



Independent observer  
of the Global Fund

## Managing Sub-Recipients Is the Biggest Challenge for UNDP

The United Nations Development Programme (UNDP) says that the biggest risks in its implementation of Global Fund programmes occur in the management of its sub-recipients (SRs). UNDP says that it has put in place various policies and procedures to minimise this risk.

As of December 2012, UNDP was principal recipient (PR) for 55 Global Fund grants in 29 countries.

UNDP has created corporate SR management guidelines and country-specific manuals for SRs. Also, UNDP conducts rigorous capacity assessments and value-for-money reviews before any SR agreements are signed. In addition, UNDP is developing ways to build greater in-country capacity in financial management and reporting.

To further reduce risk, under the system established by UNDP payment methods for SRs vary according to the assessed risk level of the SR. There are three options:

1. Advance payment, in which UNDP makes direct payments to an SR to implement activities. In this case, the SR does its own procurement, and pays vendors itself.
2. Hybrid management, in which UNDP advances an SR a certain amount of money for programmatic activities, but maintains control over procurement and payments to certain types of vendors.
3. Direct payment, in which UNDP transfers funds to an SR only after invoices are presented. Under this arrangement, UNDP country offices usually pay vendors and procure commodities on behalf of the SR.

Global Fund grants managed by UNDP are subject to the same audit and investigation rules and procedures that apply to all UNDP programmes. The grants are scrutinised by UNDP's Office of Audit and Investigations (OAI). This is particularly important because of the difficult environments in which UNDP

manages Global Fund grants and the fact that the grants are often more risk-prone than other UNDP projects.

In 2011, the OAI carried out 11 audits of Global Fund programmes managed by UNDP. Fifteen more audits were planned to be conducted last year. Between 2009 and end of 2012, the OAI was to have audited 22 of 29 countries where UNDP currently acts as PR.

UNDP provides the Global Fund with access to its internal audit reports. On two occasions (Democratic Republic of Congo and Chad), the OAI and the Global Fund's Office of Inspector General (OIG) have conducted parallel audits of a Global Fund country programme, with the OAI covering UNDP's activities, and the OIG covering all other aspects of the grant. The OAI consults with the OIG when developing its annual audit plan and coordinates with OIG audits of other PRs in the same country.

Of the 17 audit reports of Global Fund programmes issued by OAI between July 2010 and December 2011, five had an overall rating of "satisfactory," 11 were "partially satisfactory," and one was "unsatisfactory." UNDP-managed grants that received the best audit results were in Belarus, Cuba, El Salvador, Iran, Iraq and Zambia.

When a grant gets a satisfactory rating, "this means that internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity," Håkan Björkman, the Cluster Leader of the UNDP's Partnership with The Global Fund Unit, told GFO.

A Global Fund grant in Niger is the only UNDP-managed grant that received an unsatisfactory rating; there were significant findings of inadequate stock management, irregularities in financial reporting from SRs documents, and weak financial oversight by UNDP.

SRs engaged by UNDP are also subjected to audits by the OAI. More than 120 SR audits have been conducted since 2009. Of the SR audits done in 2010, 79% had unqualified audit opinions, up from 57% in 2009.

When possible irregularities are identified in the financial management system of an SR, either during an audit or by the UNDP during implementation, the OAI reviews the case and launches an investigation. The OAI works closely with national law enforcement authorities.

Mr Björkman told GFO that in 2010, the OAI took action following the theft of anti-malarial drugs from a government warehouse in Togo. An investigation by the police resulted in the conviction of four government employees, he said. The government reimbursed UNDP very quickly and the drugs were replaced.

"This is a 'best practice case' that shows the UNDP and government working together and taking strong action," Mr Björkman said, "including with respect to how the government managed its communications with the Global Fund and the country coordinating mechanism (CCM) while confidentially advising governments how to respond to alleged fraud and theft."

Some of the information for this article as taken from a UNDP document entitled, "The UNDP-Global Fund Partnership: Update – June 2012," on file with the author.

The third article in this series will describe the work of UNDP to build capacity of national systems in countries where it operates as interim PR.

