UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP DJIBOUTI

GRANTS FROM THE GLOBAL FUND

Report No. 1909
Issue Date: 13 April 2018
Report on the Audit of UNDP Djibouti
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 28 January to 8 February 2018, conducted an audit of five grants from the Global Fund (Output Nos. 87111 [HIV], 88216 [TB], 98605 [TB&HIV], and 98620 [Malaria]) managed by UNDP Djibouti (the Office) as the Principal Recipient. The Office also managed Output No. 95340 (Country Coordinating Mechanism) as its Funding Recipient.¹ These grants were managed under the Global Fund’s Additional Safeguard Policy.² 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 exit strategy);

(b) programme management (project approval and implementation, monitoring and evaluation, grant closure);

(c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);

(d) procurement (qualification 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, expenditure, reporting to the Global Fund, fund administrator role).

The audit covered the Global Fund-related activities of the Office from 1 July 2016 to 31 Dec 2017. Due to restrictions imposed by the Government since mid-2016 on access to government implementing partner data and facilities, the audit team did not conduct on-site visits to cover monitoring and evaluation and supply management of medical products (inventory, warehousing, and distribution). The Office recorded Global Fund-related expenses of approximately $9.8 million. The last audit of the Office’s Global Fund-related activities was conducted by OAI in 2015.

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 improvement 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

¹ Since the Country Coordinating Mechanism is not a legally incorporated body and cannot receive funds, it designates a Funding Recipient to be responsible for receiving funds on its behalf.

² The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.
inadequate planning and implementation of routine on-site supervision and training visits, inadequate quarterly reporting and monitoring of Sub-recipients, weaknesses in quality control testing, and deficiencies in supply chain management.

**Key recommendations:** Total = **9**, high priority = **4**

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<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
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<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>5</td>
<td>High</td>
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<tr>
<td>Reliability and integrity of financial and operational information</td>
<td>1</td>
<td>Medium</td>
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<tr>
<td>Effectiveness and efficiency of operations</td>
<td>3</td>
<td>High</td>
</tr>
<tr>
<td>2, 9</td>
<td></td>
<td>Medium</td>
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<tr>
<td>Safeguarding of assets</td>
<td>7</td>
<td>High</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>8</td>
<td>Medium</td>
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<tr>
<td></td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Medium</td>
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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. All high (critical) priority recommendations are presented below:

**Inadequate planning and implementation of routine on-site supervision and training visits (Issue 3)**

At the time of the audit, the Office had not undertaken site visits to any of the facilities that were serviced from the grant. This failure to undertake monitoring and site visits was partially attributable to restrictions imposed by the Government with respect to access to government implementing partners and data since mid-2016. However, the Office had also not effectively planned and implemented the monitoring and supervision visits even before these restrictions were in effect.

**Recommendation:** The Office should improve monitoring and evaluation activities by: (a) undertaking monitoring and site visits as agreed with the Global Fund; and (b) negotiating a limited liability clause with the Global Fund if restrictions continue.

**Inadequate quarterly reporting and monitoring (Issue 5)**

None of the Sub-recipients (except for one) met the quarterly reporting requirement – they were reporting semi-annually and with significant delays. With respect to quarterly financial reporting by Sub-recipients, the audit team noted that one of two Sub-recipients that received advances had not been providing quarterly financial reports in the form defined in the Sub-recipient agreements. In addition, sub-recipient reports (programmatic and financial) were not reviewed by the Office and no documented feedback with recommendations was provided to the Sub-recipients.

**Recommendation:** The Office should improve quarterly reporting and monitoring of Sub-recipients by: (a) ensuring that reports are reviewed, and recommendations are made to Sub-recipients to allow for performance improvements; (b) tracking implementation as part of the reporting process; and (c) improving cooperation with the Sub-recipients and enforcing reporting timelines agreed to with the Sub-recipients.
Weaknesses in quality control testing (Issue 6)

The Office undertook quality control testing in both 2016 and 2017 drawn from the central warehouse and other random health facilities. However, the Office did not prepare a plan in which the timing and sample selection is described. The extent to which yearly quality control testing addressed the riskiest products and locations could not be established.

Recommendation: The Office should strengthen its quality control testing by preparing a quality assurance plan as required to identify products that should be tested, their timing, as well as the location from which the sample should be drawn from, and which should be revisited if necessary.

Deficiencies in supply chain management (Issue 7)

Controls over stock movements and physical verifications of health products were limited to documentary review of data submitted by the central warehouse. The Office had no visibility on stock movements, including expiries and stockouts. It relied on data reported by the Sub-recipient responsible for storage at the central level. In addition, no data was reported on stock status at the peripheral level during the audit period. The audit team was not able to conduct a visit to the warehouse to review the stock movements. This situation was due to the Government's restrictions imposed on the Office from accessing the health facilities for data verification and validation since mid-2016.

Recommendation: The Office should strengthen its supply management of health products, in particular at the peripheral level.

Total recommendations: 11
Implemented: 11

Management comments and action plan

The Resident Representative accepted all of the 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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