



AUDIT

OF

UNDP UZBEKISTAN

GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA

Report No. 1500
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Report on the Audit of UNDP Uzbekistan Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 3 to 13 August 2015, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 80864 [HIV]) managed by UNDP Uzbekistan (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 2014 to 30 June 2015. The Office recorded Global Fund-related expenditures of approximately \$10.5 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 **partially satisfactory**, which means, "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." This rating was mainly due to delays in receiving funds from the Government, and challenges in project implementation through Sub-recipients.

Key recommendations: Total = 4, high priority = 2

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 2); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3); and (c) safeguarding of assets (Recommendation 4).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Delays in receiving
funds from the
Government
(Issue 1)

At the time of the audit, the Government had not disbursed the remaining \$1 million to procure antiretroviral treatments (ARTs), which was due in October 2014. The delay could result in stockouts of ARTs in December 2015.

Recommendation: The Office should continue coordinating with the Government and the Global Fund Secretariat to accelerate the disbursement of funds by the Government, and set up a contingency plan to manage the anticipated stockout of antiretroviral treatments in the affected regions.

Challenges in project
implementation
through Sub-recipients
(Issue 2)

The review of project implementation through Sub-recipients disclosed that targets were partially achieved due to the non-endorsement of Sub-recipients, delays in the disbursements of funds and their receipt by Sub-recipients, delays by the Sub-Recipients in the submission of quarterly reports, and delays in the liquidation of advances dues to incomplete information about the reported expenditure.

Recommendation: The Office should improve project implementation through Sub-recipients by: (a) collaborating with the Government to ensure that the endorsement process and bank transfers are completed timely; and (b) providing refresher training to the Sub-recipients to ensure all expenditures are adequately supported and significant budget variances are adequately explained in the quarterly report.

Implementation status of previous OAI audit recommendations: Report No. 1241, 19 March 2014.

Total recommendations: 3

Implemented: 3

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. 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.



Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

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Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **partially satisfactory**, which means, "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." This rating was mainly due to delays in receiving funds from the Government, and challenges in project implementation through Sub-recipients.

Key recommendations: Total = 4, high priority = 2

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 2); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3); and (c) safeguarding of assets (Recommendation 4).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

I. Profile of Global Fund grants managed by UNDP Uzbekistan

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

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 30 June 2015 (in \$ '000)	Implementation Rate	Expenditures as of 30 June 2015 (in \$ '000)	Global Fund Rating as of 31 Dec 2015
UZH- H- UNDP	00080864	HIV/AIDS	1 Jan 2012	31 Dec 2015	33,513	30,244	85%	28,623	B1

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The organizational structure, staffing, and capacity development were all found to be adequate.
- (b) Financial management. The review of payment vouchers disclosed that the Office had complied with the applicable policies and procedures, and the controls were generally adequate. Furthermore, the Office's financial reporting to the Global Fund Secretariat was done in a timely manner.

OAI made two recommendations ranked high (critical) and two recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:

- (a) Coordinate with the Government and the Global Fund Secretariat to accelerate the disbursement of funds (Recommendation 1).
- (b) Improve project implementation through Sub-recipients (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Implement a quality assurance plan that will provide quality assurance testing throughout the supply chain (Recommendation 3).
- (b) Strengthen asset management (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and implementation

Issue 1 Delays in receiving funds from the Government

In September 2013, the Office and the Government Ministry signed a Memorandum of Understanding to develop a framework for cooperation towards providing ARTs, care, and support to individuals living with HIV, along with providing HIV prevention services to the Country's population. Furthermore, the Government Ministry signed a cost-sharing agreement amounting to \$2 million with the Office to procure ARTs, and agreed that ARTs procured through government funds would cover specific regions in the Country.

At the time of the audit, the Government disbursed the first tranche amounting to \$1 million, while the second tranche or remaining \$1 million, which was due in October 2014, had not been disbursed. The Office shared reports on procurements of ARTs with the Government Ministry in May 2014, January and June 2015, and the Office requested the disbursement of the remaining funds in January and June 2015. Moreover, the Office alerted the Government Ministry and the Global Fund Secretariat in June and August 2015 on the possible stockout of ARTs due to the delay of the disbursement of funds.

If the funds are not be disbursed, ARTs might not be available starting in December 2015 in the regions being funded by the Government, which could negatively affect the well-being of people living with HIV.

Priority	High (Critical)
Recommendation 1:	
The Office should continue coordinating with the Government and the Global Fund Secretariat to accelerate the disbursement of funds by the Government, and set up a contingency plan to manage the anticipated stockout of ARTs in the affected regions.	
Management action plan:	
The Office sent another letter to the Government to alert on the possible stockout and is in constant communication with the government institutions offering support in resolving internal accounting issues.	
A contingency plan has been offered by the Global Fund Secretariat to the Government Ministry. It is expected that it will result in the disbursement of funds to UNDP by 30 November 2015.	
Estimated completion date: November 2015	

B. Sub-recipient management

Issue 2 Challenges in project implementation through Sub-recipients

According to the agreement signed with the Global Fund, UNDP as the Principal Recipient may work with other organizations and engage Sub-recipients in the implementation of the Global Fund programme. UNDP Country Offices need to carefully address and manage any potential risks of working with Sub-recipients as, according to the agreement with the Global Fund, UNDP's accountability and reporting shall encompass the funds disbursed to all Sub-recipients and to the activities Sub-recipients carry out using the grant funds.

The following challenges and deficiencies in the implementation of Global Fund project activities were noted:

Targets partially achieved due to non-endorsement of Sub-recipients

According to the Office, the Sub-recipients could not receive funds from external sources without prior endorsement from the Government to implement project activities. In 2014, the Office signed agreements with 16 Sub-recipients. On 7 June 2014, the Office ascertained that the Government did not endorse six Sub-recipients with a combined budget of \$0.7 million. The Government advised the Office to transfer the related project activities and budgets to a government institution. The Office requested to continue administering funds through the six Sub-recipients for the remainder of 2014, which the Government rejected. The Office indicated that the reason behind the decision of the Government not to endorse the six Sub-recipients was not communicated to UNDP or the Sub-recipients.

The Government's non-endorsement of the six Sub-recipients led to a disruption in the provision of services to the affected population for the period from June to October 2014. Subsequently, the prescribed Global Fund targets for 2014 were achieved at 81 percent only.

As of the first half of 2015, the Office reported that it was on track in achieving Global Fund annual targets.

Delays in the disbursement to and receipt of funds by Sub-recipients

There were significant delays in the initial disbursements of funds to Sub-recipients. In 2014, the first disbursements were not received until August 2014 (delays of four months from the initiation of the transfer). In 2015, the first disbursements were received by Sub-recipients in April 2015 (delays between three weeks and two months from initiation of the transfer). The primary cause of the delays was the time taken by the Government to endorse the Sub-recipient to implement project activities (2.5 months) and the time taken by the banks to complete the transfer (5 weeks). These delays contributed to outreach workers and staff not being paid and also led to training activities being delayed.

Weaknesses in the reporting and liquidation of advances to the Sub-recipients

According to the agreement signed with Sub-recipients, quarterly Sub-recipient reports should have been submitted to the Office no later than 15 days after the end of each quarter. The liquidation of advances (included in the quarterly reports) should have been done prior to any release of new advances.

There were delays of up to seven months in the records of five liquidations of advances reviewed. The delays were mainly due to incomplete information received to support the reported expenditures. Specifically, the financial reports prepared by Sub-recipients that we have sampled did not include explanations for significant

budget variances. Furthermore, the second quarter expenditure of 2015 was reported against the first quarter budget of 2015.

Delays in liquidation of advances may affect the timely implementation of project activities. Without adequate explanations of budget variances, the Sub-recipients may be incurring unrelated costs.

Priority	High (Critical)
Recommendation 2:	
The Office should improve project implementation through Sub-recipients by:	
<ul style="list-style-type: none"> (a) collaborating with the Government to ensure that the endorsement process and bank transfers are completed timely; and (b) providing refresher training to the Sub-recipients to ensure that all expenditures are adequately supported and significant budget variances are adequately explained in the quarterly reports. 	
Management action plan:	
<p>The HIV/AIDS area and related matter of approving the NGO Sub-recipients requires high-level dialogue and a series of legislative changes that may take a long time before adoption. By 2020, under the new United Nations Development Assistance Framework, UNDP, together with other United Nations agencies in the Country will try to resolve those issues that affect not only current grant implementation but also other projects operating in the area of HIV and other communicable diseases prevention.</p> <p>The Office will also provide more rigorous and regular training to Sub-recipients to ensure that all expenditures are adequately supported and to include explanations for significant budget variances in the quarterly report.</p>	
Estimated completion date: March 2016	

C. Procurement and supply chain management

1. Quality assurance of health products

Issue 3 Weaknesses in quality assurance of finished pharmaceutical products

The Global Fund Quality Assurance Policy requires that the quality of all finished pharmaceutical products be tested at different points in the supply chain, starting from the initial receipt in country up to the delivery to end-users or patients. Materials and pharmaceutical products should be transported in such a way that their quality is not adversely affected and that appropriate storage conditions are maintained. The pharmaceutical products should be kept at a temperature of 30 degrees Celsius.

The Office completed quality assurance testing of pharmaceutical products only at the central warehouse and did not carry out testing in the regions. The Office explained that existing legal constraints did not allow for conducting quality assurance activities in the warehouses and storage facilities in the regions at any given time.

The risk was managed by not holding stocks of pharmaceutical products at the regional warehouses for more than six months.

Additionally, although the temperature during the summer (June through September) often exceeded 30 degrees Celsius, the Office did not have refrigerated trucks to transport pharmaceutical products. The Office explained the risk was managed by minimizing the transportation of finished pharmaceutical products during the summer months. In 2015, the Global Fund provided a budget to purchase two refrigerated trucks for which the procurement was ongoing. Therefore, OAI did not make a recommendation in this regard.

Not carrying out appropriate testing throughout the supply chain may lead to the distribution of low quality or damaged finished pharmaceutical products.

Priority	Medium (important)
Recommendation 3:	
The Office should implement a quality assurance plan for the pharmaceutical products that will provide testing throughout the supply chain.	
Management action plan:	
The Office contacted the local regulatory authority for contracting purposes so that testing of pharmaceuticals products is done throughout the supply chain. As per the latest communication, the local regulatory authority requested the Government Ministry to allow them to conduct independent testing from the warehouses and charging the costs to UNDP. In case of a negative response due to legal constraints, the second option is to transfer funds to a government institution so that it could take over this responsibility.	
Estimated completion date: October 2015	

2. Asset management

Issue 4 Weaknesses in asset management

The agreement signed between the Global Fund and UNDP requires that assets be managed adequately by UNDP until they are transferred or disposed of.

The following weaknesses were identified during the review of asset management:

- the asset verification checklist was not dated;
- it was not clear which assets had been verified; and
- the asset register did not include asset values.

In response to the draft report, the Office explained that it was not aware of the documentation requirements when conducting the asset verification exercise. The Office further indicated that the monitoring and evaluation reports provided to the audit team included information such as venue of the verification, date, verification participants, and assets that were verified during monitoring and evaluation visits (including asset description, UNDP tag number, serial number and location).

Weak asset management increases the risk of assets being lost or stolen.

Priority	Medium (Important)
Recommendation 4: The Office should strengthen asset management by: (a) ensuring all asset verification checklists are dated; (b) documenting which assets have been physically verified, including any discrepancies; and (c) updating the asset listing to include asset value information.	
Management action plan: The Office will strengthen asset verification immediately. Estimated completion date: October 2015	

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.