



AUDIT

OF

UNDP UKRAINE

PROCUREMENT SUPPORT SERVICES TO THE MINISTRY OF HEALTH OF UKRAINE
(Directly Implemented Project No. 90474)

Report No. 1988

Issue Date: 16 August 2018

Table of Contents

Executive Summary	i
I. Profile of Project No. 90474 managed by UNDP Ukraine	1
II. Audit results	1
A. Governance and strategic management	1
1. Capacity development and transition strategy	1
B. Programme management	3
1. Project approval and implementation	3
C. Procurement	4
1. Quality assurance of health products	4
Definitions of audit terms - ratings and priorities	6

**Report on the Audit of UNDP Ukraine
Procurement Support Services to the Ministry of Health of Ukraine
(Directly Implemented Project No. 90474)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 29 May to 8 June 2018, conducted an audit of Procurement Support Services to the Ministry of Health of Ukraine, Project No. 90474 (the Project), which is directly implemented and managed by UNDP Country Office in Ukraine (the Office). 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, risk management, staffing and performance management, capacity development and transition strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), and asset management; and
- (d) financial management (revenue and accounts receivable, expenses and account payables).

The audit fieldwork also included an audit of the Office. The other project-related areas of human resources, information and communication technology and general administration were covered by the audit of the Office. The results of the Office audit are covered under a separate OAI report (Report No. 1987, issued on 16 August 2018).

The audit covered the Project's activities from 1 January 2017 to 31 March 2018. The Office recorded expenses approximately \$115.9 million during the audited period. The last audit of the Project was conducted by OAI through Moore Stephens LLP in 2017 and covered the expenses of two outputs (96228 and 103344) from 1 January to 31 December 2016. That audit did not result in any audit recommendations.

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 Project as **satisfactory**, which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Key recommendations: Total = 3, high priority = 0

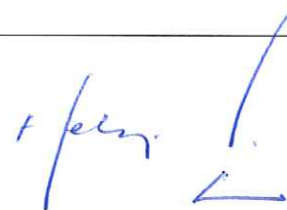
The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address weaknesses with the transition plan, weaknesses with the results and resources framework, and the lack of standard operating procedures.

The three recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 2); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3).

Management comments and action plan

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is enclosed within a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Project No. 90474 managed by UNDP Ukraine

In 2015, Ukraine (the Country) amended the Law on Public Procurement, providing a legal framework for the temporary implementation (until 31 March 2019) of public procurement procedures for medicines and other medical products by the United Nations and other international organizations. It was meant to shorten the delivery time, to reduce related costs, and to improve the quality of procured medicines, vaccines and medical products.

Since then, UNDP has been directly implementing the Procurement Support Services to the Ministry of Health of Ukraine project (the Project) in the Country. The overall objective of the Project was to strengthen the national health care procurement system and thereby improve the effectiveness of diagnosis and treatment of the patients in the Country. The specific objectives of the Project were: (i) to procure medicines and medical products for the National Public Health Programmes for 2015 and ongoing years as needed; and (ii) to strengthen the capacity of the Ministry of Health of Ukraine to ensure transparency, accountability and effectiveness of the public procurement of medicines and other medical products.

II. Audit results

Satisfactory performance was noted in the following area:

- **Financial management:** The review of payments through the verification of a sample of vouchers did not indicate any significant concerns regarding the reliability and integrity of financial and operational information.

OAI made three recommendations 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:

- (a) Finalize the transition plan (Recommendation 1).
- (b) Update the results and resources framework and align it with the Project's objectives (Recommendation 2).
- (c) Develop a standard operating procedure (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Capacity development and transition strategy

Issue 1 Transition plan not finalized

The 'UNDP Programme and Operations Policies and Procedures' indicate that national implementation is the standard for programme activities, and direct implementation by UNDP is an option in situations when national institutions, United Nations agencies, or civil society organizations have limited capacity to implement the

programme activities. The Office should specify the transition arrangement to sustain project results, including strengthening national capacity and ensuring national ownership.

Since 2015, the Project had taken a number of steps to support the capacity development of relevant government entities, as follows:

- Trained the government counterpart in sustainable procurement in the health sector, anti-corruption, national legislation and international practices in public procurement.
- Assessed and identified potential options of transition (e.g., establishment of “Central Procurement Agency” and/or Pharmaceutical Benefit Scheme).
- Provided international and national expertise for the public procurement processes digitalization and introduced e-stock initiative to the Ministry of Health.
- Provided national expertise on legal review of public procurement, intellectual property and patent legislation improvements, and sectorial anti-corruption program development.
- Coordinated UNDP-UNICEF-WHO missions and presented the common United Nations strategy on capacity-building to the Government.

However, the Office had not completed a transition plan for the Project as required. According to the project document, the Project as well as the temporary implementation of public procurement procedures for medicines and other medical products by the United Nations and other international organizations, would end on 31 March 2019.

Additionally, the audit team noted that a risk assessment had not been carried out as part of the transition planning, which could have helped identify and mitigate risks in the following areas:

- identifying mechanisms and the entities to take over;
- establishing targets and milestones during the transition period; and
- identifying activities required to build the capacity of the national entity(ies) to be ready to take over at the closure of the Project.

The Office explained that a transition plan was being developed as part of the Ministry of Health’s working group on public reform where UNDP was a core member. In addition, the Office stated that it supported the government counterpart to draft the transition plan and different scenarios had been developed. These were being discussed with the government counterpart.

In the absence of a transition plan, the functions carried out by the Office may not be effectively taken over by the national partner, which could negatively affect procurements of medicines and medical products.

Priority	Medium (Important)
Recommendation 1:	
The Office should, in coordination with government counterpart, finalize the transition plan, including carrying out a risk assessment to identify and mitigate risks that may affect effective procurement of medicines and medical products.	

Management action plan:

The transition/exit strategy is being developed as a part of the Ministry of Health's working group on public procurement reform.

In partnership with the Ministry of Health and other key stakeholders, the Office will continue to undertake a series of steps to ensure proper transition. The Office will continue to support the Government to implement the steps envisaged in the road map. Detailed documentation of the risks (reputational, operational, legal, etc.) will continue to be conducted to further elaborate on any potential mitigation measures.

Estimated completion date: February 2019

B. Programme management

1. Project approval and implementation

Issue 2 Weaknesses in the Project's results and resources framework

According to the 'UNDP Programme and Operations Policies and Procedures', offices should ensure that indicators are SMART (specific, measurable, attainable, relevant and time-bound), provide accurate baselines, and targets are underpinned by reliable evidence and data.

The Office explained that monthly and annual reports were submitted to key national counterparts about the results of the projects as they were designed in the results and resources framework. However, the review of the established indicators in the project document's results and resources framework disclosed that only the percentages of "agreed items and volumes procured" and "expenditure per programme" were included. Indicators relating to the main objectives of the projects (i.e., reduction of delivery time and the costs, and to improve the quality of procured medicines, vaccines and medical products), were not reflected in the results and resources framework.

Further, there was no comparison between the different procurement cycles of the lead-time related to the procurement of similar products. Also, the Office did not carry out any analysis on the pricing applied for similar products across the different procurement cycles despite the Office having stated that the price comparison was carried out under each procurement process.

The Office explained that at the time the Project was launched in 2015, it was not possible to define a baseline for the delivery times or a baseline for price level. However, the Office was using a computerized tool to record the procurement plan and the details of each procurement transaction. This monitoring platform could have provided all relevant information for the Project's procurement activities.

The lack of reporting on the results framework may prevent the Office from demonstrating the achievements of the Project and its added value based on the defined objectives as stated in the project document (i.e., shortening the delivery time, reducing the costs and improving the quality of procured medicines, vaccines and medical products).

Priority	Medium (Important)
Recommendation 2:	
The Office should update the results and resources framework and align it with the Project's main objectives by using available data to demonstrate the achievements.	
Management action plan:	
<p>The number of medicines being procured are key and the Project reports both on a monthly and annual basis to the key donor about the results. Further, the Office has undertaken an assessment of the cost efficiency of the public procurement of medicines and related medical products. The assessment concluded that all medicine procurement conducted by UNDP was efficient: a 29 percent reduction in prices was achieved, which enabled savings of \$14.5 million annually.</p> <p>Notably, the Office has deployed a monitoring and evaluation (M&E) expert to the medicine procurement team, whose core function will be to review the results frameworks and ways on strengthening the M&E system. The deployed expert will work on updating the results and resources framework and aligning it with the main objectives of the Project. He will also conduct analysis of the data collected by the Project, highlighting the key achievements supported by evidence.</p>	
Estimated completion date: February 2019	

C. Procurement

1. Quality assurance of health products

Issue 3 Lack of standard operating procedures to meet quality assurance requirements

According to the 2015 Ukrainian Law on Public Procurement, procurements should be conducted on the basis of an agreement between organizations and the Ministry of Health of Ukraine and in accordance with the internal policies and procedures of such organizations. The 'UNDP Programme and Operations Policies and Procedures' require offices to establish controls to assure the quality of all projects.

The Office was signing annual cost sharing agreements with the Government inclusive of annexes of the lists of medicines to be procured. During the audit period, the quality assurance function was outsourced to an international individual contractor. Based on the terms of reference, the individual contractor would perform tasks in the following areas:

- Comment on the description of the medicines, such as: (i) the specifications are sufficient and clear, e.g., dosage, concentration of active ingredients, etc; and (ii) quality requirements are acceptable by recognized standards, e.g., WHO prequalified.
- Assist in the assessment of quality compliance of the offers submitted by the bidders with quality requirements defined in the tender documents, that includes the quality compliance of the manufacturer, manufacturing sites and the products.

The agreed deliverables of the individual contractor were to submit to the Office three intermediate reports and one final report. The final report would include recommendations for the improvement of product lists for future procurement.

In addition, the Office developed a “Procurement Road Map” that included:

- The quality criteria and selection requirements of the medicines to be procured.
- The quality assurance pre-shipment steps to be undertaken upon receipt of medicines in the Country.

However, the steps and requirements as described in the individual contractor’s terms of reference and the “Procurement Road Map” were not consolidated in a standard operating procedure that would describe the roles and responsibilities of individuals involved in the validation and ensure that quality assurance processes were consistently undertaken. Additionally, the Office did not develop templates to ensure all steps were appropriately documented. This would have helped optimize results in quality assurance processes.

The absence of a standard operating procedure may result in unclear roles and responsibilities in the quality assurance processes to ensure high quality medicines are provided to the end users.

Priority	Medium (Important)
Recommendation 3:	
The Office should, in consultation with the Bureau for Policy and Programme Support, develop a standard operating procedure describing the roles, responsibilities of individuals involved in the validation, and develop templates to ensure all steps are consistently undertaken and appropriately documented.	
Management action plan:	
The Office is already working to consolidate all the existing documents into an elaborated standard operating procedure that will clearly articulate the roles and responsibilities of the staff engaged in procurement and quality assurance processes. It will list the sequence of steps during the procurement and validation process.	
It covers project workflow starting from signing the agreement with the donor to the transfer of goods to the donor. This standard operating procedure is linked with other specific UNDP standard operating procedures (i.e., Market Research and Sourcing, Value for Money, Logistics) as well the Procurement Road Map.	
Further, the Office will finalize this standard operating procedure in close collaboration with all relevant units, including the Bureau for Policy and Programme Support, and Global Fund Health Implementation Support Team.	
Estimated completion date: February 2019	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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.