets during planned and ad hoc visits to Sub-recipient facilities; and</li> <li>(b) making necessary adjustments to record in Atlas all laptops and vehicles acquired in 2017 and 2018.</li> </ul>	
<b>Management action plan:</b>	
The Office will take the following actions:	
<ul style="list-style-type: none"> <li>(a) Establish periodic reporting of assets, including assets in Sub-recipient's custody, which will be introduced in the quarterly programmatic and financial reporting starting with Q1 2019. Validating assets during planned and ad hoc visits to Sub-recipient facilities will be instituted as of April 2019.</li> <li>(b) Necessary adjustments to record in Atlas all laptops and vehicles acquired in 2017 and 2018 will be made as of Q1 2019, effective April 2019.</li> </ul>	
<b>Estimated completion date:</b> June 2019	

## 3. Individual contractors

### Issue 9 Weaknesses in management of individual contracts

Individual contractors should be selected according to general procurement principles established by the 'UNDP Financial Regulations and Rules', namely, best value for money, fairness, integrity and transparency, effective



competition, as well as the interests of UNDP. The policy stipulates that for contracts over \$5,000, a minimum of three qualified offers must be considered.

During the audit period, the Office recruited 20 individual contractors. The audit team noted the following weaknesses in the selection processes of 11 individual contractors:

- In four cases amounting to \$87,000, the Office did not demonstrate a competitive process and value for money by selecting at least three qualified candidates, as required by the policies.
- In one case, the individual consultant drafted the terms of reference for a consultancy that was later assigned to him.
- The Office did not use a daily rate scale based on rates prevailing within the Country for both national and international individual contractors. In two cases, the consultants received more than what they requested in their financial propositions. The Office commented that several individual contractors were recruited for similar roles and they attempted to offer the same rates. However, this practice did not comply with the procurement principles for individual contractors.
- For one contract of \$245,468, the Office paid a monthly lump sum amount to the contractor, which was not indexed to specific and measurable (qualitative and quantitative) deliverables as specified in the terms of reference.

Most of the issues noted above were due to inadequate planning from the project units and the lack of adequate oversight mechanisms.

By not complying with individual contractor guidelines, there is no assurance that the most qualified candidates will be selected at the best value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 9:</b>	
The Office should improve individual contract management by:	
<ul style="list-style-type: none"> <li>(a) complying with UNDP policies and procedures for individual contractor recruitment and management, including selecting a minimum of three qualified offers or demonstrating due diligence in cases where there are less than three qualified candidates;</li> <li>(b) establishing a local and international rating scale for individual contractors; and</li> <li>(c) providing appropriate procurement awareness trainings to Programme Management Unit staff involved in the recruitment of individual contractors.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will comply with the individual contractor guidelines.</li> <li>(b) The scale for the local rates will be updated by end of the third quarter of 2019.</li> <li>(c) Appropriate procurement awareness trainings will be conducted for Programme Management Unit staff involved in the recruitment of individual contractors.</li> </ul>	
<b>Estimated completion date:</b> December 2019	

## E. Financial management

### 1. Expenses

#### Issue 10 Weaknesses in financial management processes

The 'UNDP Programme and Operations Policies and Procedures' stipulate that FACE form requests must be authorized by the programme manager, and an account payable voucher must be raised upon the receipt of goods and services and the presentation of a vendor's invoice. Furthermore, project cash advances must be closed and fully accounted for actual expenses within 30 days from the date the advance is issued. In addition, for any single project cash advance requirement higher than \$25,000, the Office must send the request to the UNDP Treasurer for approval.

The audit team reviewed supporting documents pertaining to 30 accounts payable vouchers for a total of \$5.38 million, and noted the following weaknesses:

#### (a) Inadequate payment processes

- In three cases amounting to \$1.5 million, the FACE form requests from national partners were not approved by the programme manager to confirm reasonableness and consistency with programme activities, but instead were approved by the Deputy Resident Representative.
- In two cases amounting to \$110,000, the notes for delivery were not received to confirm the receipt of goods, yet payments were made by the Office.
- There were prepayments amounting to \$324,026 for pharmaceuticals which were not all received in 2017. However, the Office did not reduce the prepaid asset balance as the goods or services were provided, and an expense was not recorded for goods or services received by UNDP. The Office kept the prepayment amount open until all the goods ordered were received.

#### (b) Inadequate management of cash advances to staff

In four cases amounting to \$70,000, project cash advances to staff were not closed and fully accounted for at the end of the project activity. In two cases where cash advances to staff were awarded above the \$25,000 threshold, the Office did not request the required authorization from UNDP Treasury as per UNDP policies. The Office explained that the procedures of granting cash advances to staff for payments had been discontinued since November 2017 and replaced by electronic mobile money payment systems. However, no standard operating procedures had been established to clarify roles and responsibilities in respect to the electronic mobile money payment systems.

Weaknesses in financial management may put the Office at risk of not providing accurate information to Headquarters/donors/government counterparts and other stakeholders. Weaknesses in payment processes, including making payments without appropriate supporting documents, could lead to errors and financial irregularities, and may impact the delivery of the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 10:</b>	
The Office should strengthen its payment processes by:	
<ul style="list-style-type: none"><li>(a) adequately completing the FACE Forms and making sure they are approved by the Programme Management Unit;</li><li>(b) processing payments upon the receipt of goods and services and the presentation of a vendor's invoice and complying with the use of prepayment modality; and</li><li>(c) developing a standard operating procedure for working with the electronic mobile money payment system and complying with it.</li></ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"><li>(a) Starting in January 2019, the Office will ensure that the FACE forms are completed and certified by the project manager prior to submission to the Deputy Resident Representative for approval.</li><li>(b) Effective January 2019, the Office will make sure that before making any payments, the invoices are clearly certified with the mention "Goods/Services Rendered" or the signed "Goods/Services Receipt Form" of the entity requesting service.</li><li>(c) The Office will comply with the audit recommendation.</li></ul>	
<b>Estimated completion date:</b> June 2019	

## 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 not included in this report.