AUDIT

OF

UNDP SUDAN

GRANTS FROM THE GLOBAL FUND

Report No. 2055

Issue Date: 28 February 2020
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:

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<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
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<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1</td>
<td>Medium</td>
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<tr>
<td>Reliability and integrity of financial and operational information</td>
<td>2</td>
<td>Medium</td>
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<tr>
<td>Effectiveness and efficiency of operations</td>
<td>3</td>
<td>High</td>
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<tr>
<td>Safeguarding of assets</td>
<td>5</td>
<td>High</td>
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<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>4</td>
<td>High</td>
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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 Funds 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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*Helge Osttveiten*

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