



CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM THE GLOBAL FUND

MANAGED BY UNDP

(FISCAL YEAR 2017)

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Consolidated Report on the Audits of Sub-recipients of Grants from the Global Fund (FY2017) Executive Summary

In July 2018, 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 for the fiscal year 2017 (FY2017). The main objective of these 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. This report presents the consolidated results of these SRs audits.

Purpose and scope of the review

The OAI review aimed to: (a) analyse the distribution of the 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's audit recommendations. The review covered 64 audit reports for FY2017 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendation Database System (CARDS) of OAI.

These 64 audit reports pertained to 25 projects funded by the Global Fund implemented by 59 SRs in 17 countries covering 3 regional programmes for which UNDP was the Principal Recipient, and which met the required audit criteria set by OAI. The reports covered FY2017 project expenses totalling \$68 million, equivalent to 55 percent of the overall UNDP/Global Fund SR expenses of \$124 million.

Results of the review

Of the \$68 million in expenses audited, \$61 million (90 percent) had unmodified audit opinions and \$7 million (10 percent) had modified audit opinions, resulting in an overstatement of expenses with a net financial misstatement (NFM) of \$4 million (6 percent of the total audited expenses). The qualifications were mainly due to the lack of supporting documentation for expenses incurred. The programme in Chad, which received modified opinions had an NFM of \$3.9 million.

With respect to the auditors' assessment of internal controls, the number of unsatisfactory ratings was low or only 2.8 percent of the total audit areas assessed. The areas where the auditors found unsatisfactory internal controls related mostly to financial management and assets management.

The external audit firms raised a total of 379 audit observations for FY2017. Most of the audit observations related to three core audit areas, namely: financial management; management and use of equipment/inventory; and human resources selection and administration. The area of financial management had the highest number of audit observations/recommendations. The most common audit issue was the lack of adequate accounting systems and controls.

Implementation of prior year audit recommendations

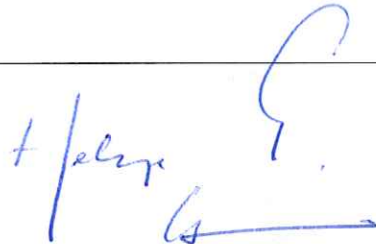
OAI focused its assessment on the implementation status of the high priority recommendations. Of the 19 high priority FY2016 recommendations, 15 (79 percent) had been implemented, and the remaining 4 (21 percent) had been withdrawn because the related projects ended in 2016.

Management action plan

The management of SRs continued to be a high priority in implementing Global Fund programmes. In 2018, the Global Fund Health Implementation Support Team, HIV Health and Development Group in the Bureau for Policy and Programme Support (the "Team") continued to develop/enhance SR management tools, including programme reports, management and performance letters, and checklists for monitoring training activities. The training agendas for the Programme and Finance Managers workshops (September 2018) included SR management, as well as financial, and asset management, being the areas where the auditors found the most unsatisfactory internal controls.

For the Chad programme two SRs received modified opinions based on the lack of supporting documentation. UNDP Chad decided to end the relationship with the two SRs for the Global Fund funding cycle 2018-2021.

In 2018 the Health Implementation Support Team developed and implemented a new tool to improve the planning and budgeting of the Global Fund programmes. The tool enables Country Offices to generate SR cash reconciliation reports in Atlas (enterprise resource planning system of UNDP) with information on: disbursements to SRs, liquidation of SRs advances, and SRs cash balances. The new tool can monitor the correct use of codes for posting SR disbursements and SR expenses, and for each SR it can monitor SR expenditures and budget status by budget line. The implementation of the tool was supported by training and newly developed guidance material.



Helge S. Osttveiten
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1. Introduction

The Global Fund is a partnership organization designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. The partnership, built with government, civil society and people affected by the diseases, raises and disburses grant funds to support programmes in countries in need. As Principal Recipient, UNDP is accountable for the proper use of grant funds and the implementation of projects in recipient countries. UNDP may appoint Sub-recipients (SR) 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 incurred by both Principal Recipients and SRs in 2017 was \$488 million. Of these, project expenses incurred by SRs under the non-governmental organization/national implementation modality amounted to \$124 million or 25 percent. The FY2017 audits covered \$68 million of the \$124 million of expenses incurred by SRs.

2. OAI's 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, assets statements, and an assessment of its internal controls if the project is continuing. The selection and audit of the SRs must be completed based on the criteria and the deadline established by OAI. The Health Implementation Support Team in the Bureau for Policy and Programme Support establishes 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 first submitted to the Country Office and, once accepted, they are submitted to OAI for review. The submission of audit reports to OAI is done by the Country Office uploading the audit reports and specific contents into the Comprehensive Audit and Recommendation Database System (CARDS) that is managed by OAI. OAI checks the quality of the data and information uploaded to CARDS and assesses the quality of the scope of work as well as the reported results of the audit work.

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).

3. Review of Global Fund Sub-recipient audits in FY2017

For FY2017, UNDP was the Principal Recipient in 18 countries and 3 regional programmes. In line with OAI criteria for the selection of SRs to be audited, only one country (Plurinational State of Bolivia) did not require an audit as UNDP directly implemented the programmes without partnering with SRs.

The analysis of the audit opinions and audit observations of the 64 SR audit reports showed the following:

Distribution of audit opinions

The external audit firms are required to certify, express an opinion, and, if applicable, quantify the net financial misstatement (NFM) on three types of financial statements, namely:

- (a) the Certification on UNDP Statement of Expenses - Combined Delivery Report for the period 1 January through 31 December 2017;
- (b) the Certification on Statement of Cash Position as at 31 December 2017; and
- (c) the Certification on Statement of Assets and Equipment as at 31 December 2017.

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

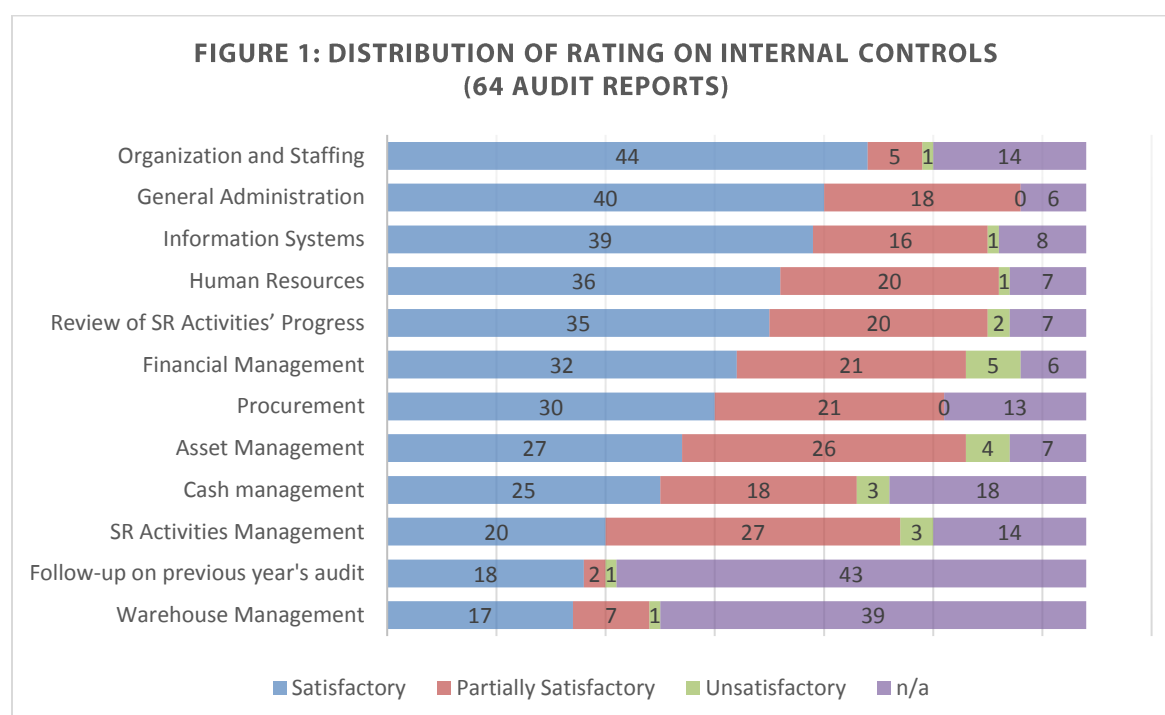
For FY2017, of the \$68 million in expenses audited, \$61 million (90 percent) had unmodified audit opinions and \$7 million (10 percent) had modified audit opinions, resulting in an overstatement of the expenses with an NFM of \$4 million (6 percent of the total audited expenses). The qualifications were due mainly to inadequate or lack of supporting documents for expenses incurred. By comparison, in 2016, the auditors did not express any modified opinions.

Rating of Internal Controls

The external auditors are also required to provide ratings of the internal controls of SRs according to the areas defined in the terms of reference. For FY2017, organization and staffing, general administration, and information systems were the areas with the most satisfactory internal controls.

While the number of audit areas with unsatisfactory ratings was very low (refer to Figure 1 below), the areas where the auditors found unsatisfactory internal controls were related to financial management and assets management.

Figure 1 presents the distribution of ratings on internal controls by audit area reviewed by OAI for the SRs audited.



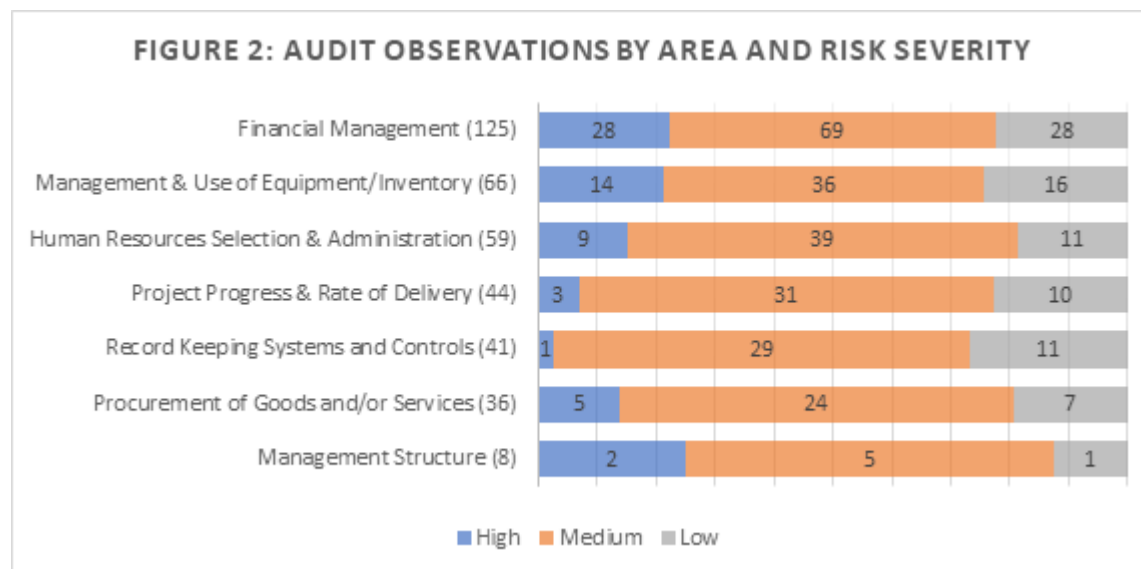
Audit observations and recommendations

For each SR audit the auditors are required to describe, in a management letter, the internal control weaknesses noted. The management letter includes the audit observations and recommendations, categorizes the nature of audit observations by risk severity, and classifies the audit observations and recommendations by audit area.

The audit firms raised 379 observations and recommendations in the 64 SR audit reports for FY2017. The reports were reviewed by OAI, and the distribution of the audit observations and recommendations by risk severity and by audit area were as follows:

- **Risk severity:** The audit firms classified the audit observations and recommendations in three categories namely, high, medium, and low. The 379 audit observations comprised of 62 (16 percent) categorized as high priority; 233 (61 percent) categorized as medium priority; and 84 (22 percent) categorized as low priority.
- **Audit areas:** The nature of audit observations and recommendations are categorized into 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 379 audit observations and recommendations is shown in Figure 2 below.



Three core audit areas, namely (a) financial management, (b) human resources selection and administration, and (c) management and use of equipment/inventory accounted for 250 audit observations or 66 percent of total audit observations. With respect to financial management, the most common audit issue related to the lack of adequate accounting systems and controls. Regarding human resources selection and administration, the issues were mainly on poor management of contracts, salaries, and performance evaluations. Regarding management and use of equipment, issues were mainly on the lack of proper inventory systems.

4. Implementation of prior year audit recommendations

The audit firms were required to review the progress achieved by the SRs in implementing the prior year's audit recommendations (FY2016) 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 19 high priority FY2016 recommendations, the implementation status as of the end of 2017 was as follows: 15 (79 percent) had been fully implemented and the remaining 4 (21 percent) were withdrawn since the related projects were already closed.

5. Net financial misstatement

Of concern in 2017 was the programme in Chad. One SR for Project 92733 - *Projet d'Appui à la Lutte Antipaludique* received an adverse opinion with an NFM of \$3.8 million. Another SR received a qualified opinion with an NFM of \$126,532 for the same project. See Annex 1 for the distribution of audit opinions per country.

Annex 1: Distribution of audit opinions in the Global Fund Sub-recipient audit reports for FY2017

Country Office/ Programme	Number of SRs Audited	Audited SR Expenses in US Dollars (\$)	Adverse		Qualified		Unmodified		NFM Current Year (\$)
			# of SRs	Amount Audited (\$)	# of SRs	Amount Audited (\$)	# of SRs	Amount Audited (\$)	
Afghanistan	6	4,986,112	-	-	-	-		4,986,112	-
Angola	1	412,434	-	-	-	-		412,434	-
Belize (El Salvador)	1	919,276	-	-	-	-		919,276	-
Chad	3	5,009,851	1	3,766,709	1	852,907	1	390,235	3,893,241
Cuba	8	7,535,680	-	-	-	-		7,535,680	-
Djibouti	1	146,055	-	-	-	-		146,055	-
Ethiopia (Regional Africa)	4	3,115,468	-	-	-	-		3,115,468	-
Fiji (Western Pacific)	4	2,611,739	-	-	-	-		2,611,739	-
Guinea-Bissau	2	1,956,442	-	-	1	1,328,519		627,923	93,476
Iran	2	804,424	-	-	-	-		804,424	-
Jamaica (multi-country Americas)	2	1,312,142	-	-	-	-		1,312,142	-
Kyrgyzstan	4	2,072,350	-	-	-	-		2,072,350	-
Mali	4	3,090,447	-	-	1	858,582		2,231,865	7,483
Panama	1	419,289	-	-	-	-		419,289	-
Sao Tome and Principe	3	1,770,835						1,770,835	
South Sudan	3	4,107,059						4,107,059	
Sudan	4	2,275,300						2,275,300	
Tajikistan	1	411,958						411,958	
Turkmenistan	1	326,957						326,957	
Zimbabwe	4	24,377,837						24,377,837	
	59	67,661,655	1	3,766,709	3	3,040,008	1	60,854,938	3,994,200

Annex 2: Definition of Audit Opinions

Unmodified (Clean) Opinion (ISA 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.