

Internal Audit of the Uzbekistan Country Office

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and Investigations



Report 2019/12

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Uzbekistan Country Office. The audit team visited the office from 3 to 14 June 2019, and the audit covered the period from 1 January 2018 to 14 June 2019.

The 2016-2020 country programme has three main programme components: *Child health and well-being*, *Quality learning for all*, and *Child protection*. The office's budget for 2018 was US\$ 7.8 million, of which US\$ 5.3 million was for these three components; *Child health and well-being* accounting for nearly 70 percent of this. In connection with this programme component, the office was mobilizing resources and implementing or supporting a number of activities towards the strengthening of the decentralized health system. The most notable included renovation, construction and equipping of cold-chain stores.

The UNICEF country office is in Tashkent. It has 40 approved posts (nine international professionals, 14 national officers and 17 general service posts).

The audit found a number of areas where controls were functioning well. The office structure was appropriate for the programme, which was based on adequate situation analyses and was planned through a participatory process involving relevant stakeholders. Advocacy and communication was based on sufficient evidence, generated by research and studies. The office had achieved its funding target, and in 2019 it strengthened its donor reporting processes. There were adequate systems for budget and grant monitoring. There were also adequate and effective controls over the procurement of goods and services.

Action agreed following the audit

The audit also identified areas where further action was needed to better manage risk to UNICEF activities. The most notable of these areas included the management risks to the implementation of the renovation and construction activities and measures to improve detection and reporting of sexual exploitation and abuse. None are rated as high priority – that is, to address issues requiring immediate management attention.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the country office's governance, risk management and internal controls were generally established and functioning adequately during the period under audit.

The Uzbekistan Country Office, the Europe and Central Asia Regional Office (ECARO) and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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Background

The Uzbekistan-UNICEF 2016-2020 country programme has a budget of \$19.295 million from regular resources (RR), subject to the availability of funds, and \$13.5 million in other resources (OR).¹

The UNICEF country office is based in Tashkent. It has 40 approved posts (nine international professionals, 14 national officers and 17 general service posts). The office's budget for 2018 was US\$ 7.8 million.

The CPD² clearly states the need for UNICEF intervention in three priority areas: child health and well-being, quality learning for all, and child protection. The 2018 budget for these three components was US\$ 5.3 million, of which child health and well-being accounted for nearly 70 percent. There were also two cross-sectoral components; these support a country office's programme implementation through provision of management, infrastructure and common functions such as communications. These had a total budget of US\$ 1.9 million.

The CPD states that disparities in poverty rates remain high, while social assistance provided to children and their families has been steadily decreasing in recent years.³ Estimates of under-five mortality is 43 per 1,000 live births, and infant mortality is 37.⁴ Neonatal mortality remains a cause for concern, with the leading causes including birth-related complications and neonatal infections. UNICEF global malnutrition estimates for 2008-2013 show that 20 percent of children in the country are stunted and 4 percent are underweight. Poor childcare practices at home are a factor in child survival and well-being.

To help address these issues, the office was mobilizing resources and implementing or supporting several activities to strengthen the decentralized health system. The most notable and financially significant of these included the renovation, construction and equipping of cold-chain stores. The office also advocated and supported development of new policies with requisite budgets and provided technical assistance. These activities aimed to enhance capacities of district-level health service managers and strengthen data collection and reporting for MCH and preventive services. Other activities aimed to generate demand for preventive mother and child health services and increase breastfeeding and healthy feeding practices for infants and young children.

Audit objectives and scope

The objective of the audit was to provide independent assurance as to whether there were adequate and effective governance, risk management and control processes to ensure: achievement of the office's objectives; reliability and integrity of financial and operational

¹ RR are core resources that are not earmarked. OR are contributions that may have been made for a specific purpose such as a programme, strategic priority or emergency response, and may not always be otherwise used without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget.

² The CPD is the Country Programme Document, the document that is formally submitted for approval by UNICEF's Executive Board.

³ UNICEF Uzbekistan, *Social Assistance for Low Income Families in Uzbekistan* (2013).

⁴ United Nations Inter-Agency Group for Child Mortality Estimation, *Level and Trends in Child Mortality* (2013).

reporting; effectiveness; efficiency of operations and economic acquisition of resources; safeguarding of assets; and compliance with relevant policies.

The audit focused on the two major programme components: child health and well-being and quality learning for all. The office was mobilizing resources and implementing or supporting a number of activities towards the strengthening of the decentralized health system. The most notable of these and hence the focus of this audit included renovation, construction and equipping of cold-chain stores.

Audit observations

Project management

The country office has signed three funding agreements with a donor to implement several activities towards the strengthening of the health system. The first agreement was signed in September 2016 for US\$ 13.8 million, the second one was signed in May 2018 (US\$ 427,580) and the third was signed in November 2018 for US\$ 217,620. The desired outcomes for these activities are set out in the Table 1 below.

The activities were being jointly implemented by UNICEF, the World Health Organization (WHO) and the Government. Implementation began in 2016 and is expected to be completed in 2020. The budget is also shown in the table; as of the time of the audit in June 2019, US\$ 6.4 million of the office's share of the budget had been utilized.

Table 1: Description of outcomes and 2016-2020 budget

Outcome	UNICEF (US\$)	WHO (US \$)	Total (US \$)
Increase performance and sustainability of immunization services	10,236,395	1,629,524	11,865,919
Improve management of public healthcare services	0	1,079,054	1,079,054
Increase demand for preventive mother and child health (MCH) services	923,992	0	923,992
Strengthen data collection and reporting for MCH and preventive services	938,844	0	938,844
Programme management	1,659,471	751,200	2,410,671
Total	13,758,702	3,459,778	17,218,480

Source: 2016 donor agreement

The achievement of the first outcome, increase performance and sustainability of immunization services, requires planning, budgeting, procurement of goods and services, management of contracts and consultants, monitoring, accounting and reporting. Given the proportion of budget allocated to this outcome this audit focused on one component of this outcome: UNICEF's management of the renovation, construction and equipping of cold chain stores.

The audit noted the following.

Project governance: The Government has established an interagency coordinating committee (ICC) comprising 10 representatives from relevant line ministries, as well as UNICEF and WHO. The ICC reviews and endorses workplans, budgets, and progress reports prepared by UNICEF and WHO. In May 2018, the ICC also conducted an appraisal of the project. The Government, in agreement with UNICEF and WHO, had established a technical working group that was also

monitoring and reporting to the ICC on the implementation of the project and providing technical support to the project's implementation. Overall, the audit considered the governance arrangements as adequate and effective.

Project planning: Project planning was generally adequate. It involved all relevant stakeholders, including the donors, Government, WHO and UNICEF. Technical expertise was used as needed. The overall project plan was developed by a consultant hired by the donor, while a consultant hired by the UNICEF office drew up the detailed construction/renovation plans.

The original project budget had been prepared by a consultant hired by WHO, using outdated data obtained from the Government. However, after further review, adjustments were made to budget lines without any impact on the original budget of US\$ 17.2 million. The changes in the prices of specific items were discussed and agreed during meetings with the relevant donor and stakeholders. During a joint appraisal meeting, the budget was reviewed and an updated budget for 2019-2020 was prepared. As required by national legislation, all renovation and construction activities and bills of quantity were reviewed and endorsed by the State Construction Committee.

Project implementation and monitoring: The original plan had been to renovate 10 sites and construct 11 new ones. After further assessment, eight of the 10 sites that the project originally planned to renovate were found to be beyond renovation and needed reconstruction. There was therefore a total of 19 sites planned for construction and two sites planned for renovation. As at the time of the audit in June 2019, seven sites were reported as completed and handed over to the Government, and another three reported as completed but not yet handed over. Construction at three other sites was reported as ongoing and the processes for the sourcing of construction was ongoing for the remaining eight sites.

A review of the monitoring activities conducted by the country office showed that each construction site had been visited twice each month by the office's project team and representatives of relevant Government agencies, including the Ministry of Health (MoH) and the Government architects. As of June 2019, the country office had made 144 monitoring visits, and a licensed company a further 97 visits, to assess progress and compliance with initial project design and bills of quantity.

The audit visited the Tashkent region site and noted that the facility had indeed been completed and handed over to the Government, as reported. Cold-chain stores had been completed on schedule, and their equipment and temperature mapping were also expected to be on schedule. The audit reviewed the monitoring reports prepared by the country office project team for the Tashkent site, and found they contained all relevant information such as the dates of the visits, observations, recommendations, and information on relevant stakeholders contracted during visits. Monitoring of expenses was done by the office's construction engineer.

Project management capacity: Although the project had begun in 2016 and but was not due to be completed until 2020, the office was still identifying and filling capacity gaps. The initial budget for the project had three project-management posts. However, following negotiation with the donor, one additional post for an engineer was added in May 2019, to perform tasks that had hitherto been done by a consultant.

In addition, the office told the audit that it needed an international construction engineer to

review the proposals for the national cold site, and to monitor the construction of the remaining sites. The office had also recruited an international procurement specialist who was to take up their post in July 2019, stating that it needed capacity in supply specifically for the construction project. In the meantime, the office had brought in a supply specialist from the Pakistan country office on stretch assignment in October and December 2018.

Good project management practices require the identification and sourcing of skills at the outset of a project. However, there was no clear evidence that this had been done. While no negative impact was noted on the project's implementation, the audit was concerned that these staffing decisions towards the end of the project might diminish efficient use of resources. It could also constrain the office in its realignment of staffing after the completion of the project (though in this regard, the audit noted that the office was being prudent about the types of contracts provided to the staff).

Procurement: The country office had obtained blanket local procurement authorizations for the renovation and construction activities. This required the participation of UNICEF's Supply Division (SD) and the Europe and Central Asia Regional Office (ECARO) in certain construction-related procurement activities, including the contract review committee (CRC) and financial assessment.

The audit reviewed three construction contracts, and noted that they had included competitive bidding processes that had benefited from active participation from SD and ECARO. Based on audit work done, we saw no issues/risks related to the procurement processes employed.

Project risk management: There were several fora in which challenges that arose during the renovation and construction activities were discussed. This included meetings of the Country Management Team (CMT),⁵ and of the ICC and technical working groups. The submissions to the CRC for the procurement of services also identified potential risks, as well as mitigation measures, associated with the proposed contracts. However, the office did not conduct a comprehensive assessment and establish a consolidated register of risks and related mitigating measures for the project. This could lead to inadequate risk identification and failure to adopt adequate measures to mitigate potentially significant risks to implementation, as well as increasing the potential for fraud and waste.

Agreed action 1 (medium priority): The office should formally assess the risks to the implementation of the renovation and construction activities and develop a register of risks and related mitigating measurement to ensure cost-effective implementation of the project.

Responsible staff members: Chief of Operations; Deputy Representative; Risk Focal Point; Chief of Health

Date by which action will be taken: 31 December 2019

Programme monitoring

UNICEF requires country offices to monitor programme implementation through several mechanisms including: HACT assurance activities (which is covered in a separate observation

⁵ An office's CMT advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives.

on the *Managing risks to cash transferred to partners*) and regular reviews and field visits.

Regular reviews: A review of programme sections' annual workplans showed that each include clear indicators and targets. Selected workplans were monitored through the results-assessment module (RAM), the online portal to which UNICEF offices upload their results. Performance against the indicators and targets was discussed during the respective section's monthly meetings and quarterly by the CMT. Programme implementation was also covered during mid-year and end-year reviews.

The country office also held joint annual review meetings with line ministries to discuss the implementation of the 2018 annual workplans and the joint workplan for 2019-2020. The reviews provided details on the achievements in 2018, and highlighted activities postponed to 2019. In 2018, the office focused on the re-prioritization of the country programme through a Strategic Moment of Reflection, instead of the regular mid-year review.

Field visits: The country office staff made field visits to assess implementation of activities by partners and verify their reported status. The audit reviewed a sample of field-monitoring visits by two programme sections: Education, and Health.

In 2018, the Education Section conducted two visits, and the Health Section made 71 visits.⁶ The audit reviewed five field-visit reports (the two for the Education Section, and three of the Health Section's). It noted that the visiting teams had assessed the implementation of activities against established plans and obtained feedback from partners and beneficiaries. The Health Section reports included recommendations, with assigned responsibilities and timelines for implementing them. The Education Section reports also included recommendations; however, no responsibilities were assigned, and timelines were not included.

The audit noted that the heads of programme sections were aware of their responsibility to ensure the recommendations from field visits were implemented. However, the lack of timelines for the implementation of recommendations may make it harder to take prompt corrective action.

Agreed action 2 (medium priority): The office agrees to improve reporting requirements for field visits, to ensure that timelines and responsibility for implementing recommendations from these visits are consistently established.

Responsible staff members: Representative, Deputy Representative, Chief of Operations, Finance Officer, Monitoring and Evaluation Officer

Date by which action will be taken: 31 December 2020

Results reporting

Country offices should obtain reasonable assurance regarding the accuracy and completeness of results reported to internal UNICEF management, donors, and other stakeholders. The accurate reporting of programme results is required in the office's annual report, UNICEF annual report, and donor reports. A primary source for these reports is the RAM.

⁶ The Education Section undertook advocacy activities that did not require too many field visits; the Health Section, in contrast, was involved in renovation and construction activities throughout the country, and these required intensive monitoring and oversight.

A review of the results the office had reported in the 2018 RAM noted several instances of blank fields under the education outcome. This was an indication of weak internal quality review processes for reporting against established indicators. The audit noted that the omission had been missed during reviews by the Chief of Education, the Monitoring and Evaluation section, and the Deputy Representative. For the 2018 country office annual report, the audit samples seven results statements and found one that was not adequately corroborated by the supporting documentation provided by the office.

Agreed action 3 (medium priority): The office should review and, as necessary, strengthen its internal reporting processes to ensure completeness and accuracy of information related to programme results reported in the Results Assessment Module.

Responsible staff members: Deputy Representative; Monitoring and Evaluation Officer

Date by which action will be taken: 15 December 2019

Supply planning

Supply plans should focus on major and strategic workplan activities and value-added supply interventions. They should specify when and where the supplies are required, as this has an impact on the timing of the procurement process, and the planning and budgeting of the total resources required.

The office's programme sections, supported by the operations sections, were responsible for planning for supply early during programme planning. In 2018, the office procured programme supplies valued at US\$ 17.3 million. This included information and communications equipment, office supplies, and programme supplies such as project equipment.

The country office had drawn up supply plans for the 2018 and 2019 calendar years. A review of the 2018 supply plan noted that some fields were not completed (e.g. the period of implementation, amount, stage of implementation of procurement activities, and the delivery date). The plan also lacked some of the necessary information for required supplies. This was due to poor planning, which exposed the office to risk of inadequate programme supplies and high inventory carrying costs.

The office had since taken steps to strengthen the planning process, and the 2019 plan had been properly completed. For example, in 2019, the Chief of Operations met programme sections to discuss their requirements. Also, the Chief of Operations required programme sections to prepare a note for the record explaining the reasons for requesting procurement of supplies not in the relevant supply plan. However, this improved process needed to be formalized and reflected in existing procedures.

Agreed action 4 (medium priority): The office agrees to review and, as necessary, revise existing supply standard operating procedures to reflect the entirety of the supply process.

Responsible staff members: Chief of Operations, Administrative Officer, Supply Associate

Date by which action will be taken: 31 December 2019

Partnerships

The country office worked with 19 implementing partners in 2017 (all Government partners), and 10 in 2018 (nine Government partners and one NGO). The office told the audit team that there were very few NGOs to work with. In fact, the office's risk assessment had identified as a risk the fact that there were limited independent organizations with the capacity to analyze the situation of children and women.

The risk register also stated that mitigating this risk required a strategy for promoting the establishment and strengthening of civil society. At the time of the audit, this strategy had not yet been developed. The office said that, as part of the CPD for the new country programme, it would prepare a map of civil society organizations and strengthen its partnership strategy.

Agreed action 5 (medium priority): The office agrees to pursue the planned mapping of civil society organizations and, if necessary, implement a strategy for the promotion of the establishment and strengthening of these organizations.

Responsible staff member: Deputy Representative

Date by which action will be taken: 31 January 2020

Managing risks to cash transferred to partners

To provide reasonable assurance that funds disbursed to implementing partners are used for the intended purposes, UNICEF and other UN agencies use the Harmonized Approach to Cash Transfers (HACT). This is a risk-based framework under which offices assess the risk attached to a partner and determine the most suitable type of cash transfer to be used with them, and the amount and frequency of assurance activities. The latter can include programmatic visits (which check that activities are in progress and report any constraints), spot checks of the partner's financial management, and audits.

The office made direct cash transfers worth approximately US\$ 100,000 in 2018, US\$ 460,000 in 2017 and US\$ 600,000 in 2016. However, UNICEF's Field Results Group had exempted the office from implementing HACT in full because the Government would not allow UNICEF to conduct macro assessments of Government implementing partners, or spot checks for cash transfers to them. Only programmatic visits were allowed.

As an alternative means to obtain assurance, up to 2018, Government partners were required to provide the office with all supporting documents to justify the utilization of cash transferred to them. This practice may not be efficient and effective if the number of partners and volume of cash transfers to them increase in the future.

Identifying and assessing implementing partnership risk: Although UNICEF no longer require a macro assessment, the Uzbekistan Country Office decided to join the UN inter-agency efforts to conduct one. The assessment is not expected to impact on the country office's decision regarding the amount of cash to transfer to Government partners, or the nature and extent of HACT-related assurance activities to be performed. As stated above, the Government currently does not allow UNICEF to conduct HACT-related assurance activities.

Spot checks: In 2017, the office successfully negotiated with two Government implementing partners to conduct spot checks. However, this arrangement had not been formally accepted by the Government as a general principle. The office has therefore continued to require the

partners to provide full supporting documentation. But this practice may not be efficient if the number of partners and volume of cash transfers rise in the future.

Programmatic visits: The office maintained an annual HACT assurance plan, which was discussed quarterly at CMT meetings. The audit's review of the 2017 and 2018 HACT assurance plans found that they included all programmatic visits required under the HACT framework and the office conducted significantly more such visits than the framework required in both 2017 (78 percent more) and 2018 (46 percent more).

Agreed action 6 (medium priority): The office agrees to strengthen its advocacy to the Government on full application of the HACT framework.

Responsible staff members: Representative, Deputy Representative, Chief of Operations, Finance Officer, Monitoring and Evaluation Officer

Date by which action will be taken: 31 December 2020

Prevention against sexual exploitation and abuse (PSEA)

UNICEF has a zero-tolerance policy for sexual exploitation and abuse (SEA) of children perpetrated by employees, personnel and private contractors. Like other UN bodies, UNICEF had adopted the UN Protocol on Allegations of Sexual Exploitation Involving Implementing Partners. Approved in February 2018, this protocol requires offices to establish an integrated approach and to focus more on cross-sectoral and integrated programming in the field of violence prevention, detection and response.

Uzbekistan Country Office has shared the UN Protocol with all Government implementing partners. The topic of PSEA had been discussed at two CMT meetings in 2018 and staff and partner training had been implemented. The completion rate of staff training on PSEA and Prevention of Sexual Harassment and Abuse of Authority was 98 and 100 percent respectively. Partners had also been required to complete the online e-learning course on PSEA. The partner training also covered UNICEF anti-fraud policies, ethics and prevention of harassment and abuse of authority. As the course was not available in Russian/Uzbek, the office had conducted a workshop in these languages in February 2019. There were 31 participants from the partners, and topics included definition of SEA, and UNICEF and partners' commitment to PSEA.

However, the office had not identified a focal point for PSEA and established a PSEA action plan. Neither had it established systems and processes for reviewing SEA allegations. The office explained that as many PSEA tools were not available in the Russian and Uzbek languages, it had been constrained in implementing PSEA activities.

Agreed action 7 (medium priority): The office agrees to:

- i. Designate a focal point on the prevention against sexual exploitation and abuse, with clear terms of reference, in line with established UNICEF zero-tolerance policy for sexual exploitation and abuse (SEA).
- ii. Put in place a PSEA action plan.

Responsible staff members: Representative, Deputy Representative, Chief of Operations, Regional PSEA Contact

Date by which action will be taken: 31 December 2020

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal auditing practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented in the Summary fall into one of four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control

processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed **significant** improvement to be adequately established and functioning.