



**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 2011)**

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## Consolidated Report on the Audits of Sub-Recipients of Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

### Background

In December 2012, the Office of Audit and Investigations (OAI) analysed audit reports of projects implemented by non-governmental organizations or government institutions that were Sub-recipients of grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). As of December 2012, UNDP was the Principal Recipient of 55 Global Fund grants in 25 countries totalling \$1.4 billion. Except for United Nations entities, organizations engaged as Sub-recipients 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 and to submit those audit reports to UNDP. The main objective of those audits is to provide UNDP with assurance that resources have been used properly.

### Purpose and scope of the review

The OAI desk review aimed to: (a) analyse the distribution of external audit firms' audit opinions; (b) identify common audit issues reported by them and (c) determine the implementation status of the audit recommendations made. The review covered 50 audit reports for fiscal year 2011 that had been uploaded by country offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 50 audit reports pertained to 47 awards funded by the Global Fund in 22 countries where UNDP was the Principal Recipient and which met the required audit threshold. The reports covered fiscal year 2011 project expenditures totaling \$99.8 million, equivalent to 31 percent of the overall UNDP/Global Fund expenditures of \$324.3 million incurred in 2011. In terms of distribution, \$61.7 million (62 percent) of the expenditures audited related to grants managed under the Additional Safeguard Policy.<sup>1</sup> The audit report of Global Fund Sub-recipients in Yemen, with total expenditures of \$0.4 million planned for audit, had not been submitted at the time this report was drafted.

### Results of the review

Of the \$99.8 million in expenditures audited, \$6.8 million (7 percent) had qualified audit opinions with a net financial impact of about \$0.1 million representing 0.1 percent of the total audited expenditures. By comparison, in 2010, \$5 million (3 percent) of expenditures had qualified audit opinions with a net financial impact of about \$0.6 million, equivalent to 0.3 percent of the audited expenditure. The overall decrease in the net financial impact of qualified audit opinion denotes an improvement over 2010. Of concern in 2011, is the programme in Niger, which received qualified audit opinions in three of the last four years (2008, 2010, and 2011). In 2011, the net financial impact of the qualification in Niger was \$182,000. Similarly, the programme in the Democratic Republic of the Congo has received qualified audit opinions in the last four consecutive years (2008, 2009, 2010, and 2011) but the grants were ultimately closed.

The external audit firms raised a total of 488 audit observations in fiscal year 2011, categorized by risk severity and by audit area, as follows:

- **Risk severity:** The 488 audit observations were comprised of 67 (14 percent) categorized as high priority; 233 (48 percent) medium priority and 188 (38 percent) low priority.

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<sup>1</sup> The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

- Audit areas: There were three core audit areas, namely: financial management; project progress and rate of delivery and; human resources management and administration, which together, accounted for 361 (74 percent) of the total 488 audit observations.

The frequent absence of or inadequacy of documents in support of the expenditures audited, errors in recording of transactions, as well as the lack of reconciliation of bank statements and cash in hand with accounting records can be attributed to the sub-optimal financial management capacity of many of the Sub-recipients.

### Implementation of audit recommendations

OAI focused its assessment on the implementation status of the high priority recommendations. Of the audit recommendations for fiscal year 2010, all 201 observations categorized as high priority had "action plans" (intended management action to address the observation) uploaded in CARDS. Of the 201 audit recommendations, 75 (37 percent) had been implemented and 107 (53 percent) withdrawn (the grant or project had closed, or UNDP had ceased working with the Sub-recipient). The implementation of four (2 percent) recommendations were still in progress, while only 15 (7 percent) had not been implemented in 2012. The closure of grants in the Democratic Republic of the Congo and Mauritania, which accounted for the majority of the outstanding recommendations in fiscal year 2010, contributed to the improved implementation rate for fiscal year 2011.

### Conclusion

More effort is required in following up on the implementation of recommendations to ensure that the identified root causes of the audit observations are adequately addressed in a timely manner. However, an improvement was noted in financial management, as the net financial impact of qualified opinions was only about \$0.1 million in 2011, as compared to \$0.6 million in 2010, and \$1.7 million in 2009.

As the Principal Recipient of Global Fund grants, UNDP is more often than not partnering with Sub-recipients, whose financial management capacities are sub-optimal, and who are operating within a difficult country context. Recognizing the need for close monitoring and oversight of Sub-recipient financial management, the Terms of Reference for the non-governmental organization/national implementation modality audits had been strengthened for financial management and expanded to also include review of controls and processes. In 2012, the Bureau for Development Policy Global Fund Partnership Team had also engaged in long term agreements with external audit firms for future audits of Sub-recipients to improve the consistency and quality of the Sub-recipient audit reports.



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