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

MANAGED BY UNDP

(FISCAL YEAR 2018)

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**Consolidated Report on the
Audits of Sub-recipients of Grants from the Global Fund (FY2018)
Executive Summary**

In September 2019, 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 (SR) of grants from the Global Fund for the fiscal year 2018 (FY2018). The audit reports were initiated and managed by UNDP country offices. 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 OAI 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 40 audit reports for FY2018 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendation Database System (CARDS) of OAI.

These 40 audit reports pertained to 19 projects funded by the Global Fund and implemented by 36 SRs in 10 countries and two regional programmes for which UNDP was the Principal Recipient (PR), and which met the required audit criteria set by OAI. The reports covered FY2018 project expenses totaling $36 million, equivalent to 43 percent of the overall UNDP/Global Fund SR expenses of $83 million for 2018.

Results of the review

Of the $36 million in expenses audited, $31 million (86 percent) had unmodified audit opinions and $5 million (14 percent) had modified audit opinions, resulting in an overstatement of expenses with a net financial misstatement (NFM) of $0.31 million (1 percent of the total audited expenses). The qualifications were due to (a) the lack of supporting documentation for expenses incurred (Burundi and Chad); (b) irregularities leading to a suspicion of fraud (Afghanistan); (c) ineligible expenses (Angola); and (d) failure to record transactions (Chad).

With respect to the auditors' assessment of internal controls, the number of unsatisfactory ratings was low or only 3 percent of the total audit areas assessed. The areas where the auditors found unsatisfactory internal controls related mostly to financial management and compliance with UNDP agreement.

The external audit firms raised a total of 218 audit observations for FY2018. Most of the audit observations related to three areas namely, financial management, project progress and rate of delivery 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 financial controls.

Implementation of prior year audit recommendations

OAI focused its assessment on the implementation status of the high priority recommendations. Of the 62 high-priority FY2017 recommendations, 39 (63 percent) had been implemented, 6 (10 percent) had not been implemented, and the remaining 17 (27 percent) had been withdrawn because the related projects ended in 2018.

Management action plan

In 2019, the Global Fund Health Implementation Support Team, HIV Health and Development Group in the Bureau for Policy and Programme Support (the "Team") continued to strengthen the SR audit approach/process and follow-up through developing centrally managed LTAs with external audit firms, training of audit firms, review of audit firms' performance, sharing lessons learnt with Country Offices and ongoing monitoring throughout the audit process. In addition, the Team continued to develop SR management tools to enhance project planning and monitoring e.g., SR programmatic report, SR financial management reporting tool, SR management letters, PR/SR training checklist, PR/SR training evaluation, SR performance evaluation tool. Also, support was provided to Country Offices to roll out the tools with SRs and conduct regular global monitoring to track their utilization.

The Team will (i) revise capacity assessment tools with a differentiated approach based on risk and nature of activities; (ii) roll out tools (checklists, evaluations, letters) to Country Offices and provide targeted support and central monitoring to ensure use by Country Offices; (iii) monitor follow-up of previous audit recommendations; (iv) complete blog and webinar series on high risk activities and risk mitigation measures; (v) continue to provide targeted support and central monitoring to ensure consistent uptake and use of SR management tools by Country Offices. Finally, the Team provided targeted support to those Country Offices managing SRs which received adverse opinions.

Helge S. Osttveiten
Director
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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 Principal Recipients and SRs in 2018 was $279 million. Of these, project expenses incurred by SRs under the non-governmental organization/national implementation modality amounted to $83 million or 30 percent. The FY2018 audits covered $36 million of the $83 million of expenses incurred by SRs.

2. OAI's role in Global Fund Sub-recipient audits

The selection and audit of the SRs each year 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, BBPS in UNDP 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 FY2018

For FY2018, 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, eight of the 18 countries did not require an audit as UNDP directly made payments for the SRs (Djibouti), there were no SR expenses for FY2018 (Bolivia and Turkmenistan), or the SR expenses did not meet the threshold for audits (Belize, Iran, Kyrgyzstan, Sao Tome and Principe, and Sudan).

The analysis of the audit opinions and audit observations of the 40 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 2018;
(b) the Certification on Statement of Cash Position as at 31 December 2018; and
(c) the Certification on Statement of Assets and Equipment as at 31 December 2018.

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

For FY2018, of the $36 million in expenses audited, $31 million (86 percent) had unmodified audit opinions and $5 million (14 percent) had modified audit opinions, resulting in an overstatement of the expenses with an NFM of $0.31 million (1 percent of the total audited expenses). The qualifications were due to (a) the lack of supporting documentation for expenses incurred (Burundi and Chad); (b) irregularities leading to a suspicion of fraud (Afghanistan); (c) ineligible expenses (Angola); and (d) failure to record transactions (Chad). By comparison, for FY2017, the auditors expressed modified audit opinions which resulted in an NFM of $4 million (6 percent of the total audited expenses).

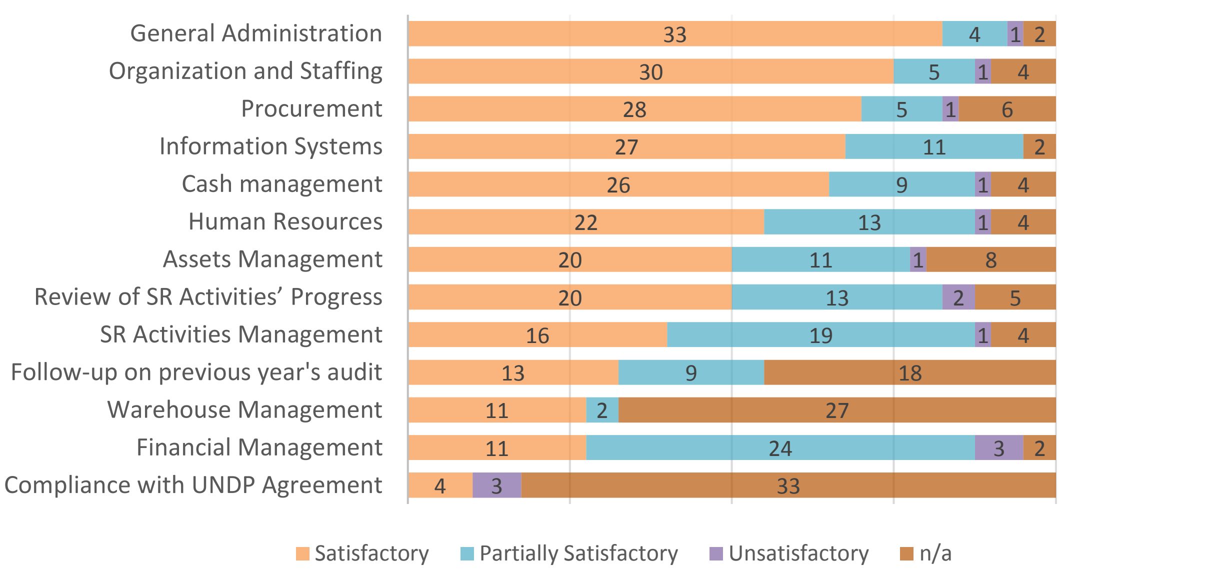
Rating of Internal Controls

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 FY2018, general administration, organization and staffing, and procurement 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 compliance with UNDP agreement.

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

FIGURE 1: DISTRIBUTION OF RATING ON INTERNAL CONTROLS (40 AUDIT REPORTS)



Audit observations and recommendations

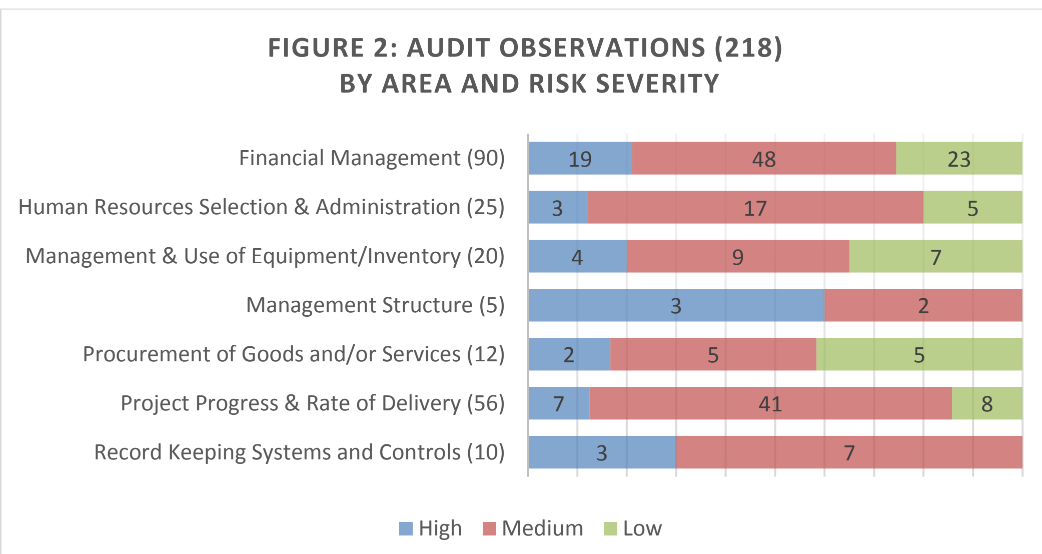
For each SR audit the auditors are required to describe, in a management letter, the internal control weaknesses noted. The management letter includes the audit observations and recommendations, categorizes the nature of audit observations by risk severity, and classifies the audit observations and recommendations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

The audit firms raised 218 observations and recommendations in the 40 SR audit reports for FY2018. 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 218 audit observations comprised of 41 (19 percent) categorized as high priority; 129 (59 percent) categorized as medium priority; and 48 (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 218 audit observations and recommendations is shown in Figure 2 below.



Three areas, namely (a) financial management, (b) human resources selection and administration, and (c) project progress and rate of delivery accounted for 171 audit observations or 78 percent of the total audit observations. With respect to financial management, the most common audit issue related to the lack of adequate financial controls such as the absence of accounting procedures, inadequate recording of expenses, and absence of supporting documents. Regarding human resources selection and administration, the issues were mainly on poor management of salaries, inadequate attendance control systems, and incomplete personnel files. Regarding project progress and rate of delivery, issues were mainly on delays in the implementation of project activities and delays in the submission of financial and programmatic reports.

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 (FY2017) 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 62 high-priority FY2017 recommendations, the implementation status as of the end of 2018 was as follows: 39 (63 percent) had been fully implemented, 6 (10 percent) had not been implemented, and the remaining 17 (27 percent) were withdrawn since the related projects were already closed.

5. Net financial misstatement (NFM)

For FY2018, of the $36 million in expenses audited, $31 million (86 percent) had unmodified audit opinions and $5 million (14 percent) had modified audit opinions, resulting in an overstatement of the expenses with an NFM of $0.31 million (1 percent of the total audited expenses). The qualifications were due to (a) the lack of supporting documentation for expenses incurred (Burundi and Chad); (b) irregularities leading to a suspicion of fraud (Afghanistan); (c) ineligible expenses (Angola); and (d) failure to record and reconcile transactions (Chad). By comparison, for FY2017, the auditors expressed modified audit opinions which resulted in an NFM of $4 million (6 percent of the total audited expenses).

Of main concern in 2018 were the programmes in Afghanistan and Chad. In the case of the programme in Afghanistan, the auditors found irregularities between the amounts paid to a supplier and the amounts recorded in the SR's books, resulting in an adverse opinion with an NFM of $171,933 (Project 98023 – *Scaling-up Malaria Prevention)*. As for the programme in Chad, three SRs for Projects 92733 and 112695 - *Appui à la Lutte Antipaludique* received modified opinions with an NFM of $126,700 due to the lack of supporting documentation for expenses incurred by these SRs and failure to reconcile amounts transferred to the SR.

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 FY2018

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	5	1,956,268	1	171,934			4	1,784,334	(171,934)
Angola	9	1,262,656			1	44,495	8	1,218,161	(6,155)
Burundi	4	2,706,331			1	457,193	3	1,175,380	(10,076)
Chad	5	5,483,829			3	4,308,449	2	1,793,546	(126,700)
Cuba	2	1,793,546					2	912,257	
Guinea Bissau	2	912,257					2	872,007	
Multi Country America	1	1,251,503					1	146,341	
Multi Country Western Pacific	2	304,820					2	19,280,503	
Panama	1	330,140					1	330,140	
South Sudan	2	872,007					2	2,249,138	
Tajikistan	1	146,341					1	1,251,503	
Zimbabwe	6	19,280,503					6	304,820	
	40	**36,300,201**	**1**	**171,934**	**5**	**4,810,137**	**34**	**31,318,130**	**-314,865**

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.