



AUDIT

OF

UNDP CHAD

GRANTS FROM THE GLOBAL FUND

Report No. 2207

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

The UNDP Office of Audit and Investigations (OAI), from 3 to 19 November 2020, conducted an audit of one grant from the Global Fund (Output No. 0112695 Malaria) managed by UNDP Chad (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, 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 2019 to 31 August 2020. The Office recorded Global Fund-related expenses of \$31.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2017.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project site visits, including to medical facilities, warehouses, Sub-recipients, and meetings with counterparts/beneficiaries were not conducted.
- (d) A physical verification of assets and inventory was not performed.

Overall audit rating

OAI assessed the Office's management of the Global Fund grant as **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 weaknesses in Sub-recipient management and weaknesses within the procurement and supply of health products.

Key recommendations: Total = **2**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks.

Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address weaknesses in the management of Sub-recipients and weaknesses in the procurement and supply of health products.

The two recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	1	Medium
Achievement of the organization’s strategic objectives	2	Medium

Implementation status of previous OAI audit recommendations: Report No. 1732, 13 January 2017.

Total recommendations: 9

Implemented: 9

Management comments and action plan

The Resident Representative accepted the two 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.

Helge S. Ostveiten
Director
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I. Profile of Global Fund grants managed by UNDP Chad

Since 2009, UNDP has been the Principal Recipient of Global Fund grants in Chad (the Country).

Grant No.	Output No.	Description	Start Date (phase III)	End Date (phase III)	Budget (in \$'000) (phase III)	Funds Received as of 31 Aug 2020 (in \$ '000)	Implementation Rate	Expenses as of 31 Aug 2020 (in \$ '000)	Global Fund Rating at 31 Aug 2020
TCD-M-UNDP-NFM2	00112695	Transition Against Malaria	1 Jul 2018	30 Jun 2021	63,302	56,444	49%	31,221	A2

II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. The management of risks and associated controls were found to be adequate.
- Programme management. Grant activities were implemented in accordance with the grant agreement and were adequately monitored.
- Financial management. There was no issue in relation to revenue management and financial management controls were found to be effectively implemented.

OAI made 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.

Medium priority recommendations, arranged according to significance:

- Strengthen oversight of government Sub-recipient (Recommendation 1).
- improve the procurement and supply of health products (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Sub-recipient management

1. Financial and programmatic activities

Issue 1 Weaknesses in Sub-recipient management

The UNDP-Global Fund guidance manual requires the Office to conduct a capacity assessment of the Sub-recipients before signing the Sub-recipient agreement and create a capacity development plan to address weaknesses in a timely manner. The Sub-recipient is responsible for advanced funds and must follow UNDP's policies and procedures. The Sub-recipient is required to submit, within 15 days at the end of each quarter, a progress report and completed Funding Authorization and Certificate of Expenditures (FACE) form.

The current phase of the grant, which was initiated in July 2018, includes one government Sub-recipient with an agreement totalling 9,032,966 euros.

The audit team reviewed the capacity assessment and noted the following:

- The capacity assessment of the government Sub-recipient was completed in 2017. The resulting capacity development plan should have been implemented by June 2018; however, the deadline was extended to June 2021.
- The micro-assessment of the government implementing partner was completed in 2018 and identified weaknesses within programme management and inventory-asset management. These weaknesses were not included in the existing capacity-building plan.

The audit team reviewed the Sub-recipient 2019 Harmonized Approach to Cash Transfers (HACT) audit and the Global Fund management review letters and identified the following issues:

- lack of supporting documents for advances;
- incomplete programmatic and financial reporting;
- inclusion of ineligible expenses; and
- unreconciled differences within the Sub-recipient payments (Global Fund management review letter).

The audit team reviewed three advances for the Sub-recipient totaling \$135,084 (60 percent of the advances made in 2019 and 2020) and noted the following:

- The Office was not able to provide quarterly financial progress reports prepared by the Sub-recipient for the period under review.

In the event the Sub-recipient capacity is not strengthened, identified weaknesses in audits and review letters not addressed and advances not closely monitored the Office is exposed to financial losses.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen its oversight of the government the Sub-recipient by:	
<ul style="list-style-type: none"> (a) incorporating the issues identified through the micro-assessment within the capacity assessment and ensuring their timely implementation; (b) addressing the issues identified through the HACT audits and management review letters; and (c) ensuring financial reports are submitted within 15 days after the end of each quarter. 	
Management action plan:	
The Office will strengthen the oversight over the government Sub-recipient by:	
<ul style="list-style-type: none"> (a) incorporating the issues from the micro-assessment within the capacity assessment and ensuring their implementation; and (b) addressing the issues identified through the HACT audits and management review letters; and (c) liaising with the Sub-recipients in order to ensure that progress reports are complete and submitted within 15 days from the end of each quarter 	
Estimated completion date: March 2021	

B. Procurement and supply management

1. Procurement of health products

Issue 2 Weaknesses in the procurement and supply of health products

The 'Programme and Operations Policies and Procedures' require a receipt report on the conformity with product specifications. The guidance manual of the UNDP and Global Fund requires accurate quantification of pharmaceutical needs to ensure that patient needs are met. A timely assessment of healthcare data is required to ensure timely planning and distribution. Health Procurement Action Plans (HPAPs) ensure timely, cost effective and efficient delivery of pharmaceuticals and other health products.

The audit team reviewed a procurement sample of 11 medical products totalling \$30.8 million, representing 82 percent of medical products procured during the audit period and noted the following:

Weaknesses in the receipt of health products

- The receipt report was not prepared following the delivery of anti-malarial products totalling \$425,000.

Weaknesses in the quantification of pharmaceutical needs and timely distribution

- The Quantification and Forecasting Committee includes a UNDP representative, however, UNDP staff had only attended one of the meetings within the audit period.
- The Global Fund management letters for 2019 reported stocks-outs in 39 percent of health centres during 2019 and 50 percent in 2020, against a target of 35 percent. Contributing factors included absence of timely health care data to support the timely planning and distribution of medical products.

Inconsistencies in the procurement planning of health products

- The HPAP (Health Procurement Action Plans) totalled \$24.3 million for 2019, however PROMPT (the corporate procurement planning tool), totalled \$12.5 million. The Office was unable to explain why the HPAP planning template including the 'executed procurement activities monitoring section' was not completed.

Lack of receipt reports may result in incomplete or sub-optimal utilization. Inaccurate forecasting and planning increase the risk of stock-outs and product expiration.

Priority	Medium (Important)
Recommendation 2:	
The Office should improve the procurement and supply of health products by:	
(a) completing receipt reports of health products in accordance with the guidance manual of the UNDP and Global Fund;	
(b) support the relevant government ministry in enhancing the forecasting process and ensure the timely distribution of pharmaceutical products throughout the supply chain; and	
(c) utilizing the Health Procurement Action Plans for procurement planning and updating the information on a quarterly basis.	

Management action plan:

The Office will:

- (a) align the receipt reports with the specifications of UNDP guidance manual of the UNDP and Global Fund;
- (b) support the relevant government ministry in enhancing a coordinated forecasting process for health products through quarterly meetings, which will be documented. Coordinate with national partners to ensure the timely distribution of pharmaceutical products throughout the supply chain; and
- (c) complete the UNDP planning template of health products (HPAP), using it as a base for the annual planning of these products.

Estimated completion date: August 2021

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.