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 TO FIGHT AIDS, TUBERCULOSIS AND MALARIA
MANAGED BY UNDP
(FISCAL YEAR 2012)

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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 2013, the Office of Audit and Investigations (OAI) concluded the review and analyses of audit reports of projects implemented by non-governmental organizations or government institutions that were Sub-recipients (SRs) of grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). UNDP was the Principal Recipient of 53 Global Fund grants in 26 countries, totalling $1.7 billion as of December 2013. Except for United Nations entities, organizations engaged as SRs 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. The main objective of those 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.

Purpose and scope of the review

The OAI review aimed to: (a) analyse the distribution of external audit firms' 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 audit recommendations. The review covered 32 audit reports for fiscal year (FY) 2012 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 32 audit reports pertained to 31 projects funded by the Global Fund in 18 countries where UNDP was the Principal Recipient and which met the required audit criteria set by OAI. The reports covered FY 2012 project expenses totalling $71.6 million, equivalent to 70 percent of the overall UNDP/Global Fund SR expenses of $102.5 million incurred in 2012.[1] In terms of distribution, $50 million (70 percent) of the expenses audited related to grants managed under the Additional Safeguard Policy.[2]

Results of the review

Of the $71.6 million in expenses audited, $58 million (81 percent) had unqualified audit opinions, $11.5 million (16 percent) had qualified audit opinions, and $2.1 million (3 percent) had an adverse opinion. Those with modified (qualified and adverse) audit opinions had a net financial impact (NFI) of about $3 million, representing 4 percent of the total audited expenses. By comparison, in 2011, the NFI was about $0.4 million, equivalent to 0.41 percent of the audited expenses.

Of concern in 2012 is the programme in Chad that received an adverse opinion with an NFI of $2.1 million. In addition, the programme in Haiti received qualified audit opinions in the last two consecutive years.

[1] The figure is based on the total amount recorded under the Government/NGO column of the Atlas-generated CDR.
[2] The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

The external audit firms raised a total of 431 audit observations in FY 2012, categorized by risk severity and by audit area, as follows:

- Risk severity: The 431 audit observations were categorized as: 140 (32 percent) high priority; 193 (45 percent) medium priority; and 98 (23 percent) low priority.
- Audit areas: The audit observations were primarily categorized in three core audit areas, namely: financial management; human resources selection and administration; and project progress and rate of delivery, which together, accounted for 307 (71 percent) of the total 431 audit observations.

Inadequate documentation in support of expenses, errors in recording transactions, lack of adequate accounting or project management software and lack of reconciliation between accounting records/bank statements to cash in hand contributed to the sub-optimal financial management capacity of many of the SRs.

Implementation of audit recommendations

The external audit firms were required to review the progress achieved by the SRs in implementing the prior year's audit recommendations (FY 2011) and to report on the updated "action plans" for those recommendations. OAI focused its assessment on the implementation status of the high priority recommendations. Of the 81 recommendations, the implementation status in 2012 was as follows: 58 (72 percent) had been implemented, 3 (4 percent) were in progress, 12 (15 percent) had not been implemented, and 8 (10 percent) were no longer applicable. This marked a significant improvement over FY 2010 for which 37 percent of high priority audit recommendations had been implemented in 2011.

Management action plan

Recognizing the need for closer monitoring and oversight of SR financial management, the Terms of Reference for the audits of projects under national implementation modality had been strengthened for financial management and expanded to also include review of internal controls and processes. Starting with the FY 2012 audit, the Bureau for Development Policy Global Fund Partnership Team engaged in long-term agreements with external audit firms for SR audits to improve the consistency and quality of the audit reports.

To strengthen SR management, the Team was also developing an on-line application to map SRs and Sub-sub-recipients so that Country Offices can have an accurate picture of grant implementation arrangements, flow of funds and inventory of health products. The development and dissemination of best-practice tools for each stage of the grant life cycle, including a financial management training package will be finalized and included in the UNDP Capacity Development Toolkit. Finally, those SRs identified through the FYs 2012 and 2013 audit process as having sub-optimal management capacities would be targeted for dedicated capacity building activities.

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