UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM THE GLOBAL FUND

MANAGED BY UNDP

(FINANCIAL YEAR 2020)

Report No. 2440
Issue Date: 7 January 2022

Table of Contents

**Consolidated Report on the
Audits of Sub-recipients of Grants from the Global Fund (FY2020)
Executive Summary**

In September 2021, 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 financial year 2020 (FY2020). 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 42 audit reports for FY2020 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendation Database System (CARDS) of OAI. These 42 audit reports pertained to 18 projects funded by the Global Fund and implemented by 40 SRs in 13 countries for which UNDP was the Principal Recipient (PR), as well as one regional programme[1] which met the required audit criteria set by OAI. The reports covered FY2020 project expenses totalling $44.7 million, equivalent to 61 percent of the overall UNDP/Global Fund SR expenses of $72.8 million for 2020.

Results of the review

The auditors expressed modified opinions on the expenses of 5 out of the 40 SRs for a total overstatement of expenses of $598,455 or 6 percent of the related audited expenses for the 40 SRs. The auditors expressed unmodified opinions for the remaining 35 SRs.

In addition to providing an opinion on the statement of expenses for all 40 SRs audited, the auditors provided, in 18 of the 42 audit reports, a review of 12 areas of internal controls. The number of unsatisfactory ratings in those areas was low – only 2 percent of all the ratings provided in the audit areas assessed were unsatisfactory.

The auditors raised a total of 143 audit observations for FY2020. Most of the audit observations related to three 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. The most common audit issue in this area was the inadequate recording of expenses.

[1] The Vanuatu Ministry of Health, the Marshall Islands Ministry of Health, and the Federal States of Micronesia Department of Health as Sub-recipients of the Multi Country Western Pacific Programme.

Implementation of prior year audit recommendations (FY2019)

OAI included in its assessment the implementation status of the high priority recommendations. As of 8 December 2021, all 22 high-priority FY2019 recommendations had been implemented.

Management action plan

In 2021, the Global Fund Health Implementation Support Team, and the HIV Health and Development Group in the Bureau for Policy and Programme Support (the "Global Fund Team") implemented measures strengthening the special SR audit regime, which was established in 2012 for the audit of SRs of Global Fund projects. These measures included i) updating the Terms of Reference for SR audits; ii) reviewing audit plans from the Country Offices; iii) reviewing the performance of SR audit firms; iv) monitoring the audit process; and v) tracking the implementation of SR audit recommendations.

In addition, in 2021, the Global Fund Team undertook a review of the risk management framework for the Global Fund portfolio, analysing the OAI SR audit reports over the past five years (2015–2020). Based on this review and in consultation with OAI, Regional and Central Bureaux, the Global Fund Team will implement the following measures in 2021–2022 to strengthen SR performance, management and oversight: (i) updating the SR Capacity Assessment Tool based on a pilot conducted in 2021; (ii) implementing SOPs for the new SR Capacity Assessment Tool; (iii) implementing the new SOPs on asset management; (iv) providing training on the SR reporting tool and SR expense verification process; and (iv) updating and strengthening the SR Agreement Template, in collaboration with the Office of Legal Services. In addition to these measures, the Global Fund Team introduced quarterly performance reviews with Resident Representatives, and semi-annual portfolio reviews with Regional Bureau Deputy Directors to strengthen performance monitoring, oversight and accountability for Global Fund grants. These quarterly and semi-annual reviews will include an examination of SR management issues, and the implementation of SR audit recommendations.

Finally, through active follow-up by Country Offices, over 90 percent of the modified opinions on the expenses ($598,454) have been successfully resolved.

Helge Osttveiten
2022.01.07
12:42:40
-05'00'

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 (PR), 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 the national implementation modality.

The total UNDP/Global Fund expenses incurred by PRs and SRs in 2020 was $295 million. Of these, project expenses incurred by SRs under the non-governmental organization/national implementation modality amounted to $72.8 million or 25 percent. The FY2020 audits covered $44.7 million, or 61 percent of the expenses incurred by SRs.

2. Review of Global Fund Sub-recipient audits in FY2020

For FY2020, UNDP was the PR in 19 countries and two regional programmes.[2] In line with OAI criteria for the selection of SRs to be audited, 6 of the 19 countries and one regional programme did not require an audit as UNDP directly made payments for the SRs (Bolivia and Djibouti), or the SR expenses did not meet the threshold for audits (Belize, Egypt, Iran, Sao Tome and Principe, and Multi-country Southern Asia).

The analysis of the audit opinions and audit observations of the 42 audit reports showed the following:

Distribution of audit opinions

The external audit firms were required to certify, express an opinion, and, if applicable, modify their opinion and quantify the net financial misstatement (NFM) on the following financial statements:

(a) Statement of Expenses for the period 1 January through 31 December 2020;
(b) Statement of Cash Position as of 31 December 2020; and
(c) Statement of Assets and Equipment as of 31 December 2020.

The audits were conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

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

For FY2020, the auditors expressed modified opinions on the expenses of 5 of the 40 SRs for a total overstatement of expenses of $598,455 (or 6 percent) of the related audited expenses of the 40 SRs. The auditors expressed unmodified opinions (clean opinion) for the remaining 35 SRs.

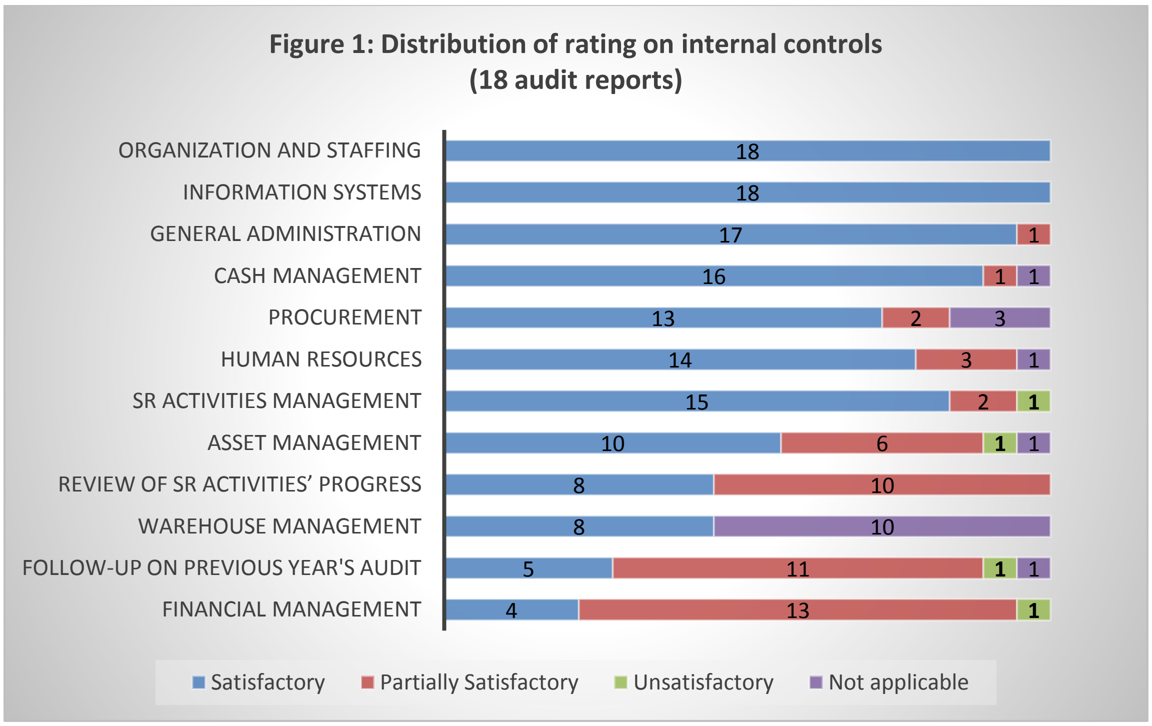
[2] The Multi-country Western Pacific HIV/TB grant which covers 11 countries: Republic of Marshall Islands, Federal States of Micronesia, Kiribati, Vanuatu, Tuvalu, Samoa, Tonga, Cook Islands, Nauru, Niue and Palau. The Multi-country TB Asia grant which covers three countries: Afghanistan, Iran, Pakistan.

Rating of internal controls

In addition to providing an opinion on the statement of expenses for all SRs audited, the auditors were to provide an assessment and a rating on 12 areas of internal controls in 18 of the 42 audit reports. For FY2020, organization and staffing, information systems, and general administration were the areas with the most satisfactory internal controls.

The number of audit areas in the audit reports with unsatisfactory ratings was low: 4 out of 216 (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 ratings of 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

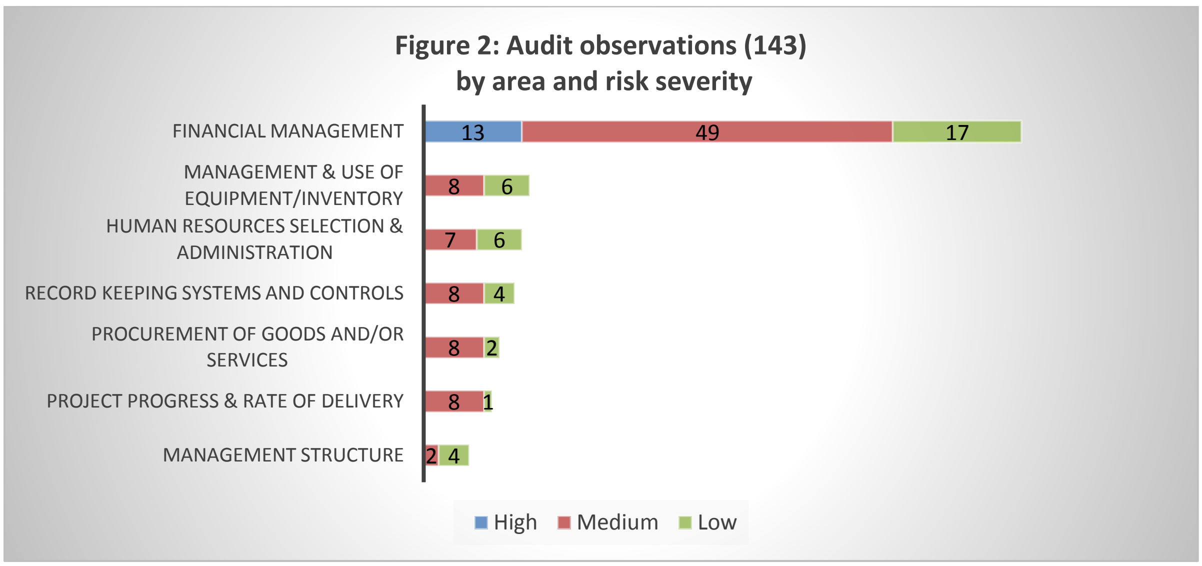
For each SR audit, the auditors are required to describe, in a management letter, the internal control weaknesses noted. The management letters include the audit observations and recommendations, categorize the nature of audit observations by risk severity, and classify the audit observations and recommendations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

The audit firms raised 143 observations and recommendations in the 42 audit reports for FY2020. 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 143 audit observations comprised of 13 (9 percent) categorized as high priority; 90 (63 percent) categorized as medium priority; and 40 (28 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 143 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) human resources selection and administration accounted for 106 audit observations or 74 percent of the total audit observations. With respect to financial management, the most common audit issues related to expenses/ advances recorded incorrectly. Regarding management and use of equipment, the issues were mainly related to inadequate inventory management systems for assets held by the SRs. Regarding human resources selection and administration, issues were mainly related to inadequate time and attendance reporting.

3. 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 (FY2019) 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. As of 8 December 2021, all 22 high-priority FY2019 recommendations had been implemented.

4. Net financial misstatement

The auditors expressed modified opinions on the expenses in 5 of the 40 SRs for a total overstatement of expenses of $598,455 (or 6 percent) of the related audited expenses in the 40 SRs. The auditors expressed unmodified opinions for the remaining 35 SRs.

The modified audit opinions were mainly due to (a) expenses not eligible; (b) unsupported expenses; and (c) incorrect recording of expenses.

See details of these opinions in Annex 1.

Annex 1: Modified audit opinions in the Global Fund Sub-recipient audit reports for FY2020

Region	Country Office	Project	Output(s)	Sub-recipient	Audited Expenditure	Opinion Type	Net Financial Misstatement (NFM)	Reason for NFM
RBA	Angola	00113029	00111327	AGENCIA PIAGET PARA O DESENVOLVIMIENTO	331,294	Qualified	$5,722	Ineligible expenses (time not spent on the project was reported as a project cost)
RBA	Chad	00112695	00111105	UNITE DE GESTION DES PROJETS MINISTERE DE LA SANTE	4,519,555	Qualified	$16,255	Ineligible salary expenses
RBA	Guinea Bissau	00106406	00107168	CG - PNDS - Cellula De Gestao Do PNDS	2,288,869	Qualified	$116,084	Ineligible expenses: (1) Unbudgeted expenditure charged to the project – $111,462.00. (2) Expenditure for another SR recorded under IA code of SR PNDS – $4,622.36
RBAP	Multi-country Western Pacific	00116043	00113363	Vanuatu Ministry of Health	564,490	Qualified	$11,979	No supporting documentation – $6,129.50. Accruals recorded as expenditure – $5,145.62. Expenditure not related to project, $212.62 Lack of audit trail – $491.07.
RBA	Zimbabwe	00107802	00107967	National Aids Council -AGYW	2,918,273	Qualified	$448,415	(1) Mismatch between expenditure reported by SR in financial report and recorded in Atlas – $1,455.72. (2) Incorrect recording to rectify previous year audit observations - $1,040. (3) Recording expenditure delivered in subsequent period – $435,272.03. (4) Dual claim of expenditure from project funds – $8,000 (5) Expenditure reported in excess of budget – $1,120
					$10,622,480		**$598,455**	

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.