



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 2013)

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

Background

In December 2014, the Office of Audit and Investigations (OAI) concluded the review and analyses 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). Except for United Nations entities, organizations engaged as SRs of those grants are required to be audited by external audit firms, pursuant to the UNDP procedures for audits of projects under the non-governmental organization/national implementation modality. Each year, Country Offices that are Principal Recipients advise OAI of the SRs to be audited as part of their annual audit plans. 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 28 audit reports for fiscal year (FY) 2013 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 28 audit reports pertained to 28 projects funded by the Global Fund in 19 of the 26 countries where UNDP was the Principal Recipient as of December 2013 and which met the required audit criteria set by OAI. The reports covered FY 2013 project expenses totalling \$63.7 million, equivalent to 58 percent of the overall UNDP/Global Fund SR expenses of \$109 million incurred in 2013.¹ In terms of distribution, \$45.8 million (72 percent) of the expenses audited related to grants managed under the Additional Safeguard Policy.²

Results of the review

Of the \$63.7 million in expenses audited, \$62.6 million (98 percent) had unqualified audit opinions and \$1.1 million (2 percent) had a qualified audit opinion. One SR with a qualified audit opinion had a net financial impact (NFI) of about \$0.2 million representing 0.3 percent of the total audited expenses. By comparison, in 2012, the NFI was about \$3 million, equivalent to 5 percent of the audited expenses.

The external audit firms raised a total of 289 audit observations in FY 2013, categorized by risk severity and by audit area, as follows:

- **Risk severity:** The 289 audit observations were categorized as follows: 43 (15 percent) high priority; 176 (61 percent) medium priority; and 70 (24 percent) low priority.

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

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

Audit areas: The audit observations were primarily categorized in three core audit areas, namely: financial management; human resources selection and administration; and project progress and rate of delivery, which together, accounted for 214 (74 percent) of the total 289 audit observations. Financial management accounted for 135 (47 percent) of the 289 observations.

Inadequate documentation in support of expenses and lack of adequate accounting systems for project management contributed to the sub-optimal financial management capacity of many of the SRs.

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 2012) 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 140 recommendations, the implementation status in 2013 was as follows: 90 (64 percent) had been implemented, 2 (1 percent) were in progress, 37 (26 percent) had not been implemented, and 11 (8 percent) were no longer applicable. This marked a deterioration in terms of the percentage of recommendations implemented, when compared to a review of those from FY 2011, for which 72 percent of high priority audit recommendations had been implemented. One of the few areas where the auditors found unsatisfactory internal controls was related to follow-up actions on previous audit recommendations.

Management action plan

In 2014, the UNDP Global Fund Programme Team of the HIV, Health and Development Team within the Bureau for Policy and Programme Support (formerly the Bureau for Development Policy Global Fund Partnership Team) reported on several initiatives related to the strengthening of SRs and supporting risk management by UNDP Country Offices serving as Principal Recipients of grants from the Global Fund.³ One initiative was the mapping of SRs, which facilitates visualizing their geographic coverage, specific interventions, and beneficiary groups. The UNDP Global Fund Programme Team also reinforced the UNDP Capacity Development Toolkit by including information that can support the financial management capacity development of SRs. Lastly, for those SRs that were identified as having weaknesses in management capacity, the UNDP Global Fund Programme Team developed tools to track recurring audit issues per SR, and a project to improve management and oversight by the UNDP Country Offices so that known weaknesses are addressed during grant implementation. As of December 2014, the Team had rolled out the first of what will be a three-phase project.

Management of SRs continues to be one of the highest risk aspects of implementing Global Fund grants. OAI's analysis highlights issues of ineffective SR management in several audit categories, but principally these relate to advances processing and to delays in clearing them, inadequate documentation in support of expenditures and poor quality project reporting. Issues contributing to the weaknesses relate to the quality of the initial assessment of the SRs, lack of training of SRs by Country Offices, and insufficient monitoring and evaluation

³ These initiatives, according to the Bureau for Policy and Programme Support, were supported by Procurement and Supply Chain Workshops covering the majority of countries where UNDP serves as Principal Recipient; Regional Workshops on Global Fund Programme Management; and team missions to Country Offices. OAI also supported these efforts by conducting Control Self-Assessments in two countries in 2014.

capacity, preventing Country Offices from identifying underperforming SRs, and from disseminating best practices. Addressing these issues is a priority for the UNDP Global Fund Programme Team's 2015 work plan.



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