



AUDIT

OF

UNDP ANGOLA

GRANTS FROM THE GLOBAL FUND

Report No. 2231
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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 16 to 30 November 2020, conducted an audit of three grants from the Global Fund (Output Nos. 101046 [HIV], 111327 [HIV], and 123075 [HIV, Malaria and TB]) managed by UNDP Angola (the Office) as the Principal Recipient. One of these grants (Output No 123075) was 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).

The audit covered the Global Fund-related activities of the Office from 1 January 2019 to 30 September 2020. The Office recorded Global Fund-related expenses of approximately \$7.4 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. Storage facilities were not inspected.
- (d) A physical verification of assets and inventory was not performed.

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

Overall audit rating

OAI assessed the Office's management of the Global Fund grants 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 low absorption of grant funds and weak supervision and oversight of supply management.

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."

The two recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Effectiveness and efficiency of operations	2	Medium

Management comments and action plan

The Resident Representative accepted all 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
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).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 September 2030 (in \$ '000)	Implementation Rate (against budget)	Expenses as of 30 September 2020 (in \$ '000)	Global Fund Rating on 30 September 2020
AGO-H-UNDP	101046	Supporting the national response to HIV in Angola	1 July 2016	30 June 2018	30,002	25,199	81%	24,392	B1 (At the end of the grant)
AGO-H-UNDP	111327	Supporting the national response to HIV in Angola	1 July 2018	30 June 2020*	12,167	11,292	81%	9,899	A2
AGO-Z-UNDP	123075	Supporting the national response to HIV/AIDS, tuberculosis and malaria in Angola	1 July 2020	30 June 2021	22,577	0**	5%	1,005***	N/A

* Due to grant consolidation, the grant ended on 30 June 2020, instead of 30 June 2021.

** Due to delays in grant signing, the first disbursement was received in October 2020.

*** Expenditures incurred during July - September 2020 were initially recorded under the HIV grant. Reversals of the transactions were done when the new project was created in Atlas (enterprise resource planning system of UNDP).

II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. Internal controls were deemed adequate.
- Procurement of health products/procurement of other goods and services/quality assurance of health products/asset management. Controls and processes were found to follow UNDP and Global Fund regulations and rules, policies and procedures. Audit work on asset management was limited to UNDP controlled assets that were verified remotely.
- Financial management. Controls over revenue, accounts receivables, expenditure and reporting to Global Fund were deemed adequate.

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 that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Accelerate the implementation of the grant to achieve the grant objectives and targets (Recommendation 1).
- (b) Strengthen oversight and monitoring of supply and inventory management (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and Implementation

Issue 1 Delay in start of grant implementation led to low absorption of funds

As per the 'UNDP Programme and Operations Policies and Procedures', Country Offices are expected to deliver planned results and monitor programme implementation. The performance of the Global Fund grants is monitored based on the utilization of funds that are provided by the Global Fund for the implementation of the grants.

The grant (Project 123075) had a planned start date of 1 July 2020; however, the grant agreement was signed with a three month delay for reasons beyond the control of the Office, thus delaying the actual start date of implementation. This affected the progress of the implementation of the grant during 2020. As of 31 December 2020, the expenditure incurred by the grant was \$5.2 million out of the budget planned for that period of \$17.1 million. The planned total budget for the period from July 2020 to June 2021 was \$22.5 million.

In order to address the absorption for the remaining implementation period of the grant, the Global Fund encouraged the Office to use the existing Global Fund budgeting guidelines, to ensure full implementation of work plans by the end of the grant in June 2021.

Low absorption of funds may negatively impact the Office's ability to achieve the grant objectives and targets.

Priority	Medium (Important)
Recommendation 1:	
The Office should accelerate the implementation of the grant to achieve the grant objectives and targets.	
Management action plan:	
The Office will do the following to continue improving absorption under the grant:	
<ul style="list-style-type: none"> • Ensure full execution of the procurement-related budget lines in consultation with the relevant ministry. • Ensure close monitoring of expenditure at Principal Recipient and Sub-recipient level in order to identify and approve opportunities for the reallocation of savings in line with the Global Fund grant flexibilities. 	

Estimated completion date: December 2021

B. Procurement and supply management

1. Supply management of medical products (inventory, warehousing and distribution).

Issue 2 Weak monitoring and oversight of supply management

The Principal Recipient is expected to establish procedures to maintain reliable inventory of pharmaceutical products. The 'UNDP-Global Fund and Health Implementation Guidance Manual' requires that the programme conduct periodic audits and inspections of all points in the distribution chain to confirm that information is being accurately reported and to help prevent diversion of valuable commodities.

- 1) In July 2020, the Government Sub-recipient signed a contract with a third-party service provider for the warehousing and distribution of Global Fund health products. Since then, the Office has received, via the Government Sub-recipient, weekly stock reports as well as monthly entries and distribution reports, which could have allowed the reconciliation of stock movements. However, no stock reconciliations were performed by the Office due to staff shortages and lack of established reconciliation procedures. The Office has relied on the Sub-recipient to check stock reports against distribution reports and delivery notes. Further, the inventory reports were not specific to Global Fund financed health products but included all HIV health medicines irrespective of donor. The value of inventory as of the date of the audit was \$0.8 million.

Without adequate oversight over supply management, such as regular reconciliations of inventory and information against stock movements, inventory and distribution issues may go undetected.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen its oversight and monitoring of supply and inventory management by ensuring that periodic reconciliations of inventory information against stock movements are performed, to timely detect issues in inventory, supply and distribution management.	
Management action plan:	
The Office will ensure the reconciliation of the monthly stock reports received from the provider of warehousing and distribution of health products for the monitoring of stock movements, in order to timely detect issues in inventory, supply and distribution management.	
The Office will also ensure the timely review and follow up in the event of any discrepancies identified during the reconciliation of monthly stock reports.	
Estimated completion date: June 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.