



AUDIT

OF

UNDP COUNTRY OFFICE

IN

UZBEKISTAN

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Report on the Audit of UNDP Uzbekistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Uzbekistan from 8 to 24 June 2020. 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 – planning and risk management, and organizational chart and overall staffing
- (b) Development activities – Country Programme, implementation modalities and projects administration
- (c) Operations – procurement and finance

OAI designed four performance audit questions to guide the review of the following areas and sub-areas:

- (a) Governance:
 - (1) Were the Office's 2019 strategic objectives clearly set in line with the Country Programme?
- (b) Development activities:
 - (2) Were the required financial and human resources properly identified and adequate for programme implementation?
 - (3) Were the programme outputs in line with the strategic objectives and was project implementation adequately and timely monitored?
 - (4) Was the Office able to deliver on the programme outcomes?

The audit covered the activities of the Office from 1 January 2019 to 29 February 2020. The Office recorded programme and management expenses of approximately \$20 million. The last audit of the Office was conducted by OAI in 2016.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe and petty cash contents were not verified.
- (f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance 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 = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two 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 Government Contributions to Local Office Costs (GLOC) arrears, and inefficiencies in the procurement of pharmaceutical products.

The two recommendations aim to ensure the effectiveness and efficiency of operations and compliance with legislative mandates, regulations and rules, policies and procedures.

There is also an issue caused by factors beyond the control of UNDP, regarding the value added tax refund (VAT) process not being in place (see Issue 2), for which a comment was provided.

Management comments and action plan

The Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Tashkent, Uzbekistan and its Country Programme covered the period 2016–2020 with the following development priorities:

- (a) inclusive economic development, with a focus on employment and social protection;
- (b) environmental protection to ensure sustainable development;
- (c) effective governance to enhance public service delivery; and
- (d) protection of rights.

At the time of the audit, the new Country Programme for the period 2021–2025 was being developed. During the period from January 2019 to February 2020, the Office spent \$18.7 million on development activities, an increase by 0.5 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure for the year ended December 2019 \$million	Expenditure for the two-month period ended February 2020 \$million
Preventing Corruption	2.14	0.02
Rule of Law Partnership in Uzbekistan	1.96	0.03
Sustainable Management of Water Resources	1.69	0.05
Sustainable Rural Housing and Settlements	1.57	0.03
Sustainable Development of Mountain Ecosystems	1.48	0.03
Total	8.84	0.16

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period \$million
European Union	11.00
Global Environment Fund	7.53
Government of Uzbekistan	3.80
Total	22.33

II. Audit results

Satisfactory performance was noted in the following areas, arranged according to their respective performance audit questions:

- (a) Governance

- (1) Were the Office's 2019 strategic objectives clearly set in line with the Country Programme?

The Office's 2019 strategy note described integrated solutions with clearly set objectives. These solutions and objectives were consistent with the Country Programme and Integrated Work Plan for 2019 that were based on the United Nations Development Assistance Framework (UNDAF) for the Country.

(b) Development Activities

- (2) Were the required financial and human resources properly identified and adequate for programme implementation?

The Office was facing staffing constraints at the time of the audit, which were being addressed sufficiently and did not impact the delivery at the time of the audit. There were three vacant posts under recruitment and there was a need to strengthen the monitoring and evaluation function in the Office. The Office had a \$16.4 million initial delivery target for 2020 that was revised to \$21.9 million in April due to the COVID-19 response. As of early June 2020, the programme delivery was \$9.5 million, 43 percent of the revised delivery target. The Office launched new projects due to increased resource mobilization efforts. In terms of staffing and financial resources, the Office had already taken preliminary actions to reorganize the Office's structure and was going to initiate a functional review before the end of 2020. Key considerations were: (i) the focus and priorities of the new Country Programme; (ii) the financial sustainability of the Office; and (iii) a strong project pipeline.

- (3) Were the programme outputs in line with the strategic objectives and was project implementation adequately and timely monitored?

The review showed that the programme outputs were in line with the strategic objectives documented in the Country Programme. Project implementation was adequately and timely monitored through quality assurance, mid-term reviews, visits and spot checks conducted and supported by written reports. In certain cases, private companies were hired to support the monitoring and inspection of the implementation of projects. Good cooperation and coordination with the project boards and partners were also noted. The Office's delivery rate achieved the target for 2019.

- (4) Was the Office able to deliver on the programme outcomes?

The Office was able to deliver on the programme outcomes documented in an updated action plan. The Country Programme and its outcomes were updated through the 'Action-oriented Roadmap on further cooperation between Uzbekistan and the United Nations System for 2017–2020', listing all current and future projects, and reflecting more updated priorities.

OAI made two recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

- (a) Agree with the Government on a mechanism and timetable to recover the Contribution to Local Office Cost cash targets (Recommendation 1).

- (b) Provide technical guidance on planning and forecasting of pharmaceutical and health products, including stock management in accordance with the agreed provision of support services. (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Operations/Finance

1. Office Budget and Cost Recovery

Issue 1 Government Contributions to Local Office Costs (GLOC) arrears

In accordance with the provisions of the Standard Basic Assistance Agreement that governs UNDP operations in programme countries, host governments are expected to contribute towards the local costs of Country Offices. The contributions have monetary (cash) and non-monetary (in-kind) components calculated on an annual basis, considering actual UNDP operating and staffing costs.

From 2015 to 2018, the Office had to rent office premises, as the premises offered by the Government did not meet the Minimum Operating Security Standards. This resulted in GLOC arrears amounting to \$569,503. Starting in 2019, the Office occupied the rent-free premises provided by the Government.

Efforts to collect the total GLOC amount due from the Government were continuously being made by the Office, with the latest communication dated 8 June 2020.

Failure to collect GLOC may negatively impact the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 1:	
The Office, with support of the Regional Bureau for Europe and the Commonwealth of Independent States, should agree with the Government on a mechanism and timetable to recover the Government Contribution to Local Office Costs cash targets.	
Management action plan:	
The Office will continue pro-active communication with the Government. GLOC follow-up was raised again during a recent meeting with the Government, agreeing for a detailed technical meeting to explain the methodology and the details of the calculation of the GLOC amounts. The Office will continue following up with the Government to recover the GLOC amount.	
Estimated completion date: April 2021	

2. Accounts Receivable

Issue 2 Value added tax (VAT) refund process not yet in place

The UNDP Standard Basic Assistance Agreement signed in 1993 between the Government and UNDP exempts the Office from taxes, including the VAT. The 'UNDP Programme and Operations Policies and Procedures' state that in most countries, business units may be required to pay indirect taxes, such as VAT, and further seek reimbursement. In these cases, governments are required, under the 'Convention on the Privileges and Immunities of the United Nations', to provide a mode of reimbursement.

In January 2020, the VAT rules were revised and previously exempted organizations, including UNDP, were required to start paying VAT on purchases of goods and services, and were entitled to a VAT refund. As of 30 June 2020, the Office had recorded VAT (receivable) amounting to \$125,275. The Office was informed that the Government was still working on the mechanisms of the VAT refund procedures.

The Office drafted an internal standard operating procedure on VAT refunds that would need to be aligned with the VAT claiming procedures regulated by the Government.

Since the VAT rules had impacted the whole United Nations system, the Resident Coordinator Office was in continuous dialogue and follow-up discussions with the Government on the recovery mechanism.

Delays in the VAT refund procedures established by the Government may negatively affect the Office's cash flow.

Comment:

OAI acknowledged the actions taken by the Office, individually and in collaboration with the Resident Coordinator Office and other UN agencies, to follow up on the establishment of the VAT reimbursement mechanism by the Government. Furthermore, the Office already drafted a standard operating procedure in anticipation of the VAT refund mechanism. OAI also noted that the issue was caused by factors beyond the control of the Office and will have to be addressed on a UN level. Therefore, no recommendation is being made.

B. Operations/Procurement

1. Goods and Services

Issue 3 Inefficiencies in the procurement of pharmaceutical products under support services

In line with the 'Memorandum for provision of management and other support services' signed between the Office, and the Government as the Principal Recipient of a Global Fund grant, the Office would provide, among others, procurement support and technical assistance in planning and forecasting of the Country's needs for antiretroviral medicines and other health products. Meanwhile, the Government would provide the Office with its procurement requirements and budget (at least eight months prior to

the planned use), and consumption data based on stock-management analysis, needs assessment and forecasting.

The Office purchased pharmaceutical products totalling \$4.8 million in 2019 as part of the support services provided to the Government. The review of a sample of four procurement cases amounting to \$3.5 million disclosed that delays were experienced in two procurement cases totalling \$1.2 million, due to late receipt of government requirements and funds, as well as a global shortage of an active pharmaceutical ingredient. To avoid stock-out for one product that had a target population exceeding 3,500 beneficiaries, the Office procured two months of emergency supply from a separate source at a cost that was \$299,600 higher than the long-term agreement set price.

Delays in the supply of pharmaceutical products increase the costs of the products and could impact treatment to beneficiaries.

Priority	Medium (Important)
Recommendation 2:	
To enhance the efficiency and value for money of the procurement process for pharmaceutical products, the Office should provide technical guidance on planning and forecasting of pharmaceutical and health products, including stock management in accordance with the agreed provision of support services.	
Management action plan:	
The Office will continue to provide guidance to the Principal Recipient of the Global Fund, in collaboration with the UNDP Global Health Implementation Support Team. A joint work plan will be developed with the Principal Recipient to improve planning and increase efficiency of procurement services including the adequate planning, effective procurement process and contract management with the suppliers for the timely delivery of goods. The Office will continue to highlight to the Principal Recipient the importance of proper planning and timely inputs for efficient procurement of pharmaceutical and health products and sufficient buffer stocks.	
Estimated completion date: August 2021	

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 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 result in 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.