UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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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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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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

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. An 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 $368 million in 2012 to $413 million in 2013. In 2013, project expenses incurred by SRs audited under the non-governmental organization/national implementation modality audit process amounted to $63.7 million, with $45.8 million in Additional Safeguard Policy countries.

2. OAI role in the non-governmental organization/national implementation modality audits

The main objective of an audit of projects implemented by non-governmental organizations and/or national governments is to provide UNDP with assurance that resources have been used properly and that internal controls are effective. Each year, 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 audit of the SR's expenses must be completed by the deadline established by OAI. Starting with the FY 2012 audit, the UNDP Global Fund Programme Team engaged in long-term agreements with external audit firms to improve the consistency and quality of the SR audit reports. The audit reports of SRs are to be submitted to OAI for review. 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, tracking and analysis of these audit reports and action plans are supported by a dedicated module in CARDS.

3. Review of audits of Global Fund Sub-recipients in FY 2013

In line with OAI criteria for the selection of SRs to be audited, 7 countries of the 26 where UNDP was a Principal Recipient did not require audits, specifically where

(a) UNDP was directly implementing projects without partnering with SRs (Djibouti); or
(b) the expenses incurred by the SRs did not meet the audit threshold or meet the Once-in-Lifetime criteria (Belize, Guinea-Bissau, Programme of Assistance to the Palestinian People, Sudan, Syria and Turkmenistan).

The analysis of the audit opinions and audit observations of the 28 SR audit reports for financial year 2013 showed the following:

Distribution of audit opinions

The external audit firm was 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 2013;

(b) the Certification on Statement of Cash Position as at 31 December 2013; and

(c) the Certification on Statement of Assets and Equipment as at 31 December 2013.

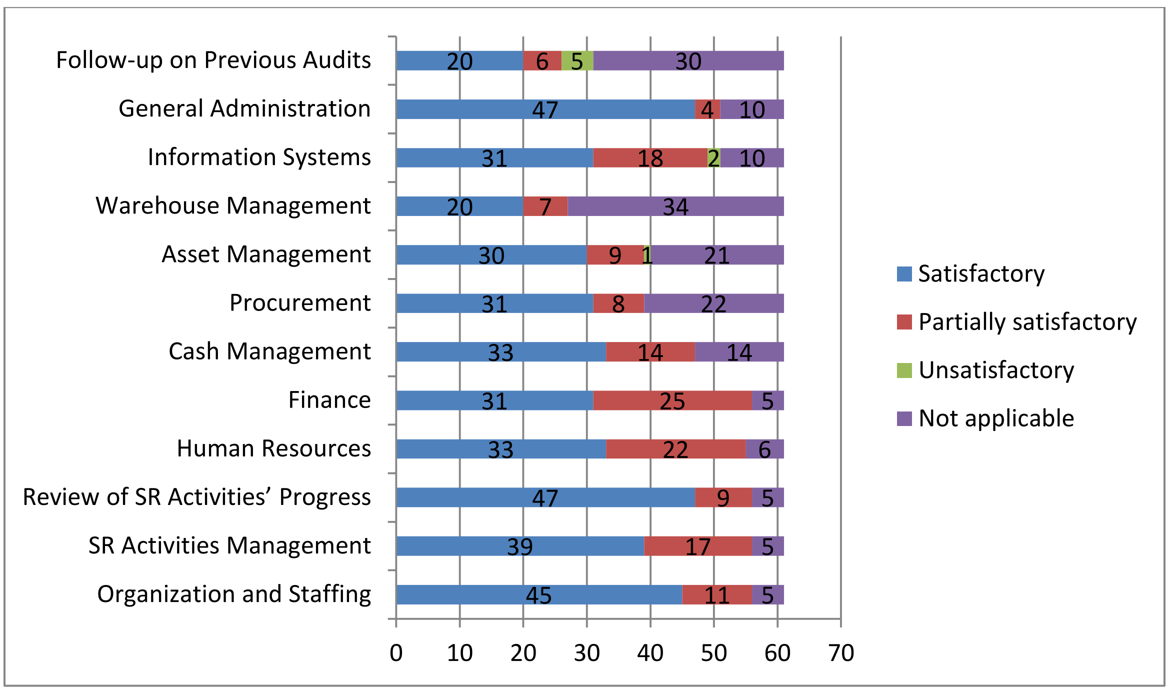
The distribution of audit opinions by country, as well as the definition of the type of external audit opinions is detailed in Annex 1 and 2, respectively.

In FY 2013, 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.

Rating of Internal Controls

The external auditors provided ratings of the internal controls of SRs. General administration, review of SR activities' progress, and organization and staffing were the areas where the auditors found stronger internal controls. Finance, human resources and information systems were the main areas where the auditors found the internal controls of SRs to be partially satisfactory. The few areas where the auditors found unsatisfactory internal controls were related to follow-up actions on previous audit recommendations, information systems, and asset management, as highlighted in Figure 1 below.

Figure 1: Distribution of rating on Internal Controls, FY 2013[4]



[4] Ratings on the internal controls of SRs were provided by audit firms contracted by the UNDP Global Fund Programme Team under long-term agreements. In countries not covered by the firms contracted under the Long-Term Agreements, ratings on internal controls were not available.

Audit observations

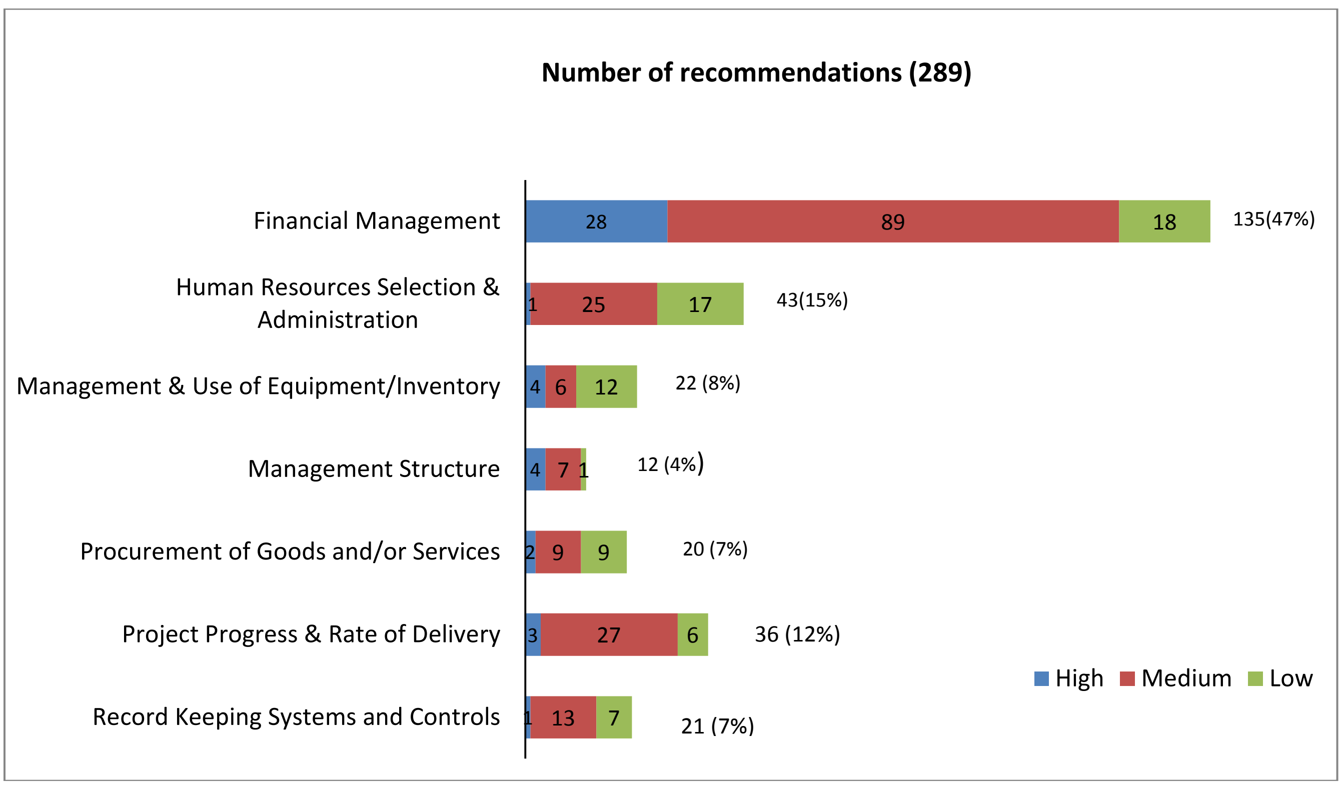
For each SR audit, the external auditors were required to describe internal control weaknesses in a management letter. The management letter included the audit observations and recommendations, categorized the nature of audit observations by risk severity, and classified the audit observations by audit areas. The external audit firms raised 289 observations in the 28 SR audit reports for FY 2013. The reports were examined by OAI and the distribution of the audit observations by risk severity and by audit area was as follows:

- Risk severity: In terms of risk severity, the external audit firms classified the audit observations in three categories, namely high, medium, or low. The 289 audit observations comprised of 43 (15 percent) categorized as high priority; 176 (61 percent) categorized as medium priority; and 70 (24 percent) categorized as low priority.

- Audit areas: The external audit firms classified the nature of audit observations according to seven audit areas, namely (a) financial management, (b) human resources selection and administration, (c) management and use of equipment/inventory, (d) management structure, (e) procurement of goods and/or services, (f) project progress and rate of delivery, and (g) record keeping systems and controls.

The distribution by audit area and risk severity for the 289 audit observations is shown in Figure 2.

Figure 2: Classification of Audit Observations by Audit Area



Three core audit areas, namely (a) financial management, (b) human resources selection and administration, and (c) project progress and rate of delivery, accounted for 214 audit observations or about 74 percent. With respect to financial management, the most common issues related to inadequate documentation in support of expenses and lack of adequate accounting systems. Human resources selection and administration issues mainly encompassed poor management of contracts and an inadequate performance evaluation system. On project progress and delivery rate, the issues were mainly focused on the inadequate reporting to Country Offices by the SRs per the grant agreement with UNDP.

4. 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" (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 of the implementation status of the high priority recommendations totalling 140. All had "action plans" uploaded in CARDS. Of the 140 recommendations, 90 (64 percent) had been implemented, 2 (1 percent) 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.

In 2014, the UNDP Global Fund Programme 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.[5] 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 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 they relate to granting of advances to SRs and delays in clearing advances, inadequate documentation in support of expenditures, and poor quality project reporting. The 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 capacity, preventing Country Offices from identifying underperforming SRs, and disseminating best practices. Addressing these issues is a priority for the UNDP Global Fund Programme Team's 2015 work plan.

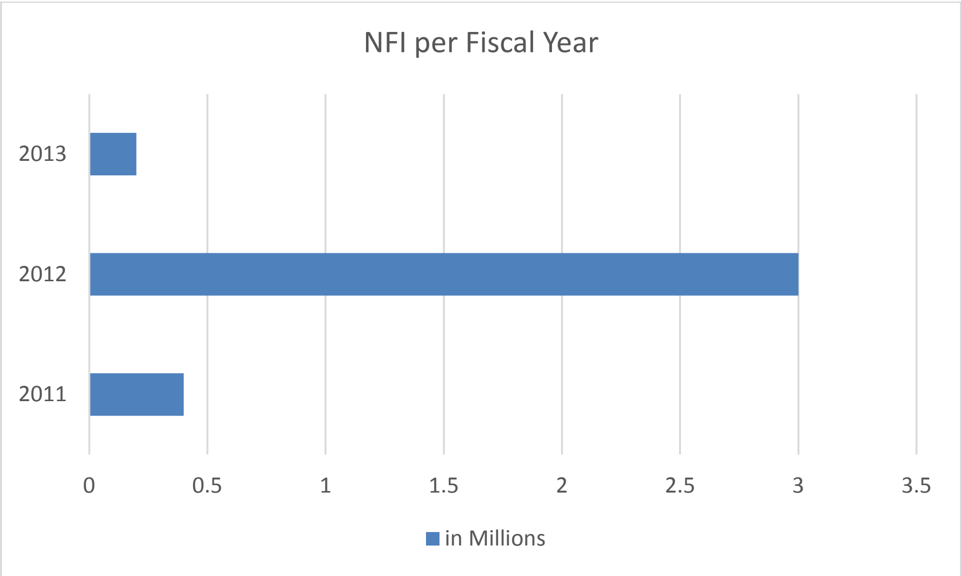
[5] These initiatives, according to the Bureau for Policy and Programme Support, were supported by Procurement and Supply Chain Workshops covering the majority of countries where UNDP serves as Principal Recipients; Regional Workshops on Global Fund Programme Management; and Team mission to Country Offices.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

5. Conclusion

The audit reports of SRs of 28 projects in 19 countries covered FY 2013 project expenses totalling $63.7 million, $45.8 million (72 percent) of which were related to grants managed by UNDP under the Global Fund's Additional Safeguard Policy. In all, the auditors raised 289 recommendations; 43 of them (15 percent) were ranked as high priority.

Al though 47 percent of the audit recommendations in 2013 were within financial management, the NFI of qualified opinion decreased from $3 million (or 22 percent) in FY 2012 to $0.2 million (or 0.3 percent) in FY 2013 (see Figure 3).

Figure 3: Comparison of Net Financial Impact of Qualified Opinions ($ million) from 2011 to 2013



Annex 1: Distribution of audit opinions on the FY 2013 non-governmental organization/national implementation modality audit reports of the Global Fund Sub-recipients by country

Country Office	Audited Expenses	Total CDR	Adverse		Qualified		Unqualified		NFI Current Year
			# Awards	Amount Audited	# Awards	Amount Audited	# Awards	Amount Audited	
Angola	$73,465	$7,324,024	0	$0	0	$0	1	$73,465	$0
Chad	$233,167	$457,322	0	$0	0	$0	1	$233,167	$0
Mali	$0	$14,016,414	0	$0	0	$0	0	$0	$0
São Tomé and Principe	$879,981	$2,655,459	0	$0	0	$0	1	$879,981	$0
South Sudan	$613,949	$2,465,831	0	$0	0	$0	1	$613,949	$0
Zambia	$2,966,265	$28,379,726	0	$0	0	$0	3	$2,966,265	$0
Zimbabwe	$35,214,947	$43,323,824	0	$0	0	$0	4	$35,214,947	$0
Iran, Islamic Republic of	$2,443,897	$11,177,101	0	$0	0	$0	1	$2,443,897	$0
Iraq (Republic of)	$335,404	$4,592,260	0	$0	0	$0	1	$335,404	$0
Belarus, Republic of	$1,672,094	$3,227,408	0	$0	0	$0	1	$1,672,094	$0
Bosnia and Herzegovina	$625,858	$10,856,749	0	$0	0	$0	1	$625,858	$0
Kyrgyzstan	$2,762,240	$9,322,779	0	$0	0	$0	1	$2,762,240	$0
Montenegro	$379,205	$832,806	0	$0	0	$0	1	$379,205	$0
Tajikistan	$1,950,577	$13,426,909	0	$0	0	$0	3	$1,950,577	$0
Uzbekistan	$1,053,403	$10,915,199	0	$0	1	$1,053,403	0	$0	$172,901
Bolivia	$875,595	$1,981,472	0	$0	0	$0	1	$875,595	$0
Cuba	$3,766,959	$3,766,959	0	$0	0	$0	2	$3,766,959	$0
El Salvador (including Belize)[6]	$854,847	$4,832,010	0	$0	0	$0	1	$854,847	$0
Haiti	$6,958,962	$17,695,060	0	$0	0	$0	2	$6,958,962	$0
Total	**$63,660,821**	**$191,249,312**	**0**	**$0**	**1**	**$1,053,403**	**26**	**$62,607,412**	**$172,901**

[6] No SRs in Belize were audited for FY 2013.

Annex 2: Definition of External Audit Opinions

Unqualified (Clean or positive) Opinion

An *unqualified 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.

Qualified Opinion – a modified (negative) audit opinion

A *qualified opinion* should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.

Disclaimer of opinion – a modified (negative) audit opinion

A *disclaimer of opinion* should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

Adverse – a modified (negative) audit opinion

An *adverse opinion* is expressed by an auditor when the financial statements are significantly misrepresented, misstated, and do not accurately reflect the expenses incurred and reported in the financial statements (**UNDP CDR**, statement of cash, statement of assets and equipment).

An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.