



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 2014)

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Consolidated Report on the Audits of Sub-recipients of Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (FY2014) Executive Summary

Background

In December 2015, 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 (SRs) of grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) for the fiscal year 2014 (FY 2014). 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 29 audit reports for FY 2014 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 29 audit reports pertained to 29 projects funded by the Global Fund and to 92 SRs in 18 of the countries where UNDP was the Principal Recipient, and which met the required audit criteria set by OAI. The reports covered FY 2014 project expenses totaling \$63.2 million, equivalent to 59 percent of the overall UNDP/Global Fund SR expenses of \$107 million incurred in 2014.¹ In terms of distribution, \$46.2 million (73 percent) of the expenses audited related to grants managed under the Additional Safeguard Policy.²

Results of the review

Of the \$63.2 million in expenses audited, \$62.8 million (99.4 percent) had unmodified audit opinions and \$0.4 million (0.6 percent) had a qualified audit opinion with a net financial impact (NFI) totaling \$21,463 or 0.03 percent of the total audited expenses. By comparison, for FY 2013, the NFI was about \$0.2 million, equivalent to 0.3 percent of the audited expenses.

The external audit firms raised a total of 288 audit observations in FY 2014, categorized by risk severity and by audit area, as follows:

- **Risk severity:** The 288 audit observations were categorized as: 30 (10 percent) high priority; 190 (66 percent) medium priority; and 68 (24 percent) low priority.

¹ The figure was based on the total amount recorded under the Government/NGO column of the Atlas-generated Combined Delivery Report.

² The Additional Safeguard Policy defines procedures and criteria and is established by the Global Fund as part of its risk management processes.

- Audit areas: Most of the audit observations belonged to three core audit areas, namely: financial management; record keeping systems and controls; and human resources selection and administration, which together, accounted for 200 (69 percent) of the total 288 audit observations.

The area of financial management, when compared to FY2013 audit results, continued to be noted with the most common audit issues namely: inadequate documentation in support of expenses, and lack of adequate accounting systems and controls.

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 2013) 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 43 high priority FY2013 recommendations, 35 (81 percent) had been implemented, while the remaining 8 (19 percent) were either withdrawn or no longer applicable as of the end of 2015. This was an improvement when compared to those from FY2012, for which 64 percent of high priority recommendations had been implemented by the end of 2014.

Management action plan

During 2015, the UNDP Global Fund Programme Team, HIV, Health and Development Team within the Bureau for Policy and Programme Support continued to monitor Sub-recipient management recognizing SR performance was essential to reaching grants' objectives and continued to be one of the highest risk aspect of implementing Global Fund grants. The results of OAI's review referred to financial management, with the most common issues related to inadequate documentation in support of expenses and lack of adequate accounting system and controls. The Team introduced new processes to address these findings, including an Early Warning System with an indicator for outstanding advances to SRs.

In 2016, the review of the financial management section of the capacity assessments and continued training through Webinars and targeted in-country SR training will be introduced. In addition, based on the positive performance review of the standardized SR audit process the corporate level Long Term Agreements with audit firms were extended.

In 2016, the Team will further enhance guidance on SR management, with the introduction of an expenditure mapping exercise for SRs to determine core areas of activities, including a mapping of the SR management process, with identification of key risk activities in the cycle, and standardization of tools for management of identified key activities, to allow prevention or detection of weaknesses at SR level. Finally, SR management is a separate risk area in the newly developed risk management framework, which will support Country Office to better identify and manage risks related to this functional area.



Helge S. Osttveiten
Director
Office of Audit and Investigations