

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP SUDAN

GRANTS FROM THE GLOBAL FUND

Report No. 2055
Issue Date: 28 February 2020

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Report on the Audit of UNDP Sudan Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 24 November to 5 December 2019, conducted an audit of two grants from the Global Fund (Output Nos. 93712 [Malaria]; 93713 and 108351 [HIV]; and 93714 and 108353 [TB]) managed by UNDP Sudan (the Office) as the Principal Recipient. 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, risk management, staffing and performance management, capacity development and transition strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation and grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- (d) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and
- (e) financial management (revenue and accounts receivable, expenses, and reporting to the Global Fund)

The audit covered the Global Fund-related activities of the Office from 1 January 2018 to 30 September 2019. The Office recorded Global Fund-related expenses of approximately \$21.1 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2017.

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/major improvement needed**, which means "the assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/ area." This rating was mainly due to weaknesses in Sub-recipient contracting and financial monitoring, ineffective inventory management, and inadequate controls over asset management.

Key recommendations: Total = 5, high priority = 3

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium

Reliability and integrity of financial and operational information	2	Medium
Effectiveness and efficiency of operations	3	High
Safeguarding of assets	5	High
Compliance with legislative mandates, regulations and rules, policies and procedures	4	High

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:

Weaknesses in Sub-recipient contracting and financial monitoring
(Issue 3)

All 11 Sub-recipient agreements for HIV and TB grants were signed with delays ranging from two to seven months. One Sub-recipient signed the agreement more than 12 months after the start of the grant. A review of Sub-recipient financial management disclosed unutilized advances of \$29,000 from five government entities that had not been recovered since 2014. In addition, one United Nations agency had an unliquidated cash balance for \$714,000 from advances received in June 2017.

Recommendation: The Office should improve the contracting and financial monitoring of Sub-recipients by: (a) agreeing on all terms, including budget and implementation modality, with Sub-recipients and signing the Sub-recipient agreements prior to the implementation of the next allocation; and (b) recovering the unspent advances from the five government entities by escalating the issue and clearing the outstanding cash advances from the concerned United Nations agency.

Ineffective inventory management
(Issue 4)

A review of inventory noted the following: The stock of 43 products included expired and damaged lots valued at \$200,000. There were 37 products, including medicines and laboratory items, that did not have stocks in the central warehouse. Stocks for five other products were depleted following expiry. Only three of these five products had been planned for in the Health Procurement Action Plan but had not yet been procured.

Recommendation: The Office should ensure adequate inventory management by: (a) establishing an effective mechanism to closely monitor the consumption and damage/expiry patterns for all inventory products in close cooperation with the Government; and (b) adjusting the procurement and distribution plans to ensure the availability of sufficient stock.

Inadequate controls over asset management
(Issue 5)

A review of the management of assets disclosed the following:

a) Late transfer of assets to the government implementing partner

The Health Systems Strengthening (HSS) and Malaria grants were transitioned to the Government in 2015 and January 2018, respectively. However, there were 927 assets totalling \$8.7 million purchased under the

two grants that had not yet been transferred to the relevant government ministry.

b) Delays in distribution of TB and HIV assets

There were 370 assets purchased under the TB and HIV grants for \$234,305 that had not yet been distributed to beneficiaries. These included 42 pieces of health equipment purchased between 2011 and 2017, and 328 pieces of IT equipment purchased in 2014.

c) Reconciliation of UNDP and central warehouse registers

There were discrepancies between the warehouse stock cards and the Country Office register. The warehouse recorded a total of 2,411 assets while the Office's asset register showed 1,404 assets, or 40 percent less. In addition, the assets could not be valued since the currency used to record assets in the National Medical Supply Fund system had not been aligned with the Office's registers.

Recommendation: The Office should ensure effective asset management by: (a) establishing a formal agreement with the National Medical Supply Fund, defining clear coordination mechanisms, roles, responsibilities and procedures for receipt, recording, storage, distribution and reconciliation of assets; (b) timely distribution of assets to beneficiaries; and (c) requesting specific justification for all asset purchases including distribution plans supported by requests from the relevant government ministry.

Implementation status of previous OAI audit recommendations: Report No. 1761, 28 April 2017.

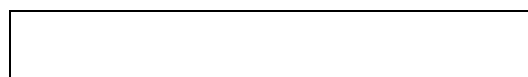
Total recommendations: 5

Implemented: 5

Management comments and action plan

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

Low risk issues (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 2011, UNDP has been the Principal Recipient of Global Fund grants in Sudan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (\$)	Funds Received as of 30 Sep 2019 (\$)	Expenses as of 30 Sep 2019 (\$)	Implem. Rate	Global Fund Rating at 30 Sep 2019*
SDN-H-UNDP	108351	Focused HIV prevention, treatment and care in Sudan	1 Jan 2018	31 Dec 2020	16,578,954	7,790,408	6,160,972	79%	B1
SDN-H-UNDP	93713	Increasing access to DOTS in Sudan with a focus on hard to reach populations	1 Jan 2015	31 Dec 2017	20,870,921	20,861,559	20,802,895	100%	B1
SDN-T-UNDP	108353	Increasing access to DOTS in Sudan with a focus on hard to reach populations	1 Jan 2018	31 Dec 2020	12,262,049	6,685,973	4,897,336	73%	B1
SDN-T-UNDP	93714	Increasing access to DOTS in Sudan with a focus on hard to reach populations	1 Jan 2015	31 Dec 2017	20,391,911	20,316,950	20,316,950	100%	B1
SDN-M-UNDP	93712	Scaling up prevention and treatment of Malaria in Sudan	1 April 2015	31 Dec 2017	116,280,206	116,280,206	116,156,206	100%	B1

* Performance rating: A1 – exceeds expectations; A2 – meets expectations; B1 – adequate; B2 – inadequate but potential demonstrated

II. Audit results

Satisfactory performance was noted in the following area:

- Governance and strategic management. Controls were found to be established and operating.

OAI made three recommendations ranked high (critical) and two 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:

- Improve the contracting and financial monitoring of Sub-recipients (Recommendation 3).

- (b) Ensure adequate inventory management (Recommendation 4).
- (c) Ensure effective asset management (Recommendation 5).

Medium priority recommendations, arranged according to significance:

- (d) Address implementation challenges of grants (Recommendation 1).
- (e) Enhance grant and project closure activities (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and implementation

Issue 1 Delays in reprogramming unused funds

To optimize delivery, unused funds should be reprogrammed at the earliest possible moment.

A reprogramming proposal of unused funds for the HIV grant was submitted to the Global Fund on 10 December 2018. As at December 2019, and after several rounds of reviews, the reprogramming was yet to be approved. For the TB grant, the consolidated reprogramming request was yet to be sent for approval. The Office indicated that the delay was influenced by the Global Fund's plans to reconsider UNDP as the Principal Recipient for the TB grant. It further stated that there had been no detriment to the programme, as the Global Fund had made *ad hoc* approvals as necessary, which limited the impact of the prolonged overall approval process.

Delays in reprogramming unused funds from the grant implementation period may negatively affect grant performance.

Priority	Medium (Important)
Recommendation 1:	
The Office should reprogramme unused funds and submit the request to the Global Fund in a timely manner for approval.	
Management action plan:	
The Office will follow up with the Global Fund to ensure the reprogramming budgets are approved by 30 March 2020.	
Estimated completion date: May 2020	

2. Grant closure

Issue 2 Challenges in grant and project closure

The grant closure plan sets out the terms and conditions governing the closure of the grant, and the use of the grant fund by the Principal Recipient and its Sub-recipients. The 'UNDP Programme and Operations Policies and Procedures' provide that projects should be operationally closed in Atlas (enterprise resource planning system of UNDP) when all activities have ended, and financially closed within 12 months after operational closure.

The Global Fund approved, in December 2017, the closure plan of the previous Malaria grant. The closure plan was to be finalized by 30 September 2018. However, as of December 2019, the closure activities for the Malaria grant had yet to be finalized.

In addition, three projects created to manage the Malaria, TB and HIV grants from 2015 to 2017 had yet to be operationally and financially closed, more than two years after the end of their implementation period.

Delays in project closure activities may have a negative impact on the implementation of the existing grant.

Priority	Medium (Important)
Recommendation 2: The Office should enhance grant and project closure activities by: <ul style="list-style-type: none"> (a) implementing the remaining activities for the previous Malaria grant closure; and (b) closing, operationally and financially in Atlas, the three finalized projects for the Malaria, TB and HIV grants. 	
Management action plan: The Office noted the recommendation and will operationally and financially close in Atlas all projects for the previous grants.	
Estimated completion date: September 2020	

B. Sub-recipient management

1. Financial and programmatic activities

Issue 3 Weaknesses in Sub-recipient contracting and financial monitoring

The 'UNDP Programme and Operations Policies and Procedures' provide guidance on effective and timely financial management and budget monitoring. Sub-recipients should agree with the budget and implementation modalities before the start of the project.

A review of Sub-recipient management disclosed the following:

a) Delays in signing Sub-recipient agreements

All 11 Sub-recipient agreements for HIV and TB grants were signed with delays ranging from two to seven months. One Sub-recipient signed the agreement more than 12 months after the start of the implementation of the grant.

The Office explained that the delays were caused by delays from one United Nations agency in receiving clearance from the regional office, discussions on operating costs with the main government Sub-recipient, and disagreements regarding the approved budget and implementation modalities.

b) Unused advances and outstanding cash balances

A review of Sub-recipient financial management disclosed unutilized advances of \$29,000, from five government entities, that had not been recovered since 2014. The Office stated that the five Sub-recipients delayed the processing of the refund for activities that did not take place and demand letters were sent to each of the five agencies to recover the advances. In addition, one United Nations agency had an unliquidated cash balance of \$714,000 from advances received in June 2017.

Delays in signing Sub-recipient agreements can impact grant performance. The delay in liquidating cash advances increases the risk of financial irregularities.

Priority	High (Critical)
Recommendation 3:	
The Office should improve the contracting and financial monitoring of Sub-recipients by:	
<ul style="list-style-type: none"> (a) agreeing on all terms, including budget and implementation modality, with Sub-recipients and signing the Sub-recipient agreements prior to the implementation of the next allocation; and (b) recovering the unspent advances from the five government entities by escalating the issue and clearing the outstanding cash advances from the concerned United Nations agency. 	

Management action plan:

- (a) The Office notes the recommendation and will share the draft Sub-recipient agreements with the Sub-recipients for the next allocation period in the fourth quarter of 2020.
- (b) The Office will clear the outstanding cash advance from the remaining UN agency. The issue with the five government agencies has been elevated directly with the relevant government ministry.

Estimated completion date: November 2020

C. Procurement

1. Supply management (inventory, warehousing, and distribution)

Issue 4 Ineffective inventory management

The 'UNDP-Global Fund and Health Implementation Guidance Manual' requires adequate storage space for products, sufficient inventory, and information collection systems to monitor consumption rates and prevent diversion, stock-outs or expiration of products.

Global Fund inventory was managed by the National Medical Supply Fund, an independent government entity. A review of the inventory for 534 products from January 2018 to December 2019, including 133 pharmaceuticals, 329 laboratory consumables, 1 health product and 71 non-health products, disclosed the following:

- There were expired and damaged lots valued at \$200,000. The Office explained that this was due to the decreased consumption of medication, and the inclusion of discontinued products in the inventory list after changes in the treatment regimen. The Office updated a stock-status report for products actively in use in the Country, but did not review the total inventory managed by the National Medical Supply Fund.
- There were 37 products, including medicines and laboratory items, that did not have stocks in the central warehouse. Stocks for five other products were depleted following expiry. Only three of these five products had been planned for in the Health Procurement Action Plan but had not yet been procured.

While there was no evidence of treatment interruptions to beneficiaries, the risk remained. In addition, ineffective inventory management may lead to financial losses and reputational risks for the Office.

Priority High (Critical)

Recommendation 4:

The Office should ensure adequate inventory management by:

- (a) establishing an effective mechanism to closely monitor the consumption and damage/expiry patterns for all inventory products in close cooperation with the government; and
- (b) adjusting the procurement and distribution plans to ensure the availability of sufficient stock.

Management action plan:

The Office notes the recommendation and will develop with national stakeholders (1) the national electronic Logistics Management and Inventory System (eLMIS) development plan, taking into consideration the outcomes of the pilot phase, and (2) the National Medical Supply Fund inventory management improvement plan.

Estimated completion date: December 2020

2. Asset management

Issue 5 Inadequate controls over asset management

The Framework Agreement between UNDP and the Global Fund requires all goods and services to be transferred or disposed in accordance with the Principal Recipient's regulations and relevant agreements with the host country, following consultation with the Global Fund. The Principal Recipient shall undertake a physical verification of assets at least annually.

The Global Fund assets were managed by the National Medical Supply Fund, an independent government entity. The Office maintained an asset register in Excel that included 1,698 assets with a purchase value of \$19.3 million. A review of the management of assets disclosed the following:

a) Late transfer of assets to the government implementing partner

The Health Systems Strengthening (HSS) and Malaria grants were transitioned to the Government in 2015 and January 2018, respectively. However, 927 assets totalling \$8.7 million purchased under the two grants had not yet been transferred to the relevant government ministry.

In 2015, 229 vehicles with a purchase value of \$6.3 million had been temporarily transferred to the Government, which had been using the United Nations vehicle registrations since then. The Office indicated that it had requested permanent transfer approval from the relevant government ministry in March 2019 to enable the change of the registration plates.

b) Delays in distribution of TB and HIV assets

370 assets purchased under the TB and HIV grants for \$234,305 had not yet been distributed to beneficiaries. These included 42 pieces of health equipment purchased between 2011 and 2017, and 328 pieces of IT equipment purchased in 2014. While the purchases were approved, specific justification for purchase of the assets was not always stated and did not include distribution plans supported by requests from the Government.

c) Reconciliation of UNDP and central warehouse registers

In a sample of 370 assets and 785 consumables, the audit noted differences between the warehouse records, managed by the National Medical Supply Fund, an independent government entity, the Country Office register and the physical verification:

- There were discrepancies between the warehouse records and the Office's register. The warehouse recorded a total of 2,411 assets while the Country Office asset register showed 1,404 assets, or 40 percent less. The warehouse records were also not complete as evidenced by five motorcycles physically verified but not included in the warehouse records.
- The assets could not be valued since the currency used to record assets in the warehouse records had not been aligned with the Country Office register.

The Office had not established a formal agreement with the National Medical Supply Fund, thereby not defining clear coordination mechanisms, roles, responsibilities and procedures for receipt, storage, distribution and reconciliation of Global Fund assets and inventory.

The Office had made improvements in the asset management system in 2019 and started developing SOPs for asset management and reconciliation of purchase orders to the asset register.

Inadequate controls over asset management may negatively impact programme implementation.

Priority	High (Critical)
Recommendation 5: The Office should ensure effective asset management by: <ul style="list-style-type: none"> (a) establishing a formal agreement with the National Medical Supply Fund, defining clear coordination mechanisms, roles, responsibilities and procedures for receipt, recording, storage, distribution and reconciliation of assets; (b) timely distribution of assets to beneficiaries; and (c) requesting specific justification for all asset purchases including distribution plans supported by requests from the relevant government ministry. 	

Management action plan:

The Office notes the recommendation and will:

- (a) Establish an agreement with the National Medical Supply Fund defining clear coordination mechanisms, roles, responsibilities and procedures for receipt, storage, distribution and reconciliation of assets.
- (b) Conduct periodic physical verifications of assets in all facilities using a unique asset identification code, clear asset categorization and standardized fixed keys for asset description and location, and undertake proper assessment and treatment of assets identified for disposal/transfer to the relevant government ministry.
- (c) Provide specific justification for all asset purchases including distribution plans supported by requests from the relevant government ministry.

Estimated completion date: November 2020

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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.

