



**AUDIT**

**OF**

**UNDP SUDAN**

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

**Report No. 1245**

**Issue Date: 12 March 2014**

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

The UNDP Office of Audit and Investigations (OAI), from 3 to 19 November 2013, conducted an audit of seven grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 39743 [Malaria], 39831 [HIV], 45886 [HIV], 57030 [Malaria], 59147 [TB], 63875 [HIV] and 63879 [Malaria]) 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, grant 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 activities of the Office from 1 January to 31 December 2012. The Office recorded Global Fund-related expenditures totalling \$55.2 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*.

### Overall audit rating

OAI assessed the Office 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 inadequate human resources capacity in the Programme Management Unit which impacts effective management and implementation of Global Fund projects.

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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 = 3, high priority = 1

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. The high (critical) priority recommendation is presented below:

Inadequate human resources capacity in the Programme Management Unit (Issue 1)

The Global Fund Programme Management Unit has 45 positions and out of these, 14 remained vacant for an extended period. Posts that remained vacant since 2012 included the key positions of Programme Manager, HIV/AIDS Analyst and Assets and Contract Management Analyst.

Recommendation: Strengthen the capacity of the Programme Management Unit by ensuring that all of the vacant positions are filled as soon as possible.

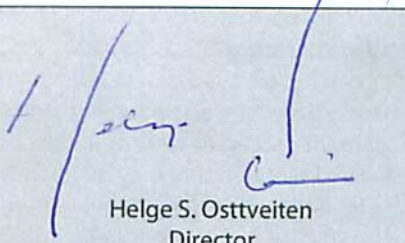
**Implementation status of previous OAI audit recommendations:** Report No. 1072, 2 July 2013.

Total recommendations: 8  
Implementation status: 88%

**Management comments and action plan**

The Resident Representative accepted all the recommendations in the areas of governance and strategic management, programme management, and procurement and supply management 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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## I. Profile of Global Fund grants managed by UNDP Sudan

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in Sudan (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$ '000)	Implementation Rate	Expenditures (1 Jan 2012 to 31 Dec 2012) (in \$ '000)	Global Fund Rating*
SUD-202-G03-M-00	39743	Malaria Round 2	01 Apr 2005 (Phase I)	30 Sep 2009 (Phase II)	33,078	33,078	100%	-	A1 (As at Sept 2009)
SUD-305-G04-H	39831	HIV Round 3	01 Apr 2005 (Phase I)	30 Sep 2010 (Phase II)	20,028	20,028	100%	-	B1 (As at Sept 2010)
SUD-506-G08-H	45886	HIV Round 5	01 Jan 2007 (Phase I)	30 Jun 2012 (Phase II)	73,438	73,438	100%	12 103	B1 <sup>2</sup>
SUD-708-G10-M	57030	Scaling up malaria interventions in Sudan	01 Apr 2009 (Phase I)	31 Mar 2014 (Phase II)	76,588	61,386	80%	13 690	A2 <sup>3</sup>
SUD-T-UNDP	59147	Comprehensiveness and quality of DOTS in Sudan	01 Jul 2010 (Phase I)	28 Feb 2015 (Phase II)	37,298	20,129	54%	9 166	B1
SUD-011-G15-H	63875	To intensify the HIV/AIDS national response	01 Mar 2012 (Phase I)	28 Feb 2014 (Phase I)	19,180	4,338	23%	2 525	B2 <sup>4</sup>
SUD-011-G16-M	63879	Scaling up universal coverage with community participation	01 Mar 2012 (Phase I)	28 Feb 2014 (Phase I)	53,674	40,740	76%	17 785	A2
<b>Total</b>					<b>313,285</b>	<b>253,138</b>		<b>55 268</b>	

\* As of 31 December 2012

## II. Audit results

Satisfactory performance was noted in the following areas:

(a) Sub-recipient management. The Office implemented the grants through six Sub-recipients, which were comprised of four United Nations agencies and two non-governmental organisations. OAI reviewed the selection, funding, Sub-recipients' reporting to the Office, and the Office's oversight of the Sub-recipients. For all the areas reviewed, no notable exceptions in procedures and controls were found, and therefore the area was assessed as satisfactory.

<sup>2</sup> Global Fund rating B1 = Adequate

<sup>3</sup> Global Fund rating A2 = Meets Expectations

<sup>4</sup> Global Fund rating B2 = Inadequate but potential demonstrated

(b) Financial management. The review of the revenue, financial reporting to the Global Fund, and 51 payment vouchers totalling \$16.5 million (47 percent of the total value of vouchers issued) indicated that the Office had complied with the respective policies and procedures, and that the controls were generally adequate.

OAI proposes three recommendations that are ranked high (critical) and medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

**High priority recommendation:**

- (a) Strengthen the capacity of the Programme Management Unit (Recommendation 1).

**Medium priority recommendations**, arranged according to significance:

- (b) Finalize grant closure process for all closed grants (Recommendation 2).
- (c) Strengthen asset management (Recommendation 3).

The detailed assessment is presented below, per audit area:

**A. Governance and strategic management**

**Issue 1**      Inadequate human resources capacity in the Programme Management Unit

For the proper management of the Global Fund grants, all the key positions in the Programme Management Unit need to be filled on a timely basis.

The Global Fund Programme Management Unit has 45 positions and out of these, a total of 14 positions remained vacant for extended period. This included six positions that were vacant in 2012 and an additional eight positions that were created as part of the Unit's new structure. Posts that remained vacant since 2012 included the key positions of Programme Manager, HIV/AIDS Analyst, and Assets and Contract Management Analyst. The recruitment process is carried out by the Office's Human Resources Unit. The delay was mainly due to the lack of staff in the Programme Management Unit necessary for carrying out recruitment-related activities for many vacancies.

Delays in the recruitment of key positions in the Programme Management Unit may have a negative impact on the operational and programme delivery of the Global Fund grants in the Country Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
Strengthen the capacity of the Programme Management Unit by ensuring that all of the currently vacant positions are filled as soon as possible.	

**Management action plan:**

Key positions, including the Programme Manager positions, are now filled. Other remaining positions will all be filled by March 2014.

**Estimated completion date:** March 2014

**OAI Response:**

The recommendation is being retained since only 2 of the 14 vacant posts had been filled. At the time this report was being drafted, additional vacancies were noted, totalling 18.

**B. Programme management**

**Issue 2**      Delayed financial closure of closed grants

When a grant has reached its agreed programme ending date, the Office has to take necessary actions to close the grant promptly in accordance with the agreement and with UNDP policies and procedures. The Global Fund agreement requires the submission of a grant closure plan, setting out the terms and conditions governing the closure of the grant. The closure activities are normally carried out within six months after the programme end date and an extra year is given to reconcile balances. UNDP's Financial Regulations and Rules stipulate that financial closure of a project must take place within 12 months from its operational closure.

Based on the approved plans, the expected dates of closure for the following grants are as follows:

Grant details	Project ID	Output No	Start date	End date	Date of grant closure plan approval	Deadline for refund to GF	Amount to be refunded \$	Comments
Round 2 Malaria grant	39743	44710	01-Apr-05	30-Sep-09	16-Apr-11	31-Aug-12	1,483,543	Requested Treasury to refund
Round 3 HIV grant	39831	44832	01-Apr-05	30-Sep-10	11-Apr-11	31-Aug-12	1,321,287	Requested Treasury to refund
Round 5 HIV grant	45886	54334	01-Jan-07	31-Mar-13	17-Dec-12	31-Aug-13	Final cash position not yet agreed	Final cash position not yet agreed

The issue of grant closure delay for Round 2 Malaria and Round 3 HIV was highlighted in the 2013 audit report and is still outstanding. OAI noted that the Office had sent an email to the Treasury Division to process the refund for the Round 2 Malaria grant and Round 3 HIV grant on 22 October 2013, but this had not yet been processed at the time this report was being drafted. The Office sent a reminder on 7 November 2013 but no response had been received at the time of the audit mission.

The refund for the Round 5 HIV grant was also still outstanding and the final cash position had not yet been agreed upon with the Global Fund. The Office explained that they had informed the Global Fund about UNDP's financial statement cycles and it was only during this time that they can carry out complete closure.

Furthermore, the approval of the Round 5 HIV grant closure plan by the Global Fund was received by the Programme Management Unit only after 11 months of delay.

Delays in grant closure could negatively impact the reputation of the Office as a Principal Recipient of Global Fund grants.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Finalize the grant closure process by ensuring that the unspent grant funds are returned to the Global Fund and the closure of the grants is documented in the "Grant Closure Letter."	
<b>Management action plan:</b>	
The Office was following up with Treasury Division. Accordingly, the refund for Malaria Round 2 (SUD-202-G03-M-00) was being processed. For HIV Round 3(SUD-305-G04-H), the Office received an additional refund from WHO, which was also being validated for further processing.	
<b>Estimated completion date:</b> March 2014	

## C. Procurement and supply management

### 1. Quality assurance of health products

#### **Issue 3**      Inadequate quality assurance for pharmaceutical products

According to the "Global Fund Quality Assurance Policy for Pharmaceutical Products" and Article 18 of the Grant Agreement, Principal Recipients must ensure that product testing is done and that random samples of finished pharmaceutical products are obtained at different points in the supply chain, from initial receipt in-country to delivery to end-users/patients. Such samples must be tested for compliance with applicable quality standards by a WHO-prequalified laboratory, or accredited in accordance with the ISO Standard 17205: Calibration and Testing Laboratories, or a laboratory contracted by the Global Fund.

During 2012, the Quality Assurance Plan was developed and approved by the Global Fund. However, the Plan was not fully implemented in 2012. The required quality control of the pharmaceutical products in the Country was performed by a WHO/ISO pre-qualified laboratory when the shipment was first received at the point of entry in the Country. However, the required quality control checks were not performed throughout the entire distribution chain for TB and HIV.



Failure to test the pharmaceutical products at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patients' lives and the reputation of the Office at risk.

In response to the draft report, the Office confirmed to OAI that they started carrying out the quality control checks along the distribution chain in 2013 after the Quality Assurance Plan had been finalized. They added that quality assurance test certificates of all products were found to be compliant with the required Global Fund requirements. Samples of test reports were provided to OAI.

**Comment**

OAI acknowledges the actions taken by the Office and is no longer issuing a recommendation.

**2. Asset management**

**Issue 4**      Incomplete information in the Assets Register

In order to ensure that assets purchased are accounted for, UNDP's Programme and Operations Policies and Procedures and the International Public Sector Accounting Standards require offices to maintain complete documentation and accurate records of fixed assets, including those procured for Global Fund projects. All relevant supporting documentation is to be uploaded to the Global Shared Service Centre.

OAI noted the following exceptions:

- Large number of assets was found recorded in the Global Fund Assets Register without information on values, serial numbers and dates of acquisition. These assets included 176 pieces of office furniture, 6 laptops, 13 printers and photocopiers, 3 mobile devices and 2 digital cameras.
- One asset (laptop computer) was procured by the Global Fund project for the Programme Management Unit and managed and controlled by the Office outside of Atlas. With the International Public Sector Accounting Standards, all Global Fund assets procured for the Programme Management Unit must be recorded in Atlas and all relevant supporting documentations must be uploaded to Global Shared Service Centre.

Incomplete recording of Global fund assets may lead to inaccurate accounting and reporting that may prevent proper management of these assets.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Strengthen asset management by:	
(a) ensuring that fixed assets recorded in the Assets Register have values, serial numbers and dates of acquisition; and	
(b) ensuring that the office is fully compliant with International Public Sector Accounting Standards in accounting for Global Fund assets in Atlas.	



**Management action plan:**

Noted and under implementation.

**Estimated completion date:** April 2014

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **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.
- **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.
- **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.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.