



**AUDIT**

**OF**

**UNDP SUDAN**

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

**Report No. 1450**  
**Issue Date: 17 June 2015**

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

The UNDP Office of Audit and Investigations (OAI), from 22 March to 2 April 2015, conducted an audit of five grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 54344, 80740 [HIV] 70280, 80744 [malaria] and 77037, 77038 (TB) managed by UNDP Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> 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, staffing, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grants closure);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January 2013 to 31 December 2014. The Office recorded Global Fund-related expenditures totalling \$108 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2013.

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**, 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 the absence of an exit strategy, weaknesses in the management of Sub-recipients, weaknesses in supply chain management, and weak asset management.

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<sup>1</sup> 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 = 8, high priority = 4

The eight recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) effectiveness and efficiency of operations (Recommendations 2, 3, 4, 6, and 8); (c) safeguarding of assets (Recommendation 7); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 5).

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:

Exit strategy not established (Issue 1)	The Office did not establish an exit strategy that would identify the national entity to which UNDP would hand over the role of Principal Recipient, identify areas where capacity-building of the national entity should be strengthened, provide details of required activities, and establish a transition period with milestones and targets.
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Recommendation: Establish a detailed exit strategy in collaboration with the Government and the Global Fund by: (a) identifying the national entity to which UNDP would later handover the role of Principal Recipient; (b) identifying the areas where capacity-building should be strengthened; (c) providing the details of the required activities to strengthen the national entity's capacity in order to be ready to take over as Principal Recipient; (d) determining the expected transition period; and (d) establishing targets and milestones during the transition period.

Weaknesses in management of Sub-recipients (Issue 4)	The Office developed a capacity development plan for Sub-recipients. However, the plan did not include milestones or provide specific capacity development requirements. Furthermore, the 2014 year-end reports indicated that five Sub-recipients were experiencing significant delays in the achievement of the planned results. The Sub-recipients also did not submit reports in a timely manner.
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Recommendation: Improve the management of Sub-recipients by: (a) updating the existing capacity development plan to include capacity development milestones for each of the Sub-recipient; (b) establishing a process that will allow good performing Sub-recipients to receive cash advances even when other Sub-recipients have low implementation rates in other states; (c) strengthening follow-up mechanisms at the national level to address issues with poor performing Sub-recipients; and (d) providing training so that adequate supporting documents are provided in a timely manner.

Weaknesses in supply chain management (Issue 6)	Changes within customs clearance requirements led to significant delays in the delivery of pharmaceutical products and additional costs to the Office. There were also delays in processes relating to a damaged shipment that resulted in the expiration of all TB finished pharmaceutical products in that shipment. Also, the Office did not follow up on the implementation of recommendations from the 2011 supply chain management assessment.
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Recommendation: Improve supply chain management by: (a) discussing the customs clearance delays with the Government to identify a permanent solution; (b) following up with the Procurement Support Unit on the status of the insurance

claim and actions required from the Office to conclude the case; (c) recovering the remaining claim from the insurance company following guidance from the Legal Support Office; (d) preparing a standard operating procedure outlining the steps, roles and responsibilities within the Office in order to expedite the claim regarding the a damaged shipment; (e) reviewing the extent of the implementation of the recommendations of the supply chain management assessment, and using the recommendations when prioritizing areas for further capacity-building; and (f) supporting the development of a waste management plan for the central warehouse, and following up on the lack of supply vehicles.

Weak asset  
management  
(Issue 7)

The Office had an incomplete assets listing, over 1,000 assets in storage that included obsolete ones, no evidence of physical verifications carried out, and inadequate controls to protect records from unauthorized modification.

Recommendation: Strengthen asset management by: (a) updating the asset listing to include all the required information, i.e. custodian, value, and purchase date; (b) procuring assets only if they could be immediately distributed; (c) preparing and implementing an appropriate strategy for the disposal of obsolete assets in a timely manner; (d) keeping the completed verification sheets used during the physical verifications and following up on all discrepancies highlighted; and (e) improving controls within the asset register so that accurate information is maintained.

**Implementation status of previous OAI audit recommendations:** Report No. 1245, 12 March 2014

Total recommendations: 3

Implementation rate: 100%

**Management comments and action plan**

The Resident Representative accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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