UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP ZIMBABWE

GRANTS FROM THE GLOBAL FUND

Report No. 2054

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Report on the Audit of Zimbabwe
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 25 March to 9 April 2019, conducted an audit of two grants from the Global Fund (Output Nos. 107967 [HIV] and 88278 [HIV]) managed by UNDP Zimbabwe (the Office) as the Principal Recipient and four projects (Output Nos. 108265 [Malaria], 93055 [TB], 108266 [TB], and 93641 [Malaria]) managed by the Office as Fund Administrator.[1] The Office also managed Output No. 108607 (Country Coordinating Mechanism) as its Funding Recipient.[2] These grants were managed under the Global Fund's Additional Safeguard Policy.[3] 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 January 2019. The Office recorded Global Fund-related expenses of approximately $133 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*.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **unsatisfactory**, which means "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." This rating was mainly due to weaknesses in the selection, assessment and contracting of Sub-recipients, and weaknesses in the supply management of medical products (inventory, warehousing and distribution).

[1] Starting January 2015, UNDP entered into a series of agreements with the Global Fund to provide support services to the Principal Recipient (a government counterpart) managing the TB and Malaria grants as the Fund Administrator.
[2] 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.
[3] The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

Key recommendations: Total = **6**, high priority = **5**

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	3	High
Effectiveness and efficiency of operations	4, 5	High
Safeguarding of assets	6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1, 2	High

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 capacity assessments of Sub-recipients (Issue 1)

Capacity assessments were inadequate for four Sub-recipients. Specific issues noted included the following:

- Alternative forms of capacity assessments were used instead of the prescribed tool for the assessment of three Sub-recipients. Two of the three assessments did not address all core requirements in the assessment report. As a result, the assessments did not reflect the real capacity of the entity. One Sub-recipient assessment did not address the organization's ability to disburse to Sub-sub-recipients, while the Sub-recipient had a budget of $9.6 million for Sub-sub-recipients. In the case of the other Sub-recipient, responsible for storage and distribution, the entity was assessed to have adequate storage, distribution and inventory management capacity while this was not the case.
- Assessments did not provide the required rating for four Sub-recipients.

Recommendation: To improve risk management of Sub-recipients, the Office should, in conjunction with partners: (a) undertake proper capacity assessments or update the risk ratings to accurately reflect actual capacities and risk; and (b) define mitigating measures for existing Sub-recipients commensurate with the adjusted risk.

Weakness in contracting of Sub-sub-recipients (Issue 2)

The Office provided advances totalling $7 million to three of the Sub-sub-recipients. However, this was contrary to UNDP guidelines, since UNDP can only provide advances/payments with a contract in place, and UNDP only has contractual agreements with Sub-recipients. The guidelines allow for direct payments on behalf of Sub-recipients but do not provide for advances to Sub-sub-recipients.

Recommendation: The Office should consider engaging Sub-sub-recipients directly as Sub-recipients or have Sub-recipients advance funds to Sub-sub-recipients.

Weak inventory management and supervision (Issue 3)	The Office did not carry out comprehensive oversight of the in-country supply chain as required. The procurement and supply management team had not visited either the regional warehouses or the service delivery points during the audit period to oversee the pharmaceutical storage and inventory. Instead, it relied on the work done by an accounting firm contracted by a third party to undertake a bi-annual inventory verification. Moreover, the Office relied on the monthly stock reports received from the Sub-recipient responsible for warehousing and distribution, without reconciliation. This report reflected the theoretical stocks held at the six warehouses owned by the Sub-recipient. Recommendation: To improve oversight of supply and inventory management, the Office should: (a) implement monthly reconciliations of stocks reported by the contracted warehousing and distribution agency to timely detect issues in stock management; and (b) have supply management staff undertake planned and routine monitoring visits to all levels of the supply chain to validate stocks against reports.
Inadequate management of temperature and environmental controls (Issue 4)	There was limited evidence that temperature was monitored, or that corrective action was taken as necessary for warehoused pharmaceuticals at all three sites visited by the audit team. In some locations, temperature data loggers had been acquired but were not used. Temperature outside of the recommended range was observed in all the three sites visited. Recommendation: To improve the management of temperature and environmental controls of pharmaceutical products, the Office should work with Sub-recipients and partners to ensure that: (a) temperature is read and recorded daily; and (b) significant variations are addressed in a timely manner.
Inadequate storage capacity management (Issue 5)	Issues were noted in both warehouses visited by the audit team. The audit team observed that space between racks was used to store health products; products were stacked much higher than the directions indicated by the manufacturer; and no space was left between the walls and the products, whereas recommended guidance was at least 30 centimeters. Inadequate storage capacity had been exacerbated by significant delays in the disposing of expired products. Products had not been disposed of since 2017, and as a result, $2.8 million in expired products were being stored, thereby leaving less space available to store non-expired products." Recommendation: To improve storage conditions, the Office should (a) secure additional storage on an interim basis; and (b) work with key partners to expeditiously dispose of all expired products and recover much needed storage space.

Implementation status of previous OAI audit recommendations: Report No. 1904, 24 January 2018.
Total recommendations: 4
Implemented: 4

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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