



AUDIT
OF
UNDP SUDAN

GRANTS FROM THE GLOBAL FUND

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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 26 September to 12 October 2021, conducted an audit of two grants from the Global Fund (Output Nos. 93713, 108351 [HIV], 93714, 108353 [TB], 93712, 125436 [Malaria], and 125437 [TB]) managed by UNDP Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹

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, 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, reporting to the Global Fund, Fund Administrator Role).

The audit covered the Global Fund-related activities of the Office from 1 January 2020 to 30 June 2021. The Office recorded Global Fund-related expenses of approximately \$17 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2019.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related 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, including to medical facilities, warehouses, Sub-recipients, and meetings with counterparts/beneficiaries were not conducted.
- (d) A physical verification of assets was conducted through video with the help of Office staff.
- (e) A physical verification of inventory was not performed.

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

¹ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

mainly due to weaknesses in project closure activities and asset management, and weaknesses in the monitoring of Sub-recipients.

Key recommendations: Total = **4**, high priority, = **3**

The four recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendation 1 – high priority, and Recommendation 2 – high priority); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3 – medium priority) and (c) safeguarding of assets (Recommendation 4 – high priority).

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:

Delays in project closure
(Issue 1)

The previous audit recommendation from OAI audit Report No. 2055 of 28 February 2020, in respect to grant and project closure, had not been fully implemented. The issue is disclosed below:

- Three projects (Output Nos. 93712, 93713, 93714) had not been financially closed within one year of operational closure in September 2019.

In addition, the audit team identified the following weaknesses within the current audit period:

- Two projects (Output Nos. 108351 and 108353) were extended in Atlas until 31 December 2021 while the grant ended in December 2020. The Office explained that the Global Fund policy provided a six-month closure period up to 15 August 2021 to settle outstanding financial commitments and submit the Financial Closure reports. As of 2021 year-end, the outputs had yet to be operationally closed.
- Two out of three reports required for grant closure dated 30 October 2020 were not submitted within the deadline.

Recommendation: The Office should complete the financial and operational closure of Outputs Nos. 108351 and 108353 and ensure that for the remaining grants, closure reports are submitted within the timeframe stipulated by the donor.

In relation to the three outputs operationally closed in 2019, the corresponding recommendation was included in OAI Report No. 2055 of 28 February 2020 and remains in progress.

Weaknesses in monitoring Sub-recipients' performance (Issue 2)

The expenditure of the TB grant, for the period from 1 January to 30 June 2021, was \$77,472.08 out of a budget of \$799,163.80 (9.7 percent). The expenditure for the HIV grant, during the same period, was \$14,179 out of a budget of \$918,809 (2 percent).

The low expenditure was due to:

- late signing of two Sub-recipients' agreements; and
- delay in liquidating advances from a previous grant, which prevented the processing of new advances under the new grant.

The budget for the two agreements with the Sub-recipient had not been revised to reflect the challenges outlined.

Recommendation: The Office should strengthen the monitoring of Sub-recipients financial and programmatic performance by: (a) preparing an acceleration plan to address the performance issues, closely monitoring its implementation; and (b) submitting a reprogramming request to the Global Fund for approval.

Weaknesses in asset
management (Issue 4)

OAI audit Report No. 2055 (28 February 2020) included the recommendation to ensure the timely distribution of assets to beneficiaries. The implementation of the recommendation remained in progress.

The status of the recommendation was as follows:

- 3,088 assets purchased under HSS and Malaria grants for \$14.4 million were transferred to the Government in June 2018. At the time of the audit, 940 assets (totalling \$1 million) had yet to be distributed by the Government.
- The assets included a transfer of 139 vehicles, which were in use by the Government but had UNDP registration numbers. While the government ministry approved the transfer of the vehicles, the Office had yet to follow up on removal of the UNDP registration numbers.
- The Global Fund assets were managed by the National Medical Supply Fund, an independent government entity. As of 2021 year-end, a total of 325 HIV and TB assets purchased between 2011 and 2017 totalling \$204,000 had not been distributed.

Recommendation: The Office should further strengthen asset management by: (a) ensuring that the relevant government ministry remove the UNDP registration plates for the 139 vehicles; and (b) in coordination with the National Medical Supply Fund, reconcile the TB and HIV Grants asset in-stock records and expedite their distribution.

In relation to the distribution of assets to beneficiaries, the corresponding recommendation 5 (b) was included in OAI Report No. 2055 of 28 February 2020 and remains in progress.

Implementation status of previous OAI audit recommendations: Report No. 2055, 28 February 2020.

Total recommendations: 5

Implemented: 2

In progress: 3

The pending recommendations pertain to delays in grant and project closure, weaknesses in Sub-recipient contracting and monitoring, and inadequate controls over asset management (Issue 4). Their implementation is in progress.

Management comments and action plan

The Resident Representative accepted all of the 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.

Helge S. Ostveiten
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I. Profile of Global Fund grants managed by UNDP Sudan

Since 2015, UNDP has been the Principal Recipient of Global Fund grants in Sudan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (\$) till 30 Sep 2021	Funds Received as of 30 Sep 2021 (\$)	Expenses as of 30 Sep 2021 (\$)	Implementation Rate	Global Fund Rating at 30 Sep 2021*
NFM3 SDN-H-UNDP	125436	Focused and differentiated HIV prevention and treatment in Sudan	1 Jan 2021	31 Dec 2023	9,164	5,652,654	1,673,704	5%	B1
NFM3 SDN-T-UNDP	125437	Decreasing TB burden in Sudan and reduce the number of TB deaths	1 Jan 2021	31 Dec 2023	3,771,071	1,807,531	607,406	16%	B1
SDN-H-UNDP	108351	Focused HIV prevention, treatment and care in Sudan	1 Jan 2018	31 Dec 2020	21,577,858	21,150,554	19,460,136	90%	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	20,866,727	20,415,855	98%	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	12,262,058	12,118,972	10,309,295	84%	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	20,386,224	19,668,746	96%	B1
SDN-M-UNDP	93712	Scaling up prevention and treatment of Malaria in Sudan	1 April 2015	31 Dec 2017**	116,280,206	115,577,369	115,301,831	99%	B1

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

** Grants activities have ended but not financially closed (refer to issue 1)

II. Audit results

OAI made three recommendations ranked high (critical) priority 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) Strengthen asset management (Recommendation 4).
- (b) Complete the closure of projects (Recommendation 1).
- (c) Strengthen the monitoring of Sub-recipient financial and programmatic performance (Recommendation 2).

Medium priority recommendation:

- (d) Strengthen the supply chain management process by supporting the relevant government ministry (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme Management

1. Grant and Project Closure

Issue 1 Delays in project closure activities

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed in Atlas (enterprise resource planning system of UNDP) when all activities have been completed, and financially closed within 12 months of operational closure.

The previous audit recommendation from OAI audit Report No. 2055 of 28 February 2020, in respect of grant and project closure, were not fully implemented. The issue is disclosed below:

- Three projects (Output Nos. 93712, 93713, 93714) had not been financially closed within one year of operational closure, which was in September 2019. This was caused by delays in clearing the balances under the Value Added Tax and Petty Cash Fund accounts. In addition, General Management Service expenditure had been overcharged to the projects. The Global Fund is aware of these issues and working with the Office to address them.

In addition, the audit team identified the following weaknesses within the current audit period:

- Two projects (Output Nos. 108351 and 108353) were extended in Atlas until 31 December 2021 while the grant ended in December 2020. The Office explained that the Global Fund policy provided a six-month closure period up to 15 August 2021 to settle outstanding financial commitments and submit the Financial Closure reports. As of January 2022, the outputs had yet to be operationally closed.
- Two out of three reports required for grant closure dated 30 October 2020 were not submitted within the deadline. One report was delayed by 10 days, and the second one was delayed by four months.

Delays in project closure creates financial and reputational risks for the organization.

Priority	High (Critical)
Recommendation 1:	
The Office should complete the financial and operational closure of Output No. 108351 and 108353 and ensure that for the remaining grants closure reports are submitted within the timeframe stipulated by the donor.	

In relation to the three outputs operationally closed in 2019, the corresponding recommendation was included in OAI Report No. 2055 of 28 February 2020, and remains in progress, and as such no additional recommendation is being made.

Management action plan:

The Office shall establish a task force for processing all outstanding actions preventing the closure of all outputs.

Estimated completion date: June 2022

B. Sub-recipient Management

1. Financial and Programmatic activities

Issue 2 Weaknesses in monitoring Sub-recipients' performance

Sub-recipients are engaged by the Principal Recipient to implement the grant activities in accordance with their respective agreements. A review of the programmatic and financial activities of the Sub-recipient for three grants, from 1 January 2020 to 30 June 2021 resulted in the following observations:

The expenditure of the TB grant, for the period from 1 January to 30 June 2021, was \$77,472.08 out of a budget of \$799,163.80 (9.7 percent). The expenditure for the HIV grant, during the same period, was \$14,179 out of a budget of \$918,809 (2 percent).

The low expenditure was due to:

- late signing of two Sub-recipients' agreements; and
- delay in liquidating advances from a previous grant, which prevented the processing of new advances under the new grants.

The budget for the two agreements with the Sub-recipient had not been revised to reflect the challenges outlined. The Office explained that the required budget revision for TB and HIV grants had yet to be submitted to the Global Fund for approval. Both the political challenges within the Country and the COVID-19 pandemic impacted the Office's ability to engage with the national counterpart and address the issues highlighted.

In addition, the Office explained that the lack of supervision, monitoring visits and data quality reviews by the Sub-recipient of the HIV and TB programmes contributed to the underperformance of the three TB indicators and four HIV indicators, which will impact the achievement of the programme objectives.

Priority High (Critical)

Recommendation 2:

The Office should strengthen the monitoring of Sub-recipient financial and programmatic performance by:

- (a) preparing an acceleration plan to address the performance issues, closely monitoring its implementation; and
- (b) submitting a reprogramming request to the Global Fund for approval.

Management action plan:

The Office will prepare an acceleration plan and will closely monitor the implementation of the plan. The Office will also submit a reprogramming request to the Global Fund, follow up for timely approval, and ensure the reprogramming activities are implemented timely.

Estimated completion date: July 2022

C. Procurement and Supply Management

1. Quantification and Forecasting

Issue 3 Weaknesses within supply chain management

The Terms of Reference of the national forecasting and quantification committee and technical working group for HIV and TB includes the preparation of an annual quantification and forecasting of health products to ensure uninterrupted supply. The information should be reviewed on a quarterly basis and updated as required.

Furthermore the Office as Principal Recipient is tasked with supporting the Government to strengthen the supply chain management, for transition of the grant, by the end of 2023.

The following issues were identified within the supply chain management of health products:

- The early warning system to detect over/under consumption and expiring stocks did not incorporate information on stock levels at the health facilities where pharmaceutical products were dispensed.
- The monitoring data did not consider consumption trends at the central warehouse.
- The quantification process for national HIV pharmaceuticals and laboratory products were completed manually by the technical working group, requiring a lengthy review of multiple data sources. This approach created inaccuracies in the projection of national requirements.

The weakness within supply chain management led to the following observations:

- There was inadequate quantification and stocking of condoms. The 2021 quantification included the provision of 36 items per targeted individual in a year, totalling 2.1 million. There was zero stock of condoms at the central warehouse between January 2020 until October 2021. The purchase of 1.5 million condoms that was made in March 2021 were delayed due to port closure, further increasing the stock out period.
- Laboratory products, totalling \$588,482, including items procured prior to 2019 remained undistributed. In addition, 2,510 boxes of face masks and 2,341 syphilis test kits, totalling \$6,514, requested in 2020 remained stored at the central warehouse. The syphilis test kits were set to expire by July 2022.

If the issues within supply chain management are not addressed the needs of the target population may not be fulfilled.

Priority	Medium (Important)
Recommendation 3:	
The Office should support the relevant government ministry to strengthen the supply chain management process by:	
<ul style="list-style-type: none"> (a) supporting the national counterpart in strengthening the quantification process, including tools for the automation, early warning of overstock, stock-outs and product expiry; and (b) preparing and expediting, in conjunction with the technical working group for, a distribution plan for the laboratory products purchased prior to 2020. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will support the relevant government ministry and the Sub-recipient through the technical working group to strengthen the quantification process by facilitating access to technical assistance to identify an appropriate quantification tool for the national HIV programme. (b) The Office notes the laboratory items are not lifesaving health products and can still be distributed, so there is no wastage of grant funds. The Office will pursue a discussion with the technical working group and the ends users, so they know these items are available. 	
Estimated completion date: July 2022	

2. Asset Management

Issue 4 Weaknesses in asset management

OAI audit Report No. 2055 (28 February 2020) included the recommendation to ensure the timely distribution of assets to beneficiaries. The implementation of the recommendation remained in progress.

The status of the recommendation was as follows:

- (i) Delayed distribution of assets and transfer of vehicle registration for the Malaria and Health Systems Strengthening (HSS) grants
 - 3,088 assets purchased under the HSS and Malaria grants for \$14.4 million were transferred to the Government in June 2018. At the time of the audit, 940 assets (totalling \$1 million) had yet to be distributed by the Government (including health and IT equipment).
 - The assets included a transfer of 139 vehicles, which were in use by the Government but still had UNDP registration numbers. While the government ministry approved the transfer of the vehicles, the Office had yet to follow up on removal of the UNDP registration numbers.
- (ii) Accuracy and implementation of the distribution plan of assets under TB and HIV grants

The Global Fund assets were managed by the National Medical Supply Fund, an independent government entity. As of 31 December 2021, a total of 325 HIV and TB assets purchased between 2011 and 2017 totalling \$204,000 had yet to be distributed.

- On 29 September 2021, the Government agreed to receive the assets purchased under the HIV and TB grants. The Office advised that it would process the transfer upon appointment of government officials, which was further delayed by the current political and security situation.

The audit team identified an additional issue during the current audit, as follows:

(iii) Discrepancies in asset records

- During the audit in October 2021, the audit team was unable to physically verify 57 assets, totalling \$28,600 in the central warehouse. These included five categories with quantities that were inconsistent with the warehouse stock cards. This was due to incorrect coding in the National Medical Supply Fund Headquarters system and lack of reconciliation of stock records and physical counts.

The agreement signed with the Government on 26 September 2021, will support the distribution of assets purchased under previous grants. However, without the timely implementation of the agreement, the risk of misuse and/or loss of grant assets will remain.

Priority	High (Critical)
Recommendation 4: The Office should strengthen the management of assets by: <ul style="list-style-type: none"> (a) ensuring the removal by the relevant Government ministry of the UNDP registration plates for the 139 vehicles; and (b) in coordination with the National Medical Supply Fund reconcile the TB and HIV grants asset in-stock records and expedite their distribution. <p>In relation to the distribution of assets to beneficiaries, the corresponding recommendation 5 (b) was included in OAI Report No. 2055 of 28 February 2020, which remained in progress, and as such no additional recommendation is being made.</p>	
Management action plan: <ul style="list-style-type: none"> (a) The Office will provide written notification to the relevant Government ministry to remove the UNDP plates from the vehicles within one (1) month and UNDP will obtain written acknowledgement from Ministry of Foreign Affairs of the receipt of the notification letter. The Office will follow up as necessary to obtain any evidence that the plates were removed. (b) The Office in coordination with the National Medical Supply Fund shall reconcile the TB and HIV grants asset in-stock records of UNDP and National Medical Supply Fund and expedite implementation of the distribution plan. <p>Estimated completion date: June 2022</p>	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.