



AUDIT

OF

UNDP KYRGYZSTAN

GRANTS FROM THE GLOBAL FUND

Report No. 1742
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Report on the Audit of UNDP Kyrgyzstan Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 21 November to 2 December 2016, conducted an audit of four grants from the Global Fund (Output Nos. 77629 [Malaria]; 79839, 95775 [HIV]; 84923, 95756, 77368 [TB] and 101079 [HIV/TB]) managed by UNDP Kyrgyzstan (the Office) as the Principal Recipient. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure, staffing, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January 2015 to 30 September 2016. The Office recorded Global Fund-related expenditures of approximately \$21.2 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2013.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **satisfactory**, which means, "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."

Key recommendations: Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendations, which means, "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." The recommendation includes actions to address recurring issues identified, including deficiencies in medical procedures and expired TB medicine.

The recommendation aims to ensure achievement of the organization's strategic objectives (Recommendation 1).

Implementation status of previous OAI audit recommendations: Report No. 1193, 11 December 2013).

Total recommendations: 4

Implemented: 4

Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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I. Profile of Global Fund grants managed by UNDP Kyrgyzstan

Since 2011, UNDP has been the Principal Recipient of Global Fund grants in Kyrgyzstan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 Sep 2016 (in \$ '000)	Implementation Rate	Cumulative Expenditures as of 30 Sep 2016 (in \$ '000)	Global Fund Rating as at 31 Dec 2015
KGZ-811-G09-M (Malaria)	77629	Cessation of local transmission and transition to elimination of malaria in the Kyrgyz Republic	1 Jan 2011	Admin closed 30 Jun 2015 and financially closed 30 Oct 2016	2,728	2,652	97%	2,538	A2 (30 Jun 2015)
KGZ-H-UNDP (HIV)	79839	Promoting accessibility and quality of prevention, treatment, detection and care services for HIV among the most vulnerable populations in the Kyrgyz Republic	1 Jul 2011	Admin closed 30 Jun 2016	30,532	30,541	100%	29,141	A1
KGZ-H-UNDP (HIV) - extension	95775	as above	1 Jan 2016	Admin closed 30 Jun 2016	3,910	2,371	61%	1,923	not yet received
KGZ-S10-G08-T (TB)	77368	Consolidation and expansion of the directly observed treatment short term programme in Kyrgyzstan by providing access to diagnostic and short term treatment of drug resistant TB	1 Jan 2011	Admin closed 30 Jun 2016	9,640	9,540	99%	6,646	B1
KGZ-S10-G08-T (TB)	84923	as above	1 Jan 2013	Admin closed 30 Jun 2016	16,063	14,910	93%	11,984	as above
KGZ-S10-G08-T (TB) - extension	95756	as above	1 Jan 2016	Admin closed 30 Jun 2016	3,735	0	0%	929	not yet received
KGZ-C-UNDP (TB/HIV)	101079	Effective TB and HIV control project in Kyrgyzstan	1 Jul 2016	31 Dec 2017	20,832	3,638	17%	618	NA

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management. The implementation of programme activities was carried out according to the grant agreement and was properly monitored.
- (b) Sub-recipient management. Disbursements were made to Sub-recipients in accordance with UN regulations and rules. Financial and progress reports were prepared on a quarterly basis with adequate supporting documents.
- (c) Procurement and supply management. The controls put in place for the procurement of health products and other goods and services, along with the management of assets, were found to be adequate.
- (d) Financial management. The audit of payments through the verification of a sample of vouchers did not give rise to any major concerns regarding the reliability and integrity of financial and operational information.

OAI made one recommendation ranked medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

Medium priority recommendation:

- (a) Develop and implement an action plan to enhance the capacity of primary health centres (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Capacity development and exit strategy

Issue 1 Delayed implementation of transition action plan

As part of the agreement with the Global Fund, UNDP serves as Principal Recipient until the government counterpart has sufficient capacity to serve as the Principal Recipient for the grant. The grant agreement requires UNDP to cooperate with the counterpart to ensure a smooth transition. To meet this requirement, UNDP and the government counterpart developed a capacity development and transition action plan in 2016.

The transition action plan outlined roles and responsibilities of UNDP and the government counterpart to ensure the smooth transition of the role of Principal Recipient from UNDP to the government counterpart. However, the transition action plan was not fully implemented within the set timeframe due to delays in signing the framework agreement between the Government and the Global Fund, and delays in developing the operational manual and standard operating procedures by the government counterpart. In addition, there were delays noted in the recruitment of personnel for the project by the government counterpart to assume the Principal

Recipient role. Recruitment began in December 2015 with the appointment of four personnel and required an additional nine months to fill the remaining eight vacancies.

Given the delays in recruitment, there was limited time available to develop the capacity of the government counterpart personnel.

The recent assessment of the readiness of the government counterpart (August 2016) facilitated by the Government, verified by the Local Fund Agent contracted by the Global Fund, and endorsed by the Global Fund took place. It concluded that issues remained within each of the areas reviewed (i.e., monitoring and evaluation, procurement and supply chain management, financial management and governance). Subsequently, the capacity development plan was revised in a consultative process to address the issues identified. A second capacity assessment will be completed in April 2017 to determine whether these issues have been resolved. Following the August 2016 assessment, the Office and the government counterpart agreed to extend the implementation of the transition action plan until 31 December 2017.

OAI Comment:

OAI noted that delays in the implementation of the transition action plan were beyond the control of the Office. Furthermore, at the time of the audit, OAI noted that the Office was closely coordinating with the government counterpart to ensure the timely implementation of the revised transition action plan. Therefore, no recommendation was made.

Issue 2 Project implementation challenges

According to the 'UNDP Programme and Operations Policies and Procedures', programme and project monitoring is a key activity in measuring programme results at various levels to provide a basis for accountability and informed decision-making. Furthermore, according to article 2 of the Global Fund agreement, the Principal Recipient will be responsible and accountable to the Global Fund for all resources it receives under this agreement and the results which it accomplishes.

Weaknesses noted at the primary health centres level

The Office completed monitoring visits that included data verification, review of inventory, monitoring of compliance with the treatment regimens, and financial information, including salary top ups/incentive payments. The monitoring reports provided issues identified and recommendations, as well as the level of implementation of prior recommendations. These reports were shared with national partners.

The audit team reviewed a sample of four monitoring reports from Oblast TB centres (Batken, Talas, Osh, Chui) and noted issues at the primary health centres level. The issues included patient treatment regimens not being followed, TB side effect drugs not being consistently administered, and sputum testing not being administered properly. The Office's management indicated that these issues were recurring throughout the Country. The Office had taken various actions to address these issues, such as providing training, sharing these issues with relevant government ministry, and preparing and distributing printed guidelines for health centres. Nonetheless, the audit team noted that the issues identified still existed mostly due to capacity constraints at the primary health centres level.

In the event that these recurring issues are not addressed, there is a risk that TB patients will not receive proper treatment.

Expired TB medicines

In January 2016, the Office had expired TB medicines valued at approximately \$250,000. One of the contributing factors that led to the expiration of the TB medicines was inaccurate records of patients under treatment at various levels of the health system

When forecasting for the required TB medicines, the primary health centres used the number of patients planned to be enrolled in treatment rather than actual number of patients undergoing treatments. The number of patient planned to be enrolled was more than the actual number of patients. This led to the overstock and expiry of the medicines. In the donor's performance letter (December 2015), the Office was requested to improve the monitoring process to ensure accurate numbers of patients receiving treatments.

The Office undertook a series of measures including increasing the frequency of quantifying the number of patients, adjusting records based on actual consumption of TB medicines in the Country, using Quan TB¹ for more accurate forecasting, and holding monthly drug management coordination meetings with stakeholders, including the National TB Programme.

In response to the draft report, the Office also indicated that it would, among other things, continue following up, on a monthly basis, on the stock of drugs from all levels, start using the national developed TB database, continue conducting regular field visits to primary health centres, and continue to follow up on the implementation of recommendations in the monitoring reports.

Based on records reviewed by the audit team, the Office found no other cases of expired TB medicines as of the end of the audit fieldwork. Therefore, no recommendation was made in this regard.

Priority	Medium (Important)
Recommendation 1:	
The Office should, in coordination with the government counterpart, develop and implement an action plan to enhance the capacity of primary health centres in order to address the recurring issues identified, including deficiencies in medical procedures and expired TB medicine. This could include holding meetings with stakeholders to discuss how the recurring issues could be addressed.	
Management action plan:	
In order to further address the recurring issues identified during the monitoring, the Office, among other things, will:	
<ul style="list-style-type: none"> ▪ continue performing the regular monitoring visits to the oblast TB centres, which have the Sub-recipient agreements with UNDP, as well to the selected primary healthcare facilities; ▪ continue providing on-the-job training for the staff of the visited primary health care facilities in regard to therapy, side effect management, data management, and treatment efficacy control by sputum tests during the monitoring visits; ▪ continue providing support to regularly monitor primary health care facilities; ▪ provide active support to development of the system capacity for transportation of sputum specimens; ▪ continue providing the performance-based motivation payments, on a monthly basis, to the patients for 	

¹ QuanTB is an electronic quantification and early warning system designed to improve procurement processes, ordering, and supply planning for TB treatment.

- treatment; and
- implementing all of the above activities jointly with respective staff of the relevant government entity.

Implementation date: December 2017

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** 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.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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 for UNDP.
- **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. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.