CONSOLIDATED REPORT

ON THE AUDITS

OF SUB-RECIPIENTS OF GRANTS FROM THE GLOBAL FUND

MANAGED BY UNDP

(FISCAL YEAR 2016)

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Executive Summary

Background

In July 2017, 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 2016 (FY2016). 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 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 65 audit reports for FY2016 that had been uploaded by Country Offices in the Comprehensive Audit and Recommendations Database System (CARDS) of OAI.

These 65 audit reports pertained to 17 projects funded by the Global Fund and to 58 SRs in 12 of the 23 countries and 1 of the 5 regional programmes for which UNDP was the Principal Recipient. The reports covered FY2016 project expenses totalling $46 million, equivalent to 46 percent of the overall UNDP/Global Fund SR expenses of $100 million incurred in 2016.

Results of the review

The auditors have expressed unmodified audit opinions in all the audit reports and over the total audited expenses.

With respect to the auditors’ assessment of internal controls, the number of unsatisfactory ratings was low. The areas where the auditors found unsatisfactory internal controls related mostly to financial management, cash management, and SR activities management.

The external audit firms raised a total of 165 audit observations in FY2016, categorized by risk severity and by audit area, as follows:

- **Risk severity**: The 165 audit observations were categorized as: 19 (12 percent) high priority; 106 (64 percent) medium priority; and 40 (24 percent) low priority.

- **Audit areas**: Most 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, which together, accounted for 121 (73 percent) of the total 165 audit observations.

The area of financial management continued to result in the highest number of audit observations/recommendations. The most common audit issue was the lack of adequate accounting systems and controls.
Implementation of prior year audit recommendations

The external audit firms were required to review the progress achieved by the SRs in implementing the prior year’s audit recommendations (FY2015) 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 29 recommendations in FY2015 and rated as high priority, 17 (59 percent) had been implemented, and the remaining 12 (41 percent) had been withdrawn because the related projects ended in 2016.

Management action plan

The Global Fund/Health Implementation Support Team (GF/HIST) within the HIV, Health and Development Group (HHD), Bureau for Policy and Programme Support (BPPS) continued its efforts to enhance the partnership with the Global Fund, with a focus on risk management and high performance of its programmes. In 2017 a new web-based UNDP Global Fund & Health Implementation Guidance Manual was launched. This Manual provides guidance, best practices, and links to existing UNDP rules, policies and procedures, as well as Global Fund guidelines and processes for each step of the grant life cycle, including a dedicated section on SR management. The target users of this publicly accessible web-based Manual are the UNDP Country Offices managing Global Fund grants and their government and civil society organization partners.

The SR section of the Manual provides guidance and best practices in managing SRs throughout the grant life cycle, with sections on selection, capacity assessment and engagement with SRs. This includes monitoring, reporting and managing risks relating to SRs. The area of SR management by UNDP Country Offices acting as Principal Recipients significantly improved since 2014. There were no audit recommendations in 2016.

The SR grant agreement templates, tools and guidelines were also amended by GF/HIST to reflect the new Framework Agreement signed with the Global Fund in October 2016. Unlike the old framework that required the Global Fund’s approval for asset transfer at the end of the grant, the Framework Agreement clarifies that assets are managed, disposed of and transferred to other entities in accordance with UNDP rules. This extends to assets procured by SRs.

The GF/HIST during 2017, provided support on financial management of SRs to a number of Country Offices, including Afghanistan, Africa Regional, Angola, Belize, Chad, Guinea-Bissau, Jamaica, Mali, Sao Tome and Principe, South Sudan and Western Pacific Regional.

Also in 2017, the GF/HIST with the support of OAI established new Long-Term Agreements with four audit firms in the amount of $2.1 million for a three-year period to complete the SR audits for GF funded programmes. The Terms of Reference were enhanced to include lessons learnt from the past five years. A joint GF/HIST – OAI induction webinar was held in November 2017 for the newly recruited audit firms.
In 2018, the GF/HIST plans to enhance capacity of Country Offices for SR management in the area of record keeping, pilot the annual asset review to address proper tagging of assets, develop policy guidance for the insurance of assets and continue the targeted SR financial management support to Country Offices.

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