FY 2023 Audit of UNDP Sub-recipients for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria

SUPPLEMENTAL GUIDANCE ON SR AUDITS

(issue date:6 November 2023)

Background

The United Nations Development Programme (UNDP) is continuing its efforts to enhance risk management of its portfolio of projects financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). In early 2013 the UNDP Global Fund Partnership and Health Systems Team (formerly known as the Global Fund/Health Implementation Support Team), HIV, Health and Development Group (HHD), Bureau for Policy and Programme Support (worked with the Office of Audit and Investigations (OAI) on defining an enhanced process and approach for audits of Sub-recipients (SRs). This action was meant to further strengthen the management of SRs, which had been identified by both organizations as a high-risk area in the implementation of Global Fund projects.

As per UNDP financial regulations and rules, audits of NGO-implemented and nationally implemented projects (NGO/NIM) are carried out to provide assurance to UNDP senior management as to the proper use of resources. Audit is an integral part of sound financial and administrative management within the UNDP accountability system. Since 2007, OAI introduced a risk-based methodology for these audits with the basic premise of the risk-based approach to Harmonized Approach to Cash Transfer (HACT) financial audits (previously NGO/NIM audits) being that the lower the NGO/NIM risk rank of a Country Office (CO), the higher the audit SR expenditure threshold above which the NGO/NIM project is required to be audited. In addition to the risk-based selection approach, any projects that meet one or more of the following criteria: 1) 'once in a lifetime' (OIL) audits; 2) projects with a modified opinion in the prior year audit; 3) projects considered high risk by the CO. This risk-based approach applies to the FY2023 SR audit of UNDP-managed Global Fund projects.

As per the UNDP-Global Fund Grant Regulations to the Framework Agreement (Article 7(d)), SRs (government and civil society organizations (CSOs)) that are entrusted with Global Fund resources must be audited according to the annually prepared plan, which is developed in adherence to the criteria and thresholds detailed in the OAI Call Letter for HACT Audit Plans. With regards to the SR audit approach, UNDP-managed Global Fund projects are exempt from the Harmonized Approach to Cash Transfers (HACT) Framework introduced in 2015.

Specific terms of reference (TORs) for the audit of UNDP SRs for Global Fund projects available in Annex A.

Long-Term Agreements for Audit Services

Using the specific TORs, the Global Fund Partnership and Health Systems Team, BPPS with support from the UNDP Central Procurement Unit (CPU) completed in June 2017 a procurement process for audit firms to enter into three-year Long-Term Agreements (LTAs) with UNDP for the purpose of the SR audits. Four (4) firms were successful and have signed LTAs with UNDP to provide audit engagement through their regional locations and in the languages required. In 2019, Moore Stephens LLP and BDO UK merged and the merged firm of BDO LLP was assigned to rights and obligations under the LTA. In September 2020, the LTAs extended by two years period untill September 2022 with the three audit firms (KPMG S.A, BDO LLP and Lochan and CoAs a result of a new procurement process conducted in July 2022 for a LTA for the period 2022-2024, BDO Jordan, BDO LLP and Lochan & CO signed a new SLAs in December 2022.

The UNDP SR audit process for Global Fund financed projects and its LTAs as are managed centrally by the UNDP Global Fund Partnership and Health Systems Team[1].

Table 1: List of Countries per Region for FY 2023

Lot	Regions	Countries
1	Francophone countries in Africa, Arab States and Latin America and Caribbean regions	Chad, Congo, Burundi, Djibouti, Haiti
2	Latin America and the Caribbean (Spanish-speaking)	Bolivia, Cuba, Venezuela
3	Europe, Asia and the Middle East (Arabic, English and Russian speaking)	Afghanistan, Belarus, Iran, Kyrgyzstan, Tajikistan, Turkmenistan, Sudan, Egypt, Pakistan, Multi-country Western Pacific[2], Multi-country Southern Asia[3],
4	Non-Francophone Africa (English and Portuguese speaking)	Angola, Guinea-Bissau, South Sudan, Zimbabwe

Selection of Sub-recipients to be audited

The selection of SRs to be included for audit in the FY2023 audit plan should follow the same threshold applied to other NGO/NIM projects in the Country Offices by following the Country Office NGO/NIM risk rank, the applicable threshold of annual expenses, and the once-in-a-lifetime audit (OIL) criteria. These thresholds, communicated by OAI, The country risk rank for the UNDP Principal Recipient countries are detailed Table 2 below.

Country Risk Rank	Threshold for audit (at SR LEVEL)
i. High risk:	$300,000 and above;
ii. Medium risk:	$450,000 and above; and

[1] The UNDP Global Fund Partnership and Health Systems Team focal point for SR audits is Batdolgor Chuluun (batdolgor.chuluun@undp.org) Finance Advisor, Global Fund Partnership and Health Systems Team.

[2] The Multi-country Western Pacific HIV/TB grant covers the following 11 countries: Republic of Marshall Islands, Federal States of Micronesia, Kiribati, Vanuatu, Tuvalu, Samoa, Tonga, Cook Islands, Nauru, Niue and Palau. The malaria grant covers Vanuatu.

[3] The Multi-country Southern Asia Grant covers the three countries: Afghanistan, Iran and Pakistan

iii. Low risk: $600,000 and above.

For example, if a Country Office has been assigned an NGO/NIM risk rank of “medium”, all non-UN SRs with 2022 expenses equal to or exceeding $450,000 must be audited.

Note: If there are any expenses within a directly implemented (DIM) project that relate to projects that are implemented by an NGO or a government institution, such portion of the project’s expenses is required to be audited following the above expenses threshold.

All SRs must be audited at least once in their lifecycle in the year in which the SR’s cumulative expenses since inception reach $300,000. Consequently, those SRs that have not been audited in their lifecycles, and have expensed more than $300,000 since the start of their activities by the end of 2023, should be included for audit in the FY203 audit plan regardless of the risk rank.

The Country Offices should also add SRs that received a qualified, disclaimer or adverse audit opinion in the prior year audit as well as SRs they consider as high risk. In considering the risk of an SR, the Country Office should consider the inputs from other assurance providers, including the Global Fund. The considerations for high risk might be but not limited to the following: misreporting or delays with submission of reports, significant balances of inventories, loss of assets, turnover of key staff, new SRs in cases where UNDP recently transitioned to the PR role etc.

Note: The Country Office is considered the lead for a regional or multi-country project where this project appears in Quantum as belonging to the Country Office’s business unit. The lead County Office is responsible for ensuring that expenses made by other participating Country Offices are audited and a consolidated audit report is submitted covering the regional project. The total CDR expenses amount must be taken into account when applying the risk-based threshold for selecting which SR to audit.

Notwithstanding the risk criteria used, UNDP’s current risk assessment methodolgy implies that the coverage of audited expenses will be of at least 50% in a given year. If this minumum coverage were to change, consultation would be held between UNDP and the Global Fund on this subject.

Sub-recipient audit process and deliverables

As soon as OAI issues the annual Call Letter for HACT Audit Plans, the Global Fund Partnership and Health Systems Team will request each Country Office to populate the FY2023 audit plan and will support with review of the document. As the development of the audit plans begins before the closing of accounts and the availability of the final Combined Delivery Reports (CDRs), Country Offices should indicate their best estimate of SR expenses at the year-end.

Note: As the SR audit plans are developed based on estimates of SR expenses at year end (“interim figures”) and audit work is ideally initiated before closing of the books to ensure timely report submission, **once the final CDRs and final expenses figures become available, the auditors would only have to audit the differences that might exist between the final expenses amounts and those interim figures that they had already audited**.

Once the audit plans are drafted, the Global Fund Partnership and Health Systems Team submits them to the Global Fund in one lot for review and input. Adequate justification, including additional information that may not have been available to UNDP at the time of their risk assessment, would need to be provided by the Global Fund in order for an SR to be added to the list. SRs should only be added to the list on an exceptional basis in order to avoid UNDP's systematic and criteria-based risk assessment being undermined. OAI retains the final decision authority over the final list of SRs that will be audited.

Table 2: Audit Risk Rank by Country – FY2023

Country	Risk Rating
Afghanistan	High
Angola	Low
Belarus	Medium
Bolivia	Medium
Burundi	Low
Chad	Medium
Congo	Medium
Cuba	Medium
Djibouti	Low
Egypt	Medium
Fiji (Multi-country Office)	Medium
Guinea Bissau	Medium
Haiti	Medium
Iran	Medium
Kyrgyzstan	Medium
Pakistan	Medium
South Sudan	Medium
Sudan	Medium
Tajikistan	Medium
Multi-country Southern Asia	As per the country of SR[4]
Turkmenistan	Medium
Venezuela	Medium
Zimbabwe	Medium

Auditors must submit to the respective Country Office all draft audit reports by **11 March 2024** and all final audit reports by the deadline of **25 March 2024**, including the three main deliverables as indicated in the TOR (refer to Attachment A):

1. An audit opinion rendered on each of the three statements[5] which indicates the amount audited/involved, with, in case of a qualified/adverse/disclaimer opinion, a clear indication of its net financial misstatement amount and the reasons thereof;

[4] The SRs which are engaged under Multi-country Southern Asia grant are based in Afghanistan, Pakistan and Iran. The corresponding to these countries risk ratings should be used based on the SR location.
[5] Combined Delivery Report, Statement of Assets and Equipment, and Statement of Cash Position.

Note – Per OAI requirements: all parties signing the three required statements must sign and clearly print their name, title and organizational entity.

The auditors are required to clearly render an audit opinion and indicate the amount they are certifying, and sign and stamp each of the statements being certified (CDR, cash position, assets and equipment).

If the project does not receive advances or maintain petty cash or a bank account, a statement to this effect must be included in the opinion page of the audit report to explain that an audit opinion on the statement of cash position is not applicable. Where the Global Fund project has the funds from other sources, a reconciliation of funds should be prepared to show which amounts belong to the GF funding. To strengthen financial management of funds, there is a requirement for audit firms to undertake direct bank confirmations on cash positions for designated accounts at sub-implementer level. This requirement applies to SR and to SSRs if SSR budgets are material or they drive significant parts of program implementation.
Likewise, if the project has not held any assets or equipment, since its inception, a statement to this effect must be included in the opinion page of the audit report to explain that an audit opinion on the statement of assets and equipment is not applicable.

2. A long-form management letter with the auditors' opinion on the SR's internal control and systems, the weaknesses identified and the audit recommendations to address them; and

3. A consolidated country report, highlighting the results of the financial audits (Net Financial Misstatement (NFM), audit opinions) and the critical and recurrent observations of the individual audit reports; significant weaknesses in internal control and areas, or risks to be addressed at the Headquarter level, recurring issues, aggregate qualification amount and NFM, etc.

The auditors should use the template as per Annex 9 to report on all audit observations and recommendations. The electronic version of Annex 9 should be shared by auditors with UNDP CO for each audit report to facilitate submission of information on audit observations and recommendations to CARDS.

Where applicable, the auditors must review and certify the status of implementation of the previous year's audit action plan, which also needs to be signed by Project Management and UNDP Country Office Management, please see Annex 10 for the proposed template.

Exceptions to audit deliverable requirements:

1. Financial audit (Deliverable 1) is not required for SRs with which UNDP is engaged using the Direct Implementation Modality (DIM). Expenses under this modality fall within the scope of the DIM audit regime.
2. Audit of SR internal control and systems (Deliverable 2) is not required for grants that are closing due to UNDP exiting (e.g. transition to the national Principal Recipient or transition from the Global Fund financing) in the year the audit is scheduled. In addition, Delivery 2 will not be a requirement in case of transition between Implementation periods for Sub-recipients not continuing in the next implementation period if such information available. A financial audit,

however, remains a requirement if any of the criteria detailed in the annual OAI Call Letter for HACT Audit Plans are met.

3. The consolidated report (Deliverable 3), which is designed to provide a consolidated summary of audit findings and trends across multiple SRs and grants is not necessary if only one SR is being audited.

As in the past, OAI continues to be responsible for accepting and reviewing the audit reports and action plans submitted in CARDS.

FY2023 audit timeline

The key activities for the FY2023 timeline for the SR audit process are detailed in Table 3 below and with the key dates for the Global Fund are as follows:

1. 17 November 2023 – Country offices share draft audit plan with BPPS/the Global Fund Partnership and Health Systems Team;
2. 30 November 2023 - UNDP shares its overall coverage for audited SR expenses and a list of SRs subject to audit with the OAI for review and validation and with the Global Fund for their review and feedback;
3. 13 January 2024 - UNDP finalizes the list of SRs to be audited whilst incorporating feedbacks from the Global Fund, and shares the final list with the Global Fund; Country Offices upload the audit plans to CARDS for OAI's approval;
4. 11 March 2024 - Auditors submit draft reports to respective Country Offices;
5. 25 March 2024 - Auditors submit final reports to respective Country Offices;
6. 10 April 2024 – Country offices submit audit reports in CARDS for OAI's review and acceptance;
7. May – December 2024 - UNDP shares the audit reports with the Global Fund, if requested;
8. May 2024 - Country Offices respond to Post Audit Questionnaire feedback
9. June – November 2024 – Review of Post Audit Questionnaire feedback from Country Offices and issue the performance review letters to audit firms

Note: Country offices should thoroughly review audit reports to ensure the audit reports are in accordance with the requirements of the TOR before releasing final payment to the audit firm. OAI may reject incomplete reports or reports that have not been aligned with the audit requirements

Table 3: General Timeline for SR Audit process

October
OAI – Country Risk Assessment completed
November
OAI – Publish annual Call for Audit Plans
BPPS – Update SR Audit Information Note for 2023
BPPS– Gather SR and SR audit focal point information from CO and develop SharePoint as platform for information sharing
BPPS– Initiate the SR audit process and request the draft audit plans
CO – Share draft audit plan with BPPS – **17 November**
BPPS– Review and finalization of audit plans. Sharing the audit plans with the Global Fund and OAI. Submit plans to the OAI for validation and to the Global Fund for input (with the understanding that the expenses figures used are year-end estimates) – **30 November** **Please note that the SR Audit Plans should list all SRs and their planned audit expenses. The selected SR to be audited should be entered into CARDS by Responsible Party Code.**
Week 3-4 Nov BPPS – Provide information to COs on pending observations from 2022 SR audit. Calls with individual COs to support with any specific questions/issues that remain from previous year. COs must ensure that they update the implementation status of the prior year's audit observations and recommendations in CARDs and provide this updated information to the auditors when they initiate their audit fieldwork in early 2024.
BPPS – Submit draft audit plans with audit firms to obtain cost estimates and early planning by audit teams
December
OAI – Validation of audit plans
By 15 Dec – BPPS – Submit audit plans to audit firms for costing (in case of amendments based on OAI validation and Global Fund input)
CO/audit firms – complete secondary bidding process and firm selection process
Mid-to-end Dec – CO/audit firms – audit field work planning begins
Audit firm – Issue CO pre-audit questionnaire and SR pre-audit questionnaires (English, French, Spanish, Russian)
CO – Complete and return pre-audit questionnaires to auditors
January
13 January – CO – deadline for submission of SR audit plans to OAI for approval through CARDS
CO – Review payment modality of selected firm; COs to ensure reports adhere to scope of audit before making final payment
February – audit work and reporting
Early February (date TBC) – Year-end closure completed
March – audit work and reporting
11 March – **Audit firms** – deadline to submit all draft reports to CO
25 March – **Audit firms** – deadline to submit all final reports to CO
April

10 April – CO – Upload all final reports in CARDS for OAI review and acceptance

Please note that when uploading the SR audit reports, this should be done by SR/Responsible Party as shown below:

00129365 - HIV MAL & TB Z GRANT			00129365 - HIV MAL & TB Z GRANT	00123075-IA009171 - HIV MAL & TB Z GRANT-IA009171	Loachan & CO	$10,677,851	$1,037,271	$1,037,277	100%	Unmodified
00129365 - HIV MAL & TB Z GRANT			00129365 - HIV MAL & TB Z GRANT	00123075-IA002785 - HIV MAL & TB Z GRANT-IA002785	Loachan & CO	$10,677,852	$1,091,212	$1,078,381	99%	Unmodified
00129365 - HIV MAL & TB Z GRANT			00129365 - HIV MAL & TB Z GRANT	00123075-IA004522 - HIV MAL & TB Z GRANT-IA004522	Loachan & CO	$520,425	$520,365	$520,425	100%	Unmodified
00129365 - HIV MAL & TB Z GRANT			00129365 - HIV MAL & TB Z GRANT	00123075-IA009452 - HIV MAL & TB Z GRANT-IA009452	Loachan & CO	$342,049	$340,936	$342,049	100%	Unmodified
Total						**$26,298,035**	**$6,743,815**	**$6,774,932**	**100%**	

10 April – CO – Submit signed and updated status of prior year action plan

10 April – CO – Submit current year follow-up action plan (FY2023) to address the audit observations and recommendations, with particular attention to observations that resulted in qualified, adverse or disclaimer audit opinions

May

CO – Audit reports shared with the Global Fund (if requested)

CO – Review SR implementation arrangements and review any issues with refunds

BPPS – Review of Post Audit Questionnaire feedback from Country Offices as part of the performance review of audit firms

October - December – OAI review

BPPS – Issue Performance Review Letter to audit firms

Annex A: SR Audit Terms of Reference

Audit of UNDP Sub-recipients for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria

Terms of Reference

1. Background information

The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) is an innovative public-private partnership that has played a key role in the global response to the three diseases. It is guided by the principle of performance-based funding, which ensures that funding decisions are based on a transparent assessment of results against time-bound targets.

The Global Fund achieves its goals through a broad range of partnerships, among which UNDP is a crucial partner. UNDP leverages its extensive operational experience to support countries in effective implementation of complex, multilateral and multisectoral health projects. Some countries are not able to directly access Global Fund financing for SDG 3 efforts, particularly those in crisis or post-crisis situations, those with weak institutional capacity or governance challenges, and countries under sanctions. In these settings, UNDP is requested to act as an interim Principal Recipient (PR), working with national partners and the Global Fund to improve management, implementation and oversight of Global Fund grants, while simultaneously developing national capacity to be able to assume the PR role over time. UNDP also provides the Global Fund-related management support in some other countries where a governmental entity has been assigned as a PR but where a partnership with UNDP is important for effective implementation or longer-term capacity development.

As a cosponsor of UNAIDS and a member of the UNAIDS delegation to the Global Fund Board, UNDP also engages with the Global Fund on important substantive policy and programmatic issues. UNDP, in line with its core mandates, promotes the incorporation of good governance, human rights and gender initiatives into Global Fund grants. This distinctive role of UNDP was recognized in the report issued in September 2011 by an Independent High-Level Review Panel appointed by the Global Fund Board to review the organization's fiduciary controls and oversight mechanisms.

The partnership was formalized in December 2003 through an Exchange of Letters between the UNDP's Associate Administrator and the Global Fund Executive Director and the partnership is further delineated in the UNDP-Global Fund Framework Agreement and annexed Grant Regulations. Except for matters specifically agreed to in the Exchange of Letters or the Grant Agreement, UNDP follows its Programme and Operations Policies and Procedures (POPP)to implement Global Fund-financed projects. Article 2(a) of the Grant Regulations to the Framework Agreement recognizes that UNDP will administer the programme in accordance with its regulations, rules, policies and procedures.

The UNDP-Global Fund partnership is dynamic and the number of countries and grants managed by UNDP is continually subject to change. As of November 2023, UNDP is managing 29 grants covering 21 countries and two regional grants funded by the Global Fund.

2. UNDP grant implementation structure

When acting as an interim PR, UNDP is acting as an 'Executing Agent/Implementing Partner' and using the Direct Implementation (DIM) modality assumes overall management responsibility and accountability for project implementation. UNDP operates Global Fund-financed programmes under the framework set forth in UNDP's Standard Basic Assistance Agreement (SBAA) with the host country. A Project Document/Country Programme Action Plan (CPAP) and the Annual Work Plan are agreed with the Host Government. This Project Document/CPAP constitutes the legal framework for the project and the Grant Agreement between UNDP and the Global Fund is annexed. UNDP must follow UNDP's Programme and Operations Policies and Procedures (POPP) when implementing Global Fund grants.

UNDP's role as an interim PR to Global Fund grants requires it to have the technical and operational capacity to assume the responsibility for mobilizing and applying effectively the required inputs to reach the expected outputs. On the other hand, it is expected that the implementation of the DIM modality contributes to developing national capacities. The UNDP Country Office (CO)[1] or Regional Service Centre (Regional Hubs)[2] ascertains the national capacities during the project formulation stage through a Sub-recipient (SR) assessment and on-going capacity development activities during the duration of the grant. This approach serves to determine where the strengths and weaknesses are, how UNDP can assist in building new capacities using a systemic approach, as documented in the Capacity Development Toolkit. It also serves to support the development of a transition plan with measurable milestones, with the goal of ensuring that UNDP's intervention contributes to the development of the capacity of national entities that will allow them to eventually take over the role of managing the programmes.

UNDP may identify a 'Responsible Party', such as a SR, to carry out activities within a DIM project. The specific role of the SR in performance-based funding is that for periodic disbursements the SR provides the PR with progress updates on the implementation of those activities for which it is responsible. This may be the government, a civil society organization (CSO)[3] or a United Nations (UN) entity. UNDP's relationship with this SR must be agreed and defined in an SR agreement.[4] The SR work plan, budget, calendar, disbursement schedule, description of services and performance framework form essential parts of the SR agreement and should be attached as annexes. While the SR activities may be part of a larger programme being carried out by the SR, the work plan, budget and performance framework should only extrapolate Global Fund activities. Pursuant to Article 10(b)(ii) of the Grant Regulations, UNDP's accountability encompasses the funds disbursed to all SRs and to the activities SRs carry out using the Grant. Once the Grant Agreement (between UNDP and the Global Fund) and Project Document are signed, the CO will create a project, which should conform to the standard structure of one Global Fund Grant Agreement corresponding to one Project with an Output. Each SR should be assigned an Responsible Party code, which facilitates budget and expense monitoring by SR.

The SRs can also enter into agreements with Sub-sub-recipients (SSRs), which are SRs of SRs. UNDP is legally accountable for any project implementation by SSRs – as it is for SRs – within Global Fund grants for which it is interim PR.

[1] Any reference to Country Offices (COs) in this document also applies to Regional Hubs.
[2] Also referred to as 'Regional Hubs'.
[3] The term 'CSO' includes non-governmental organizations (NGOs), community-based organizations, community groups and academic organizations.
[4] UNDP has template SR agreements for government, NGO and UN entities.

A key structure of the Global Fund is the Country Coordinating Mechanism (CCM), which is a mechanism in a host country, which includes representatives of the host Government, civil society, multilateral institutions and people living with, or affected by the three diseases. The core functions of the CCM include: (i) coordination of development and submission of national grant proposals; (ii) nomination of the PR; and (iii) oversight of implementation of the approved grant and submission of requests for continued funding. Also at the country level as the Global Fund does not have a country-level presence outside of its offices in Geneva, Switzerland, it engages Local Fund Agents (LFAs) to oversee, verify and report on grant performance. The LFA's role includes: (i) assessing capacity of PR(s) to implement a grant, reviewing proposed budgets and work plans; (ii) overseeing program performance and the accountable use of funds; and (iii) assisting the Global Fund with closure of the grant.

3. UNDP Office of Audit and Investigations (OAI) audits

As noted above, as a special partner of the Global Fund, UNDP: (a) operates under a different Framework Agreement and separate regulations than any other PR; and (b) since UNDP serves as interim PR, it implements the programme in accordance with its regulations, rules, policies and procedures. These principles inform a unique audit regime, which is subject to UNDP's regulations and not those of the Global Fund.

Audits of UNDP are guided by the 'Single Audit' principle, under which any review by any external authority, including any governmental authority, is precluded under the United Nations Legal Framework. This framework reaffirms the role of the United Nations Board of Auditors and the Joint Inspection Unit as external oversight bodies, and, in this regard, affirms that any external review, audit, inspection or investigation can be undertaken only by such bodies or those mandated to do so by the General Assembly. Internal audits are conducted by the Office of Audit and Investigations (OAI). OAI audits all sources of funds that are administered by UNDP, including Global Fund grant funds for which UNDP serves as interim PR.

Against this background, Article 7(b) of the Grant Regulations states that 'the Program Books and Records of the Principal Recipient shall be subject exclusively to internal and external audit in accordance with its financial regulations, rules, policies and procedures.' As such, UNDP has a unique partnership with the Global Fund.

Each year, guided by a risk assessment, OAI determines which UNDP Cos and Regional Hubs among those serving as interim PR of Global Fund projects will be audited the following year. For grants that fall under the Global Fund's Additional Safeguard Policy (ASP)[5], the Global Fund may request a special purpose audit on the use of Global Fund Resources.

4. Sub-recipient audits for Global Fund financed projects

According to Article 7(d) of the Grant Regulations, UNDP shall plan the audit of expenditures of its Sub-recipients in consultation with the Global Fund. The Principal recipient requires that its Sub-recipients are audited in according with the plan.' UNDP selects an independent auditor to conduct the audit and sets the terms of reference. Audits of SRs' activities are carried out to provide assurance to UNDP senior management and the Global Fund that resources are being used effectively and efficiently for the purposes intended and in accordance with the Grant

[5] The Global Fund applies the Additional Safeguard Policy when it is decided that the proposed PR is operating in a constrained environment, one in which the Global Fund has significant concerns about, governance, the lack of a transparent process for identifying a broad range of implementing partners, corruption, and/or widespread lack of accountability.

Note: When arranging the composition for the audit teams, it is required of the audit firm to ensure that at least one member of the team (preferably, a team leader) speaks the local language of the SR(s) audited.

Agreement. According to Article 7(d) of the Grant Regulations 'upon request, the Principal Recipient shall furnish or cause to be furnished to the Global Fund a copy of reports of audits carried out in accordance with the plan.'

UNDP's audit of SRs only covers government and CSO SRs. Please note that UN entities are audited under their own audit arrangement, following the 'Single Audit' principle and are not covered by UNDP's audit regime.

4.1. A global approach to Sub-recipient audits

4.1.1. Long-term agreements with UNDP headquarters

UNDP engages audit firms at headquarters level in the framework of long-term agreements (LTAs) to undertake all SR audits as determined on an annual basis and as per the audit plans pre-established by the individual UNDP CO or REGIONAL HUBS and later reviewed and validated by OAI. The duration of LTAs signed in December 2022 is one year with a provision of extension for a period of 1+1 years (12 + 12 months) at the discretion of UNDP subject for satisfactory performance of the audit firms. Engagement with the firms will be assessed annually. Key steps in the audit process are outlined below.

4.1.2. Annual SR audit planning process

1. Each UNDP CO/REGIONAL HUBS develops an SR audit plan for SRs engaged with UNDP for all Global Fund-financed projects during the audit year. Best estimates of year-end SR expenses are detailed with the expectation that there may be some variation in the final figures.
2. UNDP headquarters reviews the audit plans and submits them in one lot to the donor (Global Fund) for input and to OAI for initial review.
3. No later than 15 December, UNDP headquarters submits the audit plans for each country to designated audit firms based on regional distribution (see table 1).
4. All SR audit plans should be submitted to OAI through CARDS for approval by 13 January 2024
5. Each audit firm submits a country-specific costings to UNDP headquarters within five (5) working days of receipt of the audit plans, in order to participate in the secondary bidding.
6. UNDP headquarters shares the costings with the respective COs/REGIONAL HUBS, who will select an audit firm.
7. UNDP headquarters notifies the audit firms of the results of the secondary bidding and facilitates the introduction of the firm to the respective COs/Regional HubsBS no later than early January.
8. Audit firms initiate contact with the COs/Regional Hubs to begin planning for audit field work, keeping in mind the reporting timelines.

Table 1: Regional distribution of UNDP COs managing Global Fund grants (2017-2023)[6]

Lot	Region (s)	Confirmed PR countries (previous funding cycle – FY2017)	Confirmed PR countries (current funding cycle – FYs 2018-2020 and 2021-2023
1	**Francophone countries in Africa, Arab States and Latin America and Caribbean regions**	Chad, Djibouti, Mali	Chad, Djibouti, Burundi, Congo, Haiti
2	**Latin America and the Caribbean (Spanish-speaking)**	Belize, Bolivia, Cuba, Panama, Multi-country Americas*	Belize****, Bolivia, Cuba, Panama****, Venezuela
3	**Europe, Asia and the Middle East (Arabic, English, Russian)**	Afghanistan, Iran, Kyrgyzstan, Tajikistan, Turkmenistan, Multi-country Western Pacific**, Sudan	Afghanistan, Belarus, Iran, Kyrgyzstan, Tajikistan, Turkmenistan, Multi-country Western Pacific[7], Sudan, Egypt, Multi-country Southern Asia[8], Pakistan
4	**Non-Francophone Africa (English, Portuguese)**	Angola, Guinea-Bissau, Multi-country Africa, São Tomé and Principe, South Sudan, Zambia, Zimbabwe	Angola, Guinea-Bissau, São Tomé and Principe****, South Sudan, Zimbabwe

*The Multi-country Americas grant covered the following 8 countries: Belize, Cuba, Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago.
**The Multi-country Western Pacific HIV/TB grant covers the following 11 countries: Republic of Marshall Islands, Federal States of Micronesia, Kiribati, Vanuatu, Tuvalu, Samoa, Tonga, Cook Islands, Nauru, Niue and Palau. The malaria grant covers Vanuatu.
*** The Multi-country Southern Asia Grant covers the following 3 countries: Afghanistan, Iran and Pakistan
**** The UNDP Global Fund projects in Belize, Panama and São Tomé and Principe were closed in 2022.

4.1.3. Guidance to the offerors on LTA utilization

- LTA holders must be able to provide quotes with appropriate capacity to provide quality and timely audit services.
- All envisaged travel costs and related expenses must be included in the quote submitted for secondary bidding. UNDP will not accept travel costs exceeding those of an economy class ticket. Should a company personnel wish to travel on a higher class they must do it at their own cost.
- In-country travel costs are the responsibility of the UNDP CO/Regional Hubs and therefore should not be included in the envisaged travel costs in the quote submitted for the secondary bidding.
- Under no circumstances can the Per Diem exceed UN rates for each duty station.
- Should the audit firm subcontract another audit firm to support the audit work, the terms of the LTA must be adhered to and the contracted firm will be fully responsible to deliver per the terms of reference. The bidders must disclose in their proposal what, if any, work will be subcontracted and to what audit firm.
- A remote audit should only be considered in the case of "force majeure", e.g. a total/partial lockdown in the country that would limit the ability of the audit work to be carried out in the field. In this case, prior

[6] Please note: The UNDP's partnership with the Global Fund is dynamic and the number of countries and grants managed by UNDP is continually subject to change.
[7] The Multi-country Western Pacific HIV/TB grant covers the following 11 countries: Republic of Marshall Islands, Federal States of Micronesia, Kiribati, Vanuatu, Tuvalu, Samoa, Tonga, Cook Islands, Nauru, Niue and Palau. The malaria grant covers Vanuatu.
[8] The Multi-country Southern Asia Grant covers the following 3 countries: Afghanistan, Iran and Pakistan

approval should be obtained from the OAI. Travel restrictions to/from countries where the audits are supposed to take place should not be a valid reason to carry out the audit remotely, instead the local resident auditors should conduct the audit with no limitation of scope.

4.2. Available facilities and right of access

The auditors will be granted full and complete access during office hours to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the SR. The auditors will have a right of access to banks, consultants, contractors (including SSRs) and other persons or firms engaged by the SR management. If an auditor should not have unrestricted access to any records, documents, person or location during the course of the audit, he/she should contact the audit focal point within UNDP CO/REGIONAL HUBS and/or PMU. If the issue persists, auditors should escalate the matter to UNDP headquarters. If for any reason the issue is ultimately not resolved, this restriction should be clearly defined, with reasons, in the audit report.

4.3. Consultations with concerned parties

Prior to the start of audit work the auditors will be required to consult with the UNDP CO/REGIONAL HUBS, PMU, and the SRs to be audited. Further, midway through the audit work and upon completion of the draft audit report and management letter, the auditor will be required to meet with the UNDP CO/REGIONAL HUBS, PMU and the SRs to debrief them on its major findings from the audit and its recommendations for future improvements as well as to seek and take into account their feedback.

5. Financial audit

5.1. Standards for the financial audit

The financial audit will be conducted in accordance with the International Standards on Auditing (ISA). The auditor is required to state in the audit report if the audit was not in conformity with the ISA and indicate the alternative standards or procedures followed.

Following the ISA 450 and ISA 710, there is a requirement regarding a previous year modified audit opinion.[9] This audit standard requires that auditors, when expressing an opinion on this year's statements, take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved (see Annex 6).

5.2. Scope of the engagement

The first deliverable is a financial audit to express an opinion on the SR's financial statements[10] that includes:

A. Expressing an opinion on whether the statement of expenses (CDR) presents fairly the expenses incurred by the audited SR from 1 January to 31 December in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved budget; (ii) for the approved purposes of the SR

[9] A 'modified' audit opinion means a qualified opinion, a disclaimer opinion or an adverse opinion.

[10] Financial statements of a UNDP project include: the statement of expenditure (CDR) with related annexes as well as, where applicable, the statement of assets and equipment and the statement of cash position.

agreement; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved invoices and other supporting documents. The CDR is the mandatory and official statement of expenses to be certified. The CDR should include its Funds Utilization part, however, the amounts reported for Undepreciated Fixed Assets, Unamortized Intangible Assets, Inventory, Prepayments and Commitments are not subject to audit. Any other forms of statement of expenses that may be prepared by a project office are not accepted. In cases where a Sub-Recipient received the funding from Global Fund covid 19 grant in addition to the main grants, the CDRs for both projects should be certified by auditors.

B. Expressing an opinion on whether the statement of cash position held by the audited SR presents fairly the cash and bank balance of the SR as at 31 December. Where the SR does not hold any cash, this should be disclosed in the audit report. The statement of cash position should be signed by Sub-recipients, UNDP and certified by auditors. In cases where the Global Fund project has the funds from other sources of UNDP in addition to the resources from the GF, a reconciliation of funds should be prepared to show which amounts belong to the GF funding. To strengthen financial management of funds, there is a requirement for audit firms to undertake direct bank confirmations on cash positions for designated accounts at sub-implementer level. This requirement applies to SR and to SSRs if SSR budgets are material or they drive significant parts of program implementation.

C. Expressing an opinion on whether the statement of assets and equipment present fairly the balance of inventory of the SR as at a given date. This statement must include all assets and equipment available as at 31 December and not only those purchased in a given period. Where the audited SR does not have any assets or equipment, it will not be necessary to express such an opinion; however this should be disclosed in the audit report. In cases where a Sub-Recipient has been engaged under more than one projects during the fiscal year, for example, as an implementer for the grant that has been closed or transitioned to another implementation period, the assets procured during the implementation of the prior grant or implementation period should be presented in the statement of assets just once under the project pertaining to the latest implementation period. The statement of assets and equipment should be signed by Sub-recipients, UNDP and certified by auditors. Assets transferred to the Global Fund project managed by UNDP for SR use from previous grant managed by outgoing Principal Recipient should be included in the statement of assets and equipment with reference to such status. The audited Statement of assets and equipment should be inclusive of assets received from outgoingPrincipal Recepient.

The auditors should use the template as per Annex 9 to report on all audit observations and recommendations. The electronic version of Annex 9 should be shared by auditors with UNDP CO for each audit report to facilitate submission of information on audit observations and recommendations to CARDS.

Where applicable, the auditors must review and certify the status of implementation of the previous year's audit action plan, which also needs to be signed by Project Management and UNDP Country Office Management, please see Annex 10 for the proposed template.

Auditors should note the following:

- The auditor is required to, as applicable, report in monetary value, the Net Financial Misstatement of any modified audit opinion (modified opinions can be qualified, adverse or disclaimer) on the statement of expenses (CDR) where applicable.
- Auditors must indicate the risks associated with their findings and provide a categorization by risk: High, Medium, or Low.

- The auditor is also required to verify the mathematical accuracy of the CDR by ensuring that the expenses described in the supporting documentation (the quarterly financial reports, the list of direct payments processed by UNDP at the SR's request) are reconciled to the expenses, by disbursing source, in the CDR.
- The auditor should also verify that all income derived from the Global Fund grant funds disbursed by UNDP to SRs are only spent on SR activities as contained in the agreed work plan and budget.
- As per the model SR agreement, the SR has an obligation to report other donor funds targeting similar activities or objectives as the SR activities. The auditors will need to verify the accuracy and completeness of the information.
- The auditor should verify that revenue from income generating activities including, but not limited to, social marketing activities has been duly reported to UNDP and the revenue has been used solely in accordance with the SR agreement.
- As the audit firms will have LTAs with UNDP headquarters, no further legal agreements with the individual COs/REGIONAL HUBSs are required.

5.2.1. Description of financial reports (UNDP CDR) to be audited

The report to be audited is referred to as the Combined Delivery Report (CDR). It is prepared by UNDP, using Quantum, UNDP's ERPand the CDR serves as the official financial statement that must be signed by UNDP, Sub-Recipient and certified by the auditors. The SR's project financial statements, if certified, must reconcile to the expenses appearing in the CDR and must be attached to the audit report. As described in more detail below, the CDR combines expenses from three disbursement sources for a calendar year. Each column may have expenses for a number of SRs and the CDR will not segregate expenses by SR. The SRs are allowed not to sign the CDR which will include expenses for which their organization is not responsible and the practice is to include a supporting statement of expenses for each SR showing the SR expenses and direct payments /reimbursements. This statement of expenses is signed by the SR and UNDP Resident Representative and certified by auditors (please see Annex 3 for an example of supporting statement of expenses). The statement of expenditures as per Annex 3 should be signed by Sub-Recipients, UNDP and certified by auditors. The report should also include a reconciliation between the statement of expenses and the CDR (please see Annex 4 for proposed template). The Reconciliation between Statement of Expenses and CDR as per Annex 4 should be signed by UNDP.

The scope of the audit is limited to the SR's expenses, which are defined as including: (i) all disbursements listed in the quarterly financial reports (FACE forms) submitted by the SR; and (ii) direct payments processed by UNDP at the request of the SR and reimbursements to the SR.

The auditor is required to state in the audit report the amount of expenses excluded from the scope of the audit because they were made by UNDP by means of direct implementation and the amount of total expenses excluded because they were made by a UN entity. This scope limitation is not a valid reason for the auditors to issue a qualified audit opinion on the CDR.

The three disbursement sources include:

1. SR (either government entity or CSO)

UNDP procedures require that where funds are advanced to the SR, it must submit to the UNDP CO, on a quarterly basis, a financial report (FACE form) including: (i) the status of the advance at beginning of reporting period; (ii) a list of the expenditures made by Sub-Recipients since the previous financial report; and (iii) a request for a new advance. The UNDP CO records expenditures in Quantum through the year as the financial reports are received.

Expenditures reported in the financial report (FACE form) are recorded in the Government expenses column in the CDR.

2. UNDP (headquarters and CO/REGIONAL HUBS)

Disbursements made by UNDP from its own bank accounts are entered in Quantum by the UNDP CO. These UNDP disbursements are recorded in the UNDP expenses column in the CDR. These disbursements may be classified as either direct payments, reimbursement or direct implementation. This distinction, while very important for audit purposes, is not apparent from the CDR and can only be provided by the UNDP CO as a supporting schedule.

A brief description of each category is provided below.

a) **Direct payments:** This is where the SR is responsible for the expenses but requested UNDP to effect payment to the vendor/consultant/personnel on its behalf. The SR is accountable for the disbursement and maintains all supporting documentation. UNDP simply effects payments on the basis of properly authorized requests and gives the SR a copy of the related disbursement invoice as evidence that payment was made.

b) **Reimbursement:** This is where UNDP pays the SR after the SR has itself made the disbursement for eligible expenses under the SR agreement.

c) **Direct implementation by UNDP:** These are expenses directly incurred by UNDP on behalf of the programme through direct implementation – UNDP assumes the responsibility for mobilizing and applying effectively the required inputs in order to reach the expected outputs. UNDP assumes overall management responsibility and accountability for implementation of project activities, therefore UNDP is fully responsible and accountable for these expenses and, accordingly, maintains all supporting documentation for the disbursement. **<u>These expenses are outside the scope of audit</u>** and, therefore, will not be reviewed by the auditors. This scope limitation should not be used as a reason for issuing a qualified audit opinion on the CDR.

3. UN entities

UN entities acting as UNDP SR report their expenses to UNDP. The UNDP CO enters the expenses in Quantum. These UN entity expenses are recorded in the UN Entities expenses column in the CDR. As detailed in the section on SR Audits above, this expense is outside the scope of audit. However, for the purpose of collection tracking of data, UN entity expenses will be reflected in the audit plan without being included for audit.

5.2.2. Documents provided for the audit

At the end of the year, after receiving the fourth quarter financial report from the SR, UNDP prepares the CDR and submits it to the SR for signature. UNDP will provide the auditor with the signed CDR together with the following supporting documentation:

1. SR agreement and its annexes (e.g. work plan).
2. Quarterly financial reports (FACE forms) submitted by the SR.
3. A list of direct payments processed by UNDP at the request of the SR.
4. Relevant financial statements that show expenses of Global Fund SR for the year which need to be reconciled to the CDR expenses as per Annexes 3 and 4.
5. Prior year SR audit reports, when available.

6. Where applicable, information on the status of implementation of the previous year's audit action plan as per Annex 10.

5.3. Financial audit deliverables

The first deliverable is a report on SR's financial statements and should include:

- **Expression of an opinion on whether the statement of expenses presents fairly the expenses incurred by the SR over a specified period** in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved budgets; (ii) for the approved purposes of the SR agreement; (iii) in compliance with the relevant regulations and rules, policies and procedures of the SR or UNDP; and (iv) supported by properly approved invoices and other supporting documents. The CDR is the mandatory and official statement of expenses to be certified and should annex the project supporting statement for the SR expenses.

- **Whether the result of the prior year's audits resulting in modified audit opinions on the UNDP CDR had conclusive actions to properly address an audit qualification in the previous year's audit and the related Net Financial Misstatement (NFM)**. If there is a lack of conclusive actions, the auditors must take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

  The audit report should clearly indicate the auditor's opinion (Refer to Annex 2 for a sample Audit Report). This would include at least the following:

  - the audit standards that were applied (ISA or national standards that comply with one of the ISA in all material respects);
  - the period covered by the audit opinion;
  - the amount of expenses audited;
  - the amount of the NFM of the modified audit opinion on the CDR, if modified;
  - the reason(s) for issuing a modified audit opinion, qualified, adverse or disclaimer opinion (the reasons must also be included in the management letter (see the section on the Audit of Internal Control and Systems below) as an audit observation(s)); and
  - the scope limitation (description and value) for those transactions that are the responsibility of UNDP (as part of direct implementation) or a UN entity. **Important to note:** such scope limitation should not be a reason for a qualified audit opinion, as such transactions would be, in general, excluded from the audit scope.

Note: Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years.

- **Whether the UNDP CDR for the period from 1 January to 31 December is adequately and fairly presented and whether the disbursements are made in accordance with the purpose for which funds have been allocated to the SR**.

  The audit report should include an SR Statement of Expenses (see annex 3 for proposed template) and a reconciliation of SR statement of expenses to the CDR (see Annex 4 for proposed template).

- **Expression of an opinion on the value and existence of the SR's statement of assets and equipment as at a given date.** This statement must include all assets and equipment available as at 31 December and not only those purchased in a given period. Where the SR does not have any assets or equipment, it will not be necessary to express such an opinion; however, this should be disclosed in the audit report. Assets transferred to the Global Fund project managed by UNDP for SR use from previous grant managed by outgoing Principal Recipient should be included in the statement of assets and equipment with reference to such status.

- **Expression of an opinion on the value and existence of the cash held by the SR as at a given date, i.e. 31 December**. Where the SR does not hold any cash, this should be disclosed in the audit report.

Note: Audit opinions must be one of the following: (a) unmodified; (b) qualified; (c) adverse; or (d) disclaimer. If the audit opinion is other than "unmodified", the audit report **must** describe both the nature and amount of the possible effects on the financial statements. The report should also make a reference to the section of the management letter with regard to the related audit observation number and the action taken or planned to be taken to address and conclusively correct the issues underlying the qualification. A definition of audit opinions is provided in Annex 5.

In addition, the auditor should use the template in Annex 9 to report on audit opinions/qualifications.

6. Audit of internal control and systems

The auditors will complete an audit to assess and express an opinion on the SR's internal controls and systems. The second deliverable will be a long-form management letter that covers the internal control weaknesses identified and the audit recommendations to address them.

6.1. Standards for the audit of internal control and systems

The audit of internal controls and systems will be preferably conducted in accordance with the Institute of Internal Auditors' International Professional Practices Framework (IPPF).

The auditor is required to conduct a general assessment of internal controls according to established internal control standards. An example of established internal control standards is available from the Organization of Supreme Audit Institutions (INTOSAI). The INTOSAI standards are intended for use by government/managers as a framework to establish effective internal control structures.

The scope of audit services shall be in accordance with ISA and cover the overall management of the implementation, monitoring and supervision of the SR's activities. The audit work should include the review of work plans, progress reports, SR resources, SR budgets, SR expenses, SR delivery, recruitment, operational and financial closing of SR activities (if applicable) and disposal or transfer of assets. To this effect, the scope of the audit shall cover the areas below as they are performed at the level of the SR.

6.2. Scope of the engagement

The auditor shall conduct the necessary audit steps to cover the SR's internal controls and systems in order to assess:

1. the reliability and integrity of SR financial and operational information;
2. the effectiveness and efficiency of SR operations in carrying out SR activities;
3. safeguarding of assets procured with Global Fund grant funds; and
4. compliance with applicable laws, regulations and rules, policies and procedures, as well as the SR agreements.

Specifically the auditor shall assess the internal controls with regard to the audited SR in the following areas:

1. **Organization and staffing**: Assess the overall structure SR activities for effective work flows and management arrangements, including assignment of authority, accountability and responsibility to staff.

2. **SR activities management**: Review expenses made by the SR and assess whether they are in accordance with the SR agreement, including the work plan and budget, and are in compliance with applicable UNDP policies and procedures; assess the management aspects in terms of financial management of grant funds and monitoring of implementation towards achieving deliverables set out in the work plan. This includes timely and accurate reporting to UNDP and to the Global Fund's Local Fund Agent (LFA). It should cover the programmatic oversight of the grants including management and oversight over SSRs when applicable. The model SR agreement regulates the engagement of SSRs and the SR must meet several conditions before the SSR can be involved. These conditions include positive capacity assessment by the SR and prior written approval by UNDP. The SR must also put in place a system to monitor performance of the SSR. Importantly, the SR remains fully responsible for all the acts and omissions of the SSR as if they were the acts and omissions of the SR itself. Furthermore, any contract concluded with the SSR must comply with the terms of the SR agreement.

3. **Review of SR activities' progress**: As part of the general review of the activities' progress, specific steps could include the following:

    - Review annual and quarterly work plans, quarterly and annual financial reports, and requests for direct payments. Assess the foregoing in terms of their timeliness and their compliance with the SR agreement, including the work plan and budget, and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management.
    - Review the quarterly and annual programmatic reports and assess them in terms of compliance with UNDP guidelines and whether the SR met its responsibilities for monitoring described in the SR agreement, including the work plan and budget.
    - Review whether the SR has followed the decisions and/or recommendations of the above activities.
    - Review the pace of SR activities progress and comment on the causes for any delays.

4. **Human resources**: The audit shall cover review of the existence of and adherence to human resources policies and procedures manuals. The auditors shall review the process for recruiting SR personnel and consultants and assess whether it was transparent and competitive. The audit work shall cover the competitiveness, transparency and effectiveness of the recruitment and hiring of personnel and include contract administration, performance appraisal, attendance control, calculation of salaries and entitlements, payroll preparation and payment, and management of personnel records. In the case of payment of performance-related financial incentives (per diem), the way the incentives were distributed should be verified.

5. **Finance**: The audit shall cover review of the existence of and adherence to financial policies and procedures manuals. The auditors shall review the SR's accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements of cash and for supporting the preparation of the quarterly financial report; review the records of requests for direct payments and ensure that they were signed by authorized SR officials. The audit work shall cover the adequacy of the accounting and financial operations and reporting systems. These include budget control, cash management, certification and approving authority, receipt of funds, commitment of expenses against approved budget and disbursement of funds, recording of all financial transactions in expenses reports, records maintenance and control, cash advances to field offices, SR's staff etc.

6. **Cash management**: The audit work shall cover all cash funds held by the SR (including bank accounts) and review procedures for safeguarding of cash including cash held as advances or imprest in any sub-office or field office. Special attention should be given to petty cash, transactions is cash.

7. **Procurement**: Review the process for procurement/contracting activities of the SR and assess whether it was transparent, competitive and effective; and ensure that the equipment and services purchased meet the requirements of the SR agreement and include the following:

   - As applicable, delegations of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders.
   - Management of obligations, receiving and inspection procedures to determine the conformity of equipment with the agreed specifications and, when applicable, the use of independent experts to inspect the delivery of highly technical and expensive equipment.
   - Monitoring of the performance of the contractors.
   - Evaluation of the procedures established to mitigate the risk of purchasing equipment that does not meet specifications or if later proven to be defective.
   - Management and control over the variation orders.

   The audit work in the area of procurement shall also cover the use of consulting firms and the adequacy of procedures to obtain fully qualified and experienced personnel and assessment of their work before final payment is made.

8. **Asset management/ inventory**: review should include whether there is a system of adequate safeguards to protect assets from fraud, waste and abuse; whether subsidiary records of fixed assets and inventory are kept up to date and reconciled with control accounts; whether there are periodic physical verification and/or count of fixed assets and inventory; and whether fixed assets and inventory are adequately covered by insurance policies. In addition, an adherence to the standard procedures for receipt, storage, and disposal of assets shall be reviewed

9. **Warehouse management and the distribution system of pharmaceutical and non-pharmaceutical drugs**: the audit work shall cover storage conditions, inventory management and distribution of health products. This includes the following:

- **Review of storage conditions should include the following**: assessing whether the storage space for the products is adequate with respect to volume as well as quality (clean, dry, not subject to excessive heat or light); cold chain areas available if needed; all storage areas free of rodents and facilities are secure. Storage areas should be assessed using the WHO Good Storage Guidelines.
- **Review of inventory management system should include the following**: assess existence of a functional system (paper-based or computerized) to monitor stock movements (in, out, losses), consumption rates, expiry dates and prevent diversion, stock-outs and expiration of products; use of the 'First Expiry, First Out' (FEFO) system when products have different expiry dates and the 'First In, First Out' (FIFO) system for products with the same expiry date.
- **Review of the distribution system**: assess existence of be a functional distribution system ensuring that health commodities are adequately distributed where and when needed. This could either be a distribution plan prepared on a regular basis by the SR based on evaluation of needs of receiving entities, or a system of requisitions where receiving entities send regular requisitions to the SR. The logistics means should be sufficient to ensure implementation of the distribution arrangements.

10. **Information systems**: Assess the efficiency and security of the information systems established and maintained from grant funds and their adequacy to meet the management and reporting requirements of the project; assess if the segregation of duties, as described in the management manual, is respected in the access to approvals in the financial information systems.

11. **General administration**: This includes areas of operations not specifically covered above and for which expenses are charged to the project covering areas such as travel by SR personnel, use and maintenance of project vehicles, lease and maintenance of office premises.

12. **Follow-up on previous audit**: To the extent feasible, the audit should assess the status of implementation of the audit recommendations done in the previous year's audit of the SR. A certified prior year action plan is required when the SR being audited was also audited in the previous year regardless which audit firm is conducting the audit (see Annex 10 for proposed template). This document should be signed by SR, UNDP and certified by auditors.

The auditors shall clearly confirm in their reports that they have audited each of the above areas. The auditors shall also provide a rating (satisfactory, partially satisfactory, or unsatisfactory) for each of the above areas. If audit of a particular area was not applicable, the auditors must detail this in the reports.

6.2.1. Potential risks

The auditor is expected to proactively identify any potential risks, including fraud risks, related to the SR's responsibilities and expected results by considering issues such as:

- the nature of the grant (e.g. size of the grant, proportion of procurement/training to the overall budget, geographical coverage of proposed interventions);
- the type of SR (government or CSO);
- the SR's track record and current capacity;
- funds flow and control environment to safeguard grant assets;
- the implementation environment/country context (e.g. governance, national legislation, political stability) and other relevant facts and circumstances;

- previously identified material risks or fraud by OAI, the Global Fund's Office of Inspector General, LFA and/or other donors;
- the proposed implementation arrangements (e.g. direct payments, number of SSRs, etc.); and
- identifying risk of fraud in each of the functional areas. These areas may include the SR's internal control mechanisms, procurement, training activities, payroll, planned cash payments, warehouse management and distribution system, financial and programmatic oversight and management including SSRs.

6.3. Audit of internal control and systems deliverable

The deliverable will be a long-form management letter signed and stamped by the audit firm, containing a detailed assessment of each audit area and that captures the audit issues and recommendations. The presentation of audit issues should be made in accordance with the following structure:

- **Issue title**: A summarized version of the 'audit condition' should be stated in a phrase, not a complete sentence.

- **Observation**: This should present a brief background statement, then describe the criteria (the criteria could be any of the following: regulations, rules, policies, procedures, generally accepted standards, stated programme objectives, office-defined expectations, best practices, or basically what measures the auditor used in making an evaluation and/or verification); the condition (i.e. what is, or the situation that exists); the cause or the reason for the difference between the expected actual conditions; and, lastly, describe the consequence or effect or impact/risk should the issue(s) remain unresolved. Also, the auditor may wish to comment on 'good practices' (if any) developed by the SR that should be shared with other project personnel.

- **Priority**: State the priority of recommendation as High (Critical), Medium (Important) or Low, in accordance with the definition of priority in Annex 8 to this document.

- **Recommendation**: Spell out the steps or actions that need to be taken to resolve the audit issue. The recommendation should address the root causes behind the current condition. Recommendations should be directed to a specific entity so that there is no confusion regarding who is responsible for implementation.

- **Management comments**: Incorporate management's written response to the audit findings and recommendations. This includes SR management comments and UNDP CO management comments, as applicable.

- **Auditor's response**: If management agrees with the recommendation, there is no need for a response. When management does not agree with the recommendation and the auditor decides to retain the recommendation, a response should be stated here, elaborating on the reason why the recommendation is considered valid and is maintained.

In addition, the auditors should use the template in Annex 9 to report on all audit observations and recommendations.

6.3.1. Audit areas

Each audit area must be rated individually, and an overall audit opinion must also be given covering the following topics/issues:

- a general review of the SR's progress and timeliness in relation to targets and deliverables, and the planned completion date, both of which should be stated in the SR agreement, including the work plan and budget. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However, general compliance with broad covenants such as implementing SR activities with economy and efficiency might be commented upon but not with the legal force of an audit opinion;
- an assessment of the SR's internal control system with equal emphasis on: (i) the effectiveness of the system in providing SR management with useful and timely information for the proper management of its activities; and (ii) the general effectiveness of the internal control system in protecting the assets and resources funded through the grant;
- a description of any specific internal control weaknesses noted in the SR's financial management, and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included; and
- risks of fraud identified, if any.

7. Consolidated report at country level

In addition to the individual audit reports on the SR's expenses and internal controls, where more than one SR is audited per country, as a third deliverable, the audit firm will prepare a country report, highlighting the results of the financial audits (NFM, audit opinions) and the critical and recurrent observations of the individual audit reports; significant weaknesses in internal control and areas, or risks to be addressed at the Headquarter level, recurring issues, aggregate qualification amount and NFM, etc. The cost of the consolidated report should not exceed that of an administrative fee to collate the existing information. The language of the consolidated report should be English.

8. SR audit reporting language and timelines

Audit firms are required to submit draft audit reports to the respective COs/REGIONAL HUBS by 11 March and all final audit deliverables, including the certified prior year action plans (where applicable) and the final signed audit reports with signed UNDP statements to the respective COs/REGIONAL HUBS no later than 25 March. While the audit team is required to be able to communicate and share the findings of the audit with the SRs in their local language, the final audit reports must be in one of the three UN working languages (i.e. English, French or Spanish).

9. Additional assignments

Independent of audit of SRs, auditors may be requested, pending their availability, at some point during their engagement with UNDP to complete the following in one or more countries: verification of SR expenses through review of supporting documents; financial spot checks; capacity assessments and/or control self-assessments. The TORs for these tentative assignments will be provided at the time that the service is requested.

10. List of Annexes

Annex 1 Glossary of terms.

Annex 2 Sample audit report.

Annex 3 Example of supporting statement of expenses.

Annex 4 Reconciliation between statement of expenditure and Combined Delivery Report.

Annex 5 Definition of audit opinions.

Annex 6 Guidance on Reporting Prior Year Modified opinion not corrected (ISA 450 and 710).

Annex 7 Guidance on Audit Materiality (ISA 320 and 450).

Annex 8 Guidance on formulating audit observations and recommendations.

Annex 9 Template for use by NGO/NIM auditors to report to Country Offices on audit observations/recommendations in CARDS.

Annex 10 Template for auditors to review and certify the updated status Action Plans for the prior year audit observations and recommendations.

Annex 1
Glossary of terms

DIM: When acting as Principal Recipient, UNDP shall implement project activities under Direct Implementation (DIM). This means that UNDP will be acting as the Implementing Partner of the project. Nevertheless, please note that the former terminology, Direct Execution (DEX), is still used in non-harmonized countries which do not have a Country Programme Action Plan (CPAP).

Funding Authorization and Certificate of Expenditures (FACE) form: is a report usually provided on a quarterly basis by an SR to UNDP reporting expenses already made, and requesting reimbursement for expenses made using own resources, as well as requesting a new advance of funds for new expenses.

Grant Agreement: The Grant Agreement is the formal legal financing agreement between UNDP (through the relevant Country Office) and the Global Fund. It includes: 9i) Face Sheet; 9ii) UNDP–Global Fund Standard Terms and Conditions (specifically for UNDP as Principal Recipient); and 9iii) Annex A (Conditions Precedent and Special Terms and Conditions to be agreed by both parties), Summary Budget and Performance Framework.

Implementing Partner: The implementing partner is the entity entrusted with the implementation of the project which assumes full responsibility and accountability for the effective use of the project resources and the delivery of the project outputs. In these Terms of Reference, the term 9 refers to UNDP.

Local Fund Agent (LFA): In keeping with its aim to promote country ownership and to maintain a lean organizational structure, the Global Fund does not have offices in the countries/territories that receive Global Fund financing. Instead, it relies on contracted entities, selected through a competitive bidding process, to serve as LFAs. The LFA is a crucial part of the Global Fund's system of oversight and risk management, providing independent, professional information and recommendations that enable the Global Fund to make informed funding decisions at each stage of the grant life cycle. Typically, the Global Fund contracts with one LFA in each country receiving Global Fund resources.

Principal Recipient (PR): This is the Global Fund term for the entity contracted to implement a Global Fund grant. The PR is responsible for programme results and legally accountable to the Global Fund. In these Terms of Reference , 'Principal Recipient' or 'PR', means UNDP (through the relevant Country Office).

Project Document: UNDP operates Global Fund-financed programmes under the framework set forth in UNDP's Standard Basic Assistance Agreement (SBAA) with the host country. A Project Document must be formulated and approved by all parties involved. In these Terms of Reference, the Project Document articulates in detail how UNDP intends to implement a Global Fund grant, and the strategy, expected results, costs, etc. involved.

Project Management Unit (PMU): This is a UNDP unit designated to implement Global Fund grants in the country and manage Sub-recipient Agreements. The PMU is headed up by the PMU Manager (who reports to the UNDP Country Director or his/her designee) and is supported by several specialists. In some countries, the PMU is called the Grant Implementation Unit (GIU).

Responsible party: An entity that has been selected to act on behalf of the Implementing Partner on the basis of a written agreement or contract to purchase goods, provide services or carry out activities using the project budget is considered a responsible party. This, therefore, includes contractors and SRs. All responsible parties are directly accountable to the Implementing Partner in accordance with the terms of their agreement or contract with the Implementing Partner.

Sub-recipient (SR): The Grant Agreement defines a Sub-recipient (SR) as an organization/entity to which UNDP provides funding for the implementation of certain activities within a Global Fund programme. SRs may be government entities, United Nations entities, and civil society organizations (CSO), including non-governmental organizations (NGOs), community-based organizations (CBOs), community groups or academic organizations. In these Terms of Reference, consistent with UNDP terminology, the term responsible party refers to SRs.

Sub-sub-recipient (SSR): Sub-sub-recipients are Sub-recipients of Sub-recipients. UNDP is legally accountable for any project implementation by SSRs – as it is for Sub-recipients – within Global Fund grants for which it is Principal Recipient.

Sub-recipient (SR) agreement: This is an agreement between UNDP and an SR to implement Global Fund programme activities. Standard templates are available for SR Agreements for governments, CSOs and United Nations entities (e.g., UNICEF, UNFPA, and WHO).

UNDP Country Office (CO): The UNDP Country Office is the official UNDP representation at the country level. The head of the CO or a person to which the signature authority is delegated signs the Grant Agreement and SR Agreements on behalf of UNDP. The CO is responsible for grant implementation and supervises the management of the SRs.

UNDP headquarters (UNDP HQ): In these Terms of Reference, UNDP HQ refers to any UNDP corporate-level unit, regardless of physical location.

Annex 2

Sample audit report

Independent Auditor's report to:

The Resident Representative

I. Executive Summary

__________________(audit firm name) has been engaged by UNDP _______ (country office) to conduct the audit of __________________ (SR name, project name, Responsible party code) for the year ended 20_____. We have issued audit opinions as summarized in the table below and as detailed in the next section:

Statement	Opinion [Unmodified or Modified (i.e., Qualified/Adverse/Disclaimer)]	Reason for Modified Opinion (provide brief description and observation number)	Net Financial Misstatement (in US$)
Statement of Expenses			
Statement of Assets and Equipment			
Statement of Cash Position			

The audit findings are summarised in the table below:

Observation Number	Audit Observation	Risk Severity (High, Medium, Low)	Project/CO Management Comments

AUDITOR'S NAME (Please print): ___________________

AUDITOR'S SIGNATURE: __________________________

STAMP AND SEAL OF AUDIT FIRM: _____________________

AUDIT FIRM ADDRESS: _________________________

AUDIT FIRM TEL. NO. ___________________________

II. Audit Engagement

Sample Independent Auditor's Report on Statement of Expenses (UNDP CDR)

REPORT OF THE INDEPENDENT AUDITORS TO UNDP [insert SR name, project] (Refer to ISA 700)

We have audited the accompanying Statement of expenses ("the statement") of [insert name of entity] (the Sub-recipient), engaged by UNDP under the agreement dated [insert date of SR agreement] (the "SR Agreement"), in connection with the project [insert award and project number(s)], [insert official title of project] for the period [insert period covered].

Opinion

Clean Opinion: Option 1: (Unmodified)

In our opinion, the attached statement of expenses presents fairly, in all material respects, the expense of [insert amount in US$] incurred by the SR [insert SR name, project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add - and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Modified Opinions (Refer to ISA 705)

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the attached statement of expenses presents fairly in all material respects the expenses of [insert amount in US$] incurred by the SR [insert SR name, project] for the period [insert period covered] in accordance with agreed upon accounting policies [if needed add: and the note to the statement] and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Option 2: (Adverse opinion)

In our opinion, based on the significance of the matter discussed in the Basis for opinion section of our report, the statement of expenses do not present fairly the expenses of [insert amount in US$] incurred by the SR [insert SR name, project] for the period from [insert period covered].

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement of expenses. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of expenses of [insert amount in US$] incurred by the SR [insert SR name, project] and audited by us for the period from [insert period covered].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of expenses section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation and fair presentation of the statement for <SR name, project> and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of expenses is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the statement of expenses, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter [if applicable (Refer to ISA 706)]

We draw attention to Note [X] to the accompanying statement of expenses which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

____

Auditor's Name and Signature

____

Date of the auditor's report

____

Auditor's address

Sample Independent Auditor's opinion on statement of assets and equipment (Refer to ISA 700)
We have audited the accompanying statement of assets and equipment ("the statement") of the SR [insert SR name and project number(s)], as at [insert date].

Opinion

Clean Opinion: Option 1: (Unmodified)

In our opinion, the accompanying statement of assets and equipment presents fairly, in all material respects, the assets and equipment status of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Modified Opinions *(Refer to ISA 705)*

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of assets and equipment presents fairly, in all material respects, the balance of inventory of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement].

Option 2: (Adverse opinion)

In our opinion, because of the significance of the matter discussed in the Basis for opinion section of our report, the accompanying statement of assets and equipment does not present fairly the assets status of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement assets and equipment. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of assets and equipment amounting to [insert amount in US$] as at xxxx [insert date].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of assets and equipment. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation of the statement of assets and equipment of the project, and for such internal control as management determines is necessary to enable the preparation of a statement of assets and equipment that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit

Our objectives are to obtain reasonable assurance about whether the statement of assets and equipment is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of assets and equipment, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter [if applicable (Refer to ISA 706)]

We draw attention to Note [X] to the accompanying statement of expenses which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

____

Auditor's Name and Signature

____

Date of the auditor's report

____

Auditor's address

Sample Independent Auditor's Report on Statement of Cash Position (Refer to ISA 700)
We have audited the accompanying statement of cash position ("the statement") of the SR [insert SR name and project number(s)] as at XXX.

Opinion

Clean Opinion: Option 1: (Unmodified)

In our opinion, the accompanying statement of cash position presents fairly, in all material respects, the cash and bank balance of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Modified Opinions (Refer to ISA 705)]

Option 1: (Qualified opinion)

In our opinion, except for the effects of the matter described in the Basis for opinion section of our report, the accompanying statement of cash position presents fairly, in all material respects, the cash and bank balance of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 2: (Adverse opinion)

In our opinion, because of the significance of the matter discussed in the Basis for opinion section of our report, the accompanying statement of cash position does not present fairly the cash and bank balance of the SR [insert SR name, project] amounting to [insert amount in US$] as at xxxx [insert date] in accordance with agreed upon accounting policies [if needed add: set out in the note to the statement.

Option 3: (Disclaimer of opinion)

We do not express an opinion on the accompanying statement of cash position. Because of the significance of the matter described in the Basis for opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of cash position amounting to [insert amount in US$] as at xxxx [insert date].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of cash position section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Add here a description of the basis for the qualified, adverse or disclaimer opinion]

Management responsibilities

Management is responsible for the preparation of the statement of cash position of the project, and for such internal control as management determines is necessary to enable the preparation of a statement of cash position that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of cash position is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of cash position, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of Matter [if applicable (Refer to ISA 706)]

We draw attention to Note X to the statement of cash position which describes the uncertainty related to the (insert the issue). Our opinion is not qualified in respect of this matter.

____

Auditor's Name and Signature

____

Date of the auditor's report

____

Auditor's address

____

Date of issuance: ____________________________

AUDITOR'S NAME (Please print): ____________________

AUDITOR'S SIGNATURE: ____________________________

STAMP AND SEAL OF AUDIT FIRM: ______________________

AUDIT FIRM ADDRESS: __________________________

AUDIT FIRM TEL. NO. ____________________________

Note: Audit opinions must be one of the following: (a) unmodified, (b) qualified, (c) adverse, or (d) disclaimer. If the audit opinion is other than "unmodified" the audit report must describe both the nature and amount of the possible effects on the UNDP financial statement (CDR) (Amount of qualification). A definition of audit opinions is provided in nnex 5.

Annex 3

Example of supporting statement of expenses

Project “Number of the Project”

Responsible Party “RP code”

“Name of SR”

Year [enter year here]

Account code	Sum of Local Currency Amount	Sum of USD Amount	Type of expenses
71310	623,401,179	39,540.66	SR expenses
71620	7,115,600	425.17	Direct payments/reimbursements
71620	268,441,683	16,634.75	SR expenses
72220	13,067,605	739.66	SR expenses
72311	220,663,395	13,922.67	SR expenses
72330	328,192,078	20,639.9	SR expenses
75105		6,433.20	PR expenses (GMS)
76120		18,329.24	PR expenses (Unrealized Losses)
76130		-2,593.42	PR expenses (Unrealized Gains)
Grand total:	**1,460,881,540**	**114,071.83**	

	Sum of Local Currency	Sum of USD Amount
Total SR expenses	1,453,765,940	91,477.64
Total Direct payments/reimbursements	7,115,600	425.17
Total Amount to be audited:	**1,460,881,540**	**91,902.81**
PR expenses (GMS, Unrealized Gains and Losses)	-	22,169.02
Total:	**1,460,881,540**	**114,071.83**

Signed on behalf of “Name of SR”:

With this signature, I confirm the amount of 1,460,881,540 in “Local Currency” and 91,902.81 USD

Director ____

Signed on behalf of UNDP

UNDP Deputy Resident Representative ____

Annex 4

Reconciliation between statement of expenditure and Combined Delivery Report

[Project No.]

	US$
Combined Delivery Report Total	
Less: Direct Implementation by UNDP	
Less: Expenses incurred by other SRs	
Less: Others (please explain)	
Total	
Statement of Expenditure total	
Variance	

[IA code and name of SR audited]

	US$
Outstanding NEX advances total	
Less: balance of other SRs	
Total NEX advances outstanding	

Signed on behalf of UNDP

UNDP Deputy Resident Representative ____

Annex 5

Definitions of audit opinions

Unmodified (Clean) Opinion (ISA[11] 700)

An unmodified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.

An unmodified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

Emphasis of Matter (ISA 706)

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

An emphasis of matter is not considered a modified opinion.

Qualified Opinion (ISA 705)

The auditor expresses a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Disclaimer of opinion (ISA 705)

The auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Adverse Opinion (ISA 705)

[11] ISA=International Standards on Auditing

The auditor shall express an adverse opinion when, having obtained sufficient appropriate audit evidence, s/he concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Annex 6

Guidance on Reporting Prior Year Modified opinion not properly corrected or resolved

Following the International Standards on Auditing (ISA) 450 and ISA 710 that came into effect on December 2010 there is an additional requirement regarding a previous year's modified audit opinion.[12] This audit standard requires that auditors, when expressing an opinion on this year's statements, take into account the possible effect of a prior year modified opinion that has not been properly corrected or resolved.

Consequently, a previous year modified opinion that has not been properly resolved may cause the auditors to issue a modified opinion in their current year audit report. If proper attention is not paid to this aspect, the risk could be a significant accumulation of unresolved modified opinions from previous years that would lead the UN Board of Auditors to issue a modified audit opinion on UNDP financial statements.

[12] A 'modified' opinion means a qualified opinion, a disclaimer opinion or an adverse opinion.

Annex 7

Guidance on audit materiality (ISA 320, 450)

ISA 320

ISA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

> Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
>
> Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
>
> Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

For purposes of the ISAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

ISA 450

ISA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Each individual misstatement is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.

The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- Affects compliance with regulatory requirements;
- Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements;
- Is an omission of information not specifically required by the applicable financial reporting framework but which, in the judgment of the auditor, is important to the users' understanding of the financial position, financial performance of the entity.

The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial statements. There are different acceptable approaches to the auditor's evaluation of such uncorrected misstatements on the current period's financial statements. Using the same evaluation approach provides consistency from period to period.

Annex 8

Guidance on formulating audit observations and recommendations

The purpose of this note is to provide guidance on formulating audit observations and recommendations that are effective.

Effective audit observations should consist of 4 common elements:

1. Condition
2. Criteria
3. Effect, potential impact or Risk
4. Recommendation

Items 1 to 3 must be part of what constitutes an audit observation. Below are helpful tips on each of these areas.

Condition

The ‘condition’ refers to a conclusion, problem or opportunity noted during the audit review. It directly addresses a control objective or some other standard of performance. Sample condition statements include:

- ‘The appropriate individual did not authorize this document.’
- ‘The account has not been reconciled for three months.’
- ‘The process can be streamlined to save six hours per day.’

When documenting the condition, it is important to include the necessary level of detail in the description of the problem. Someone who has not participated in the audit, but has some basic understanding of the subject matter or function, should be able to comprehend any condition statement.

Criteria

This element describes the standard being used as the benchmark for evaluation. In other words, it depicts the ideal condition. The criteria may reference a specific policy, procedure, or government regulation. At other times, the criteria may simply be a matter of common sense or prudent business practice. For example, a criteria statement might state that ‘Per policy #1234, all loans greater than

$100,000 must be approved by the board of directors;’ or ‘Payroll processing responsibilities should be segregated to control the authorization of master file changes.’

Effect, potential impact or risk

The effect statement describes the particular risk that could exist (the potential impact or risk) or that has already existed (the effect) as a result of the condition or problem. Basically, it answers the question ‘so what?’ Effect statements often discuss the potential for loss, noncompliance or customer dissatisfaction created by the problem.

Management is likely to zero in on the information provided in this aspect of the audit observation, as it allows them to see how the condition will negatively impact their activities. As a result, the effect statement often serves as the catalyst for a positive change.

One note of caution is in order: the risk suggested by the effect statement should not be overblown or exaggerated. While auditors are responsible for pointing out risks associated with control breakdowns, the effect statement should remain reasonable and plausible and should not be worded as if the world were coming to an end. If auditees are to take the audit observation seriously and respect what an auditor has to say, an auditor must talks about risk in realistic, not exaggerated, terms.

Risk levels

In addition to explaining the and giving details about the 'effect, potential impact or risk' in the text of an audit observation, UNDP requires that the auditor also identifies the risk level in the audit report by using one of the following three pre-established risk levels:

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences and issues.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money.

Recommendation

This aspect suggests how the situation might be remedied. An effective recommendation directly relates to and targets the cause. It is not enough to state in general terms that management should fix the problem; the recommendation statement should also explain how remediation is to be achieved.

A good recommendation maintains the proper balance between the risk presented and the cost to control it. Before making a recommendation, the auditor should consider the following questions:

- Does the recommendation solve the problem and eliminate or reduce the risk?
- Can the recommendation be implemented within the current environment?
- Is the recommendation cost-effective?
- Will the recommendation act as a temporary bandage or a permanent solution?

Examples of effective recommendations include monthly or quarterly physical inventories of all assets and equipment with reconciliation to appropriate records.

Note: auditors should provide COs with the electronic version of the audit observations and recommendations using the template in annex 9. This will facilitate data entry when the Country Office submits audit reports and related information to OAI and tracking of implementation of audit recommendations.

Additional tips

Whenever possible, similar findings should be combined into one form so that the case for implementing the recommendation is strengthened.

Playing devil's advocate can be an extremely helpful exercise. After completing the audit observation and recommendation, auditors should place themselves in the auditee's shoes and challenge/question the validity of the issue. If the issue cannot stand up to this exercise, it probably should not be included in the audit report.

Below is an example on how to present the audit observations and recommendations.

Issue #	(please insert the Issue title here): …..
Audit observation description: (please describe the audit issue)	
Priority	High/Medium/Low (please suggest one of the three categories)
Recommendation #:	
Management action plan: **Estimated completion date:** _______	

Annex 9

Template for use by auditors to report to Country Offices on audit opinions/qualifications and audit observations and recommendations in CARDS

The information in the four tables below should be completed by the auditors and signed. The CO can obtain the electronic version of the word document and copy and paste the information in CARDS for each project/project audit report.

Table 1 - Template for auditors to report on the audit of the UNDP CDR

UNDP Combined Delivery Report (CDR) as at 31 December 20__						
1	**Project No.**	**Amount audited and certified (US$)**	**Audit opinion** (unqualified, qualified, adverse, disclaimer)	**Total amount of qualification of audit opinion** (if qualified, adverse or disclaimer of opinion)	**Reason(s) for qualification** of audit opinion and breakdown of **NFM amount** (US$)	**Observation(s) that had impact on qualification** of audit opinion (list observation number(s) and page of audit report/management letter)

Table 2 - Template for auditors to report on the audit of the statement of cash position

Statement of Cash Position			
Project No.	**Value of Cash Position Statement** as at 31 December 20__ (US$)	**Audit Opinion -** **Statement of Cash Position**	**Total amount of qualification** *Statement* of Cash Position (US$)

Table 3 – Template for auditors to report on the audit of the statement of assets and equipment

Statement of assets and equipment			
Project No.	**Value of assets and equipment** as at 31 December 20__ (cumulative from project start date) (US$)	**Audit Opinion -** **Statement of Assets and Equipment**	**Total amount of qualification** on the Statement of assets and equipment (US$)

Table 4 - Template for auditors to report on current year audit observations and recommendations

Project No.	Observ. No	Audit Observation	Recommendation	Audit Area	Risk Severity	Project/CO Mngmt. Comments

Name and position of Auditor: ___________________

Signature of Auditor: __________________

Date: ___________________

Name and stamp of Audit Firm: ________________________

Annex 10

Template for auditors to review and certify the updated status Action Plans for the prior year audit observations and recommendations

SR name, project number						Opinion Type:						
Obs. No	**Obser-vation**	**Recommen-dation**	**Audit Area**	**Risk Severity**	**Proj/CO Management Comments**	**Action(s) Planned**	**Target Impl. Date**	**Action Unit**	**Person Responsible for Action**	**Updated Status**	**Actual Impl. Date**	**Description of Status Update**

Responsible Party	***UNDP Office***	***Government Auditors/Audit Firm***
Signature of IP Official:	Signature of UNDP Official:_	Signature of Audit firm Official:
Name and title (print):	Name and title (print):	Name and title (print):
Date:	Date:	Date:
		Stamp and Seal of audit firm:

Note: The values for the "Updated Status" could be: Implemented, In Progress, Not Implemented, N/A or Withdrawn. "N/A" means not applicable and would be used if there is an overall change in a project's working environment that makes last year's audit observation no longer applicable. For example, the project has been closed. Another example for using "N/A" is a project that had its own bank account and last year' audit recommendation called for the need to perform monthly bank reconciliation. However, the following year, the auditor notes that the bank account has been closed. "Withdrawn" would be used if there is an overall change in a project's working environment that makes last year's audit observation and recommendation no longer valid. " Withdrawn" is very rarely used.