



CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM

THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

MANAGED BY UNDP

(FISCAL YEAR 2014)

Report No. 1607
Issue Date: 7 March 2016

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Consolidated Report on the Audits of Sub-recipients of Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (FY2014) Executive Summary

Background

In December 2015, the Office of Audit and Investigations (OAI) concluded the review and analysis of audit reports of projects implemented by non-governmental organizations or government institutions that were Sub-recipients (SRs) of grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) for the fiscal year 2014 (FY 2014). The main objective of those audits is to provide UNDP with assurance that resources have been used in accordance with the SR agreements and relevant regulations and rules, policies and procedures of UNDP.

Purpose and scope of the review

The OAI review aimed to: (a) analyse the distribution of external audit firms' audit opinions; (b) highlight the audit areas under which the internal controls of the SRs were assessed as weak; (c) identify common audit issues; and (d) determine the implementation status of the prior year audit recommendations. The review covered 29 audit reports for FY 2014 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 29 audit reports pertained to 29 projects funded by the Global Fund and to 92 SRs in 18 of the countries where UNDP was the Principal Recipient, and which met the required audit criteria set by OAI. The reports covered FY 2014 project expenses totaling \$63.2 million, equivalent to 59 percent of the overall UNDP/Global Fund SR expenses of \$107 million incurred in 2014.¹ In terms of distribution, \$46.2 million (73 percent) of the expenses audited related to grants managed under the Additional Safeguard Policy.²

Results of the review

Of the \$63.2 million in expenses audited, \$62.8 million (99.4 percent) had unmodified audit opinions and \$0.4 million (0.6 percent) had a qualified audit opinion with a net financial impact (NFI) totaling \$21,463 or 0.03 percent of the total audited expenses. By comparison, for FY 2013, the NFI was about \$0.2 million, equivalent to 0.3 percent of the audited expenses.

The external audit firms raised a total of 288 audit observations in FY 2014, categorized by risk severity and by audit area, as follows:

- **Risk severity:** The 288 audit observations were categorized as: 30 (10 percent) high priority; 190 (66 percent) medium priority; and 68 (24 percent) low priority.

¹ The figure was based on the total amount recorded under the Government/NGO column of the Atlas-generated Combined Delivery Report.

² The Additional Safeguard Policy defines procedures and criteria and is established by the Global Fund as part of its risk management processes.

- Audit areas: Most of the audit observations belonged to three core audit areas, namely: financial management; record keeping systems and controls; and human resources selection and administration, which together, accounted for 200 (69 percent) of the total 288 audit observations.

The area of financial management, when compared to FY2013 audit results, continued to be noted with the most common audit issues namely: inadequate documentation in support of expenses, and lack of adequate accounting systems and controls.

Implementation of audit recommendations

The external audit firms were required to review the progress achieved by the SRs in implementing the prior year's audit recommendations (FY 2013) and to report on the updated "action plans" for those recommendations. OAI focused its assessment on the implementation status of the high priority recommendations. Of the 43 high priority FY2013 recommendations, 35 (81 percent) had been implemented, while the remaining 8 (19 percent) were either withdrawn or no longer applicable as of the end of 2015. This was an improvement when compared to those from FY2012, for which 64 percent of high priority recommendations had been implemented by the end of 2014.

Management action plan

During 2015, the UNDP Global Fund Programme Team, HIV, Health and Development Team within the Bureau for Policy and Programme Support continued to monitor Sub-recipient management recognizing SR performance was essential to reaching grants' objectives and continued to be one of the highest risk aspect of implementing Global Fund grants. The results of OAI's review referred to financial management, with the most common issues related to inadequate documentation in support of expenses and lack of adequate accounting system and controls. The Team introduced new processes to address these findings, including an Early Warning System with an indicator for outstanding advances to SRs.

In 2016, the review of the financial management section of the capacity assessments and continued training through Webinars and targeted in-country SR training will be introduced. In addition, based on the positive performance review of the standardized SR audit process the corporate level Long Term Agreements with audit firms were extended.

In 2016, the Team will further enhance guidance on SR management, with the introduction of an expenditure mapping exercise for SRs to determine core areas of activities, including a mapping of the SR management process, with identification of key risk activities in the cycle, and standardization of tools for management of identified key activities, to allow prevention or detection of weaknesses at SR level. Finally, SR management is a separate risk area in the newly developed risk management framework, which will support Country Office to better identify and manage risks related to this functional area.



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1. Introduction

The Global Fund is a global public-private partnership dedicated to attracting and disbursing resources to prevent and treat HIV/AIDS, tuberculosis, and malaria. As Principal Recipient, UNDP is accountable for the proper use of grant funds and the implementation of projects in recipient countries. UNDP may appoint SRs to implement part of the project activities that would otherwise be carried out by UNDP. The SR can be a governmental entity, a United Nations entity, or a non-governmental organization. SRs that are governmental entities or non-governmental organizations are required to be audited by external audit firms pursuant to the UNDP procedures for audits of projects under national implementation modality.

The total UNDP/Global Fund expenses increased from \$413 million in 2013 to \$474 million in 2014. In 2014, project expenses incurred by SRs and audited under the non-governmental organization/national implementation modality audit process amounted to \$63.2 million, with \$46.2 million in Additional Safeguard Policy countries.

2. OAI role in Global Fund Sub-recipient audits

Each year, UNDP Country Offices that are Principal Recipients advise OAI of the SRs to be audited as part of their annual audit plans. Each SR selected is required to undergo an audit of its expenses, cash, and assets statements, and an assessment of its internal controls. The selection and audit of the SRs must be completed based on the criteria and the deadline established by OAI. Starting with the FY 2012 audit, the Bureau for Policy and Programme Support Global Fund Programme Team engaged in Long-Term Agreements with external audit firms to improve the consistency and quality of the SR audits. The contracting for the audit and acceptance of the audit reports is a process owned by Country Offices. The audit reports of SRs are to be submitted to OAI for review after they have been clarified and accepted by the Country Office from the external auditors. When requested by the Global Fund, the Country Office may provide the audit report of the SRs to the Global Fund or its representative (the Local Fund Agent).

The submission of the audit reports and specific content is uploaded by the Country Office onto the Comprehensive Audit Report Database (CARDS) which is managed by OAI. OAI checks the quality of the data and information uploaded to CARDS.

3. Review of Global Fund Sub-recipient audits in FY 2014

In line with OAI criteria for the selection of SRs to be audited, eight countries did not require audits (Angola, Bosnia and Herzegovina, Djibouti, Guinea-Bissau, Montenegro, Sao Tome and Principe, Syrian Arab Republic, and Turkmenistan) specifically where:

- (a) the expenses incurred by the SRs did not meet the audit threshold or did not meet the Once-in-Lifetime criteria; or
- (b) UNDP was directly implementing projects without partnering with SRs.

The analysis of the audit opinions and audit observations of the 29 SR audit reports showed the following:

Distribution of audit opinions

The external audit firms were required to certify, express an opinion, and quantify the NFI on three types of financial statements, namely:

- (a) the Certification on UNDP Statement of Expenses - Combined Delivery Report for the period 1 January to

31 December 2014;

(b) the Certification on Statement of Cash Position as at 31 December 2014; and

(c) the Certification on Statement of Assets and Equipment as at 31 December 2014.

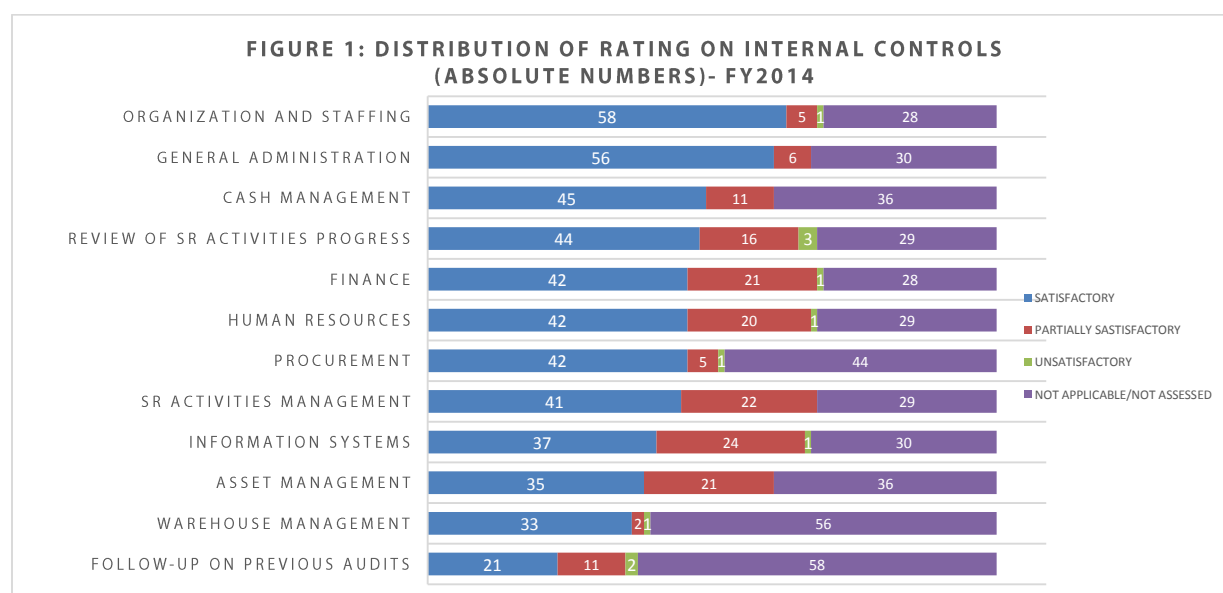
The distribution of audit opinions by country and the definition of the types of external audit opinions are detailed in Annex 1 and 2, respectively.

In FY 2014, of the \$63.2 million in expenses audited, \$62.8 million (99.4 percent) had unmodified audit opinions and \$0.4 million (0.6 percent) had a qualified audit opinion. For those with qualified audit opinions (Chad and Zimbabwe), the total NFI was \$21,463 or 0.03 percent of the total audited expenses.

Rating of Internal Controls

The external audit firms are also required to provide ratings of the internal controls of SRs according to the areas defined in the Terms of Reference. For FY 2014, organization and staffing, general administration, and cash management were the areas auditors found with satisfactory internal controls. While the number of unsatisfactory ratings was relatively low, the areas where the auditors found unsatisfactory internal controls were related to review of SR activities' progress, follow-up on previous audit recommendations, finance, human resources, information systems, procurement, and warehouse management. Figure 1 presents, in absolute numbers, the distribution of ratings on internal controls by audit area reviewed for the 92 SRs audited.

OAI conducted a sample check of the contents of SR audit reports to test the compilation of statistics by the Bureau for Policy and Programme Support presented in Figure 1 below. The sample check did not identify any exceptions.



Source: UNDP's Bureau for Policy and Programme Support, October 2015

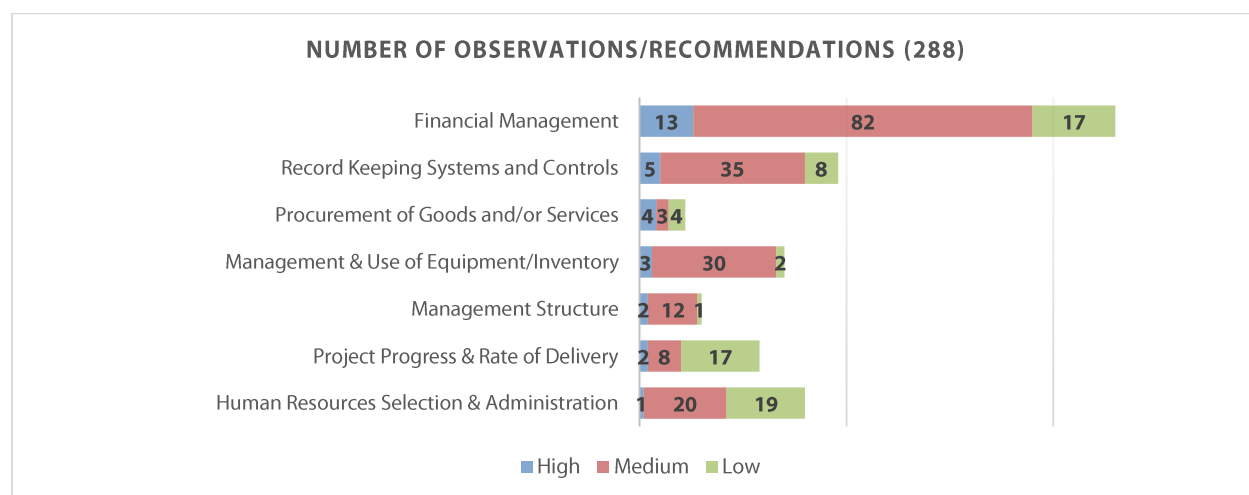
Audit observations and recommendations

For each SR audit, the external auditors were required to describe in a management letter internal control weaknesses noted. The management letter included the audit observations and recommendations, categorized the nature of audit observations by risk severity, and classified the audit observations and recommendations by audit areas. The external audit firms raised 288 observations and recommendations in the 29 SR audit reports for FY 2014. The reports were examined by OAI and the distributions of the audit observations and recommendations by risk severity and by audit area were as follows:

- **Risk severity:** The external audit firms classified the audit observations and recommendations in three categories namely high, medium, or low. The 288 audit observations comprised of 30 (10 percent) categorized as high priority; 190 (66 percent) categorized as medium priority; and 68 (24 percent) categorized as low priority.
- **Audit areas:** The nature of audit observations and recommendations are categorized to seven audit areas as pre-determined by OAI in CARDS, namely (1) financial management, (2) human resources selection and administration, (3) management and use of equipment/inventory, (4) management structure, (5) procurement of goods and/or services, (6), project progress and rate of delivery, and (7) record keeping systems and controls.

The distribution by audit area and risk severity for the 288 audit observations and recommendations is shown in Figure 2 below.

Figure 2: Classification of audit observations by audit area



Three core audit areas, namely (a) financial management, (b) record keeping systems and controls and (c) human resources selection and administration accounted for 200 audit observations or 69 percent of total audit observations. With respect to financial management, the most common audit issues relate to inadequate documentation in support of expenses and lack of adequate accounting systems and controls. Regarding record keeping systems and controls, the issues were mainly on the lack of a proper backup system to ensure safekeeping of accounting data. Regarding human resources selection and administration, issues were mainly on the poor management of contracts and inadequate performance evaluation systems.

4. Implementation of prior year audit recommendations

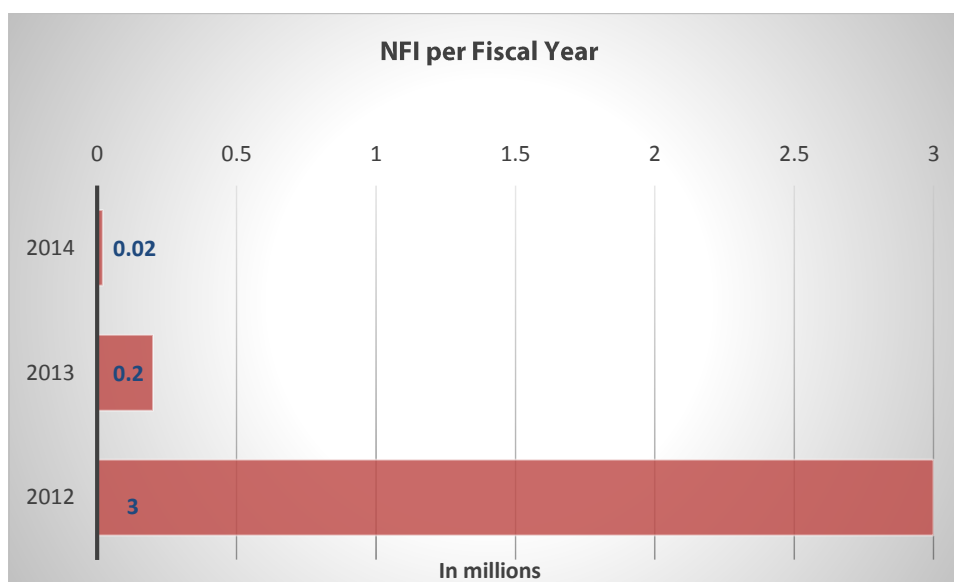
The external audit firms were required to review the progress achieved by the SRs in implementing the prior year's audit recommendations (FY 2013) and to report on the updated "action plans" (intended management actions to address the observations) for those recommendations. The Country Offices were required to upload and monitor the implementation status of the recommendations in CARDS.

OAI focused its assessment on the implementation status of high priority recommendations. Of the 43 high priority FY2013 recommendations, the implementation status as of the end of 2015 was as follows: 35 (81 percent) had been implemented while the remaining 8 (19 percent) recommendations were either withdrawn or no longer applicable. This was an improvement when compared to the review of those from FY2012, for which 64 percent of high priority recommendations had been implemented by the end of 2014.

5. Net Financial Impact

Auditors had a qualified opinion over \$0.4 million in expenses (0.6 percent) relating to two SRs with a total NFI of \$21,463 or 0.03 percent of the total audited expenses. This represented a significant improvement because the NFI of qualified opinions decreased from \$0.2 million (or 0.3 percent) in FY 2013 (see Figure 3).

Figure 3: Comparison of Net Financial Impact of qualified opinions (\$ million) (2012 -2014)



Annex 1: Distribution of audit opinions in the Global Fund Sub-recipient audit reports for FY 2014

Country Office	Audited SR Expenses	Total CDR	Adverse		Qualified		Unmodified		NFI Current Year
			# Awards	Amount Audited	# Awards	Amount Audited	# Awards	Amount Audited	
Belarus, Republic of	\$1,446,698	\$9,698,625	0	\$0	0	\$0	2	\$1,446,698	\$0
Bolivia	\$367,899	\$1,354,774	0	\$0	0	\$0	1	\$367,899	\$0
Chad	\$24,890	\$6,475,296	0	\$0	1	\$24,890	0	\$0	(\$11,323)
Cuba	\$4,329,991	\$23,639,404	0	\$0	0	\$0	1	\$4,329,991	\$0
El Salvador	\$43,300	\$43,300	0	\$0	0	\$0	1	\$43,300	\$0
Haiti	\$8,565,607	\$19,850,568	0	\$0	0	\$0	2	\$8,565,607	\$0
Iran, Islamic Republic of	\$2,421,620	\$6,607,703	0	\$0	0	\$0	1	\$2,421,620	\$0
Iraq (Republic of)	\$576,893	\$433,614	0	\$0	0	\$0	1	\$576,893	\$0
Kyrgyzstan	\$1,062,987	\$1,171,336	0	\$0	0	\$0	1	\$1,062,987	\$0
Mali	\$0 ³	\$0	0	\$0	0	\$0	0	\$0	\$0
Programme of Assistance to the Palestinian People	\$88,123	\$1,234,677	0	\$0	0	\$0	1	\$88,123	\$0
South Sudan	\$951,402	\$3,238,357	0	\$0	0	\$0	1	\$951,402	\$0
Sudan	\$1,718,101	\$33,713,890	0	\$0	0	\$0	2	\$1,718,101	\$0
Tajikistan	\$1,594,950	\$2,334,350	0	\$0	0	\$0	3	\$1,594,950	\$0
Thailand	\$1,380,168	\$7,481,432	0	\$0	0	\$0	1	\$1,380,168	\$0
Uzbekistan	\$922,534	\$1,083,908	0	\$0	0	\$0	1	\$922,534	\$0
Zambia	\$4,850,174	\$24,205,044	0	\$0	0	\$0	3	\$4,850,174	\$0
Zimbabwe	\$32,840,179	\$33,542,772	0	\$0	1	\$361,140	5	\$32,479,039	(\$10,140)
Total	\$63,185,516	\$176,109,050	0	\$0	2	\$386,030	27	\$62,799,486	(\$21,463)

³ In Mali, the country office operates under a "Zero Cash" policy for the SRs of Global Fund grants, which means that there is no cash transferred to the SRs. As a result, only the management letter discussing the internal controls of the SRs was required for the audit exercise.

Annex 2: Definition of External Audit Opinions

Unmodified (Clean) Opinion (ISA15 700)

An unmodified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.

An unmodified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

Qualified Opinion (ISA 705)

The auditor expresses a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Disclaimer of opinion (ISA 705)

The auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Adverse Opinion (ISA 705)

The auditor shall express an adverse opinion when, having obtained sufficient appropriate audit evidence, s/he concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.