“Health Services Improvement Project”
Grant No. H8790-TJ, Grant No. TF014871,
Grant No. D070-TJ, Credit No. 5666-TJ

MANAGEMENT LETTER

Based on the results of the audit of
the project financial statements
for the year ended December 31, 2017
To the management of the Project “Health Services Improvement Project” under the Ministry of Health and Social Protection of the Republic of Tajikistan and the State Committee on Investments and Government Property Management of the Republic of Tajikistan:

Dear Sirs and Madams,

In planning and performing our audit of the project financial statements of the “Health Services Improvement Project”, Grant No. H8790-TJ, Grant No. TF014871, Grant No. D070-TJ, Credit No. 5666-TJ (the “Project”) for the year ended December 31, 2017, we considered the internal control structure in order to determine the scope of our audit procedures for the purpose of expressing an opinion on the project financial statements, but not however to provide assurance on the internal control structure.

In connection therewith, we submit this report containing our comments, observations, and recommendations concerning the internal control structure and certain accounting, administrative and operating matters, which resulted from our audit of the project financial statements for the year ended December 31, 2017. Definition of the expression “internal control structure” used in this letter is set in Appendix A.

This letter is intended solely for the information of, and use by, the Management and others within the Project and is not intended to be, and should not be, used by anyone other than these specified parties. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

We would like to thank the management and personnel of the Project for their assistance and co-operation during the audit. We acknowledge that the Project Implementation Group has applied efforts to develop and strengthen its planning processes and internal control system.

Sincerely yours,

Baker Tilly Klitou and Partners SRL

Chisinau, the Republic of Moldova

June 1, 2018
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INTRODUCTION

This letter highlights our observations and recommendations we believe warrant the “Health Services Improvement Project”, Grant No. H8790-TJ, Grant No. TF014871, Grant No. D070-TJ and Credit No. 5666-TJ (the “Project”) management’s attention and would facilitate improved effectiveness and efficiency of the Project’s operations. Certain comments made relate to situations, which warrant immediate attention, while others relate to enhancements of policies and practices and should be addressed according to their perceived significance. The management should prioritize the observations and implementation of the recommendations accordingly.

Although the Project has improved some of their internal control procedures, we still believe that there are certain areas where additional follow-ups are necessary. Included in this letter are a summary of our recommendations.

General presentation – classification of comments and recommendations

High Priority: These risks are significant for the Project, so they require immediate attention from the management to determine any effects to date, an agreed program for a prompt resolution and ensure that they will not recur in the future.

Medium Priority: These risks do not necessarily require immediate attention but must be managed in a timely manner. In addition, they relate to activities that (currently) are not material but may be material when these activities are developed.

Low Priority: When there is a deficiency, but there is a compensatory control, while not perfect, provides a degree of assurance that, the Project will not have a material loss.
1. Tender documents - absence of notifications of the results of tenders

<table>
<thead>
<tr>
<th>Observation</th>
<th>Recommendation</th>
<th>Priority</th>
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<tbody>
<tr>
<td>During performance of audit procedures on testing tender documents of the Project we have identified absence of notification on the results of tender for procurement of Consultant Services – Operational audit (Contract No. MOHSP/HSIP/CQS/016/001).</td>
<td>We recommended Management of the Project to strengthen the control and timely publish results of tenders in accordance with purchase method and to take into consideration all requirements WB Guidelines on selection and employment of consultants.</td>
<td>Medium</td>
</tr>
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<td>According to paragraph 7 of Appendix I World Bank’s Guidelines on selection and employment of consultants: “The Borrower shall publish information on UNDB online for all contracts when the short list included any foreign firm and all single-source selection contracts awarded to foreign firms, and in the National press all contracts where the short list comprises only National firms and all single-source selection contracts awarded to National firms...”</td>
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</table>

Management response

Bid opening results of the above mentioned tenders in National press on procurement of Consulting services – Operational audit (Contract No. MOHSP/HSIP/CQS/016/001) were sent to all bidders in written form, which does not violate the principle of transparency and does not lead to financial damage. Currently, all the results of bid openings have been published in the National press according to paragraph 7 of Appendix I World Bank’s Guidelines on selection and employment of consultants: World Bank’s Guidelines on Procurement of Goods, Works, and Non-consulting services: “The Borrower shall publish information on UNDB online for all contracts under ICB and LIB, contracts with concessionaires under PPP arrangements and sub-projects under Loans to Financial Intermediary Institutions and Entities, and all direct contracts, except as hereunder, and in the National press for all contracts under NCB, including those awarded under Framework Agreements and under Force Account, and small value direct contracts...”
1. Tender documents - absence of notifications of the results of tenders (continued)

<table>
<thead>
<tr>
<th><strong>Observation</strong></th>
<th><strong>Recommendation</strong></th>
<th><strong>Priority</strong></th>
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<tr>
<td>During performance of audit procedures on testing tender documents of the Project we have identified absence of notifications on the results in National press of tender for procurement of Works – Construction of 2 RHC in Devashtich rayon (Contract No. MOHSP/HSIP_AF1/NCBW/016/002) and Construction of 2 RHC in Ishkoshim rayon (Contract No. MOHSP/HSIP_AF1/NCBW/016/007).</td>
<td>We recommended management of the Project to strengthen the control over compliance of procedures for conducting tender in accordance with prescribed by the World Bank’s Guidelines in order to ensure transparency.</td>
<td>Medium</td>
</tr>
<tr>
<td>According to paragraph 7 of Appendix I World Bank’s Guidelines on Procurement of Goods, Works, and Non-consulting services: “The Borrower shall publish information on UNDB online for all contracts under ICB and LIB, contracts with concessionaires under PPP arrangements and sub-projects under Loans to Financial Intermediary Institutions and Entities, and all direct contracts, except as hereunder, and in the National press for all contracts under NCB, including those awarded under Framework Agreements and under Force Account, and small value direct contracts...”</td>
<td></td>
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**Management response**

Bid opening results of the above mentioned tenders in National press on procurement of Goods – Construction of 2 RHC in Devashtich rayon (Contract No. MOHSP/HSIP_AF1/NCBW/016/002) and Construction of 2 RHC in Ishkoshim rayon (Contract No. MOHSP/HSIP_AF1/NCBW/016/007) were sent to all bidders in written form, which does not violate the principle of transparency and does not lead to financial damage. Currently, all the results of bid openings have been published in the National press according to paragraph 7 of Appendix I World Bank’s Guidelines on selection and employment of consultants: ‘The Borrower shall publish information on UNDB online for all contracts under ICB and LIB, contracts with concessionaires under PPP arrangements and sub-projects under Loans to Financial Intermediary Institutions and Entities, and all direct contracts, except as hereunder, and in the National press for all contracts under NCB, including those awarded under Framework Agreements and under Force Account, and small value direct contracts...”
STATUS ON PREVIOUS YEAR AUDIT RECOMMENDATIONS

1. Calculation of quarterly performance based payment

<table>
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<th>Recommendation</th>
<th>Priority</th>
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<tr>
<td>During execution of audit procedures on payroll business cycle and while calculating accrual of bonuses of Kubodien Region in second quarter we have identified that quarterly performance based payment of one medical personnel was wrongly calculated. All calculations are made manually by the accountant based on the performance on a set of criteria agreed by the Ministry of health and social protection of the Republic of Tajikistan and the PHCs and specified in PBF Manual.</td>
<td>As for now the project is working on the IT solution which will calculate automatically quarterly performance based payment. We recommend the management of the Project to develop and implement the program as soon as possible.</td>
<td>Medium</td>
</tr>
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The amount of operation is immaterial, however the practice implemented by Management could result in misstatement of operating expenses and lead to inappropriate presentation of special purpose project financial statements as aggregated amount of payroll expenses is significant for the Company’s operations.

Management response

Upon completion of verification on the basis of indicators determination of contribution of each health workers is conducted with subsequent calculation of the basis for charging bonuses. Taxes will be deducted from this sum and bonuses will be charged to workers of Rural health centers and health houses. Calculation of the basis for bonuses is performed in a table developed in 2015 by international consultant in excel format by not an accountant but a PBF specialist in Khatlon or Sughd region respectively. It is necessary to note that payment of bonuses performed including to the teams of district health centers that carry out supervisory function. According to PBF implementation manual 5 DHC staff (manager, three deputies of him, and chief-accountant) are part of this team. Payment of bonuses inside this team is performed proportionally to their salary, and accordingly a manager of the chain receives 10% higher than the rest. Calculations for payments to DHC team are performed at the HSIP level, and this is the place where there are no any tables for calculations. It should be taken into account that the amount of payments to DHC teams does not exceed 5% from total amount of bonuses, but in abovementioned case the difference was not exceeding 0.23$. And this is the single case.

Besides, we are bringing to your notice that PBF MIS software on the basis of DHIS-2 operates since 2014. Given software automatically calculates the amount of gained funds in the breakdown of each facility as per data of internal verification. On the basis of this amount PBF consultant calculates bonuses per each health worker. To automate the process of charging bonuses to each health worker at the given moment is not possible due-to a number of objective reasons. Including the low level of knowledge of computer technologies on sites, high average age of the beneficiaries and the lack of tablets or computers at each employee (the project gave per on PC or tablet to one facility).

As to automatization of the process of tax deducting and identifying the net amount to be disbursed on each beneficiary then this process will be automated by the accounting office in the nearest time.

Status

Similar cases were not detected during audit period
Responsibility of the management, purposes and limitations inherent in the internal control structure

The following comments regarding responsibility of the management for the internal control structure, purposes and limitations inherent in the internal control structure are based on the International Standards on Auditing accepted by the International Federation of Accountants through the International Auditing and Assurance Standards Board.

Responsibility of the management

The management is responsible for development and ensuring operation of the internal control. Meeting this objective requires the management to make forecasts and estimates to determine the expected gain and costs relating to fulfillment of the policies and procedures of internal control.

Purposes

The purposes of internal control over special purpose project financial statements consist in provision of the management with sufficient but not absolute certainty in security of assets and protection from losses as a result of unauthorized use or distribution of assets and guarantee of conduct of operations on the basis of orders of the management and their proper accounting, which will ensure preparation of the special purpose project financial statements under International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

Limitations

Due to limitations inherent in any internal control structure, there is a possibility of mistakes and inaccuracies, which can remain undetected. Besides, forecasts with regard to any assessment or structure applicable to future periods can lose their significance due to changed conditions or decreased efficiency of the structure and functionality of the policies and procedures.