



CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM THE GLOBAL FUND

MANAGED BY UNDP

(FISCAL YEAR 2019)

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Table of Contents

Executive Summary	i
Purpose and scope of the OAI review	i
Results of the review	i
Implementation of prior year audit recommendations (FY2018)	ii
Management action plan	ii
1. Introduction	1
2. OAI's role in Global Fund Sub-recipient audits	1
3. Review of Global Fund Sub-recipient audits in FY2019	1
4. Implementation of prior year audit recommendations	3
5. Net financial misstatement	4
Annex 1: Distribution of audit opinions	5
Annex 2: Definition of audit opinions	6

**Consolidated Report on the
Audits of Sub-recipients of Grants from the Global Fund (FY2019)
Executive Summary**

In September 2020, 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 2019 (FY2019). 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 52 audit reports for FY2019 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendation Database System (CARDS) of OAI.

These 52 audit reports pertained to 14 projects funded by the Global Fund and implemented by 48 SRs in 10 countries for which UNDP was the Principal Recipient, as well as one regional programme¹ that met the required audit criteria set by OAI. The reports covered FY2019 project expenses totalling \$51.8 million, equivalent to 67 percent of the overall UNDP/Global Fund SR expenses of \$77.6 million for 2019.

Results of the review

The auditors expressed unmodified opinions on the entire amount of \$51.8 million of expenses audited. This is an improvement from the FY2018 audit exercise when the auditors had expressed modified opinions on 1 percent of the audited expenses.

In addition to providing an opinion on the statement of expenses for the SRs audited, the auditors rated 12 areas of internal controls for each SR audited. The number of unsatisfactory ratings in those areas was low, and only 1 percent of all the ratings provided in the audit areas assessed was unsatisfactory.

The auditors raised a total of 221 audit observations for FY2019. Most of the audit observations related to three areas, namely, financial management, management and use of equipment/inventory, and project progress and rate of delivery. The area of financial management had the highest number of audit observations/recommendations. The most common audit issue in this area was the inadequate recording of expenses and/or ineligible expenses.

¹ The Kiribati Ministry of Health as Sub-recipient of the Multi Country Western Pacific Programme

Implementation of prior year audit recommendations (FY2018)

OAI focused its assessment on the implementation status of the high priority recommendations. Of the 41 high- priority FY2018 recommendations, 38 (93 percent) had been implemented, 1 (2 percent) had not been implemented, and the remaining 2 (5 percent) had been withdrawn because the related projects ended in 2018.

Management action plan

In 2020, 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 Long Term Agreement with external audit firms, review of audit firm performance and ongoing monitoring throughout the audit process. The Team continued to develop SR management tools and guidelines and conducted a financial management workshop with special attention to SR financial management and verification of SR reports.

In early, 2021 the Team will finalize the (i) work on the revision of the capacity assessment tool with a differentiated approach based on risk and nature of activities; (ii) development of an SOP for financial verification of SR reports to improve quality of financial verification; and (iii) asset management guidelines to strengthen management of SR assets. The Team’s ongoing activities for SRs include monitoring the Country Office follow-up of previous audit recommendations and providing targeted support and central monitoring.

Helge S. Osttveiten
Director
Office of Audit and Investigations

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 (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 incurred by Principal Recipients and SRs in 2019 was \$306 million. Of these, project expenses incurred by SRs under the non-governmental organization/national implementation modality amounted to \$77.6 million or 25 percent. The FY2019 audits covered \$51.8 million of the \$77.6 million or 67 percent of expenses incurred by SRs.

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

The audit of the SRs each year must be completed based on the criteria and the deadline established by OAI. The Global Fund Health Implementation Support Team in the Bureau for Policy and Programme Support in UNDP establishes Long Term Agreements with external audit firms to improve the consistency and quality of the SR audits and supports Country Offices throughout the audit process. 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.

3. Review of Global Fund Sub-recipient audits in FY2019

For FY2019, UNDP was the Principal Recipient in 19 countries and 3 regional programmes. In line with OAI criteria for the selection of SRs to be audited, 9 of the 19 countries and two of the three regional programmes did not require an audit as UNDP directly made payments for the SRs (Djibouti, Bolivia, Panama), or the SR expenses did not meet the threshold for audits (Belize, Egypt, Iran, Tajikistan, Turkmenistan, Sudan, Multi-Country South Asia, and Africa Regional).

The analysis of the audit opinions and audit observations of the 52 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 2019;
- (b) the Certification on Statement of Cash Position as at 31 December 2019; and
- (c) the Certification on Statement of Assets and Equipment as at 31 December 2019.

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

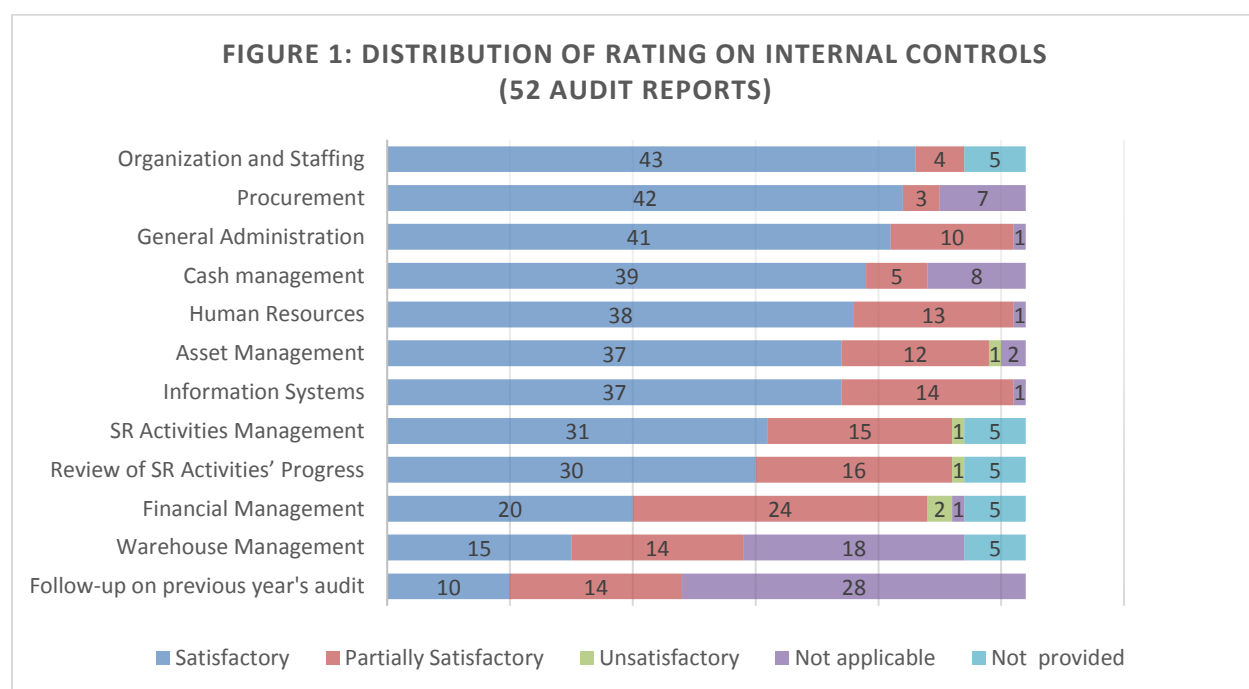
For FY2019, the auditors expressed unmodified opinions on the entire amount of \$51.8 million of expenses audited. This was an improvement from the FY2018 audit exercise when the auditors had expressed modified opinions on 1 percent of the audited expenses.

Rating of internal controls

The external auditors are required to provide ratings of the internal controls of SRs according to the areas defined in their terms of reference. For FY2019, organization and staffing, procurement, and general administration 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 related to financial management, asset management, SR activities management, and review of SR activity progress. Further, in five reports, the auditors did not provide a rating on the internal controls in five areas.

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



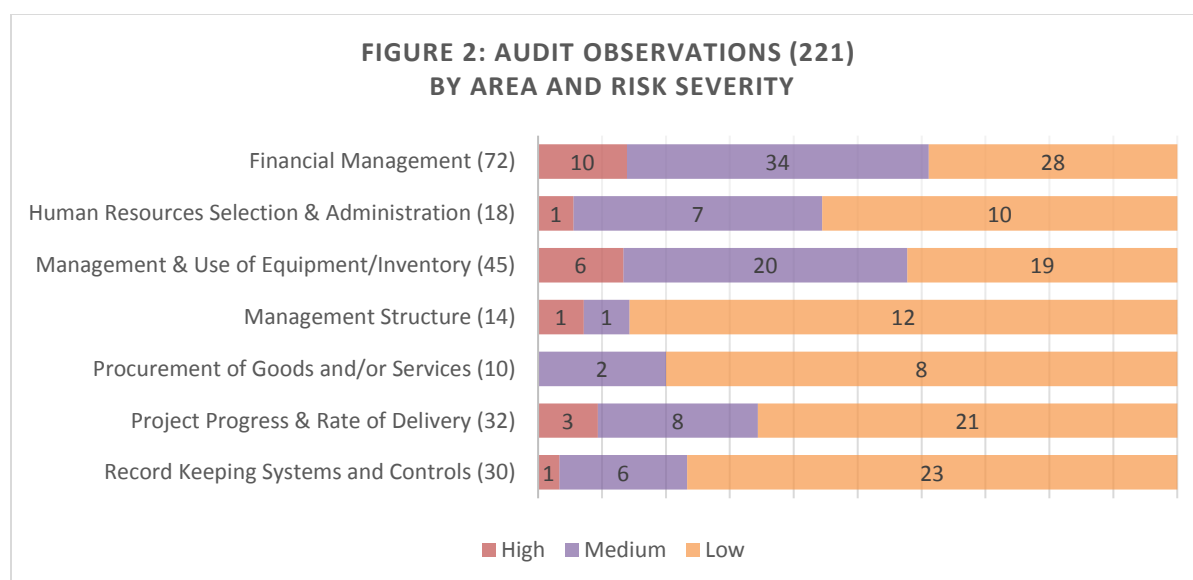
Audit observations and recommendations

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 221 observations and recommendations in the 52 SR audit reports for FY2019. 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 221 audit observations comprised of 22 (10 percent) categorized as high priority; 121 (55 percent) categorized as medium priority; and 78 (35 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 221 audit observations and recommendations is shown in Figure 2 below.



Three areas, namely (a) financial management, (b) management and use of equipment/inventory, and (c) project progress and rate of delivery accounted for 149 audit observations or 67 percent of the total audit observations. With respect to financial management, the most common audit issue related to the lack of adequate financial control procedures, inadequate recording of expenses, and absence of supporting documents. Regarding management and use of equipment, the issues were mainly on inadequate asset registers and lack of insurance coverage for assets held by the SRs. Regarding project progress and rate of delivery, issues were mainly on delays in the submission of quarterly progress 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 (FY2018) including those that were not implemented in previous years 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 41 high-priority FY2018 recommendations, the current implementation status is as follows: 38 (93 percent) had been implemented, 1 (2 percent) had not been implemented, and the remaining 2 (5 percent) had been



withdrawn because the related projects ended in 2018.

5. Net financial misstatement

The auditors expressed unmodified opinions on the entire amount of \$51.8 million of expenses audited. This was an improvement from the FY2018 audit exercise when the auditors had expressed modified opinions on 1 percent of the audited expenses.

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 FY2019

Country Office/Programme	Number of SRs audit reports	Audited SR expenses (in US dollars)	Unmodified	
			# of SR audit reports	Amount audited
Afghanistan	13	4,144,474	13	4,144,474
Angola	3	1,339,975	3	1,339,975
Burundi	5	5,013,134	5	5,013,134
Chad	1	2,620,949	1	2,620,949
Cuba	5	5,585,367	5	5,585,367
Guinea-Bissau	2	1,316,032	2	1,316,032
Kyrgyzstan	12	1,227,001	12	1,227,001
Multi-Country Western Pacific	1	239,190	1	239,190
Sao Tome and Principe	2	949,448	2	949,448
South Sudan	2	1,099,235	2	1,099,235
Zimbabwe	6	28,269,848	6	28,269,848
	52	51,804,653	52	51,804,653

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.