



AUDIT

OF

UNDP DJIBOUTI

GRANTS FROM THE GLOBAL FUND

Report No. 2635

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Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Djibouti	1
II. Audit results	1
A. Financial Management	1
1. Expenditure and payment processing	1
Definitions of audit terms - ratings and priorities	4

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

The UNDP Office of Audit and Investigations (OAI), from 29 May to 10 June 2023, conducted an audit of two grants from the Global Fund (Output Nos. 125114 [HIV/Malaria/TB], and 128533 [Covid-19 Response]), managed by UNDP Djibouti (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 July 2021 to 31 December 2022. The Office recorded Global Fund-related expenses of approximately \$8.6 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2020.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **fully satisfactory**, which means "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."

This rating was mainly due to the fact that no recommendations were rated high (critical) priority and adequate controls established in most areas.

Key recommendations: Total = **1**, high priority = **0**

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



The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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 recommendation aims to ensure the reliability and integrity of financial and operational information.

Implementation status of previous OAI audit recommendations: Report No. 2189, 25 June 2020.

Total recommendations: 4

Implemented: 4

Management comments and action plan

The Resident Representative accepted the audit recommendation and is in the process of implementing it. 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.

Moncef Ghrib

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I. Profile of Global Fund grants managed by UNDP Djibouti

Since 2021, UNDP has been the Principal Recipient of Global Fund grants in Djibouti (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 December 2022 (in \$ '000)	Implementation Rate	Expenses as of 31 Dec 2022 (in \$ '000)	Global Fund Rating on 31 Dec 2023
DJI-Z-UNDP 1987	125114	TB/VIH/M Phase3	01/01/21	31/12/23	10,897	7,965	91%	7,215	C3
DJI-Z-UNDP 1987	128533	Covid-19	27/07/21	31/12/23	2,670	2,664	65%	1,734	C3

II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. Controls over governance processes were established and functioning. The oversight function was strengthened with the recruitment of an Oversight and Compliance Specialist to provide oversight over procurement and supply management, financial management and logistics.
- Programme management. The controls over the implementation of the grant to achieve programmatic objectives were established and functioning. The monitoring and evaluation function was well established to adequately monitor the achievement of programmatic objectives.
- Sub-recipient management. Except for delays in receiving the mandatory reports from the Sub-recipient, controls over its activities were working effectively and the Office was exercising its assurance function over Sub-recipient activities.
- Procurement and supply management. Adequate controls were established to ensure efficient and effective management of all aspects related to procurement and supply management.

OAI made one recommendation 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 recommendation:

- Improve financial and asset management (Recommendation 1).

The detailed assessment is presented below:

A. Financial management

1. Expenditure and payment processing

Issue 1 Delay in processing payments and Omission of an asset

The 'UNDP Programme and Operations Policies and Procedures' provide that payments to suppliers should be processed within 30 days following the receipt of goods and invoices from the suppliers. In



cases of prepayments, under the UNDP corporate agreement with UNICEF by which UNDP procures through UNICEF, the agreement gives up to 70 working days for UNICEF to issue the Statement of Account once the goods have been received, so that the prepayments can be cleared.

Sub-recipient asset inventory is certified during the HACT audit process to provide an accounting of all assets. Obsolete assets past their useful lives should be disposed in a timely manner to minimize the risk of loss, after prior endorsement by the *Comité de Coordination Multisectorielle et Interpartenariat* (CCMI), which is the national entity overseeing the management of the grant at the country level.

Delays in processing payments

During the audit period, 208 vouchers amounting to \$2.8 million were flagged as having potential issues by OAI data analytics based on established criteria. The audit team selected a sample of 20 vouchers amounting to \$185,000 for in depth review and noted the following inefficiencies:

- In six cases amounting to \$60,573, it took from 122 to 158 days to create payment vouchers and/or make payments after receipt of the invoice. The delays in payment processing were due to long and inefficient quality assurance processes over the supporting documentation of the suppliers, which was also exacerbated by staff movement within the Procurement and Supply Management Unit (including resignations, vacancies, and new staff with competing priorities).
- In two other cases amounting to \$79,136, while the goods had been received, the Statement of Account from UNICEF was not provided to the Office for up to 106 in one case and 153 days in the other case, which was above the corporate agreement with UNICEF of 70 days. There was no evidence of proper follow-up regarding these transactions.

Omission of an asset in asset registry

- The Sub-recipient’s asset registry certified by the external auditors as of 31 December 2022 was understated by \$30,668 due to omission of one vehicle. This was caused by an error in the asset registry file conversion by the external auditors.
- The Office and the Sub-recipient’s assets listings included 82 obsolete assets (out of a total of 256 items) dating back to 2013 that were not functioning past their useful lives but had yet to be disposed of. This was caused by delays in endorsing the list of obsolete assets by the CCMI, as required by the policies.

Inefficiencies in payment processes and asset certification could lead to misstatements in financial reporting or assets not being accounted for.

Priority	Medium (Important)
Recommendation 1:	
The Office should improve financial and asset management by:	
(a) revisiting its payment and quality assurance process, and adhering to the UNDP corporate agreement with UNICEF, to reduce the amount of time taken to process transactions; and	
(b) following up with the CCMI regarding the endorsement of the disposal of assets, and ensuring that assets certified by external auditors take into account the missing vehicle.	



Management action plan:

The Office will implement the audit recommendation and will continue to engage with the CCMI to secure the approval of the list of assets to be disposed of and proceed with disposal.

Estimated completion date: 31 December 2023

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.