



**CONSOLIDATED REPORT
ON THE AUDITS
OF SUB-RECIPIENTS OF GRANTS FROM
THE GLOBAL FUND
MANAGED BY UNDP
(FISCAL YEAR 2015)**

**Report No. 1763
Issue Date: 27 January 2017**

Consolidated Report on the Audits of Sub-recipients of Grants from the Global Fund (FY 2015) Executive Summary

Background

In December 2016, 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 for the fiscal year 2015 (FY 2015). 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's audit recommendations. The review covered 64 audit reports for FY 2015 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

The 64 audit reports covered 64 SRs supporting 25 projects funded by the Global Fund in 16 of the 27 countries where UNDP was the Principal Recipient, the selection was based on OAI's audit criteria. The reports covered FY 2015 project expenses incurred totalling \$53 million out of \$104 million, equivalent to 51 percent of the overall UNDP/Global Fund SR expenses.¹ In terms of distribution, \$39.5 million out of the \$53 million, equivalent to 75 percent of the expenses audited, related to grants managed under the Additional Safeguard Policy.²

Results of the review

The auditors expressed unmodified audit opinions in all of the audit reports and over the total audited expenses. In the FY 2014 audit the auditors had expressed modified opinions on 0.6 percent of the audited expenses with a net financial misstatement of \$21,463.

With respect to the external auditors' assessment of internal controls, the number of unsatisfactory ratings was low. The areas where the auditors found unsatisfactory internal controls were related to follow-ups on previous audit observations, human resources management, review of SR activity progress, procurement, cash management, and asset management.

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 defined procedures and criteria for annual audits in a number of environments considered to be high-risk and was established by the Global Fund as part of its risk management processes.

The external audit firms raised a total of 254 audit observations in FY 2015, categorized by risk severity and by audit area, as follows:

- **Risk severity:** The 254 audit observations were categorized as: 29 (11 percent) high priority; 150 (59 percent) medium priority; and 75 (30 percent) low priority.
- **Audit areas:** The majority of the audit observations belonged to three core audit areas, namely: financial management; human resources selection and administration; and management and use of equipment/inventory. These accounted for 176 of the 254 (69 percent) audit observations.

The area of financial management continued to generate the highest number of audit observations/recommendations. The most common audit issue was the 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 2014) 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 30 high priority FY 2014 recommendations, 22 (73 percent) had been implemented, 4 (13 percent) had not been implemented and the remaining 4 (13 percent) were no longer applicable as of the end of 2016.

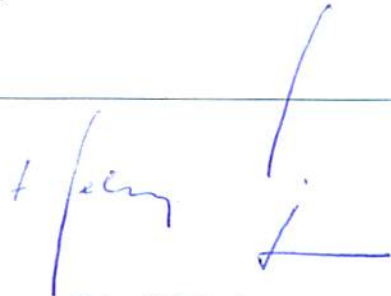
Policy development and guidance

During 2016, the Global Fund/Health Implementation Support Team, Health and Development Group within the Bureau for Policy and Programme Support continued to regularly monitor the outstanding advances to SRs through the Early Warning System and provide targeted support to Country Offices for the liquidation of outstanding advances. The Team prepared the SR management section of the Operations Manual, planned to be available online in late January 2017.

In addition to updates and revision of the guidance and tools currently included in the SR Management Toolkit, the new SR management section includes guidance on risk management in SR management as well as enhanced monitoring of key high-risk activities, such as training. Emphasis has been placed on providing guidance to Country Offices on monitoring the implementation of SR audit recommendations. The SR management tools are now integrated in the online Manual to complement specific management guidance. An SR monitoring visit checklist and capacity assessment tool were finalized in 2016.

In 2017, the Team shall enhance the capacity of Country Offices for SR management by delivering targeted workshops and trainings to roll out the new SR management tools and more broadly the added guidelines in the SR management section of the Operations Manual.

To support financial management, a webinar was given to Country Offices in 2016 on the new annual Global Fund reporting. Country Offices were supported to roll out the same training to the SRs. In November 2016, a regional workshop was organized for francophone Country Offices, topics included cash transfer modalities and best practices in the verification of SR expenditures. Also in 2016, an SR financial reporting template was developed and shared with new Country Office Principal Recipients (Afghanistan, Multi-Country Western Pacific and African Regional grant). The template will be rolled out to all Country Offices in 2017.



Helge S. Ostveiten
Director
Office of Audit and Investigations