

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP KYRGYZSTAN

GRANTS FROM THE GLOBAL FUND

Report No. 2058
Issue Date: 8 January 2020

Report on the Audit of UNDP Kyrgyzstan Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 30 September to 11 October 2019, conducted an audit of two grants from the Global Fund (Output Nos. 101079 and 110810 [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, risk management, staffing and performance management, capacity development and transition strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- (d) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, use of individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and
- (e) financial management (revenue and accounts receivable, expenses, and reporting to the Global Fund)

The audit covered the Global Fund-related activities of the Office from 1 January 2018 to 30 June 2019. The Office recorded Global Fund-related expenses of approximately \$10.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2016.

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/some improvement needed**, which means "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." This rating was mainly due to inadequate capacity assessments of Sub-recipients, weaknesses with regard to the implementation of the quality control plan for health products, and inadequate management of inventory of health products.

Key recommendations: Total = 6, high priority = 3

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Effectiveness and efficiency of operations	2, 4	Medium
	6	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 5	High

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. The high (critical) priority recommendations are presented below:

Inadequate capacity assessments of Sub-recipients (Issue 3)

The Office had not conducted sufficient capacity assessments of the 13 government entities and 9 NGOs using the standard Sub-recipient Capacity Assessment Tool prior to contracting them.

Recommendation: The Office should strengthen Sub-recipient capacity assessments and oversight by completing the assessments of Sub-recipients using the Capacity Assessment Tool and using the results to develop a capacity development plan.

Ineffective implementation of the quality control plan (Issue 5)

A review of the control testing activities disclosed that the quality control plan for 2019 had not been implemented. The plan required testing of products upon arrival which was not completed.

Recommendation: The Office should strengthen the quality control process by ensuring the implementation of a quality control plan that is aligned to the procurement schedule and inventory monitoring, to enable testing of pharmaceutical products prior to usage.

Inadequate management of inventory of health products (Issue 6)

A review of inventory records noted that stocks for five TB pharmaceuticals had been fully depleted in the central warehouse as at 4 October 2019. Additionally, a review of the central warehouse distribution records in 2019 disclosed discrepancies for two of four sampled Sub-recipient reports provided by the Office in October 2019. Furthermore, an inspection of inventory in six Sub-recipient locations noted variances in 4 of 29 inventory items valued at \$4,550. Stockout was also noted at one Needle Exchange Point (NEP) sampled by the audit team, which only had one health product (2 mL syringes) out of nine health products listed in its September 2019 report to the Office. Finally, 6 million alcohol tissues for use with needles in the central warehouse had not been distributed to the NEP. The Office advised that this was due to the delayed reporting by the NEP, which interrupted the continuous supply of health products to its beneficiaries.

Recommendation: The Office should strengthen the inventory management and distribution system by establishing an effective mechanism for timely recording the delivery notes in the Sub-recipient's health products register and following up on reporting discrepancies and adjusting procurement plans based on usage requirements.

Implementation status of previous OAI audit recommendations: Report No. 1742, 26 January 2017.

Total recommendations: 1

Implemented: 1

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.

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 is enclosed in a black rectangular box. The signature is stylized and appears to read 'H. Ostveiten'. Below the signature, the name and title are printed in black text.

Helge S. Ostveiten
Director
Office of Audit and Investigations