



AUDIT

OF

UNDP SOUTH SUDAN

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

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Report on the audit of UNDP South Sudan Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 5 to 22 August 2013, the Office of Audit and Investigations (OAI) conducted an audit of four grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 81101 [HIV], 81102 [HIV and TB], 81103 [TB] and 81104 [Health System Strengthening]) managed by the UNDP Country Office in South Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 July 2012 to 30 June 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$19.8 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 the conclusions and audit results.

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 delay in programme implementation and inadequate quality assurance for health products. Ratings per 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	Satisfactory			
1.2 Staffing	Satisfactory			
1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Partially Satisfactory			
1.4 Capacity development and exit strategy	Satisfactory			
2. Programme management				
2.1 Project approval and implementation	Partially Satisfactory			
2.2 Monitoring and evaluation	Satisfactory			
2.3 Grant closure	Satisfactory			
3. Sub-recipient management				

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

3.1	Selection, assessment and contracting	Satisfactory		
3.2	Funding	Satisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Satisfactory		
4.	Procurement and supply management			
4.1	Procurement of health products	Satisfactory		
4.2	Quality assurance of health products	Partially Satisfactory		
4.3	Procurement of other goods and services	Satisfactory		
4.4	Supply management (inventory, warehousing and distribution)	Partially Satisfactory		
4.5	Asset management	Partially Satisfactory		
4.6	Individual contractors	Satisfactory		
5.	Financial management			
5.1	Revenue and accounts receivable	Satisfactory		
5.2	Expenditures	Satisfactory		
5.3	Reporting to the Global Fund	Satisfactory		

Key issues and recommendations

The audit raised 6 issues and resulted in 6 recommendations, of which 2 (33 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."

Among the six issues raised, one was noted to be caused by factors beyond the control of UNDP (Issue 3).

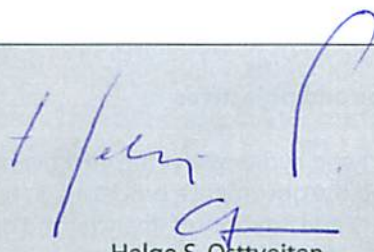
The high priority recommendations are as follows:

Project approval and Implementation (Issue 2)	<u>Delay in programme implementation.</u> During the period under review, Phase I of the Round 9 Grant ended on 30 September 2012, and Phase II started on 1 October 2012. However, at the time of the audit, in August 2013, the bills of quantities, drawings and revised budget for the civil works to construct health facilities to be carried out in Phase II of the Grant had not yet been approved by the Global Fund and thus construction of health facilities had not begun. OAI recommends that the Office: (a) liaise with the Global Fund and ensure that the construction plan for the Round 9, Phase II grant is approved as soon as possible in order to complete the civil works before the end of the grant; and (b) ensure that negotiations with the government counterparts on planned programme implementation are carried out effectively.
Quality assurance (Issue 4)	<u>Inadequate quality assurance of health products.</u> The Office had a draft quality assurance plan during the period under review that was yet to be finalized and it had not received the results of pharmaceutical testing in a timely manner. OAI recommends that the Office: (a) in collaboration with the Special Advisory team of the Procurement Support Office, finalize and implement a quality assurance plan that complies with the Global Fund quality assurance policy requirements; and (b) ensure that the results of quality tests carried out on the pharmaceutical products are obtained in a timely manner.

The implementation status of previous Global Fund audit recommendations (Report No. 1017, 10 April 2013) was also validated. Of the five recommendations, three were fully implemented and the rest were in progress.

Management comments and action plan

The Resident Representative accepted all six recommendations and is in the process of implementing them.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 5 to 22 August 2013, OAI conducted an audit of four grants from the Global Fund (Project Nos. 81101 [HIV], 81102 [HIV and TB], 81103 [TB] and 81104 [Health System Strengthening]) and managed by UNDP South Sudan as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.² The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 the conclusions and audit results.

Audit scope and objectives

OAI Global Fund audits assess the effectiveness of risk management, and the adequacy and effectiveness of controls and the governance processes, in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, including the accuracy of financial reports submitted to the Global Fund; effectiveness and efficiency of operations; safeguarding of assets; and compliance with legislative mandates, regulations and rules, and policies and procedures, including grant agreements signed with the Global Fund. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas related to the Office's management of Global Fund grants: governance and strategic management, programme management, Sub-recipient management, procurement and supply management and financial management. The audit covered all relevant activities during the period from 1 July 2012 to 30 June 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$19.8 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The implementation status of previous Global Fund audit recommendations (Report No. 1017, 10 April 2013) was also validated. Of the five recommendations, three were fully implemented and the rest were in progress.

II. Profile of Global Fund grants managed by UNDP South Sudan

Since 2004, UNDP has been the Principal Recipient of Global Fund grants in South Sudan (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$ '000)	Implementation Rate	Expenditures (1 Jul 2012 to 30 Jun 2013) (in \$ '000)	Global Fund Rating*
SSD-405-G05-H	81101	HIV/AIDS Prevention and Care in South Sudan	1 Aug 2006 (Phase I)	30 Nov 2013 ³ (Phase II)	35,178	31,676	90%	4,919	A2 ⁴
SSD-506-G06-T	81102	Tuberculosis and HIV	1 Oct 2006	30 Nov 2013 ⁵	23,151	22,837	99%	856	A1 ⁶

² The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

³ The grant ended on 31 July 2011 and received a no cost extension until 30 November 2011. The grant received a Continuity of Services for two years ending 30 November 2013

⁴ Global Fund A2 rating = Meets expectations

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$ '000)	Implementation Rate	Expenditures (1 Jul 2012 to 30 Jun 2013) (in \$ '000)	Global Fund Rating*
		Collaborative Program in South Sudan	(Phase I)	(Phase II)					
SSD-708-G11-T	81103	Improving and Expanding Tuberculosis Control in South Sudan	1 Jan 2009 (Phase I)	31 Dec 2013 (Phase II)	14,043	13,133	94%	2,528	B1 ⁷
SSD-910-G13-S	81104	Health Systems Strengthening in South Sudan	1 Oct 2010 (Phase I)	30 Sep 2015 (Phase II)	39,386	26,730	68%	11,508	B1 ⁸
Total					111,758	94,376		19,811	

* As of 30 June 2013

III. Detailed assessment

1. Governance and strategic management

Partially Satisfactory

1.1 Organizational structure

Satisfactory

The organizational structure of the Office's Global Fund Programme Management Unit included a Global Fund Coordinator (assisted by a team of five international staff members responsible for finance and administration, and monitoring and evaluation), a Pharmaceutical Specialist (in charge of procurement and supply management), and two Project Managers (in charge of the different grants). In addition, there was a third Project Manager who was a national staff member. These staff members were supported by service contract holders and international United Nations Volunteers. There were no issues identified.

1.2 Staffing

Satisfactory

At the time of the audit, the Global Fund Programme Management Unit had a total of 53 personnel comprising of 37 service contract holders, 4 staff members on international fixed-term appointments and 12 international United Nations Volunteers. The overall structure of the Programme Management Unit was found to be adequate, as assessed through this audit as well as the Global Fund Secretariat programmatic ratings presented in the table above. OAI reviewed four recruitment cases, and no reportable issues were identified.

At the time of the audit, the Finance and Administration Specialist position was vacant, and had been vacant since the last audit conducted in August 2012. The Office decided to wait for the start of the Transitional Funding Mechanism grants before recruiting a Finance and Administration Specialist. Meanwhile, a staff member was

⁵ The original grant end date was 30 September 2011. The grant received a no cost extension until 31 March 2012, The grant also received a Continuity of Services ending 30 November 2013

⁶ Global Fund rating A1 = Exceeds expectations

⁷ Global Fund rating B1 = Adequate

⁸ This is the rating for the report covering the period April 2012 to September 2012. The rating for the period October 2012 to March 2013 is not yet available since the Management letter has not yet been issued.

brought to the Office on a detailed assignment from June 2013 to December 2013 to fill in for the vacant Finance and Administration Specialist position. The newly recruited Pharmaceutical Specialist joined the Office in November 2012.

1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders

Partially Satisfactory

Issue 1 Challenges in communication with the Country Coordinating Mechanism

According to the "UNDP-Global Fund Operations Manual for Projects Financed by the Global Fund," the Country Coordinating Mechanism (CCM) is a country-level partnership of stakeholders that is central to the Global Fund's commitment to local ownership of the Global Fund grants and decision-making. Throughout the lifetime of the grant, the CCM is responsible for the oversight of implementation by the Principal Recipient. The CCM's role also includes ensuring links and consistency between Global Fund assistance and other development and health assistance programmes in support of national priorities. For the CCM to be able to carry out its duties appropriately, there needs to be a good working relationship between it and the Principal Recipient.

OAI met with a CCM representative, and based on this discussion it appeared that UNDP as Principal Recipient had reportedly failed to address implementation issues and concerns raised by the CCM. The CCM, in its field visits to construction sites, observed sub-standard work that it reported to the Office. However, according to the CCM, the Office did not follow up and failed to withhold payments to the contractors.

The Office acknowledged that the CCM had raised concerns related to the quality of civil works and that in cases where the quality of work was poor, the contractors had been requested to redo the work.

OAI reviewed a report by independent engineers contracted by the Global Fund to follow up on CCM's allegations regarding the quality of the construction work. The independent engineers visited five sites and noted sub-standard work at two sites, and shared their findings with the Office. The Office instructed the contractors to rectify the issues. However, the Office explained that some of the concerns raised by the CCM were beyond its control. For example, the Office could not control issues related to the location of some facilities, as the locations were decided by the Government, or the defects caused by some structures being left unoccupied for long periods (over one year) after construction was completed.

The Country Director indicated that there had been a breakdown in communication between the Office and CCM representatives. However, the Office explained that UNDP senior management had held several meetings with the CCM Chair during 2012 and 2013, and key agreements had been reached in regard to implementation and oversight issues. Despite the recent progress, OAI was of the view that the communication breakdown between CCM and the Office still needed to be strengthened.

Failure to address concerns raised by the CCM may delay programme implementation, and may have a negative impact on the reputation of the Office.

Priority	Medium (Important)
Recommendation 1:	
The Office should improve communications with the Country Coordination Mechanism in order to strengthen working relationships.	

Management comments and action plan: ☒ Agreed ☐ Disagreed

Management acknowledged that the working relationship between the Office and the CCM was a work in progress. The Office had taken the following steps to implement the recommendation:

- Improved dialogue among the CCM, the Office senior management, and the Global Fund.
- It was agreed that working relationships could be strengthened through dialogue and improved consultation. On 27 August 2013, the Country Director paid a courtesy visit to the newly appointed Minister of the relevant ministry represented in the CCM to ensure that, "we start off on the right track." The Minister's response was very positive and he emphasized that he would discuss within the ministry how best to ensure that the ministry, CCM and the Office as Principal Recipient can henceforth focus on achieving programme objectives.

1.4 Capacity development and exit strategy

Satisfactory

A capacity building strategy developed in 2010 was never implemented due to the lack of funding. The Office mentioned that the relevant government ministry was preparing an application through the new funding mechanism, and would include capacity building activities for the ministry.

In OAI's view, the Office needs to liaise with the government counterparts and the Global Fund Secretariat in order to ensure that the capacity building component is taken into consideration during the negotiation of future grants.

2. Programme management

Partially Satisfactory

2.1 Project approval and implementation

Partially Satisfactory

Issue 2 Delay in programme implementation

The grant agreement between the Office and Global Fund requires that the Principal Recipient take responsibility for the timely implementation of programme activities and the fulfillment of conditions precedent of the agreement.

OAI noted that Phase I of the Round 9 grant ended on 30 September 2012, and Phase II started on 1 October 2012. However, at the time of the audit (in August 2013), the Global Fund had not yet approved the bills of quantities, drawings or the revised budget for the civil works to be carried out in Phase II of the grant. As a result, construction could not begin. The Office submitted the original bills of quantities, drawings and budget to the Global Fund in December 2012, but had to be revised due to changes in the building plans made by CCM. The Office submitted the revised documents to the Office in July 2013.

As a result of the protracted process, the first year of the Phase II three-year implementation period will likely end on 30 September 2013 without Global Fund approval, which will leave only two years for completing the civil works.

Delays in programme implementation could negatively impact achievement of the grant objectives.

In its response to the draft report, the Office clarified that Global Fund approval had been received and the process to launch the tender was underway. However, the Office strongly felt that this issue was caused by factors beyond its control. The Office regularly followed up with CCM to obtain approval for the revised designs, but unfortunately it took more than three months to receive the approval from the different levels of the government ministry for the various designs. The list of sites was changed three times, which resulted in revision of the bills of quantities. The third change was received after the Office submitted the documents to the Global Fund in June. Thus, these documents had to be revised again and resubmitted to the Global Fund.

Priority	High (Critical)
Recommendation 2:	
The Office should: (a) liaise with the Global Fund and ensure that the construction plan for the Round 9, Phase II grant is approved as soon as possible in order to complete the civil works before the end of the grant; and (b) ensure that negotiations with the government counterparts on planned programme implementation are carried out effectively.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

Issue 3 Delay in disbursement of funds

Proper implementation of grants requires that funds are provided to the Principal Recipient in a timely manner. The funds should be disbursed to the Principal Recipient after a "Progress Update and Disbursement Request" is submitted to the Global Fund on a semi-annual basis.

OAI noted extended intervals in the frequency of disbursements within the various rounds of funding, as follows:

- Round 4, HIV grant - 605 days between the first disbursement and the second disbursement , and 271 days between the second disbursement and the last disbursement.
- Round 5, TB grant - there were no disbursements for 756 days. The last disbursement in Phase II of the grant period was not released because the Global Fund was not convinced that the Office would utilize the funds before the grant end date, since the main expenditure for these funds was for the purchase of x-ray machines. This was eventually included in the budget for the close out plan. The subsequent disbursement was made on 5 June 2013 under the Continuity of Services.

OAI established that delays were caused by of the following factors:

- Round 4 Continuity of Services was negotiated during the transition between fund portfolio managers.
- A change in the Local Fund Agent led to a delay in verification of one disbursement request.
- Prolonged negotiations between the Office and the Global Fund for approving the Continuity of Services in Round 4 and Round 5 grants, with some delays in the submission of documents to the Global Fund.

Delays in the disbursement of funds from the Global Fund will affect the release of funds by the Principal Recipient to the Sub-recipients, and thus delay the implementation of programme activities. This was confirmed by two Sub-recipients, who stated that during certain periods, no disbursements were received and therefore could not implement of some programme activities.

OAI acknowledged that the issue was partly attributed to factors beyond the control of the Office; however, there was no evidence to suggest that support was sought from the respective unit in Headquarters for a swift resolution.

Priority	Medium (Important)
Recommendation 3: The Office should ensure: (a) the timely preparation and negotiation for the Continuity of Services before the closure of the grant, as well as follow-up with the Global Fund; and (b) that all supporting documents are provided to the Global Fund on a timely basis. The Office should also in the future seek the support of the respective Headquarter's unit in a timely manner, particularly when faced with delays due factors beyond its control.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed The Office had already addressed part (a) of the recommendation and indicated that it would ensure implementation of part (b).	

2.2 Monitoring and evaluation

Satisfactory

OAI reviewed the monitoring and evaluation plans, including data collection and verification visits carried out by the Office. No reportable issues were identified.

2.3 Grant closure

Satisfactory

OAI followed up on the recommendation made in the previous audit report regarding the late financial closure of the grants and noted that:

- For the Round 2 malaria grant, all closure activities were fully implemented and the grant was financially closed in June 2013.
- The Round 2 TB grant was operationally closed on 31 March 2010 and the grant closure plan was approved in the Implementation Letter dated 14 March 2013 with a grant closure date of 31 May 2013. There were no special conditions noted in the Implementation Letter.
- The Round 4 HIV grant was operationally closed on 30 November 2011 and the grant closure plan was approved in the Implementation Letter dated 31 August 2012 with a grant closure date of 31 December 2012 when all the grant closure activities should have been finalized. The grant closure plan included a special condition requiring the Office to provide the Global Fund with details of the assets list signed by the relevant authorities and details of the satellite phones purchased under this grant by 31 December 2012. The Office confirmed that the information was provided to the Global Fund on 28 June 2013 and was waiting for a response.
- The Round 5 TB grant was operationally closed on 31 March 2012 and the grant closure plan was approved in the Implementation Letter dated 13 November 2012 with a grant closure date of 30 June

2013. However, the grant closure date was extended by the Global Fund to 31 December 2013 to enable the Office to finalize the installation of X-ray machines purchased under this grant. This activity was ongoing at the time of the audit.

Since all close-out plans had been approved by the Global Fund and all Implementation Letters had been issued, no issue has been raised.

3. Sub-recipient management

Satisfactory

The Office implemented the grants through six Sub-recipients, one government entity, three non-governmental organisations (one international and two local) and two United Nations agencies (WHO and UNICEF).

3.1 Selection, assessment and contracting

Satisfactory

During the period under review, one Sub-recipient was contracted under the Round 9, Health System Strengthening grant. However, the selection and contracting of the Sub-recipient was completed late within the grant period. The Sub-recipient signed an agreement on 28 July 2012 with an end date of 31 September 2012 (end of the Phase I of the grant). As a result, the agreement expired and the Office was working on contracting the same Sub-recipient for implementation of Phase II of the grant.

3.2 Funding

Satisfactory

Sub-recipients were funded through advances, and subsequent advances were disbursed when at least 80 percent of the previous advances had been accounted for. During the review period, the Office disbursed \$6.9 million to the Sub-recipients. No reportable issues were identified.

3.3 Reporting

Satisfactory

OAI reviewed a sample of Sub-recipient reports and noted that they reported both financial and programmatic data to the Office on a quarterly basis. However, some Sub-recipients did not report during certain periods. The Office explained that in these cases, the Sub-recipients had not received any funds.

3.4 Oversight and monitoring

Satisfactory

The Sub-recipients were regularly visited by the Programme Management Unit staff to discuss programmatic and financial aspects of programme implementation. The location of the Global Fund Programme Management Unit within the government ministry premises enabled regular visits to Sub-recipients.

4. Procurement and supply management

Partially Satisfactory

During the audit period, the Office processed 648 purchase orders totalling about \$8.2 million for the purchase of both health and non-health products under the Global Fund grants. OAI reviewed the procurement process by interviewing staff assigned to the Global Fund grants and testing a sample of 25 purchase orders valued at about \$2.9 million, or 35 percent of the total value of purchase orders issued during the audit period. No reportable issues were noted.

4.1 Procurement of health products

Satisfactory

OAI reviewed four purchase orders with a total value of \$1 million (representing 34 percent of value of selected sample) that pertained to the procurement of health products under existing long-term agreements with the assistance of the Procurement Support Office. No reportable issues were noted.

4.2 Quality assurance of health products

Partially Satisfactory

Issue 4 Inadequate quality assurance of health products

The Global Fund quality assurance policy requires that random samples of pharmaceutical products be obtained at different points in the supply chain and tested for compliance with the applicable quality standards by a laboratory that is accredited by WHO and certified in accordance with the International Organization for Standardization (No. 17205: Calibration and Testing Laboratories), or by a laboratory that has been contracted by the Global Fund. The results of the quality tests should be received in a timely manner to enable effective decision making.

At the time of the audit, the Office had a draft quality assurance plan. In May 2013, a Quality Assurance Workshop was conducted where facilitators from the UNDP Global Procurement Unit provided training on various aspects of quality assurance and discussed the quality assurance plan. The workshop was attended by representatives of both the Office, as the Principal Recipient and the relevant government ministry and was also used to validate the draft quality assurance plan. At the time of the audit, the Office had not been provided with the final quality assurance plan. (In response to the draft report, the Office confirmed that it had received the final copy of the quality assurance plan from the Procurement Support Office on 25 September 2013, and the results of the samples were received on 1 October 2013 and none of the pharmaceutical products had any issues.)

The Office did not comply with the Global Fund policy regarding performance testing by a pre-qualified laboratory throughout the supply and distribution chain. The Office sent samples to a pre-qualified laboratory in October 2012, but at the time of the audit in August 2013, the results of the sample testing were not received.

Failure to obtain the results of quality tests carried out on the pharmaceutical products in a timely manner may prevent the recall of substandard drugs identified during the quality testing on a timely basis, thereby placing patient lives and the reputation of the Office at risk.

Priority	High (Critical)
Recommendation 4:	
The Office should: (a) in collaboration with the Special Advisory Team of the Procurement Support Office, and the Government, finalize and implement a quality assurance plan which complies with the Global Fund quality assurance policy requirements; and (b) ensure that the results of quality tests carried out on the pharmaceutical products are obtained in a timely manner.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.3 Procurement of other goods and services

Satisfactory

OAI reviewed a total of 21 purchase orders valued at approximately \$1.9 million (representing 66 percent of value of selected sample) for the procurement of other goods and services. These included mainly civil works which consisted of eight purchase orders with a value of \$1.5 million. No reportable issues were identified.

4.4 Supply management (inventory, warehousing and distribution)

Partially Satisfactory

UNDP policies and procedures recommend the use of the WHO storage guidelines for finished pharmaceutical products. These guidelines require adequate storage space that is clean and dry without excessive heat or light exposure.

The Office moved to a new warehouse in May 2013. OAI visited the new warehouse, and noted that the storage facilities had air conditioning and fire extinguishers installed. The items in the warehouse were kept on racks and locations were properly labelled. OAI performed sample counts and noted no material variance. However, because OAI raised an issue concerning the disposal of expired health products, this area has been rated "partially satisfactory."

Issue 5 Delay in disposal of expired health products

In managing pharmaceuticals, it is advisable that expired pharmaceutical products be disposed of regularly in small quantities to ensure that large stockpiles do not accumulate.

During its visit to the warehouse, OAI noted that expired health products were stored in a container at the warehouse. These products had accumulated over a period of time because there were no relevant disposal procedures. Health products valued at \$100,961 expired during the review period of 1 July 2012 and 30 June 2013.

The Office explained that disposal of expired drugs had not taken place due to the absence of the required facilities around Juba. Incinerators purchased by one of the Global Fund grants had not yet been installed.

Not properly disposing of expired health products, which could be diverted into the market, could present a public health risk and may damage the reputation of the Office.

Priority	Medium (Important)
Recommendation 5:	
The Office should ensure that the expired health products are disposed of in a timely manner.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office indicated that it would ensure implementation of the recommendation by the first quarter of 2014.	

4.5 Asset management

Partially Satisfactory

Issue 6 Weak asset management controls

In order to ensure that assets purchased by the Global Fund project funds are accounted for, UNDP's Programme and Operations Policies and Procedures require Offices to maintain complete and accurate records of capital assets, including those procured for Global Fund projects. Further, the Programme and Operations Policies and Procedures require that a physical verification exercise be conducted by each business unit two times per year. They further indicate that the Resident Representative has the delegated authority to write off/dispose and assign personal liability for stolen and/or lost assets up to the value of \$2,500 without the review by the Contracts, Assets and Procurement Committee. Any loss of assets shall be reported to the Assistant Administrator, Bureau of Management, who will inform OAI of the need for an investigation.

OAI noted the following exceptions:

- Missing/stolen assets - Five assets with a total value of \$6,010 were found to be missing from the Global Fund project due to theft and were not reported to OAI. These assets included two digital cameras, two motor-cycles, and a laptop. According to police reports provided by UNDSS, the theft was partly attributed to weak security controls.
- The fixed assets register was not updated. Assets, including two vehicles and 44 pieces of IT equipment which are un-serviceable or damaged had not been removed from the fixed assets register.
- Out of 48 assets that were physically verified, 9 did not have identification numbers recorded in the assets register.

Inadequate control and valuation of assets may lead to misstated inventory accounts and may prevent the timely detection of lost or stolen items.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen its asset management by: <ul style="list-style-type: none"> (a) removing all damaged assets from the assets register after approval is obtained from the Contracts, Assets and Procurement Committee; (b) reporting incidents of stolen or lost assets to OAI through the Assistant Administrator, Bureau of Management; and (c) ensuring that all assets are tagged with asset identification numbers and that the assets register is updated with the assets identification numbers and serial numbers. (d) Improving the security controls over the assets. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed The Office had already started addressing the recommendation with a view to implementing it by the first quarter of 2014.	

4.6 Individual contractors

Satisfactory

During the period under review, the Office hired two individual contractors. OAI reviewed all individual contracts and noted that the Office had generally complied with the existing requirements. No reportable issues were identified.

5. Financial management

Satisfactory

5.1 Revenue and accounts receivable

Satisfactory

OAI reviewed the Global Fund disbursements to the Office and no reportable issues were identified. All disbursements were accounted for by the Office.

5.2 Expenditures

Satisfactory

OAI reviewed a sample of 29 vouchers with a total value of \$2.2 million out of total expenditures of \$19.8 million. No reportable issues were identified.

Implementation Support Services is the cost recovery mechanism through which the Country Offices recover the direct costs of services provided by the Country Office in support of programmes and projects. These direct costs are an integral part of project delivery, and therefore, should be charged to the same budget line as the project itself. OAI met with the Local Fund Agent, who raised the concern that they were unable to obtain explanations or justifications from the Office regarding the Implementation Support Services charge. As a result, some of the funding for Round 7 TB grant had been withheld from the amount disbursed by the Global Fund, pending receipt of an explanation from the Office.

The Office explained that Implementation Support Services are charged at 1 percent of the total actual project costs and that the Global Fund was aware of this. This percentage is charged for all projects in the Office.

Subsequent to the audit, the Local Fund Agent confirmed that there was no explanation of the Implementation Support Services charge from the Office since the last Progress Update and Disbursement Request verification, which was carried out at the same time as the OAI audit. There was no response to the Global Fund on the issue, which was raised in one of the Global Fund management letters. The Local Fund Agent was informed by the Global Fund Programme Management Unit that the issue was taken up by the Country Office's senior management and that explanations or justifications would be provided to them in the next review period.

Since the Country Office's senior management had begun working on providing the Local Fund Agent and the Global Fund with the necessary justification, no recommendation was raised.

5.3 Reporting to the Global Fund

Satisfactory

OAI reviewed the timeliness of the submitted to the Global Fund by the Office and no reportable issues were noted. OAI met with the Local Fund Agent and discussed the reporting requirements. The Local Fund Agent did not highlight any delays in reporting or any other concerns indicating that the Office's reporting was in line with what was agreed upon with the Global Fund.

ANNEX. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **Partially Satisfactory** 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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in 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.