



AUDIT

OF

UNDP IN THE DEMOCRATIC REPUBLIC OF THE CONGO

**GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA**

Report No. 868
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**Report on the audit of UNDP Democratic Republic of the Congo
 Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
 Executive Summary**

From 19 September to 5 October 2011, the Office of Audit and Investigations (OAI) conducted an audit of seven grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) [Project IDs:00039907 (HIV); 00039947 (Malaria); 00053596 (TB); 00056260 (TB); 00063527 (HIV); 00073867 (HIV); and 00074247 (Malaria)] and managed by UNDP Country Office in the Democratic Republic of the Congo (the Office) as the Principal Recipient (PR). These grants were managed under the Global Fund’s Additional Safeguard Policy. The audit covered all Global Fund-related activities of the Office during the period from 1 May 2010 to 31 July 2011. During this period, the Office recorded Global Fund-related expenditures totalling \$43 million. The last audit of the Office’s Global Fund-related activities was conducted by OAI in 2010. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit rating

OAI assessed the Office’s management of Global Fund grants as **partially satisfactory**, which means “Internal controls, governance, and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to weaknesses in monitoring and evaluation, procurement of health goods and the review of Sub-recipient (SR) financial management. Ratings by audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure	Not Assessed			
1.2 Staffing	Satisfactory			
1.3 Cooperation and coordination with Country Coordination Mechanism and other stakeholders	Satisfactory			
1.4 Capacity building and exit strategy	Partially Satisfactory			
2. Programme management				
2.1 Project approval and implementation	Partially Satisfactory			
2.2 Conditions precedent and special conditions of the grant agreements	Satisfactory			
2.3 Monitoring and evaluation	Unsatisfactory			
2.4 Relationship with Sub-recipients	Partially Satisfactory			
Procurement and supply management				
3.1 Procurement of health products	Partially Satisfactory			
3.2 Procurement of other goods and services	Satisfactory			
3.3 Stock Management	Partially Satisfactory			
3.4 Distribution	Not Assessed			
3.5 Asset management	Satisfactory			
3.6 Individual Contractors	Not Assessed			

Financial management			
4.1 Expenditure	Partially Satisfactory		
4.2 Accounting of Advances	Unsatisfactory		
4.3 Reporting	Not Assessed		
4.4 Audit of Sub-recipients	Unsatisfactory		

Key issues and recommendations

Among the seven issues, one was noted to be caused by factors beyond the control of UNDP (Issue 1). There are four recommendations, of which two (50 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

Capacity building and exit strategy (Issue 1)	<u>Lack of exit strategy.</u> The Office and the Global Fund Secretariat have reached an agreement for UNDP to transfer the Global Fund portfolio to a designated PR, at the end of 2012. After eight years as PR, and given that the majority of the grants were expiring by the end of 2011, the Office’s senior management felt strongly that it was time to transfer its PR role to a Government unit. However, at the time of the audit, there was no agreed exit strategy. Subsequently, the Office, in consultation with the Global Fund Secretariat and all concerned stakeholders, discussed and agreed on an exit strategy. OAI therefore does not raise a recommendation.
Monitoring and evaluation (Issue 2)	<u>Lack of monitoring and evaluation visits to the field due to a freeze of disbursements.</u> Following the detection and reporting of two fraud cases in 2010, one of which was detected by the Programme Management Unit (PMU), the Global Fund Secretariat suspended the disbursement of funds for monitoring and evaluation (M&E) activities with effect from March 2011. It was not until October 2011 that the Global Fund Secretariat lifted the freeze of funds for M&E activities. As a result, throughout most of 2011, neither the Office nor its SR were able to conduct any field visits and had consequently no assurance on programme implementation and on the safeguarding of resources, e.g., drugs in the field. As monitoring visits have resumed, OAI does not raise any recommendation. However, if the Office were to face a similar scenario in the future, it needs to escalate the issue at an early stage to the highest levels in UNDP and the Global Fund Secretariat.
Procurement of health products (Issue 3)	<u>Unclear responsibility for items stolen while in transit.</u> In June 2011, test kits procured at a cost of \$0.4 million were stolen at the airport while awaiting customs clearance. The Office was holding the freight forwarder responsible, who declined any responsibility for the loss. OAI noted that the test kits were not insured either by UNDP or the freight forwarder. OAI recommends that the Office, in coordination with the Procurement Support Office, ensure that the insurance for pharmaceutical and non-pharmaceutical products includes the entire process of shipment to reception in the warehouse in order to avoid any gap in coverage.
Accounting of advances (Issue 7)	<u>Deficiencies in SRs’ financial supporting documentation.</u> There were serious and widespread irregularities with the supporting documents provided by SRs. OAI also noted that the Office did not have the resources to review such supporting documents adequately or on time. OAI recommends that the Office suspend transfer of funds to SRs until the validity of the expenditures submitted by the SRs has been ascertained. OAI further recommends that the Office implement additional measures to adequately review supporting documentation and reject those not conforming to acceptable standards or where it is difficult to establish their authenticity.

Management's comments

The Resident Coordinator and the Programme Manager of the HIV/AIDS Group of the Bureau for Development Policy accepted all recommendations and are in the process of implementing them.



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