



AUDIT

OF

UNDP SOUTH SUDAN

GRANTS FROM THE GLOBAL FUND

Report No. 2597
Issue Date: 18 December 2023

Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP South Sudan	1
II. Good practices	2
III. Audit results	3
A. Procurement and supply management	4
1. Quality assurance of health products	4
2. Supply management (inventory, warehousing, and distribution)	5
B. Financial management	6
1. Asset management	6
Definitions of audit terms - ratings and priorities	9

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

The UNDP Office of Audit and Investigations (OAI), from 3 to 22 September 2023, conducted an audit of one grant from the Global Fund (Output Nos.¹ 134314 [HIV/TB], and 147909 [C19RM]) managed by UNDP South Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.² 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).

The audit covered the Global Fund-related activities of the Office from 1 January 2022 to 30 June 2023. The Office recorded Global Fund-related expenses of approximately \$62.02 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2020.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **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 shortcomings in the quality assurance of health products, pharmaceutical inventory counts, and fixed asset management.

Financial management

¹ These Output numbers are from UNDP's new Quantum enterprise resource planning system and correspond to Atlas system Output Nos. 125886 and 125900.

² The Additional Safeguard Policy is a range of tools established by the Global Fund because of its risk management processes.

Effective financial data and report analysis in Quantum, and efficient use of naming conventions to improve monitoring of cash advances:

The audit team noted effective and efficient processes introduced by the Office’s Project Management Unit finance personnel to better analyse the revised data and financial reporting output available after the Quantum system rollout, which were downloaded and analysed in pivot tables outside the system, with various cross-checks, and adapted for Global Fund financial reporting purposes. Furthermore, finance personnel introduced naming conventions that made the transfer and monitoring of cash advances to the Sub-recipients more efficient. UNDP personnel were trained in these procedures. Project Management Unit finance personnel actively worked with the Quantum system deployment team to resolve technical issues affecting Global Fund projects during the new system’s roll-out, which benefitted other UNDP offices implementing Global Fund grants as well.

Procurement and supply management/Supply management of medical products (inventory, warehousing, and distribution)

Knowledge sharing by UNDP warehouse:

The government warehouse, which was managed by the UNDP/Programme Management Unit, was providing practical training to pharmacy technicians studying at the local university. The training included hands-on training in pharmaceutical warehouse management processes that complied with national regulations and quality standards, and World Health Organization standards and procedures.

Key recommendations: Total = **3**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could contribute to negative consequences for UNDP.”

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	2	Medium
Safeguarding of assets	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium

Implementation status of previous OAI audit recommendations: Report No. 2229, 6 August 2020.

Total recommendations: 3
Implemented: 2
Withdrawn: 1

Management comments and action plan

The Resident Representative accepted the 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.

A handwritten signature in black ink, appearing to read 'Guillermo Munoz', is centered within a rectangular box.

Guillermo Munoz
Deputy Director (Audit) a.i.
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 30 June 2023 (in \$ '000)	Implem - entation Rate (%)	Expenses as of 30 June 2023 (in \$ '000)	Global Fund Rating as of 30 June 2023
SSD-C-UNDP	125886	Integrating Services for Maxim-UNDP-SSD-00125886	1 Jan 2021	31 Dec 2023	72,955	64,203	88	50,408	C-3 ³
	125900	COVID-19 Response Mechanism for South Sudan supported by the GFATM	1 Jan 2021	31 Dec 2023	35,193	28,152	80	16,311	N/A
SSD-H-UNDP	107107	Investing Towards Impact for HIV/AIDS and RSSH in South Sudan	1 Jan 2018	31 Dec 2020	36,912	31,802	-	-	N/A
SSD-T-UNDP	107108	Expanding and Enhancing Quality TB prevention, care, and control services in South Sudan	1 Jan 2018	31 Dec 2020	16,079	13,904	-	-	N/A
SSD-T-UNDP	96034	Expanding and enhancing quality TB prevention, care, and control services in South Sudan	1 Jul 2015	31 Dec 2017	16,080	13,873	-	-	N/A
SSD-H-UNDP	96503	Investing Towards Impact for HIV and AIDS in South Sudan	1 Oct 2015	31 Dec 2017	42,566	40,405	-	-	N/A
SSD-910-G13-S	81104	Strengthening Health System in Southern Sudan	1 Oct 2010	30-Jun 2017	41,755	41,755	-	-	N/A
SSD-708-G11-T	81103	Improving and expanding Tuberculosis Control in Southern Sudan	1-Oct 2006	1-Jun 2015	18,734	18,734	-	-	N/A
SSD-506-G06-T	81102	Tuberculosis and HIV Collaborative Programme	1 Jan 2009	30 Sep 2011	22,940	22,940	-	-	N/A
SSD-405-G05-H	81101	HIV Prevention and Care Program for South Sudan	1 Aug 2006	1 Sep 2015	46,834	46,834	-	-	N/A

³ The rating achieved for the period from 1 January to 31 December 2022 was C-3. C-3 refers to a programmatic rating of C-Moderate performance and a financial rating of 3-Moderate performance. The rating was downgraded from a B rating because one of the performance indicators had a performance rating below 60 percent. Note: As of January 2022, the Global Fund made changes to the quantitative indicator scores.

Country context

The health sector in the Country was predominantly funded by donors. The Global Fund classified the Country under the Additional Safeguard Policy and Challenging Operating Environment Policy.

The Additional Safeguard Policy stipulates extra measures that the Global Fund implements to strengthen fiscal and oversight controls in a particularly risky environment. The Country was placed under the Additional Safeguard Policy as a direct consequence of ongoing insecurity, insufficient public accountability, as well as the rebuilding of systems, infrastructure, and capacity after 21 years of conflict. To mitigate these risks, the Global Fund Secretariat put in place specific safeguards, such as the following: the selection of Principal Recipients by the Global Fund; Local Fund Agent assessments of Sub-recipients; procurement through international procurement agents (UNDP); and additional capacity assessments of the national programmes.

The Global Fund Secretariat launched the Challenging Operating Environment Policy, which was approved by its Board in April 2016, and outlined the details in the Operational Policy Manual. The Policy identifies countries or regions characterized by weak governance, poor access to health services, and manmade or natural crises. The Global Fund Secretariat instituted financial management arrangements for the Country, including regular financial audits, segregation of duties, and a zero cash policy.⁴ The zero cash policy prohibits advance cash transfers to Sub-recipients that pose a particular risk. This inadvertently affects the capacity building of the government Sub-recipients because the Sub-recipients are not fully involved in the procurement and financial management processes of their operations.

The Global Fund set exit criteria that must be met before the zero cash policy can be removed, which includes (a) setting up a Project Management Unit in the relevant government ministry, and (b) implementing the capacity development plan for the new Project Management Unit. The Global Fund requested that the Country Coordinating Mechanism, in collaboration with the government ministry and with the support of the Principal Recipient (UNDP), work on a roadmap for the ministry to achieve these above-mentioned requirements during the next funding cycle starting in 2024.

II. Good practices

OAI identified the following good practices:

Financial management

⁴ The zero cash policy is a risk-mitigating measure that prohibits advance cash transfers to Sub-recipients that pose a particular risk. All operations are performed by the Sub-recipients, but funds are directly paid by the Principal Recipient to the vendors/service providers. This prevents the Sub-recipients from handling any cash, even for their own fixed costs. The Principal Recipient can have a differentiated restricted cash policy for its Sub-recipients. This is based on a risk assessment for each Sub-recipient.

Effective financial data and report analysis in Quantum, and efficient use of naming conventions to improve monitoring of cash advances:

The audit team noted effective and efficient processes introduced by the Office's Project Management Unit finance personnel to better analyse the revised data and financial reporting output available after the Quantum system rollout, which were downloaded and analysed in pivot tables outside the system, with various cross-checks, and adapted for Global Fund financial reporting purposes. Furthermore, finance personnel introduced naming conventions that made the transfer and monitoring of cash advances to the Sub-recipients more efficient. UNDP personnel were trained in these procedures. Project Management Unit finance personnel actively worked with the Quantum system deployment team to resolve technical issues affecting Global Fund projects during the new system's roll-out, which benefitted other UNDP offices implementing Global Fund grants as well.

Procurement and supply management/Supply management of medical products (inventory, warehousing, and distribution)

Knowledge sharing by UNDP warehouse:

The government warehouse, which was managed by the UNDP/Programme Management Unit, was providing practical training to pharmacy technicians studying at the local university. The training included hands-on training in pharmaceutical warehouse management processes that complied with national regulations and quality standards, and World Health Organization standards and procedures.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. Controls over governance and risk management processes were robust.
- (b) Sub-recipient management. Contracting of Sub-recipients was conducted according to rules and regulations although two of the Sub-recipients required additional time and negotiations before agreeing on the contracting terms, because of the changes made to implementation arrangements at the end of the previous grant. The risk of delays in negotiating contract requirements was mitigated in the current grant cycle because the Sub-recipients were involved during the grant development process. Monitoring of the financial and programmatic activities of the Sub-recipients was done adequately.
- (c) Procurement of health products and other goods and services. Adequate controls for sourcing and selection were established to ensure efficient and effective management of procurement processes. Procurement complied with both Global Fund guidelines and UNDP policies and procedures.

OAI made three recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

- (a) Improve asset management processes (Recommendation 3).
- (b) Select samples for quality control testing from the Central Medical Warehouse and health facilities located in Juba and outside Juba (Recommendation 1).
- (c) Strengthen the inventory count procedures by having independent verifications conducted (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Procurement and supply management

1. Quality assurance of health products

Issue 1 Quality control samples not collected from health facilities outside Juba

The Principal Recipient and its Sub-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 and to develop a quality assurance plan. As part of the quality assurance of health products purchased by the Global Fund, the Office is required to have a sampling plan that details the products to be sampled, quantities, when the sampling will happen, and how the results will be treated. The plan indicates the number of samples to be selected from the Central Medical Warehouse and the peripheral health facilities.

The Office established the quality assurance plan for 2022 and 2023. The number of samples to be collected and the specific medical products to be sampled were selected according to the quality testing plan and the results for 2022 were all compliant. For 2023, the audit team noted that the samples were only collected from health facilities in Juba and not from other peripheral health facilities outside Juba. The results for the samples were pending during the time of the audit.

Not conducting comprehensive quality control testing may result in stockouts or damaged pharmaceutical products not being detected.

Priority	Medium (Important)
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Recommendation 1:

The Office should follow its sampling plan and select samples for quality control testing from the Central Medical Warehouse and health facilities located in Juba, and health facilities located outside of Juba.

Management action plan:

For the development of the 2024 process, the Office will work with the Global Fund Partnership Health Support Team Quality Assurance Expert to review the sampling criteria to ensure that similar results (the lack of facilities outside Juba) do not reoccur. The 2024 quality assurance plan is expected to be finalized by March 2024.

Estimated completion date: March 2024

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

Issue 2 No independent verification of pharmaceutical inventory counts

The Principal Recipient and its Sub-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. As a best practice, a physical inventory count should be verified by independent personnel not responsible for day-to-day warehouse management.

The physical count of pharmaceutical inventory held in the Central Medical Warehouse was carried out twice a year (during mid-year and year-end) and spot checks of specific medical products were carried out during the year. The physical counts were only carried out by the warehouse staff, without the independent verification of the results.

The Office explained that the staff from the relevant government ministry that previously provided independent verifications during pharmaceutical inventory counts resigned and the process to recruit new staff was delayed and was not completed as of the end of September 2023.

Without the independent verification of pharmaceutical inventory counts, inventory errors and/or losses may not be detected and resolved in a timely manner.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen the inventory count procedures by having independent verifications conducted by staff who are not involved in the day-to-day operations of the warehouse.	
Management action plan:	
The independent verification of pharmaceutical inventory in the warehouse will be undertaken as planned in December 2023 with the usual support of the ministry focal points for the verification component. Should the focal points become unavailable at some future point, UNDP will arrange for another partner to conduct the verification.	
Estimated completion date: December 2023	

B. Financial management

1. Asset management

Issue 3 Ineffective management of assets under temporary custody of Sub-recipients

According to Global Fund Guidelines for Fixed Asset Management and the Grant Regulations, the Principal Recipient is responsible for ensuring adequate controls are in place to manage fixed assets, including maintaining a fixed asset register. In addition, the Principal Recipient is responsible for monitoring and reporting on programme assets and ensuring that Sub-recipients and Sub-sub-recipients have sufficient policies and procedures for fixed asset management.

As of 15 September 2023, the Office's Project Management Unit was responsible for safeguarding 939 assets purchased with grant funds with a total purchase cost of \$4.65 million. The assets were transferred to Sub-recipients under a temporary custody arrangement. At the time of audit fieldwork, the consolidated UNDP fixed asset register included 110 assets valued at \$241,000 that were not yet physically verified during the current grant cycle. Most assets were deployed countrywide, including hard-to-reach locations.

Six Sub-recipients provided semi-annual reports on assets under their temporary custody on time, except for one. The Office provided evidence of physical verifications carried out by the Office jointly with Sub-recipient asset focal point personnel on a sample of 59 assets during the period from July to August 2023. A review of the verification reports disclosed a mismatch between the number of assets in UNDP's consolidated master fixed asset register (39) and the list of assets purchased from grant funds and reported as physically verified by the Sub-recipient (59). The Sub-recipient reports included 20 assets (or 34 percent of assets physically verified), that according to Office's Project Management Unit, were already recommended for disposal. These 20 assets were obsolete, non-functional assets or assets exceeding the recommended replacement period for assets as per UNDP guidelines. These assets were not removed from the premises at health facilities and were co-mingled together with assets still in use.

The UNDP consolidated master fixed asset register maintained in Microsoft Excel was not systematically reconciled with the reports received after physical verifications were carried out, and there was no adequate audit trail to show how the Office resolved discrepancies.

The Global Fund Local Fund Agent prepared a management letter in May 2022, highlighting weaknesses in asset management. These included 703 assets that were removed from the fixed asset register without formal communication or approval, 55 assets were not physically verified, 40 assets that were not tagged, 26 assets that had tags that were different from the fixed asset register, 15 assets that had different serial numbers from the asset register, locations that were not updated for 99 assets due to lack of proper documentation of asset trail or movement, 18 assets that were obsolete or malfunctioned, and 38 assets that were in good condition in storage or at service delivery points but were not in use. The Office provided an action plan in June 2022; however, implementation of six out of seven management actions was in progress as of the end of September 2023. The Office, as the Principal Recipient, was coordinating with the Sub-recipients to resolve the issues noted.



The audit team conducted a physical asset verification of a sample of 56 assets valued at \$1.03 million at five health facility locations and similar weaknesses were noted:

- 16 assets valued at \$196,850 were physically verified but were not being used since the end user service sites were not ready to receive the new assets, and in some instances installation and configuration of assets were delayed between 6 and 38 months.
- There were poor tagging practices because asset tags were printed on poor-quality paper. The Office routinely replaced asset tags but did not update the asset register and records accordingly. In nine instances with assets valued at \$103,890, the audit team noted mismatches between asset tag numbers and serial numbers, as well as missing tags.
- Seven assets were not found at the locations specified in the asset register; this was due to weak asset records on movements of assets. The assets were traced and located at other facilities with the help of the Sub-recipient, after the audit fieldwork.
- 10 assets were physically verified and identified using asset tags at the locations visited by the audit team, however; they were not recorded in the asset register at the locations. In addition, damaged assets pending disposal were not recorded in the asset register.
- Three assets from the asset register were not found at the specified locations. The Office explained that the assets were removed from the locations because they were recommended for write-off and disposal; however, there was no audit trail indicating when these assets were removed.
- The government Sub-recipient did not submit the updated ICT asset register (tablets and computers) to the Office by 30 August 2023. The Office indicated that it would issue a management letter to the government Sub-recipient to follow up on the ICT assets.

The issues were caused by ineffective coordination and communication between UNDP and the Sub-recipients and inadequate capacity for effective asset reporting and record-keeping at both UNDP and Sub-recipient levels.

The Office conducted an orientation workshop for Sub-recipient asset focal points at the end of September 2023 to agree on the coordination and communication strategy as well as reporting requirements and a future action plan.

Weak asset management processes may lead to the inefficient deployment of assets, poor health service delivery, and loss of project assets.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve its asset management process by:	
(a) Maintaining an accurate and up-to-date asset register by regularly reconciling results of the physical verifications of Sub-recipients to the main asset register and investigating and resolving discrepancies.	

- (b) Coordinating with the Sub-recipients to complete the physical verification of all Global Fund-funded project assets by 31 December 2023.
- (c) Timely deploying assets per distribution plans, and delivering equipment only when facilities are ready, and the necessary personnel or technical support are provided to configure and install it.

Management action plan:

- (a) An asset verification exercise is planned for November to December 2023. The Office plans to achieve full verification by 31 December 2023. Additionally, the asset verification plan has been incorporated within the supportive supervision plans for the remainder of the year and the supervision teams will help with the verification of all the facilities to be included. Asset focal points have been appointed at the relevant government ministry, the National Public Health Laboratory, UNDP managed warehouse as well as other Sub-recipients having temporary custody of assets. They will be conducting the verification in other facilities not included in the supportive supervision plan. In this way, all facilities will be reached by 31 December 2023.
- (b) There will be regular oversight of the action points agreed by the asset focal point group to improve the effectiveness of the new coordination and communication mechanism introduced by the Office as communicated during the orientation meeting held by the Office in September 2023.
- (c) Infrastructure adjustments necessary to health facilities to support the deployment of equipment were in process, and specific cases of delayed deployment identified during the audit were followed up on by the Office. The Office was exploring options to procure more durable asset tags.

Estimated completion date: June 2024

OAI response

OAI acknowledges the actions that the Office has taken after the field mission and will review and assess their implementation through CARDS.

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.