

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP BURUNDI

GRANTS FROM THE GLOBAL FUND

Report No. 2091
Issue Date: 6 September 2019

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

The UNDP Office of Audit and Investigations (OAI), from 14 to 24 May 2019, conducted an audit of two grants from the Global Fund (Output Nos. 107589 [TB/HIV] and 107586 [malaria]) managed by UNDP Burundi (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ 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 2018 to 31 March 2019. During this period, the Office recorded Global Fund-related expenses of approximately \$11.4 million. This was the first audit of the Office's Global Fund-related activities.

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."

Key recommendations: Total = **6**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are six medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address weaknesses in the following areas: programme management, Sub-recipient management, and financial management.

¹ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Reliability and integrity of financial and operational information	2, 4, 5, 6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3	Medium

Management comments and action plan

The Resident Representative accepted all six 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.



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I. Profile of Global Fund grants managed by UNDP Burundi

Since 2018, UNDP has been the Principal Recipient of Global Fund grants in Burundi (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (\$)	Funds Received as of 31 March 2019 (\$)	Implementation Rate in %	Expenses as of 31 March 2019 (\$)	Global Fund Rating as of 31 December 2018
BDI-C-UNDP	107589	Appui au Programmes TB et VIH	1 January 2018	31 December 2020	16,362,892	14,420,372	45	7,289,442	B1
BDI-M-UNDP	107586	Appui au Programme Malaria	1 January 2018	31 December 2020	28,180,900	25,058,433	15	4,095,536	A2

II. Audit results

OAI made six 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:

- Strengthen project implementation (Recommendation 1).
- Strengthen monitoring and evaluation activities (Recommendation 2).
- Improve the selection, assessment and contracting of Sub-recipients (Recommendation 3).
- Strengthen oversight over financial activities of Sub-recipients (Recommendation 4).
- Strengthen payment processes (Recommendation 5).
- Improve project budget management and controls over project expenditures (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project implementation

Issue 1 Weaknesses in project implementation

Absorption rate is the actual use of resources against the planned use of resources. High absorption rates can improve grant performance and may help secure future Global Fund allocations for the Country. The Principal Recipients are required to timely address grant conditions and recommendations from the management letters issued by the Global Fund.

The audit disclosed the following:

a) Low overall absorption rate

The overall absorption rates were low in 2018 with 47 percent for the malaria grant and 73 percent for the TB/HIV grant. While the Principal Recipient's absorption rate for the TB/HIV grant reached 92 percent in 2018, the Sub-recipients only achieved from 40 to 77 percent absorption rates for the same grant, and 47 to 53 percent for the malaria grant. The Office reported that the delivery rates for 2018, including commitments, were 63 percent for the malaria grant and 86 percent for the TB/HIV grant. The audit team noted that commitments included in the calculation of the delivery rate were not expensed in 2018.

b) Delays in the implementation of the grant requirements and management measures

In its management letters dated 20 November 2018, the Global Fund assessed the status of all three grant requirements for the TB/HIV grant and one requirement for malaria to be in progress or not started. At the time of the audit, there was no evidence that this had changed. In addition, the management letter also found that 11 of the 20 management recommendations had not been implemented for the malaria grant.

These issues could negatively impact grant performance as well as the next Global Fund allocation for the Country.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen project implementation by: <ul style="list-style-type: none"> (a) improving the delivery rates for the Principal Recipient and the Sub-recipients; and (b) timely implementing recommendations from management letters. 	
Management action plan: The Office will ensure timely follow up and monitoring for actions included in the management letters through the Principal Recipient/Sub-recipient monthly coordination meetings.	
Estimated completion date: March 2020	

2. Monitoring and evaluation

Issue 2 Lapses in monitoring and data validation

The grant agreement between UNDP and the Global Fund states that the Principal Recipient is responsible for the overall monitoring and evaluation of the grants and should carry out periodic monitoring and field visits and report on them.

No spot checks or field visits were undertaken during the audit period to validate the accuracy of the data and indicators reported by the Sub-recipients. This was due to the late set up of the monitoring and evaluation functions and monitoring and evaluation plan, which was only completed in May 2019. In the absence of monitoring activities, the Office relied on the data and indicators reported by the Sub-recipients in the national

database. Following the audit, the Office stated that two missions were planned in 2019 to validate the reliability of indicators reported in the national database.

Delays in conducting monitoring visits and data validation could lead to reporting inaccurate data, which could negatively impact grant performance.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen its monitoring and evaluation activities by completing field visits and validating the data reported by the Sub-recipients in the national database.	
Management action plan:	
The Office will complete data validation through workshops and the District Health Information System 2 (DHIS2).	
Estimated completion date: June 2020	

B. Sub-recipient management

1. Selection, assessment and contracting

Issue 3 Inadequate selection and contracting of Sub-recipients

UNDP policies stipulate that Sub-recipients could be selected through direct programmatic engagement and be named in the grant proposal as well as in the project document. After the 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.

The Office contracted five Sub-recipients for the two grants using a direct programmatic engagement. All of them were Principal Recipients during the previous grants, whose contracts were terminated by the Global Fund for significant weaknesses, including in financial management.

The review of the selection, assessment and contracting of the Sub-recipients indicated the following shortcomings:

a) Weaknesses in the capacity assessment and development plan of Sub-recipients

- Financial management weaknesses identified in the audit reports for 2018 were not captured in the micro-assessments.
- There was no Sub-recipient capacity-building plan to address the weaknesses identified in the micro-assessment, audit reports, and monitoring visits.

- Following the audit, the Office reported that it developed a capacity-building plan for a government ministry, including four Sub-recipients and other involved partners. However, no evidence was provided of the inclusion of weaknesses identified in the different assessments and field visit reports.

b) Delays in submitting mandatory reports

- All mandatory quarterly reports were submitted with delays of up to two months. The Office explained that delays were due to late submissions of the data from the field and the constraints linked to the national reporting platform.

c) Misalignment between management letters and Sub-recipient reporting period

- The Office submitted management letters, including recommendations, to the Sub-recipients with delays of up to four months from the receipt of the Sub-recipients' quarterly reports. These delays had created a misalignment between the recommendations and their implementation period. As an example, the 2018 third-quarter management letter and its recommendations (to be implemented in the fourth quarter of the year) were issued in February 2019, after the implementation period closed at year end. The 2018 fourth-quarter management letter had not yet been issued at the time of the audit fieldwork. The Office explained that the delays were related to the reporting cycle of the Sub-recipients that requires verification and endorsement of the results.

Ineffective capacity assessments and weak Sub-recipients contract management may result in the inefficient use of project resources, which could delay the achievement of results and impact performance.

Priority	Medium (Important)
Recommendation 3: The Office should improve the selection, assessment and contracting of Sub-recipients by: <ul style="list-style-type: none"> (a) revisiting the capacity development plan and its action plan to align them with results of the Sub-recipient micro-assessments, audit recommendations and field visit reports; (b) taking necessary measures to address the delays in Sub-recipient reporting; and (c) issuing timely management letters to allow implementation of recommendations within the next reporting period. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will complete a review of the capacity development plans for the national disease programmes and develop revised action plans. (b) The Office will support the Sub-recipients to improve reporting and ensure management letters are timely issued in response to their progress reports. 	
Estimated completion date: March 2020	

2. Financial and programmatic activities

Issue 4 Inefficiencies in the monitoring of financial activities

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective financial management.

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

a) Delays in the recovery of Sub-recipients' ineligible expenses

- Based on the agreement signed with UNDP, Sub-recipients should reimburse ineligible expenses to UNDP within a maximum of 15 days from the notification date. At the time of the audit, one Sub-recipient had not refunded \$10,076 declared as ineligible by the external auditors as it was pending reimbursement for more than 15 days after the notification.

b) Inefficiencies in payment process

- The audit team noted that the direct payment modality, in which payments would be made by UNDP on behalf of the Sub-recipients, was not used even though it could have significantly shortened the process. This was because Sub-recipients required that most of their activities fall under the direct cash transfer modality, in which payments would be made by the Sub-recipients with cash advances received from the UNDP, which led to delays in the implementation of the grants.

These weaknesses were caused by an inefficient oversight mechanism. Inadequate oversight over financial processes could lead to irregularities and financial losses.

Priority Medium (Important)
<p>Recommendation 4:</p> <p>The Office should strengthen oversight over financial activities of Sub-recipients by:</p> <p>(a) timely recovering from the Sub-recipients expenses qualified as ineligible; and</p> <p>(b) defining and applying the most adequate payment modality for each type of expenditure.</p>
<p>Management action plan:</p> <p>(a) The Office will obtain a reimbursement of \$10,076 from the Sub-recipient.</p> <p>(b) The Office will confirm with all Sub-recipients the most adequate payment modality for the type of expenditures.</p> <p>Estimated completion date: February 2020</p>

C. Financial management

1. Expenses

Issue 5 Weaknesses in financial management processes

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective financial management and require that cash transfers to implementing partners be adequately monitored to correct and prevent long-outstanding advances. No new advance should be given to Sub-recipients without liquidating at least 80 percent of current advances and 100 percent of any prior advances.

During the period under review, the Office processed 757 vouchers amounting to \$28 million. The audit team reviewed supporting documents pertaining to 34 accounts payable vouchers for a total of \$19 million, and highlighted the following weaknesses:

a) Weaknesses in the processing of cash advances

The audit team reviewed a sample of 17 cash advance transactions amounting to \$3.1 million and noted:

- There were significant delays in processing cash advances to Sub-recipients. On average, new advances were paid 42 days after the end of reporting periods. This delayed the reporting and implementation of planned activities.
- The Office did not comply with the 80/20 rules on cash advances. In 12 instances amounting to \$1.7 million, new cash advances were given to Sub-recipients without having at least 80 percent of current advances and 100 percent of prior advances liquidated.
- The Programme Coordinator approved cash advance vouchers worth \$125,480 without having the appropriate delegation of authority. According to the UNDP Internal Control Framework, only the senior management team can approve cash advances to implementing partners.

b) Lapses in the utilization of FACE forms

- In five instances valued at \$586,433, the closing balance in the FACE form did not match with the Atlas records since the Office did not report the balance of previous advances on the FACE form. This approach may lead to errors in the follow-up of outstanding advances.
- FACE forms submitted by Sub-recipients were not adequately approved. In six cases valued at \$732,080, the forms were signed by Sub-recipient officials not included in the signatory authorization forms submitted by Sub-recipients. The Office indicated that it would request Sub-recipients to provide an updated list of authorized signatories.

Failure to adequately monitor financial transactions could lead to delays and irregularities, and thereby resulting in financial losses.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen its payment processes by: <ul style="list-style-type: none"> (a) addressing the delays in processing cash advances to Sub-recipients, and ensuring that no new advances are given prior to liquidating at least 80 percent of the current advance and 100 percent of any prior advances; and (b) ensuring that cash advances are approved by the senior management team and reporting any carried balances in the FACE forms and ensuring that they are approved by the designated Sub-recipient officials. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will make cash advances to implementing partners in line with the 'UNDP Programme and Operations Policies and Procedures'. (c) The Office will ensure FACE forms are adequately completed and approved by designated officials. 	
Estimated completion date: June 2020	

Issue 6 Lapses in project budget management and oversight over project activities

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on the adequate management of project budgets. Budgets should be based on realistic plans and closely monitored to ensure that activities are performed in accordance with the annual work plan, which should stipulate the categories of expenses upon which costs should be charged.

The audit team reviewed the project budget balance of the two Global Fund grants and noted the following:

- a) Disconnect between activities budgeted and expenses incurred
- Activities budgeted at \$3.29 million, equivalent to 28 percent of the total project budgets in Atlas for 2018 were not realized, while expenses valued at \$3.3 million were related to non-budgeted activities.
 - Only 289 sub-activities were budgeted in Atlas while expenses incurred were recorded under 729 different sub-activities.

The Office stated that these exceptions were mainly explained by activities cancelled or postponed until 2019.

- b) Budget overruns
- There were budget overruns amounting to \$459,152 in 17 activities implemented by the Sub-recipients that exceeded 10 percent of their budgets. Based on the agreement signed with UNDP, the Sub-recipients should request UNDP approval before spending over 10 percent of the activity budgets. The Office did not provide evidence attesting that these overruns had been authorized.

- The review of the malaria grant's transactions disclosed that operating expenses amounting to \$0.93 million in 2018, while only \$0.69 million had been budgeted. The Office commented that it was due to errors during the budget revision process and corrective actions had been taken in 2019.

Unbudgeted costs or costs charged over the approved budget amounts may be rejected by the donor and may result in financial losses.

Priority	Medium (Important)
Recommendation 6: The Office should improve project budget management and controls over project expenditures by: <ul style="list-style-type: none"> (a) efficiently budgeting activities in Atlas and approving non-budgeted activities prior to their implementation; and (b) closely monitoring Sub-recipient activities and ensuring that budget overruns are pre-approved by UNDP. 	
Management action plan: The Office will improve controls over Sub-recipient expenditures and all 10 percent excess will be approved in advance. Estimated completion date: January 2020	

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.