

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP SUDAN**

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

**Report No. 1450**

**Issue Date: 17 June 2015**

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## 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.

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.

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.

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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## 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.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of Dec 2014 (in \$ '000)	Implementation Rate	Expenditures as of Dec 2014 (in \$ '000)	Global Fund Rating at June 2014
SUD-506-G08-H	00054344	HIV	1 Jan 2007	31 March 2013	73,438	73,438	100	70,488	B1
SUD-011-G15-H R10 PHASE 1	00080740	HIV	1 March 2012	31 March 2015	32,153	29,188	91	26,185	B1
SUD-011-G16-M R10 PHASE 1	00080744	Malaria	1 March 2012	31 March 2015	73,408	73,006	99	59,651	B2
SUD-T-UNDP SSF PHASE 2	00077037/ 00077038	TB	1 Jan 2012	31 March 2015	45,268	40,511	89	37,237	B2
SUD-708-G10-M R7 PHASE 2	00070280	Malaria	1 April 2009	31 March 2015	84,156	84,131	100	80,435	A2
					<b>308,423</b>			<b>273,996</b>	

## II. Audit results

Satisfactory performance was noted in the following area:

**Financial management.** Internal control processes were established and functioning well, and reporting to the Global Fund was done in a timely manner.

OAI made four recommendations ranked high (critical) and four recommendations ranked medium (important) priority.

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

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

- Establish a detailed exit strategy in collaboration with the Government and the Global Fund (Recommendation 1).
- Improve supply chain management (Recommendation 6).
- Improve the management of Sub-recipients (Recommendation 4).
- Strengthen asset management (Recommendation 7).

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

- Improve data collection (Recommendation 2).
- Coordinate with national counterpart on the timely completion of the construction of five laboratories and develop an action plan (Recommendation 3).
- Improve the evaluation of civil works proposals (Recommendation 5).

(d) Actively follow up on the recovery of value-added tax payments (Recommendation 8).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Capacity development and exit strategy

#### Issue 1 Exit strategy not established

The 'Programme and Operations Policies and Procedures' indicate that national implementation is the standard for programme activities, and direct implementation by UNDP is an option in situations when national institutions, United Nations agencies, or civil society organizations have limited capacity to implement the programme activities. The Office should establish an exit strategy at the design stage of any directly implemented project.

Since 2005, the Office had been implementing Global Fund grants in the Country through the direct implementation modality and being managed under the Additional Safeguard Policy, as per the grant agreements signed with Global Fund. Since 2012, the Office had been taking steps to support the capacity development of relevant government entities, as follows:

- In 2012 and 2013, the Office started assessing the capacity of governmental entities prior to contracting them as Sub-recipients.
- In 2014, a capacity development plan was finalized, which included a process to support the integration of implementation activities related to HIV, TB, and malaria, and to improve oversight and accountability.

However, a detailed exit strategy had not been established, including:

- (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
- (e) establishing targets and milestones in the transition plan.

In August 2014, the relevant government ministry and the Global Fund agreed to a plan to eventually transfer Principal Recipient functions to the relevant government ministry.

By not establishing a detailed exit strategy, the national entity may not have the required capacity to take over the Principal Recipient functions, which could put the sustainability of the grant activities at risk.



<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
Establish a detailed exit strategy in collaboration with the Government and the Global Fund, including strengthening the capacity of the relevant government ministry, and establishing targets and milestones in the transition plan.	
<b>Management action plan</b>	
The Office, through a three-way dialogue with the relevant government ministry and the Global Fund, will accelerate and expand the capacity development plan initiated in 2014 and will develop an exit strategy.	
<b>Estimated completion date:</b> December 2015	

## B. Programme management

### 1. Monitoring and evaluation

#### Issue 2 Inadequate data collection

Each Global Fund grant has a set of performance indicators and targets that are defined at the initiation stage. The Office reports to the Global Fund twice a year on the performance of grants based on the established performance indicators. The reported indicators are mainly fed from data collected from different stakeholders and implementing partners.

For the malaria grant (Output No. 80744), the Service Delivery Points (health facilities and community service providers) are required to report grant indicator data to localities (districts) on a monthly basis, which are then collated to provide national level information and reported to the Global Fund. These reports are used to track the indicator 'number of uncomplicated and severe malaria patients receiving anti-malarial treatments'. This was a key indicator for the Global Fund and the data was being entered into the National Health Management Information System.

During the period from July to December 2014, the report submission rate from the Service Delivery Points was only 50 percent. The Office explained that the low rate was due to the security situation in 7 out of 18 states, which affected the supply of reporting tools, limited the training activities and supervisory visits, and delayed submissions of the periodic reports. Due to limited accessibility, the Office did not rely on the information from the National Health Management Information System but from the Central Medical Supplies Corporation's Logistics Management and Information System. Nonetheless, there were also concerns of the completeness of data coming from the Logistics Management and Information System because the submission rate during the period from January to June 2014 was only 79 percent.

The incomplete information for tracking the malaria indicator 'number of uncomplicated and severe malaria patients receiving anti-malarial treatments' may create difficulties in determining the effectiveness of the programme.



<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Improve data collection by:	
<ul style="list-style-type: none"> <li>(a) coordinating with national entities to address the underlying reasons for the low submission rate resulting from the unfavourable security situation; and</li> <li>(b) developing a comprehensive plan addressing the underlying reasons that will be identified to improve the data collection process and submission rates.</li> </ul>	
<b>Management action plan:</b>	
The Office will take the following actions:	
<ul style="list-style-type: none"> <li>(a) coordinate with the relevant government ministry in developing a comprehensive plan to improve the data collection process;</li> <li>(b) complete training for staff on the Logistics Management and Information System in all the focused states; and</li> <li>(c) monitor the data entry into the Logistics Management and Information System to ensure it functions properly.</li> </ul>	
<b>Estimated completion date:</b> December 2015	

## 2. Project approval and implementation

### Issue 3 Delays in constructing zonal laboratories and non-functioning laboratory equipment

UNDP manages the construction and renovation of buildings and laboratories as part of its responsibility as a Principal Recipient of Global Fund grants. It is crucial to have functioning equipment in the laboratories to ensure proper diagnostic testing.

#### TB grant (Output Nos. 77037 and 77038)

The TB grant targets included establishing a decentralized system with a National Reference Laboratory, and constructing five zonal laboratories for the multi-drug resistance TB strains. The Office planned to install a genXpert machine (used for diagnostic testing to identify TB drug resistance) in each zonal laboratory in 2012. However, the laboratories were not yet operating as of 31 March 2015. The Office explained that there were delays in selecting the sites for the zonal laboratories, selecting vendors to renovate the sites, and procuring the genXpert machines. Therefore, this resulted in a low performance rating for the TB grant because of the low capacity in detecting and treating the multi-drug resistance TB strains.

#### HIV grant (Output No. 54334)

It was found through a visit to an antiretroviral therapy centre that its CD4 counting machine (used for HIV diagnostic testing) had not been functioning for two years. Further, the Office stated that none of the 14 CD4 counting machines in the Country was functioning. The Office conducted an in-depth analysis on the issue and concluded that the counting machines were not functioning because of the faulty uninterruptible power supply

units, poor working environment (e.g. high temperature and no protection from dust), absence of in-country support for regular maintenance, and a high turnover of laboratory personnel. The non-functioning CD4 counting machines created difficulties in completing the diagnostic analysis of HIV cases.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Coordinate with the national counterpart on the timely completion of the construction of 5 zonal laboratories, and develop and implement a comprehensive action plan to repair the 14 CD4 counting machines.	
<b>Management action plan:</b>	
The Office handed over the five zonal laboratories to the relevant government ministry, which will repair the electrical problems.	
The Office will conduct a periodic assessment on the status of the CD4 counting machines through monitoring site visits. Based on the outcome of the visits, the Office will develop a comprehensive action plan to ensure CD4 counting machines are functioning properly.	
<b>Estimated completion date:</b> December 2015	
<b>OAI response</b>	
OAI acknowledges the action taken by management, which will be reviewed at a later stage as part of the follow-up process of OAI.	

## C. Sub-recipient management

### Issue 4 Weaknesses in management of Sub-recipients

During the audit period, project implementation was carried out through 13 Sub-recipients comprised of government counterparts, United Nations agencies, and non-governmental organizations. The total amount disbursed to the Sub-recipients was \$39 million (35 percent of total Global Fund grants). Of this amount, the Office disbursed \$33.5 million to United Nations agencies, \$5.2 million to government counterparts, and \$0.3 million to non-governmental organizations.

#### Incomplete capacity development plan

The 'UNDP Operations Manual for Projects Financed by the Global Fund' requires Country Offices to assess Sub-recipients' capacities during the project formulation stage, in order to determine their strengths and weaknesses, and to document how UNDP can assist with capacity-building. The Office and the Sub-recipients should develop a plan addressing in detail how capacity will be developed or strengthened.

In 2014, a capacity development plan was developed, which highlighted a number of areas for improvement. However, the plan did not include milestones or provide specific capacity development requirements for each Sub-recipient. The latest status report (November 2014) indicated limited progress in the areas highlighted for capacity development. In the absence of milestones, it was difficult to determine the extent of the delays in capacity development.

#### Low implementation rates and reporting delays

The Sub-recipient agreements require that status reports be prepared within 30 days after the end of the quarter. The reports should include an explanation where targets or planned results have not been achieved as set out within the agreement.

The 2014 year-end reports indicated that five Sub-recipients were experiencing significant delays in the achievement of the planned results. For example, a Sub-recipient had a low implementation rate for all 21 results, while another Sub-recipient had a low implementation rate for 6 out of 7 results. Further, at the time of the fieldwork, the year-end reports from three national entities had either not been received by the Office or had not been finalized. On the other hand, two reports received contained inadequate explanation for the low expenditure and the lack of achievement of planned results.

Management explained that Sub-recipients implemented activities in states with security challenges or in newly established states where systems were still being developed. Furthermore, some Sub-recipients submitted incomplete supporting documents for certain expenditures from the affected states. In certain states where the financial delivery was low, it affected a Sub-recipient in achieving 80 percent utilization of cash advances received. This resulted in a delay of releasing subsequent advances and implementing planned activities across the Country.

If Sub-recipient capacities are not developed, they may be unable to execute their role effectively. Further, if the underlying reasons for low delivery of Sub-recipients are not addressed, the overall programme targets may not be achieved.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
Improve the management of Sub-recipients by:	
<ul style="list-style-type: none"> <li>(a) updating the existing capacity development plan to include capacity development milestones for each of the Sub-recipients;</li> <li>(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;</li> <li>(c) strengthening follow-up mechanisms at the national level to address issues with poor performing Sub-recipients; and</li> <li>(d) providing training so that adequate supporting documents are provided in a timely manner.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will prepare a capacity development plan for Sub-recipients in the new grant agreements as appropriate, including compliance with financial requirements.</li> <li>(b) The Office will raise the issue of Sub-recipient poor performance in various forums, including during the</li> </ul>	

Oversight Committee and Country Coordination Mechanism's general meetings, as well as by sending management letters to the concerned Sub-recipients.

**Estimated completion date:** December 2015

## D. Procurement and supply chain management

### 1. Procurement of other goods and services

#### Issue 5 Weaknesses in evaluation of civil works proposals

The 'Programme and Operations Policies and Procedures' require Country Offices to conduct procurement activities in a fair and transparent manner and to provide best value for money through a competitive process. The evaluation methodology and criteria should be clearly defined and specified within the solicitation documents.

A review of the procurement process for civil works noted the following weaknesses:

#### Evaluation criterion not clearly defined in the solicitation documents

In two cases (contract value \$632,400), the criterion used by the Office to exclude the vendors with the lowest financial offer was not defined in the solicitation document. Specifically, the proposals were classified as technically non-responsive by the evaluation team because the financial offers were below the estimated reference prices established by the Office. However, this evaluation criterion was not included in the invitation to bid solicitation document.

#### Inconsistencies within the evaluation reports

In one case with a potential contract amount of \$168,000, a supplier was incorrectly excluded for not providing the qualifications of their personnel within the proposals; however, this information was in fact provided. In another case with the potential contract amount of \$66,000, there were inconsistencies noted in the evaluation report. The vendor was assessed as technically compliant in one section of the evaluation report, while the same vendor was assessed as non-compliant in another section.

Inconsistent procurement processes may not provide value for money and may negatively affect the reputation of UNDP.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
Improve the evaluation of civil works proposals by:	
(a) including all evaluation criteria in the solicitation documents against which the bidders will be assessed; and	
(b) maintaining accurate and complete evaluation reports and basing the conclusion on information received.	

**Management action plan:**

The Office will adhere to the evaluation criteria in the solicitation documents while assessing the bids. The Office will pay closer attention when writing the evaluation reports.

**Estimated completion date:** August 2015

## 2. Supply management (inventory, warehousing, distribution)

### Issue 6 Weaknesses in supply chain management

Principal Recipients are required by the 'Standard Terms and Conditions of Global Fund Grants' to comply with the World Health Organization guidelines for adequate storage and distribution practices of pharmaceutical products.

#### Customs clearance delays

In June 2014, the customs clearance requirements were modified. A clearance letter from the relevant government ministry was required prior to the release of pharmaceutical products. This additional step led to a number of significant delays and additional costs impacting the projects, as described below:

- Demurrage fees and seaport charges in the amount of \$562,713 were incurred. Of this amount, \$200,679 related to intravenous (IV) fluids, which required four months to clear customs.
- The risk of pharmaceutical product stock-out or expiration increased. The HIV test kits and reagents had a limited shelf life of six months. The shipment of these products in September 2014 required seven weeks to clear customs, which significantly reduced the time available before the products were expected to expire.
- There was also a risk of finished pharmaceutical products becoming ineffective. The storage conditions in the customs warehouse were poor, particularly during April through October, when the temperature was beyond the recommended temperature for storing finished pharmaceutical products. The prolonged storage under these conditions increased the risk of these products becoming ineffective. In 2014, the local Medicines and Poisons Board rejected a shipment of IV fluids (\$660,688), which took four months to clear customs, on account of the high temperature and poor storage conditions in the customs warehouse. The Office appealed this decision and the shipment was submitted for quality assurance testing.

This issue affected all United Nations agencies in the Country and discussions had taken place at the Resident Coordinator level; however, the issue remained unresolved. The Office agreed to renovate the customs warehouse at the airport, including leasing a bonded warehouse, to improve the storage conditions while awaiting customs clearances.

#### Damaged shipment of TB finished pharmaceutical products

In July 2013, a damaged shipment of TB drugs arrived in the Country (total cost, including freight, of \$821,200). The Office notified the freight company and submitted a claim totalling \$639,462 for the damaged shipment. In August 2013, the insurance company completed a survey of the shipment and accepted responsibility for \$125,188, of which \$77,080 had been recovered through credit notes. As of April 2015, the claim of \$514,274 was

being disputed. During the process of discussing the insurance claim, all of the TB drugs in the shipment had expired. However, the insurance company indicated that the policy did not require them to cover the cost of the drugs that had expired before the quality assurance testing was completed. The Procurement Support Office was handling the case in consultation with the Legal Support Office. The case had not been concluded as of the end of the audit fieldwork.

#### Supply chain management assessment

In 2011, an assessment was completed of the entire supply chain for the distribution of drugs for HIV, TB, and malaria across the Country. The assessment report highlighted 12 problem areas and made 37 recommendations. The Office had taken a number of initiatives to improve the supply chain management, including establishing an online logistics management information system across 15 of the 18 states. However, a review of the status of the implementation of the recommendations had not been made since the initial assessment in 2011.

A number of field visits had been conducted which identified issues in the supply chain management. Specifically, the central warehouse did not have a waste management plan or available stock for certain pharmaceutical products and test kits. Management indicated that a waste management plan would be prepared for the central warehouse, and also acknowledged the low stocks of certain items due to the lack of supply vehicles.

Weaknesses in supply chain management increase the risk of stock-outs and drugs expiring prior to reaching the intended beneficiary.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
Improve supply chain management by:	
<ul style="list-style-type: none"> <li>(a) discussing the customs clearance delays with the Government to identify a permanent solution;</li> <li>(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;</li> <li>(c) recovering the remaining claim from the insurance company following the guidance from the Legal Support Office;</li> <li>(d) preparing a standard operating procedure outlining the steps, roles and responsibilities within the Office in order to expedite the claim regarding the damaged shipment;</li> <li>(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</li> <li>(f) supporting the development of a waste management plan for the central warehouse, and following up on the lack of supply vehicles.</li> </ul>	
<b>Management action plan:</b>	
The Office will take the following actions:	
<ul style="list-style-type: none"> <li>(a) continue discussions with the national entities to set up a better system to expedite the internal documentation for customs clearance;</li> <li>(b) follow up and coordinate with Procurement Support Unit to conclude the case;</li> </ul>	

- (c) develop standard operating procedures to expedite the claim for the damaged shipment;
- (d) plan for an in-depth assessment of the supply chain functionality every two years starting in 2016;
- (e) recruit a consultant to develop standard operating procedures, a manual, and a waste management plan; and
- (f) raise the issue of appropriate vehicle use with the relevant government ministry or Country Coordination Mechanisms to ensure timely distribution of medicines and health commodities.

**Estimated completion date:** December 2016

### 3. Asset management

#### Issue 7 Weak asset management

The 'Global Fund Guidelines' stipulate that the Principal Recipient is responsible for the proper custody, maintenance, and care of all assets, and for ensuring that all equipment and materials are used for the programme. At the completion of the grant agreement, all assets must be returned to the Global Fund, unless otherwise agreed. A physical verification of all assets should be conducted twice per year.

The following weaknesses were noted during the review of asset management:

- There were 201 assets (7 percent) with no custodian information, 2,528 assets (59 percent) with no value, and 2,348 assets (55 percent) with no purchase dates in the assets listing.
- As of April 2014, there were 1,082 assets (27 percent) in storage. Of these assets, 82 were purchased before 2014, and 171 were purchased during 2014. The remaining 829 assets had missing purchase dates. Management explained that the assets in storage included obsolete assets waiting for disposal. The newer assets were purchased under the Health System Strengthening grant, which had not been distributed due to the volatile security situation in certain areas.
- The signed count sheets were not made available as evidence that the physical verifications were conducted. Further, there was no evidence of corrective actions taken to address the discrepancies noted in the annual inventory report.
- The assets were being recorded in an Excel spreadsheet and maintained by the asset focal point. There were no additional safeguards in place to prevent unauthorized modifications to the document.

In response to the draft report, the Office explained the delays in asset distribution were due to the lengthy delivery process, the delayed custom clearances and sanctions, and the pre-positioning of some assets. Further, the Office received approval from the Global Fund in May 2015 to dispose of obsolete assets.

Weak asset management increases the risk of assets being lost or stolen. Further, holding assets in storage for extended periods can lead to them becoming obsolete, and therefore not being of benefit to the programme.



<b>Priority</b>	High (Critical)
<b>Recommendation 7:</b>	
Strengthen asset management by:	
<ul style="list-style-type: none"> <li>(a) updating the asset listing to include all required information (i.e. custodian, value, and purchase date);</li> <li>(b) procuring assets only if they could be immediately distributed;</li> <li>(c) preparing and implementing an appropriate strategy for the disposal of obsolete assets in a timely manner;</li> <li>(d) keeping the completed verification sheets used during the physical verifications and following up on all discrepancies highlighted; and</li> <li>(e) improving controls within the asset register so that accurate information is maintained.</li> </ul>	
<b>Management action plan:</b>	
The Office will take the following actions:	
<ul style="list-style-type: none"> <li>(a) update the asset listing with all required information;</li> <li>(b) streamline the procurement and distribution plans;</li> <li>(c) dispose of obsolete assets in accordance with UNDP's policies and procedures; and</li> <li>(d) keep the signed verification sheets and discrepancies and follow up with the respective custodians.</li> </ul>	
<b>Estimated completion date:</b> December 2015	

## E. Financial management

### 1. Revenue and accounts receivable

#### Issue 8 Value-added tax paid not recovered

The 'Global Fund Grant Agreement' stipulates that the Principle Recipient shall try to ensure, through coordination with the Government, that disbursements are free from taxes and duties.

The Office paid value-added taxes of \$88,140 and \$62,050 in 2013 and 2014, respectively. The Office indicated that an agreement was reached among United Nations agencies that the agency with the highest value-added tax payments would pursue the issue with the Government. As of April 2015, the value-added taxes paid had yet to be recovered.

Not recovering value-added tax payments could have a negative impact on project activities.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>  Actively follow up on the recovery of value-added tax payments and and request for tax exemptions from the Government.	
<b>Management action plan:</b>  The Office will actively follow up with the Government and will keep records of communication.	
<b>Estimated completion date:</b> December 2015	

## 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.