



**AUDIT**

**OF**

**UNDP SOUTH SUDAN**

**GRANTS FROM THE GLOBAL FUND**

**Report No. 2229**  
**Issue Date: 6 August 2020**

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

The UNDP Office of Audit and Investigations (OAI), from 18 May to 3 June 2020, conducted an audit of seven grants from the Global Fund (Output Nos. 81101 [HIV], 81103 [TB], 81104 [HSS], 96503 [HIV], 96034 [TB], 107107 [HIV], and 107108 [TB]) managed by UNDP South 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:

- I. governance and strategic management (organizational structure, risk management, staffing and performance management, capacity development and transition strategy);
- II. programme management (project approval and implementation, monitoring and evaluation, grant closure);
- III. Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- IV. 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
- V. financial management (revenue and accounts receivable, expenses, reporting to the Global Fund, Fund Administrator Role).

The audit covered the Global Fund-related activities of the Office from 1 January 2019 to 30 April 2020. The Office recorded Global Fund-related expenses of approximately \$25 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2017.

Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit applied to the following activities

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project site visits (health care facility visits, meetings with counterparts/beneficiaries) were not conducted.
- (d) Supporting documents for expenditures of non-UN Sub-recipients were not validated.
- (e) Storage facilities were not inspected, and stock counts were not undertaken.
- (f) A physical verification of assets was not performed.

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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.

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/some improvement needed**, which means "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." This rating was mainly due to weaknesses in grant closure, asset management and expenditures.

**Key recommendations:** Total = **3**, high priority = **2**

The three recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendations 1 and 3); and (b) safeguarding of assets (Recommendation 2).

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:

Inadequate management of the grant closure process (Issue 1)

There were five expired Global Fund grants recorded in Atlas that were flagged as ongoing. At a minimum, all should have been flagged as operationally closed and should have been financially closed several years earlier. Moreover, the Office used UNDP funds amounting to \$397,000 to refund the Global Fund against expenditures that were rejected or assets that were lost in the closed grants. The Sub-recipients responsible had yet to refund UNDP for these funds.

Recommendation: The Office should improve project closure by: (a) efficiently processing UNDP project closure activities and financially closing all the projects; and (b) obtaining reimbursement from Sub-recipients for the pre-financed funds amounting to \$397,000.

Loss of grant assets under temporary custody of government Sub-recipients (Issue 2)

Seven vehicles with an acquisition cost of \$347,000 and under temporary custody of the Sub-recipients had not been physically verified since August 2016. No incident or police reports were made available by the Sub-recipients to UNDP for the lost assets. UNDP as Principal Recipient is liable to refund the Global Fund for the lost assets.

Recommendation: The Office should strengthen accountability for grant assets placed under temporary custody of Sub-recipients by: (a) requesting detail incident and police reports of events leading up to the loss of assets under their custody; and (b) determining liability for the loss of the seven vehicles and recovering that loss from the liable party.

**Implementation status of previous OAI audit recommendations:** Report No. 1892, 13 October 2017.

Total recommendations: 5  
Implemented: 5

### **Management comments and action plan**

The Resident Representative accepted all three 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.

Brett Simpson  
Officer-in-Charge  
Office of Audit and Investigations

## I. 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.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of <b>30 April 2020</b> (in \$ '000)	Implementation Rate (%)	Expenses as of <b>30 April 2020</b> (in \$ '000)	Global Fund Rating at <b>30 April 2020</b>
SSD-H-UNDP	107107	Investing Towards Impact for HIV/AIDS and RSSH in South Sudan	Jan 2018	Dec 2020	36,912	31,802	66	24,497	B1
SSD-T-UNDP	107108	Expanding and Enhancing Quality TB prevention, care and control services in South Sudan	Jan 2018	Dec 2020	11,351	8,950	59	6,723	B1
SSD-T-UNDP	96034	Expanding and enhancing quality TB prevention, care and control services in South Sudan	Jul 2015	Dec 2017	16,079	13,904	100	14,000	NA
SSD-H-UNDP	96503	Investing Towards Impact for HIV/AIDS and RSSH in South Sudan	Oct 2015	Dec 2017	42,565	40,405	87	35,061	NA
SSD-910-G13-S	81104	Strengthening Health System in Southern Sudan	Oct 2010	Sep 2016	41,754	41,754	-	-	NA
SSD-405-G05-H	81101	HIV/AIDS Prevention and Care in South Sudan	Aug 2006	Nov 2013	46,834	46,834	-	-	NA
SSD-708-G11-T	81103	Improving and Expanding Tuberculosis Control in South Sudan	Jan 2009	Dec 2013	22,072	22,072	-	-	NA

## II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. All controls in this area were deemed to be well-designed and functioning.
- Programme management. Project approval, implementation, monitoring and evaluation were found to be adequately controlled.
- Procurement and supply management. The procurement of health products and individual contractors were found to be in compliance with UNDP and Global Fund regulations and rules, policies and procedures.
- Financial management. Revenue and accounts receivables and reporting to Global Fund were deemed adequate.

OAI made two recommendations ranked high (critical) and one recommendation 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:

- (a) Improve project closure (Recommendation 1).
- (b) Strengthen accountability for grant assets (Recommendation 2).

**Medium priority recommendation:**

- (a) Improve management of expenditures (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Programme Management

### 1. Grant Closure

#### **Issue 1**      Inadequate management of the grant closure process

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed in Atlas (enterprise resource planning system of UNDP) when the project period expires and that they should be financially closed within 12 months of operational closure.

At the time of audit, there were five expired Global Fund grants recorded in Atlas (outputs 81101, 81104, 81103, 96034, and 96503) that were flagged as ongoing. All projects should have been flagged as operationally closed and financially closed several years earlier. The Office did not provide grant closure checklists for any of the grants above, meaning that closure compliance from a UNDP perspective was not pursued.

Moreover, the Office used UNDP funds amounting to \$397,000 to refund the Global Fund against expenditures that were rejected or assets that were lost in the closed grants. The Sub-recipients responsible had yet to refund UNDP for these funds.

After the audit, the Office stated that it had obtained commitment letters from the Sub-recipients for the refund of the pre-financed funds. It has also prepared and shared grant closure checklists for all five projects and financially closed three of the projects (81103 and 81104).

Delays in project closure may result in financial liabilities for the Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Office should improve project closure by:	
(a) efficiently processing UNDP project closure activities and financially closing all the projects; and (b) obtaining reimbursement from Sub-recipients for the pre-financed funds amounting to \$397,000.	
<b>Management action plan:</b>	
The Office will:	
(a) finalize the closure of outputs 81101 and 96503; and (b) engage with the Country Coordinating Mechanism to obtain a reimbursement from the Sub-recipients in the amount of \$397,000 as detailed in their letters of commitment to UNDP.	
<b>Estimated completion date:</b> 31 December 2020	

## B. Procurement

### 1. Asset Management

#### **Issue 2**      Loss of grant assets under temporary custody of government Sub-recipients

The signed Sub-recipient agreement, under article 5, states that the Sub-recipient shall be responsible for the proper custody, maintenance and care of all Sub-recipient resources. The Sub-recipient shall maintain complete and accurate records of all Sub-recipient resources and shall regularly verify the inventory thereof. Article 6 of the same agreement states that in the event that any of the resources are damaged, stolen, lost or otherwise forfeited, the Sub-recipient shall provide UNDP with a comprehensive report, including a police report, where appropriate and any other evidence giving full details of the events leading to such damage loss or forfeiture, and shall reimburse UNDP for any value lost immediately upon request by UNDP.

Seven vehicles with an acquisition cost of \$347,000 that were under temporary custody of the Sub-recipient had not been physically verified since 2016 (this matter came to the attention of the Office during a routine asset verification exercise undertaken by the Office in August 2016). Since that time, the Office had been liaising with the Sub-recipient responsible with a view to resolving the matter, to no avail. No incident or police reports were made available by the Sub-recipients to UNDP for these lost assets, and thus no procedures for determination of liability could be finalised. UNDP as Principal Recipient is liable to refund the Global Fund for the lost assets. The value lost needs to be recovered from the Sub-recipient, since these assets were resources assigned to the Sub-recipient to implement grant activities and were under their temporary custody and control when lost. The Global Fund had been notified of this matter; however, the resolution was pending. The Office committed to continue with its efforts to recover the assets from the Sub-recipient.

According to the Memorandum of Understanding signed between UNDP and the Sub-recipient, the Sub-recipient was responsible for insuring vehicles used and controlled by them; this requirement was not followed by the Sub-recipient and the Office was not aware of this before the vehicles went missing. Since August 2016, the Office has been insuring all grant funded vehicles in use and equipping them with a tracking device.

If the missing vehicles are not recovered, the Office will have liabilities to the Global Fund that it may have to cover from its own funds.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
The Office should strengthen accountability for grant assets placed under the temporary custody of Sub-recipients by:	
<ul style="list-style-type: none"> <li>(a) requesting detail incident and police reports of events leading up to the loss of assets under their custody; and</li> <li>(b) determining liability for the loss of the seven vehicles and recovering that loss from the liable party.</li> </ul>	
<b>Management action plan:</b>	
The Office will:	
<ul style="list-style-type: none"> <li>▪ obtain the incident and the police reports from the Sub-recipients; and</li> <li>▪ determine the liability for the loss of the seven vehicles and seek recovery for the loss and/or invoke the limited liability clause in UNDP's Grant Agreement with the Global Fund.</li> </ul>	
<b>Estimated completion date:</b> 30 June 2021	

## C. Financial Management

### 1. Expenditure

#### **Issue 3**      Use of Direct Project Costing and security charges not justified

Direct Project Costing (DPC) should be based on a workload study that is to be submitted to the relevant bureau for review at the beginning of each year. At the end of each month or quarter, the Office is required to review the actual DPC costs incurred against the budgeted amounts.

The Office did not adhere to the policy prescriptions in its application of DPC and did not itemize DPC charges to demonstrate the level of effort of organizational costs attributed to the projects. Instead, it took a portion of the Office's human resources costs for programme, operations and management staff

and attributed it to project costs. It then apportioned these costs to each project in proportion to the total project expenditures.

This approach was not aligned with Global Fund budgeting rules, which sets a ceiling for acceptable overhead costs and requires that overhead costs be itemized.

The Office also charged residential security costs in respect of international project staff living in the UNDP managed residential compound. Total costs charged amounted to \$141,000. These costs were not supported by the UNDSS approved Residential Security Measures issued in 2019. This document only allowed such costs for staff living in private residencies outside of the UN managed compounds.

The Office stated that it applied a flat rate in attribution of the DPC based on article 20 of the policy on Attribution of DPC through a stand-alone DPC project. This was a misinterpretation of the article, which only allowed for the flat rate to be used to review actual DPC costs in the DPC project.

The issue of residential security costs was an oversight and the Office started the process to regularise the Country's Residential Security Measures to allow for the funding of these costs.

Both the DPC and security costs could be deemed unjustified by the Global Fund since they are not properly supported.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>  The Office should improve the management of expenditures by: <ul style="list-style-type: none"> <li>(a) revisiting its approach to attributing DPC and ensuring that the organizational costs attributed to the Global Fund are clearly identifiable in line with 'UNDP Programme and Operations Policies and Procedures';</li> <li>(b) reviewing prior period charges to ensure they are relevant to the activities of the Global Fund projects based on the revised approach and if necessary, refunding any excess charges to the Global Fund; and</li> <li>(c) revisiting the Residential Security Measures with UNDSS and determining what security costs can be charged to the grants for international staff living in the UNDP managed compounds.</li> </ul>	
<b>Management action plan:</b> <ul style="list-style-type: none"> <li>▪ The Office will coordinate with the Office of Financial Resources Management to determine how to implement DPC charges for the projects.</li> <li>▪ The Office will review the application of Residential Security Measures with UNDSS.</li> </ul>	
<b>Estimated completion date:</b> 31 December 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.