



CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM THE GLOBAL FUND

MANAGED BY UNDP

(FINANCIAL YEAR 2022)

Report No. 2702
Issue Date: 22 November 2023



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Consolidated Report on the Audits of Sub-recipients of Grants from the Global Fund (FY2022)

Executive Summary

In August 2023, 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 2022 (FY2022). 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) analyze 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 FY2022 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendation Database System (CARDS) of OAI. These 52 audit reports pertained to 18 projects funded by the Global Fund and implemented by 50 SRs in 15 countries for which UNDP was the Principal Recipient (PR), and one multi-country programme¹ that met the required audit criteria set by OAI. The reports covered FY2022 project expenses totaling \$62.8 million, equivalent to 71 percent of the overall UNDP/Global Fund SR expenses of \$88.1 million for 2022.

Results of the review

The auditors expressed "unmodified" opinions on the expenses of all 50 SRs audited. However, upon review, OAI changed the opinions for two SRs from "unmodified" to "qualified" (Republic of Congo). The qualified opinions resulted in an understatement of the related expenses by \$203,221.

A "qualified" opinion was provided on the statement of cash position for one SR (Sudan) due to a difference of \$7,899 noted between the closing balance as per the bank statement and the statement of cash position as of 31 December 2022.

In addition to providing an opinion on the financial statements for all SRs audited, the auditors reviewed 12 areas of internal controls in all the audit reports. The number of unsatisfactory ratings in those areas was low – only 3 percent of all the ratings provided in the audit areas.

The auditors raised a total of 253 audit observations for FY2022. Most of the audit observations related to three areas, namely, financial management, project progress and rate of delivery, management and use of equipment/inventory. The area of financial management had the highest number of audit

¹ The Kiribati Ministry of Health & Medical Services, the Vanuatu Ministry of Health, and the Republic of the Marshall Islands Ministry of Health & Human Services as Sub-recipients of the Multi-Country Western Pacific Programme.

observations. The most common audit issues in this area are related to the lack of adequate accounting and financial control systems.

Implementation of prior year audit recommendations (FY2021)

OAI included in its assessment the implementation status of the high priority recommendations. As of January 2023, 74 of the 82 high-priority FY2021 recommendations had been implemented. The remaining eight recommendations could not be implemented since the related projects were closed.

Management action plan


In 2023, the Global Fund Partnership and Health Systems Team, HIV and Health Group in the Bureau for Policy and Programme Support (the "Global Fund Team") continued to follow the special SR audit regime, which was established in 2012 for the audit of SRs of Global Fund projects. The Global Fund Team in coordination with OAI established Long-Term Agreements with external audit firms, and onboarding sessions were conducted for the audit firms in 2022.

In 2023, the Global Fund Team worked closely with the country offices to improve the project progress and rate of delivery, through continued quarterly reviews with the CO senior management, field missions and targeted webinars for project management units (PMUs).

In order to improve the financial oversight and monitoring systems for PMUs for the grant activities including those implemented by the SRs, the Global Fund Team built a financial dashboard to track the budget and utilization in 2023 which provides a daily update from Quantum data warehouse on grant budget and expenses. In addition, BPPS team is working with Quantum team to launch Hyperion based reports for the Global fund project teams by end of 2023.

In close consultation with the respective country office, we take note of OAI's change of opinion for two SRs from "unmodified" to "qualified" (Republic of Congo). We will communicate this change to the respective audit firm as a part of our briefing session for FY2023 SR audit. The country office has been taking steps to improve the timely submission of Funding Authorization and Certificate of Expenditure forms by the SRs in 2023.

The management actions for the SR (Sudan) with the qualified opinion on the cash balances are under implementation to ensure the accuracy of the final cash statement for 2023.



Guillermo Munoz
Deputy Director (Audit) a.i
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 2022 was \$471 million. Of these, project expenses incurred by SRs under the non-governmental organization/national implementation modality amounted to \$88.1 million or 19 percent. The FY2022 audits covered \$62.8 million, or 71 percent of the expenses incurred by SRs.

2. Review of Global Fund Sub-recipient audits (FY2022)

For FY2022, UNDP was the PR in 21 countries and two regional programmes.² In line with OAI criteria for the selection of SRs to be audited, 6 of the 21 countries and one regional programme did not require an audit as the SR expenses did not meet the criteria for audits (Belarus, Bolivia, Egypt, Iran, Venezuela, Turkmenistan, and the Multi-country Southern Asia programme).

The analysis of the audit opinions and audit observations contained in the 52 audit reports submitted in CARDS 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 2022;
- (b) Statement of Cash Position as of 31 December 2022; and
- (c) Statement of Assets and Equipment as of 31 December 2022.

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.

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

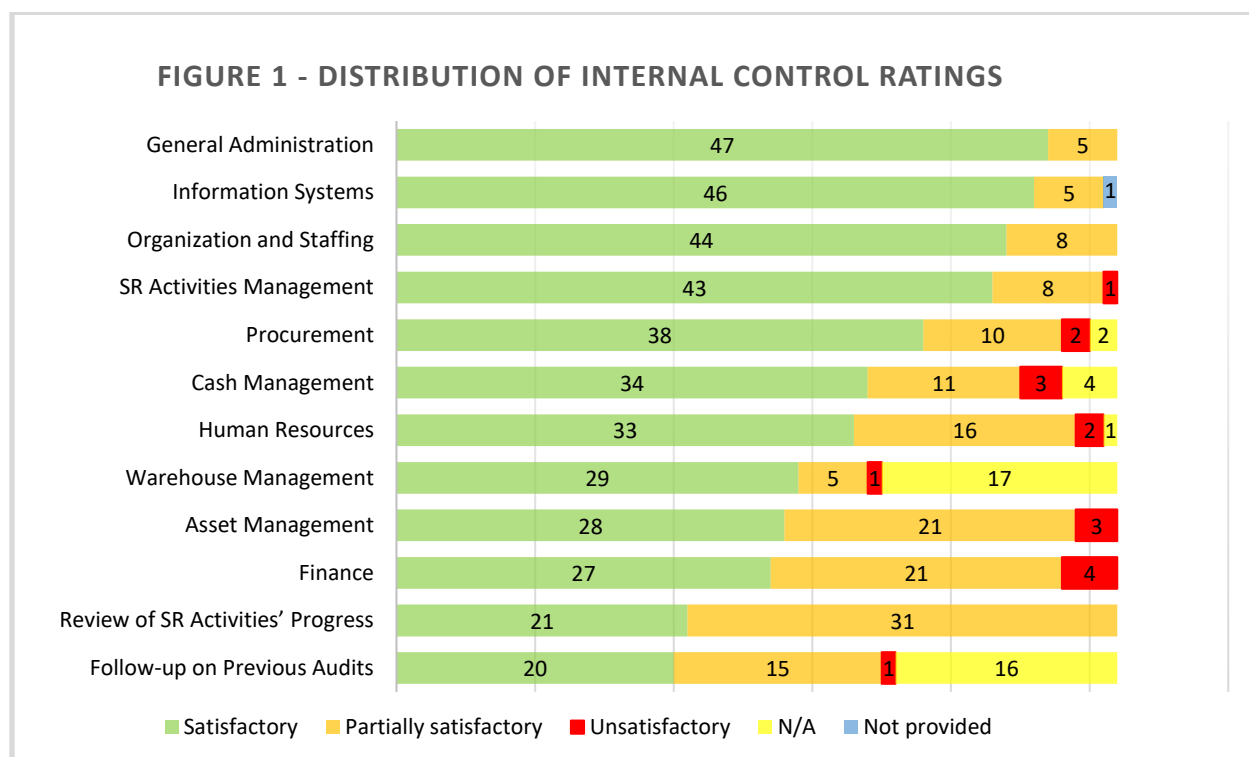
For FY2022, the auditors expressed “unmodified” opinions on the expenses of all 50 SRs audited. However, upon review, OAI changed the opinions for two SRs to “qualified” (Republic of Congo). The qualified opinions resulted in an understatement of the related expenses by \$203,221.

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 the audit reports. For FY2022, general administration, information systems, and organization and staffing were the areas with the most satisfactory internal controls.

While the number of audit areas in the audit reports with unsatisfactory ratings was low (refer to Figure 1 below), the areas where the auditors found the most unsatisfactory internal controls related to financial management and cash management.

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



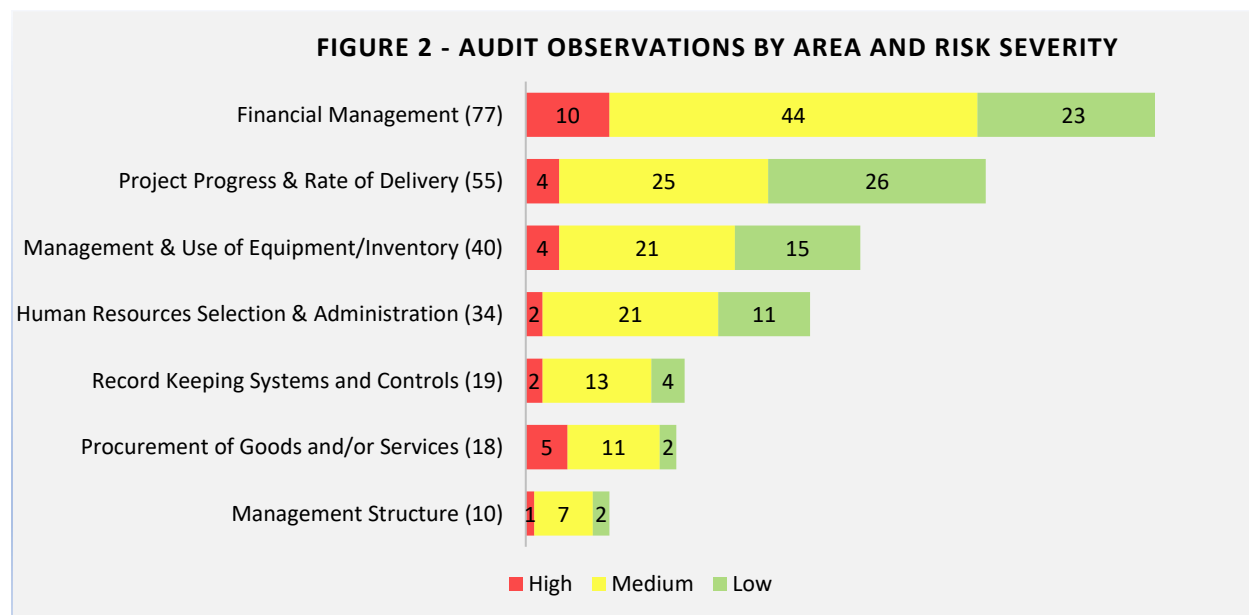
Audit observations and recommendations

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 253 observations and recommendations in the FY2022 audit reports. 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 253 audit observations comprised 28 (11 percent) categorized as high priority; 142 (56 percent) categorized as medium priority; and 83 (33 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) management and use of equipment/inventory, (3) human resources selection and administration, (4) record keeping systems and controls, (5) project progress and rate of delivery, (6) procurement of goods and/or services, and (7) management structure.

The distribution by audit area and risk severity for the 253 audit observations and recommendations is shown in Figure 2 below.



Three areas, namely (a) financial management, (b) project progress and rate of delivery, and (c) management and use of equipment/inventory accounted for 172 audit observations or 68 percent of the total audit observations. With respect to financial management, the most common audit issues related to the lack of adequate accounting and financial control systems. Project progress and rate of delivery issues related to delays in mandatory reporting and over/under utilization of budget lines. Regarding the management and use of equipment/inventory, the most common audit issues related to the absence of insurance coverage and the lack of adequate registers.

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 (FY2021) 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 June 2023, 74 of the 82 high-priority FY2021 recommendations had been implemented. Eight recommendations could not be implemented since the related projects were closed.

4. Net financial misstatement

The auditors expressed an "unmodified" opinion over the expenses of the 50 SRs audited. However, upon review of the reports, OAI changed the opinion for two SRs to "qualified" for a total understatement of expenses by \$203,221 or 47 percent of the related audited expenses. The qualified audit opinions were due to failure to record December 2022 expenses in the FY2022 CDR.

A "qualified" opinion was provided on the statement of cash position for one SR (Sudan) due to a difference of \$7,899 (15 percent of the cash balance) noted between the closing balance as per the bank statement and the statement of the cash position as of 31 December 2022.

See details of these opinions in Annex 1.



Annex 1: Modified audit opinions in the Global Fund Sub-recipient audit reports for FY2022

Region	Country Office	Project	Output(s)	Sub-recipient	Audited Expenditure	Opinion on Statement of Expenses	Net Financial Misstatement (NFM)	Reason for modified opinion
RBA	Congo (Republic of)	00129730	00123299	Programme national de lutte contre le VIH/SIDA et les infections sexuellement transmissibles (PNLS)	\$307,389	Qualified	\$36,068	Expenses incurred by the SR during the month of December 2022 were not recorded in the CDR
RBA	Congo (Republic of)	00129730	00123299	Réseau national des associations de Congo positifs (RENAPC)	\$123,687	Qualified	\$167,153	Expenses incurred by the SR during the month of December 2022 were not recorded in the CDR
					\$431,076		\$203,221	

Region	Country Office	Project	Output(s)	Sub-recipient	Cash Position Balance	Opinion on Statement of Cash Position	Net Financial Misstatement (NFM)	Reason for modified opinion
RBAS	Sudan	00108620	00125436	Federal Ministry of Health's Diseases Control Directorate	\$51,736	Qualified	\$7,899	Difference noted between the closing balance as per bank statement and the statement of expenses as of 31 December 2022

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.