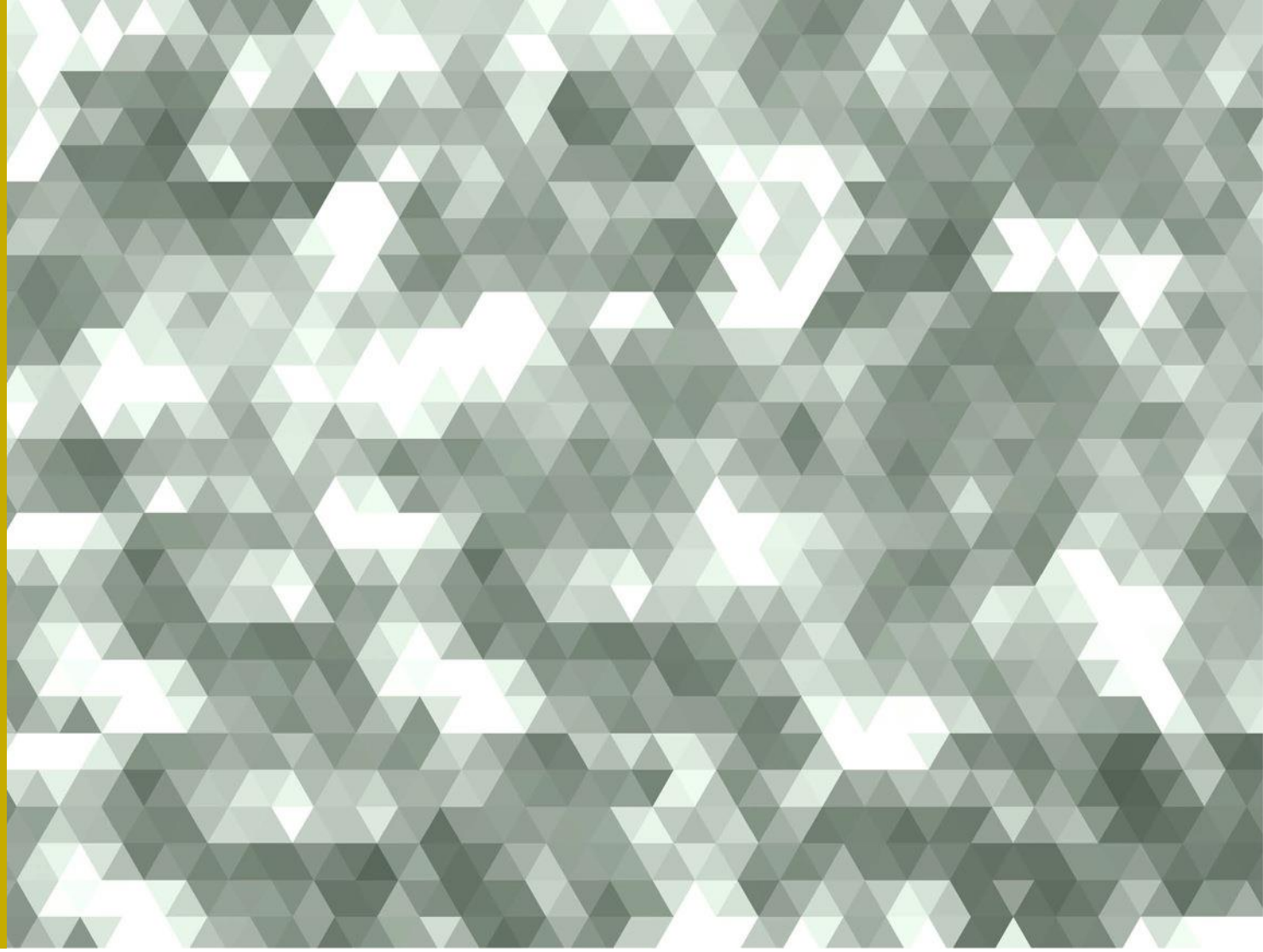

Audit Report

Audit of Global Fund Grants to the Republic of South Sudan

GF-OIG-15-016
5 October 2015
Geneva, Switzerland

The Global Fund
Office of the Inspector General

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I. Background

The Republic of South Sudan became the world's newest nation and Africa's 55th country, following a referendum in January 2011 when it seceded from the Republic of Sudan. It is a federal state composed of 10 states and 79 counties with an estimated population of 11.3 million.[1] South Sudan faces security challenges particularly in the states of Unity, Jonglei and Upper Nile which continue to experience outbreaks of conflict.

Disease burden in South Sudan
The country, with the support of various development partners, has developed a strategic policy to strengthen health service delivery. The overall objective of the 2011- 2015 health sector development plan is to improve access, quality and utilization of health services and to strengthen health systems in the country.

Malaria is endemic in South Sudan with 100% of the population at risk, especially children under five and pregnant women. According to the 2013 malaria indicator survey, malaria is the leading cause of morbidity and mortality in the country. That said, the program has improved and received the African Leaders Malaria Alliance award for excellence for most improved in malaria control in 2015. The 2014-2021 national malaria strategic plan seeks to reduce malaria morbidity and deaths levels by 80% and malaria parasite prevalence by 50% by 2021.

Tuberculosis (TB) is also a leading cause of morbidity and mortality in South Sudan with an estimated incidence of 146 per 100,000 people in 2014.[2] South Sudan's estimated treatment success rate of new and relapse cases registered in 2012 is 52%.[3] The country has 16 confirmed cases of drug resistant tuberculosis. The HIV/TB co-infection rate is estimated at 15% with only 35% of identified co-infected people on antiretroviral therapy.[4] The draft national TB strategic plan (2015-2019) aims to increase treatment success rates of bacteriologically confirmed cases to at least 85% by 2017 and increase the number of notified TB cases to at least 24,000 in 2019.

South Sudan has a generalized national HIV prevalence of approximately 2.6%, with concentration among key and vulnerable populations in the country's southern region where it reaches up to 6.8%.[5] This translates into about 153,000 people living with HIV, of whom 72,000 are eligible for treatment. According to a 2010 household survey, the population's knowledge of HIV is generally low. For example only 53% of women aged 15-49 years have heard of HIV, and 41% of women and 58% of men know that HIV infection can be avoided by using a condom correctly and consistently.[6] The national HIV and AIDS strategic plan (2013-2017) aims to reduce new infections and mortality among men, women and children living with HIV by 50% by 2017.

Environment in which grants are implemented
South Sudan is considered a "challenging operating environment" which means that service delivery in the health sector is complicated by security issues, poor infrastructure, weak capacity (especially human resources) and inadequate health systems after decades of conflicts. This situation is aggravated by the absence of functional transport infrastructure, especially during the rainy season, as well as challenges related to increased numbers of refugees and internally displaced persons.

Literacy remains a key challenge in South Sudan, which affects staff capacity and people's awareness and knowledge of the three diseases.[7] According to a mapping exercise undertaken in June 2011, the country has approximately 14,700 health workers with 30% in administrative roles. The 2011 South

[1] WHO Statistical Profile (http://www.who.int/gho/en/)
[2] Global TB Report, WHO, 2014
[3] Global TB Report, WHO, 2014
[4] Global TB Report, WHO, 2014
[5] The 2012 South Sudan Antenatal Clinic Sentinel Surveillance for HIV and Syphilis, Ministry of Health
[6] The Republic of South Sudan: The Sudan Household Health Survey 2010
[7] Only 27% of 15 years and above population are literate.

Sudan health facility mapping report noted that only 10% of facility staff are qualified to serve in their positions. The number of doctors per population ranges from 1:11,377 in Central Equatorial to 1:195,267 in Unity state. [8]

South Sudan operates a four-tier health service delivery structure: Primary Health Care Units, Primary Health Care Centres, County Hospitals and State Hospitals/Teaching Hospitals which are managed by the government in collaboration with non-governmental organisations and faith-based organisations. It is estimated that these non-governmental organizations provide about 80% of primary health care services. [9] The health sector is heavily dependent on international funding with only 4% of the government's budget allocated to the health sector. [10]

The Global Fund in South Sudan

Since 2005, the Global Fund has signed a total of eight grants amounting to USD 289 million, USD 270 million of which had been disbursed to the country at the time of the audit. The active grants at the time of the audit (March 2015) were:

Disease	Grant number	PR	Status	Grant amount USD	Disbursed amount USD
HIV	SSD-405-G05-H	UNDP	Transitional funding	46,834,369	44,330,665
Tuberculosis	SSD-708-G11-T	UNDP	Transitional funding	22,072,232	18,733,844
Health system strengthening	SSD-910-G13-S	UNDP	Phase II	47,315,332	40,244,424
Malaria	SSD-M-PSI	PSI	Phase I No cost extension	55,585,832	51,105,338
				171,807,765	**154,414,271**

The country has not been successful in attracting additional funding for HIV since the Round 4 grant that was signed in 2005. [11] Since then, it has depended on funding through the continuity of services and the transitional funding mechanism under the Global Fund with support from other donors to keep people on treatment.[12] The country's allocation under the Global Fund's new funding model is USD 136 million. At the time of the audit, malaria and tuberculosis concept notes for new funding had been approved (as well as incentive funding allocated) and were at various stages of grant making. The HIV concept note was under review by the Global Fund's Technical Review Panel. [13]

The grants to South Sudan have been managed under the Additional Safeguards Policy since the Global Fund began financing programs in the country. [14] Under this policy, the Country Coordinating Mechanism, in consultation with the Secretariat, has selected the United Nations Development Program (UNDP) and Population Services International (PSI), since malaria round 7 grant, as Principal Recipients to manage its grants in South Sudan.

[8] Health Facility Mapping of South Sudan, 2011.
[9] Health Sector Development Plan, South Sudan, 2011 – 2015
[10] Health Sector Development Plan, South Sudan, 2011 – 2015
[11] The Republic of South Sudan (formerly Southern Sudan) received funding from The Global Fund before it ceded from Republic of Sudan.
[12] Under continuation of services and transitional funding mechanism, funding is provided for people receiving lifesaving treatment at the time of grant termination for up to 21 months. The intention is to give the country sufficient time to find replacement funding and not interrupt treatment.
[13] The malaria and tuberculosis grants have subsequently been signed while the HIV concept note and grant making documents have been approved by the Technical Review Panel and Grants Approval Committee respectively with incentive funding.
[14] The Additional Safeguard Policy is invoked whenever the existing systems to ensure the accountable use of Global Fund financing suggest that Global Fund monies could be placed in jeopardy without the use of additional measures.

II. Scope and Rating

Scope

This audit was undertaken according to the OIG's risk-based audit plan for 2015. The OIG assessed the effectiveness of the implementation arrangements of Global Fund grants to the Republic of South Sudan. Specifically, the audit focused on the following thematic areas:

- funded programs achieve impact in a challenging environment; and
- risks are effectively identified and mitigated in a "challenging operating environment".

The audit covered the four active grants managed and implemented by the two Principal Recipients, UNDP and PSI. The OIG visited four sub-recipients and 21 implementation sites.

The OIG reviewed activities at the country office of PSI, selected non-UN sub-recipients and implementation sites under both Principal Recipients.

Scope Limitation

The United Nations General Assembly has adopted a series of resolutions and rules which create a framework known as the "Single Audit Principle". Under this framework, the United Nations and its subsidiaries do not consent to third parties accessing their books and records. All audits and investigations are conducted by the UN's own oversight bodies. The Global Fund Board and its committees have considered this assurance over funds managed by UNDP and other UN subsidiary bodies. Accordingly the OIG did not audit UNDP and UN sub-recipients' (United Nations Children's Fund and World Health Organisation) expenditures under the grants. This accounts for about 82% of expenditure incurred under the grants implemented by UNDP during the two years ended 31 December 2014. The UNDP's Office of Audit and Investigations report issued in February 2015 assessed the UNDP South Sudan Country Office as partially satisfactory, which means, "internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity". [15]

Rating[16]

Operational Risks	Rating	Reference to findings
Programmatic and Performance	Partial plan to become effective	IV.1, IV.2, IV.3, IV.4, IV.5
Financial and Fiduciary	Full plan to become effective	IV.4, IV.5
Health Services and Products	Partial plan to become effective	IV.1, IV.2, IV3,IV4
Governance, Oversight and Management	Partial plan to become effective	IV.1, IV.2, IV.3, IV4, IV5

[15] UNDP Office of Audit and Investigations report number 1400, February 2015: UNDP South Sudan, Global Fund.
[16] See Annex A for the rating definitions.

III. Executive Summary

The grants in South Sudan are implemented in a challenging operating environment characterized by constant change, weak health systems, a shortage of trained health professionals and poor access to limited, and under-resourced facilities.

The audit focused on two thematic areas:

1. Ensuring that funded programs achieve impact in a challenging environment

In spite of this difficult environment, the Global Fund, together with other development partners, have made notable contributions to the fight against the three diseases in South Sudan. This includes an increase in bed net ownership from 53% (2009) to 66% (2013), which is largely attributed to the mass distribution of bed nets partly funded by the Global Fund. Coverage of pregnant women receiving intermittent preventive treatment also increased from 13% (2009) to 26% (2013).[17] The Global Fund has supported the activation of the 22 anti-retroviral treatment sites with some 8,500 clients on treatment as of June 2014. Some 21,000 new smear-positive Tuberculosis cases have been detected and treated in South Sudan through the support of the Global Fund. The Global Fund's investment of USD 16 million in constructions, health equipment and the training of health workers has contributed to improved service delivery in South Sudan.

While the funded programs are able to meet their targets, challenges remain in fighting the three diseases sufficiently due to the effects of the challenging operating environment, inadequate funding and inadequate oversight of funded programs resulting in low coverage of affected populations. For example:

- The number of clients on anti-retroviral treatment (8,500 clients at June 2014) represents only 12% of the 72,000 people eligible for treatment.
- Sixteen patients diagnosed with drug-resistant tuberculosis between 2010 and 2014 have not been enrolled into care and treatment and only 35% of TB/HIV co-infected clients are receiving treatment.
- Contrary to the World Health Organization's recommended "test, treat and track" strategy, most malaria cases did not have confirmatory tests undertaken before treatment. This raises the risk of developing drug-resistant malaria.[18]
- Twenty-six of the forty six buildings constructed (56%) under Phase I of the Health Systems Strengthening grant either have defects and/or are not in use. This is largely because the buildings are located in insecure areas or far from townships, design flaws, and/or lacking basic utilities. This raises the question of whether activities of a development nature should be prioritized in such challenging operating environments over service delivery, for example, putting more people on treatment.

The Secretariat has a **partial plan to become effective** to address programmatic and performance-related risk. The country, with the support of partners, has secured additional funding under the new funding model, which once implemented, is expected to address critical gaps in the three disease programs. The Country Coordinating Mechanism has limited capacity to effectively fulfill its roles in prioritizing and coordinating available resources, and ensuring effective utilization of available resources. However, measures proposed by the Global Fund for reform of the Country Coordinating Mechanism are yet to yield the desired results to enable optimal execution of its role.

Capacity building plans developed in 2014 are expected to complement efforts by other partners in strengthening national program capacity, including their role in oversight. The Secretariat has also instituted more stringent oversight over the construction to mitigate risks identified in the Phase I health system strengthening grant. However, no plans are in place to address the issues identified in the buildings under Phase I grant and to ensure that constructed buildings are put to their intended use.

[17] Malaria Indicator Survey, South Sudan, 2013
[18] Only 40% of the health facilities in the country are capable of offering definitive diagnostic services

2. Risk identification and mitigation in a "challenging operating environment"

The Global Fund supports implementation of grants in countries at various stages of the development continuum. However, there is limited differentiation in the application of Global Fund policies to these varied environments. The conclusions of this audit raise questions about the suitability of applying the standard grant operational processes to challenging operating environments like South Sudan. The Secretariat has instituted a project to drive differentiation and principles of working in challenging operating similar environments. However, at the time of the audit, there was limited guidance to country teams on the Secretariat processes related to grants in countries experiencing civil war or major health system disruption. While the OIG notes that the country team adopts a flexible approach in order to effectively respond to the unique circumstances in such countries, the parameters within which the country team can deviate from standard practice are not defined. Thus, governance, oversight and management are rated as **partial plan to become effective**.

Due to the continuous changes in the environment within which grants are implemented in South Sudan, it is imperative to continuously assess the risks and to review the effectiveness of mitigation measures in addressing the risks. This has not always happened and as a result, the OIG identified major risks which had not been effectively identified and mitigated. This included program commodities and assets that remained unaccounted for, inaccuracies in the data reported to the Secretariat, and buildings and equipment, paid for by the Global Fund, that were not being used.

Most expenditures under the grant are incurred by the Principal Recipients who generally have adequate controls to mitigate the financial and fiduciary risks at their level. However, financial and fiduciary risks at the sub-recipients' levels are not always adequately mitigated. The OIG identified transactions amounting to USD 935,138 incurred by one sub recipient with inadequate financial and/or programmatic supporting documentation.[19] In response to known financial and fiduciary controls weaknesses at sub-recipients' level, the Secretariat has increased the Local Fund Agent oversight and instituted a zero cash policy.[20] The financial and fiduciary area is therefore rated by the OIG as having a **full plan to become effective**.

Although the majority of the material health services and product risks in the portfolio had been identified, the OIG noted some key risks related to accounting for key program inputs that had not been identified. This included one Principal Recipient that could not account for 134,000 bed nets valued at USD 431,223. [21] The quality of the anti-retroviral service was affected by non-operational equipment required for baseline and follow up monitoring, and ineffective community outreach mechanisms. Arrangements for supportive supervision were ineffective. Due to these and unused buildings that had been constructed under the health system strengthening grant, the health products and services risks are rated under the category **partial plan to become effective.**

[19] Total amount of USD 366,472 , USD 175117 and USD 393,549 under HIV, TB and malaria grants respectively.
[20] Under the zero cash policy, the Principal Recipient (or the Fiscal Agent where relevant) makes direct payments to vendors of goods and services, rather than transferring funds to Sub-Recipients.
[21] Based on the unit cost of bed nets procured excluding PSM and other related costs.

IV. Findings and Agreed Actions

IV.1	Achievement of impact in South Sudan	Executive Level	Partial plan to become effective

Limited funding for the three diseases, coupled with difficulties related to operating in the country, have affected coverage of affected populations and limited the country's ability to fight the three diseases

The Global Fund has made notable contributions to the fight of the three diseases in the Republic of South Sudan. These include increasing bed net ownership and supporting the establishment of the 22 anti-retroviral treatment sites. However, the level of Global Fund investments alongside other donor funding (including United Kingdom's Department for International Development, The United States President's Emergency Plan for AIDS Relief, Health Pooled Fund, Multi Donor Trust Fund) in the fight against the three diseases, remains inadequate and is therefore unable to deliver the desired results in South Sudan. For example:

- ***Low coverage of people living with HIV*:** While the HIV grant is meeting a number of its grant targets, these achievements have not created sufficient impact compared to the need:
  - Although the target of putting 8,501 people on anti-retroviral treatment (as at June 2014) has been met, this represents only 12% of the 72,000 people eligible for treatment.
  - While the Global Fund program has met its 16% coverage target with regard to the prevention of mother to child transmission (PMTCT), the overall national PMTCT coverage rate remains low (21%) compared to the UN General Assembly recommended rate of 80%.[22]

- ***Insufficient number of tuberculosis facilities*:** For TB, only 7% of the health facilities in South Sudan are reported to have a TB clinic and this affects patients' access to diagnosis and treatment. The country has low coverage for Directly Observed, Short Course Treatment (which is estimated to be 48%) against a recommended WHO target of 100%. The country's treatment success rate declined from 80% in 2009 to 52% in 2014 due to the default rate.[23]

- ***Key populations not effectively targeted for malaria:***
  - The country's coverage of intermittent preventive treatment for pregnant women is low, and estimated to be 26% compared to the 100% coverage target proposed by the Roll Back Malaria Partnership. [24] However, the active Global Fund malaria grant does not cover intermittent preventive treatment for pregnant women.
  - Children under five years old are treated under the Home-based Malaria Management System which provides diagnosis based purely on clinical symptoms (fever). The Malaria Indicator Survey notes that only 32% of the children treated tested positive for malaria. [25] This raises the risk that children are wrongly treated and can lead to drug resistance. While the treatment of children without proper diagnosis can be justified in country contexts like South Sudan, it is imperative to monitor intermittently the prevalence of malaria as a true cause of fever and revise the policy appropriately.

The country's inability to achieve the desired results is largely due to limited funding in the health sector and, where funding is available, the cost of doing business in the country affects the available funds for programmatic interventions. The Global Fund Country Team, through the country dialogue with in-country stakeholders, has incorporated measures to address the limited program coverage in the three disease concept notes under the new funding model.

[22] South Sudan Global AIDS Response Progress Report, 2013
[23] Global TB Report, WHO, 2014
[24] Intermittent preventive treatment of malaria in pregnancy is a full therapeutic course of antimalarial medicine given to pregnant women at routine prenatal visits, regardless of whether the recipient is infected with malaria
[25] Malaria Indicator Survey, South Sudan, 2013

The HIV program has not secured funding from the Global Fund since the Round 4 grant which was signed in 2005. This is due to the following reasons.[26]

- ***Limitations of the old rounds-based system:*** Under the 'rounds based' funding previously adopted by the Global Fund, country proposals were assessed based on the quality of proposals and did not take into consideration country needs.[27] This is largely remedied by the Global Fund's new funding model which allocates funding based on disease burden and ability to pay. At the time of the audit, the malaria and tuberculosis concept notes had been approved under the new funding model and were at various stages of grant making while the HIV concept note was under review by the Technical Review Panel.[28] However, the benefits are yet to be realized at the country level since the grants under the new model are yet to be fully implemented.

- ***Limited ability to attract and prioritize additional funding:*** The Ministry of Health and the Country Coordinating Mechanism (in the case of Global Fund) have limited capacity to effectively fulfill their respective roles in prioritizing and coordinating available resources, and ensuring effective utilization of available resources. This was confirmed by a Secretariat initiated diagnostic review of the Country Coordinating Mechanism undertaken in 2013 which identified capacity weaknesses which affects its ability to effectively undertake critical activities. The Secretariat together with other partners instituted measures to strengthen the Country Coordinating Mechanism including provision of technical assistance. However, in April 2015 the Secretariat declared that the South Sudan Country Coordinating Mechanism non-compliant with the Eligibility and Performance Self-Assessment criteria.[29] The Secretariat has requested the Country Coordinating Mechanism to submit an updated Performance Improvement Plan that will address the weaknesses identified.

  The Secretariat does not have alternative arrangements in place in the event that the Country Coordinating Mechanism is unable to submit and implement the requested Performance Improvement Plan. This points to the limited options available to the Secretariat for countries where Country Coordinating Mechanisms are unable to effectively execute their roles especially in countries with challenging operating environments, such as South Sudan.

Agreed management action 1: The grants that will be signed under the new funding model will address the limited coverage of affected people under the three diseases. The Country Team will work with in-country stakeholders (including technical partners) during grant making to ensure that allocated funds under the three new grants are effectively utilized to increase coverage of people affected by the three diseases.

Owner: Head of Grant Management

Target Date: 30 October 2015

[26] Additional HIV funding since 2011 has been through the continuity of services and transitional funding mechanism that restrict program activities other than treatment for example, creating awareness, counselling and testing, interventions targeted at key affected populations for example, female sex workers and their clients who account for 54% of new infections.
[27] The country was successful in attracting funds for TB and malaria under the rounds based system.
[28] The malaria and tuberculosis grants have subsequently been signed while the HIV concept note and grant making documents have been approved by the Technical Review Panel and Grants Approval Committee respectively with incentive funding.
[29] Eligibility and Performance Self-Assessment criteria are defined criteria of good governance practices which all Country Coordinating Mechanisms must comply in order to be eligible for funding.

IV.2	Implementation of funded programs	Country Team level	Partial plan to become effective

Key activities that are critical to the overall success of funded programs have not been effectively implemented.

Although Global Fund grants in South Sudan are on track to meet targets for output indicators, some components critical to the success of funded programs have been delayed. [30] This has affected the availability and quality of key services to patients, and the effectiveness of implemented program activities in driving impact. These include:

- ***Delays in the commencement of critical grant activities***:
  - The Early Infant Diagnosis (EID) component for the HIV grant has not effectively started since 2010 due to the challenges faced by the Principal Recipient in procurement and installation of the required equipment for proper diagnosis of infants. Early Infant Diagnosis of HIV is currently based on presumptive diagnosis due to unavailability of the required equipment.
  - Sixteen patients diagnosed with multi drug resistant tuberculosis between 2010 and 2014 have not been enrolled into treatment and care due to the limited program capacity for managing drug resistant tuberculosis in South Sudan and funding constraints. This is critical because untreated patients can more easily infect others.

- ***Gaps in the implementation of critical grant activities:***
  - There was inadequate baseline and follow up monitoring of people on anti-retroviral therapy at sites visited due to non-functional machines and/or inability of staff to operate available machines. For example, chemical analyzers and hematology analyzers and Cluster of Differentiation (CD4) count machines were not operational at two sites handling 1,100 people (20% of total verified number of people on anti-retroviral therapy as at the time of the audit). The Country Coordinating Mechanism has initiated steps to replace the CD4 count machines with more user friendly machines in line with the country context.
  - Only 6 out of 22 anti-retroviral therapy facilities had functional community health outreach teams and this has affected the program's follow up of clients lost to treatment. The six operational teams were also not fully effective since clients lost to treatment at two sites with functional outreach teams had not been followed up. The sub- recipient engaged for this activity ceased operations in South Sudan in 2013 and their replacement has not yet been approved due to the capacity gaps.
  - The country's "hang and use" protocol, which is designed to drive an increase in bed net usage, was not consistently implemented throughout the mass campaigns by the Principal Recipient. The 2013 Malaria Indicator Survey noted that 14% of households that had a least one net did not sleep under the bed net and that twenty five per cent of people who did not sleep under bed nets attributed this to not hanging up their nets.
  - Some tuberculosis laboratories had not been externally quality-assured because the guidelines for external quality assurance are yet to be finalized. For those that are quality-assured, identified cases of false negative results are not always followed up and rectified.
  - The collaboration between the TB and HIV national programs has improved but remains inadequate. Challenges exist with managing co-infections due to parallel HIV and TB structures. [31] The referral mechanisms between the 22 antiretroviral therapy sites and 87 TB clinics is ineffective as evidenced by only 35% of TB-HIV co-infected patients receiving antiretroviral therapy.[32]

[30] HIV is A2 (meeting expectations); tuberculosis is ranked B1 (adequate); and malaria is ranked B2 (inadequate but potential is demonstrated).
[31] The HIV/TB collaboration is also challenged by inadequate funding
[32] Global TB Report, WHO, 2014

- ***Ineffective implementation of program interventions through health facilities:***
  - Malaria test kits have not been effectively distributed resulting in only 32% of the target being met by June 2014. This is partly due to the civil unrest and the weak coordination of kit distribution by the relevant Principal Recipient and other partners. This not only goes against the World Health Organization's recommended "test, treat and track" strategy, but has contributed to the low malaria diagnosis figures estimated to be 27% - 32% of cases treated. [33]
  - Approximately 37,000 bed nets left over from 2013 mass campaign had not been distributed at the time of the audit.
  - Stock outs of key commodities were noted. Some health facilities visited and community based distributors reported stock out of anti-malarial medicines and test kits between more than one week and three months. For instance, 854 Community Based Drug Distributors under two sub-recipients reported stock outs of anti-malaria medicines in the last quarter of 2014.

The country team did not identified some significant gaps in implementation. In other cases, identified gaps were communicated to the Principal Recipients but measures put in place were inadequate and/or ineffective in addressing the gaps in a timely manner. In-country oversight has also been ineffective in identifying and/or addressing implementation gaps:

- ***Inadequate oversight by national programs***: Established in 2008, the national disease programs lack adequate capacity to effectively oversee the programs that are supported by the Global Fund. The country's national strategic and health sector development plans highlight the need to institutionalize the disease national programs and build their capacity. However, proposed measures are yet to yield the desired results to enable optimal execution of their role.

- ***Ineffective supervision:*** One Principal Recipient has instituted supportive supervision and technical assistance arrangements to address capacity gaps at sub recipients and facility levels. However, identified implementation challenges are not effectively addressed. For example, implementation challenges related to use of machines, recording of data and handling of drugs at facility levels had not been addressed after supportive supervision and technical assistance to the facilities.

Agreed management action 2: Refer to agreed management action 4

[33] 2013 Malaria Indicator Survey Report, South Sudan.

IV.3	Health system strengthening interventions	Executive level	Partial plan to become effective

Grant activities to strengthen health systems have not optimally supported the funded programs.

Under the health system strengthening grant, the Global Fund has invested USD 16 million in constructions and infrastructural upgrades, health equipment and training of health workers. This has contributed to improvement in health care delivery in South Sudan. However despite this investment, the OIG noted a number of issues which raise questions about whether the investments were appropriate and represent value for money. Limited emphasis has been given under this grant to addressing systemic challenges to program implementation under the three disease programs.

With regard to the program activities implemented under phase 1 of this grant, the following issues were identified at time of the audit (March 2015): [34]

- ***Deficiencies in grant funded constructions:*** Out of the 46 buildings constructed using grant funds, a number of issues were noted including:
  - 16 of the buildings (35%) are not in use. [35]
  - 10 of the constructed buildings (22%) are in use but have defects due to design flaws (for example, maternity clinic corridors were too narrow to push a bed through), poor workmanship, quality of materials, and inadequate maintenance. [36] These flaws were not identified at an early stage during construction due to poor supervision arrangements. No plan was in place at the time of the audit to correct the defects noted.
  - There was a change in scope of the grant from renovations as detailed in the approved proposal to construction of buildings under Phase I. However, there is no documentation available to evidence the approval of this change in scope.

  An additional 17 buildings under Phase II of this grant are at various stages of procurement process/construction. The country team and the Principal Recipient have put mechanisms in place to address the issues noted with the Phase I constructions. This includes change of design, criteria for selection of sites, improvement in supervision arrangements with recruitment of additional civil engineers and involvement of the Local Fund Agent to oversee civil works. However, it remains questionable whether more buildings should be constructed before the above issues are resolved.

- ***Equipment not in use:*** The OIG found that some equipment procured was not in use at facilities visited either because it was improperly installed, broken down, did not have sufficient electricity output to run the equipment or facility staff were unable to operate the equipment. These included Cluster of Differentiation (CD4) count machines, chemical analyzers and hematology analyzers at the sites visited.

- ***Ineffectiveness of training interventions*:** Training under the Global Fund grants is part of a wider effort to build capacity by development partners under the Health Sector Development Plan. However, we noted that trained staff resign soon after the training which is due to, amongst other things, remuneration challenges. While the loss of trained staff to the market strengthens the wider health sectors in South Sudan and neighboring countries, it does not address the specific skills shortages that the grant was meant to address.

The Phase 1 health system strengthening interventions have not been optimally effective because of:

[34] The Phase I HSS grant ended on 30 September 2012 with most of the buildings completed and handed over in 2013 under the phase 2 grant.
[35] Ten buildings located in conflict affected areas, two with delayed completion of correctional works, two located away from main township and two due to change of implementer.
[36] This includes the five maternity clinics acknowledged to have defects and five sites visited by OIG.

- ***Lack of effective guidance on health system strengthening:*** The Secretariat did not have effective guidance on health system strengthening interventions. However, the country team indicated that they received guidance from the health system strengthening team in addressing the challenges at the start of the related Phase 2 grant.

  Ineffective management of risks inherent in renovation and construction activities: The Secretariat lacks effective guidance on how to manage the unique risks and challenges that renovation and construction activities present especially in a challenging operating environment. For example, there was inadequate planning and supervision arrangements in mitigating risks before and during implementation of the Phase I health system strengthening grant:
  - There was no agreed upon criteria for the selection of construction sites;
  - While some stakeholder consultations was performed, it was not adequate in identifying building design flaws during the planning stage; and
  - Agreed upon commitments by the government for provision of utilities and maintenance of the buildings have not been honoured.

Agreed management action 3: The Secretariat will review its policies and guidelines on the use of Global Fund grants funds for construction and renovation projects, and consider how to best update the Health System Strengthening Information Note to ensure that normative guidance from technical partners is referenced.

Owner: Head of Strategy Investment and Impact Division

Target Date: 31 March 2016

IV.4	Risk identification and mitigation	Executive level	Full plan to become effective

Key risks have not been effectively mitigated in South Sudan.

The "challenging operating environment" of South Sudan has contributed to the Secretariat classifying grants as high risk with regard to governance, oversight and management, programmatic and performance and health services and product risks. However, proposed measures have not effectively mitigated these risks to date including:

- ***Ineffective management of assets and commodities by the Principal Recipients:*** Principal Recipients have not instituted effective management and control over assets and commodities purchased under funded programs. For example:
  - 134,520 (USD 431,223) bed nets procured under the malaria grant in 2013 and 2014 could not be accounted for; [37]
  - The number of anti-malarial medicines and test kits issued to partners could not be reconciled with the quantities distributed and balances held as stock at the end of 2014; [38] Some facilities were reporting malaria test kit stock outs in 2014 when the Principal Recipient was holding kits nearing expiry at the central level at the end of 2014; and
  - Fifteen program computers (approximately USD 28,000) under the HIV grant had not been recovered from staff that left the Ministry of Health over a year ago.

- ***Inadequate oversight of sub-recipients:*** The audit noted gaps in Principal Recipients oversight of activities implemented by sub recipients. For example:
  - The audit identified unsupported expenditure of USD 935,138 under one-sub recipient implementing activities under the two Principal Recipients; [39]
  - The two Principal Recipients have challenges in overseeing program implementation undertaken by UN agencies; and
  - Issues related to sub-recipients raised by different assurance providers had not been resolved at the time of the audit (including unsupported costs, wrong cost allocations and maintenance of proper books of account.

- ***Weaknesses in data management:*** Instances were noted where the data reported by the two Principal Recipients to the Secretariat contained errors:
  - Errors noted in bed net registers, for example arithmetic inaccuracies, duplicated entries in registers and lack of evidence of receipt of nets were noted in 50 out of 110 bed net registers reviewed;
  - Misinterpretation of indicators including counting the number of bottles of medicines instead of infants under the HIV grant which resulted in over reporting of 156% from January to November 2013 in a facility which accounts for 42% of the reported results; and
  - Reporting of results relating to other donor activities under the malaria grant for example, bed nets, anti-malaria medicines and malaria test kits. [40]

- ***Gaps noted in capacity building arrangements for national programs:*** The Secretariat ensured that Principal Recipients instituted measures to build the capacity of national programs. However, the OIG's review of the national program capacity building plans (launched in September 2014) showed that:
  - Three parallel capacity building plans have been created for the national disease programs without identifying cross cutting themes at the Ministry of Health to create synergies and linkages with capacity building arrangements of other donors.

[37] Based on the unit cost of bed nets procured excluding PSM and other related costs.
[38] The partners are engaged by the Principal Recipient to distribute commodities through the facilities.
[39] Total amount of USD 366,472 , USD 175117 and USD 393,549 under HIV, TB and malaria grants respectively.
[40] The facility related indicators and target in the grant's performance framework are specific to the grant. However, the results reported by the Principal Recipient include activities funded by other donors.

- The responsibilities for the implementation of plans developed by one Principal Recipient are not clearly defined and lack mechanisms to track progress. Though the Secretariat in partnership with a private sector developed a costed financial management capacity building plan, the broader capacity building plans from the two Principal Recipients had not been costed.

The Secretariat's risk management mechanisms has also been ineffective in ensuring risks in the grant portfolios are identified and mitigated:

- ***Risk assessments not completed for all grants***: The country team prepared two out of the four Qualitative Risk Assessment Tools(known as QUART) for active grants in South Sudan (malaria and health system strengthening) in 2014 with the intention of preparing the other two risks assessments (HIV and TB) by February 2015. However, the QUARTS for HIV and TB were not prepared at the time of the audit (March 2015). [41]

- ***Proposed actions have not mitigated identified risks:***
  - The Country Team's risk rating of programmatic and performance, health services and products and governance, oversight and management areas remains high and/or are deteriorating. This is due to the difficulties in working in the country and continuous changes in the environment which calls for the continuous monitoring of risks and effectiveness of mitigation actions. However, the actions by the Country Team have mitigated some financial and fiduciary risks but not other risks for example, the management of program inputs. In this case, the mitigation of risks related to program inputs is only as effective as the controls put in place by the Principal Recipients.

Agreed management action 4: The Secretariat will review the existing mechanism to ensure that grants that require QUARTS are effectively tracked to ensure compliance with the requirements, that deviations are minimized and, where deemed unavoidable, are pre-approved at the highest managerial levels.

Owner: Chief Risk Officer

Target Date: 30 June 2016

Agreed management action 5: The Country Team will review the findings relating to loss of assets and funds not accounted for and make proposals to the Recoveries Committee on a way forward.

Owner: Head of Grant Management

Target Date: 31 December 2015

[41] The outstanding QUARTS were subsequently prepared by the country team and presented to the Operational Risk Committee in June 2015.

IV.5	Limited differentiation for challenging operating environments	Executive Level	Partial plan to become effective

The Secretariat has not tailored its grant making and operational processes to take into account grants that are implemented in "challenging operating environments".

The Global Fund supports implementation of grants in countries at various stages of the development continuum. Challenging operating environments like South Sudan have significant challenges such as weak capacity of national programs, inadequate human resources capacity and weak health systems which affect the implementation of grants. However, there is limited differentiation in the application of Global Fund policies to these varied environments.

The suitability of applying the standard grant operational processes to such environments remains questionable given the varied challenges in those countries. For example:

- Concept notes from these countries are assessed against the same criteria as other countries without consideration of the challenges that they may face, (for example, inadequate human resources capacity and weak health systems).
- The expectations for information and reporting placed on countries in challenging environments by the Global Fund seems unrealistic given the pervasive weaknesses in health systems and human resource capacity.
- The Secretariat has not effectively tailored its assurance mechanisms to reflect the higher risks prevalent in challenging environments. For example, requirements for periodic financial and programmatic reviews by assurance providers have not been tailored to reflect the unique country risks.

The Secretariat has instituted a project to drive differentiation principles of working in challenging operating environments. However, at the time of the audit, there was limited guidance to Country Teams on the Secretariat processes related to grants in such environments. While the OIG notes that the Country Team adopts a flexible approach in order to effectively respond to the unique circumstances in South Sudan, the parameters within which the Team can deviate from the operational policies are not defined. As a consequence, the Country Team are unable to take measured risks to ensure the delivery of critical services in difficult operating environments.

At its 32nd meeting in November 2014, the Board approved a risk differentiation framework to enable the Secretariat to manage risks in various countries differently. The Secretariat has begun to work on developing guidance on "challenging operating environments" and has established a committee to guide country teams in managing grants in such environments.

Agreed management action 6: As planned in support of ongoing work for the Strategy, Investment and Impact Committee (SIIC) and next Global Fund Strategy, the Secretariat is developing a principle-based approach on challenging operating environments (CoE) to articulate how the Global Fund will operate in these contexts. The Secretariat will propose criteria for a COE classification and a potential framework of principles and flexibilities applicable to COEs within a country by country approach for the next Global Fund Strategy.

Owner: Head of Strategy and Policy

Target Date: 30 June 2016

V. Table of Agreed Actions

No.	Category	Agreed Action	Target date and owner
1.	Achievement of impact in South Sudan	The grants that will be signed under the new funding model will address the limited coverage of affected people under the three diseases. The Country Team will work with in-country stakeholders (including technical partners) during grant making to ensure that allocated funds under the three new grants are effectively utilized to increase coverage of people affected by the three diseases.	Owner: Head of Grant Management Date: 31 October 2015
2.	Implementation of funded programs.	Refer to AMA no 4 below	
3.	Health system strengthening interventions.	The Secretariat will review its policies and guidelines on the use of Global Fund grants funds for construction and renovation projects, and consider how to best update the Health System Strengthening Information Note to ensure that normative guidance from technical partners is referenced.	Owner: Head of Head of Strategy Investment and Impact Division Date: 31 March 2016
4.	Risk identification and mitigation.	The Secretariat will review the existing mechanism to ensure that grants that require QUARTS are effectively tracked to ensure compliance with the requirements, that deviations are minimized and, where deemed unavoidable, are pre-approved at the highest managerial levels.	Owner: Chief Risk Officer Date: 30 June 2016
5.	Risk identification and mitigation.	The Country Team will review the findings relating to loss of assets and funds not accounted for and make proposals to the Recoveries Committee on a way forward.	Owner: Head of Grant Management Date: 31 December 2015
6.	Limited differentiation for challenging operating environments.	As planned in support of ongoing work for the Strategy, Investment and Impact Committee (SIIC) and next Global Fund Strategy, the Secretariat is developing a principle-based approach on challenging operating environments (CoE) to articulate how the Global Fund will operate in these contexts. The Secretariat will propose criteria for a COE classification and a potential framework of principles and flexibilities applicable to COEs within a country by country approach for the next Global Fund Strategy.	Owner: Head of Strategy and Policy Date: 30 June 2016

Annex A: General Audit Rating Classification

Highly Effective	**No significant issues noted**. Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.
Generally Effective	**Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment**. Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.
Full Plan to Become Effective	**Multiple significant and/or (a) material issue(s) noted. However, a full SMART (Specific, Measurable, Achievable, Realistic and Time-bound) plan to address the issues was in place** at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes.
Partial Plan to Become Effective	**Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place** at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.
Ineffective	**Multiple significant and/or (a) material issue(s) noted**. Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. **No plan to address the issues was in place** at the time audit Terms of Reference were shared with the auditee.

Annex B: Methodology

The Office of the Inspector General (OIG) performs its audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.