



AUDIT

OF

UNDP COUNTRY OFFICE

IN

KAZAKHSTAN

Report No. 1180

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Report on the audit of UNDP Kazakhstan Executive Summary

From 3 to 14 June 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Kazakhstan (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 30 April 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$15 million. The last audit of the Office was conducted by OAI in 2008.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means “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.” Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendation

The audit raised two issues and resulted in one recommendation, which was ranked medium (important) priority, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." The recommendation includes actions to address the lack of progress with the Harmonized Approach to Cash Transfers process.

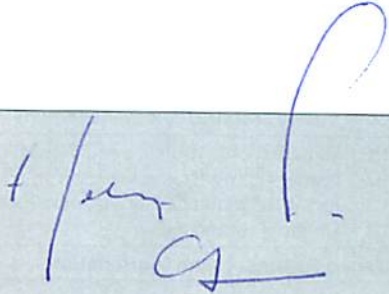
Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management.** Satisfactory. No reportable issues noted.
- **Leave management.** Satisfactory. No reportable issues noted.
- **Global Environment Facility.** No reportable issues noted.

Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 3 to 14 June 2013, OAI conducted an audit of UNDP Kazakhstan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2012 to 30 April 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$15 million. The last audit of the Office was conducted by OAI in 2008.

II. About the Office

The Office, located in Astana, Kazakhstan (the Country) was established in 1993, and at the time of the audit was working within the context of United Nations Development Assistance Framework 2010-2015, specifying common areas of interventions for United Nations agencies present in the Country. UNDP's Country Programme was built around three main areas, including: (a) economic and social well-being for all with particular attention to vulnerable groups, (b) environmental sustainability, and (c) effective governance. The main component of the programme portfolio was dedicated to environment and energy, followed by local development and democratic governance.

III. Detailed assessment

1. Governance and strategic management Satisfactory

1.1 Organizational structure and delegations of authority Satisfactory

In 2011, the Office reviewed its Internal Control Framework and adjusted it to specific Office conditions. OAI reviewed roles and responsibilities and noted that duties involving the administration of global payroll and the sign-off of bank-to-book reconciliation processes were not properly segregated. The Office indicated that these were temporary arrangements during the period when the position of Operations Manager was vacant. To ensure the adequate segregation of duties, the Office agreed to transfer the role of the global payroll administrator (which was being held by a human resources staff member) back to a finance staff member. In addition, the responsibility for the verification and sign-off of bank-to-book reconciliation processes was delegated to the Deputy Resident Representative. No other reportable issues were identified.

1.2 Leadership, ethics and values Satisfactory

OAI reviewed compliance with the financial disclosure policy and the policy regarding the reporting of outside activities, as well as the completion of mandatory ethics training and did not identify any irregularities.

The Office's Global Staff Survey for 2012 indicated lower than the corporate average scores for all 16 areas assessed. Compared to previous years, the most recent Global Staff Survey recorded a greater participation rate by office and project personnel, and was more effective in providing feedback to management. Senior management analysed the areas with ratings that were lower than average, and prepared an action plan to address concerns of office staff and project personnel.

1.3 Risk management, planning, monitoring and reporting Satisfactory

OAI's review of relevant information, discussions with senior management and programme staff members showed that the Office's risk management, planning, monitoring and reporting practices were adequate. No reportable issues were identified.

1.4 Financial sustainability Satisfactory

Extrabudgetary reserve of about \$3.2 million represented 56 months at the end of 2012, which is above the corporate required minimum level of 12 months. However, the Office expects extrabudgetary expenditure of about \$1.5 million in 2013 and \$700,000 due to the renovation of new premises in 2014. As a result, analysis indicates a decrease in extrabudgetary reserves from \$3.2 million at the end of 2012 to about \$1.7 million by the end of 2013 and to about \$1 million by the end of 2014. These deficits reflect estimated cuts in core resource allocation and put at risk the level of funding for the Office in the future.

At the time of the audit, the Office was preparing for a move to new premises, which was to be completed by the beginning of 2014. The Government fully met its commitment to Government Contributions for Local Office Costs. In September 2012, the Office received approval from the Chief Finance Officer, Bureau of Management, exceptionally authorizing use of Government Contributions for Local Office Costs of \$1.2 million for renovation

of the premises. The new premises were to also accommodate other United Nations agencies located in Astana, which agreed to contribute to the costs of the renovation. No issues were noted.

2. United Nations system coordination

Satisfactory

The United Nations Country Team has 19 United Nations and 2 sister agencies, including ILO, IOM, OCHA, OHCHR, UN Women, UNAIDS, UNDP, UNESCO, UNFPA, UNHCR, UNICEF, UNISDR, UNODC, UNV, and WHO. OAI met with two United Nations agencies, which described cooperation within the Country Team as positive. At the time of the audit, there was one joint programme totalling \$11.65 million. No reportable issues were identified.

2.1 Development activities

Satisfactory

At the time of the audit, the Office was in the process of implementing the Country Programme agreed to with the Government in the Country Programme Action Plan. The United Nations Development Assistance Framework for the period 2010-2015 was prepared with broad participation from government counterparts, United Nations agencies and other stakeholders.

OAI reviewed the United Nations Development Assistance Framework and its formulation process, assessed the joint programme formulation processes, ascertained the coherence between United Nations Development Assistance Framework outcomes and programme results, reviewed the quality of joint programming documents and reporting, and assessed the joint programme monitoring and evaluation and coordination mechanisms. No reportable issues were identified.

2.2 Resident Coordinator Office

Satisfactory

The Resident Representative, acting as Resident Coordinator, was also responsible for the Humanitarian Coordinator function. OAI reviewed the minutes of the United Nations Country Team and thematic group meetings, the Resident Coordinator Office Work Plan for 2012 and 2013 and the existing joint programmes. No reportable issues were identified.

2.3 Role of UNDP - "One UN"

Not Applicable

This area was not applicable to the audit as the Country was not a pilot for "One UN", or a Delivering as One self-starter.

2.4 Harmonized Approach to Cash Transfers

Partially Satisfactory

Issue 1 Lack of progress with Harmonized Approach to Cash Transfers

Harmonized Approach to Cash Transfers (HACT) represents an initiative and commitment of ExCom United Nations agencies (i.e. UNDP, UNFPA, UNICEF and WFP) to adopt a common operational framework for transferring cash to government and non-government Implementing Partners. Based on a risk assessment methodology, cash transfers by participating United Nations organizations are done in the same way and with a standard format, and focus on using national systems and working with partners to enhance their financial management capacity. Such harmonization is expected to reduce transaction costs and lessen the burden on its

Implementing Partners of complying with multiple procedures and rules for the participating United Nations organizations.

The Office did not ensure progress towards full implementation of the common operational framework for HACT. The macroassessment of the national public financial management system was performed in 2009 as part of the planning for the actual programming cycle, which was presented and agreed upon with the Government. At that time, the Office reviewed the list of Implementing Partners with other ExCom agencies (UNICEF and UNFPA) and discussed cash transfer modalities for existing partners and new partners. Partners who received direct cash transfers over \$100,000 per year had undergone microassessments (UNICEF partners only). UNDP did not carry out microassessments due to the inability to make cash transfers to its Implementing Partners since the local law did not allow the use of separate accounts by individual government entities. Accordingly, the Office made transfers by way of direct payment to vendors and other third parties.

The UN Country Team that implemented HACT did not have common Implementing Partners. However, their commitment towards full implementation was reflected in the United Nations Development Assistance Framework that called for the gradual increase of the use of government systems.

Priority	Medium (Important)
Recommendation 1:	
The Office should, in coordination within the United Nations Country Team, update the macroassessment (including exploring solutions regarding separate accounts by individual government entities). In addition, the Office should ensure regular updates of the microassessment of common Implementing Partners to allow consistent implementation of the Harmonized Approach to Cash Transfers by all participating agencies.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
At the time the audit report was completed, the Office had arranged to conduct a joint review of 2014 Implementing Partners with UNICEF and UNFPA.	

3. Programme activities **Satisfactory**

3.1 Programme management **Satisfactory**

UNDP activities in the Country are guided by the Country Programme Document (2010-2015) approved by the Executive Board in September 2009, and prepared in consultation with key partners in government, civil society, private sector, United Nations system, and international community.

The Country Programme Document focused on the following three national priorities: (a) economic and social well-being for all, with particular attention to vulnerable groups; (b) environmental sustainability, focusing on the sustainable management of natural resources; mitigation and adaptation to climate change and preparedness for natural and man-made disasters; and (c) effective governance, focusing on promoting and protecting human rights and strengthening democratic institutions.

OAI reviewed the composition and functioning of Outcome Boards, the consistency of development projects within the Country Programme Document and United Nations Development Assistance Framework, the annual reporting, and the alignment of development projects in Atlas. No reportable issues were identified.

3.2 Partnerships and resource mobilization

Satisfactory

At the time of the audit, the Office was preparing a comprehensive resource mobilization strategy. Furthermore, due to the scarcity of bilateral and other development funding, the Office made the Government a main donor and signed a Strategic Partnership Agreement in 2009. In 2012, the Office signed 11 contribution agreements totalling \$6.9 million.

OAI met with representatives from government entities, United Nations agencies and donors. All partners rated their cooperation with the Office as positive. No reportable issues were identified.

3.3 Project management

Satisfactory

The Office was implementing 31 projects with a total budget of \$40 million. Its programme portfolio had four directly implemented projects and 27 nationally implemented projects. Although the majority of projects were nationally implemented, the Office provided them with support services through project implementation units. Furthermore, all operational implementation was done by the Office and agreed upon at the project document level, due to the lack of capacity within the Government, and due to national laws that prohibited the Government from having separate accounts for cash transfers from third parties, and therefore prevented the hiring of additional staff for project implementation.

The Office had a programme delivery of \$11.6 million during the audited period and all projects were implemented in close cooperation with national partners.

OAI reviewed a sample of 11 projects with project budgets of about \$20 million, representing 50 percent of the total programme budget, and delivery of \$5.2 million, representing 63 percent of the programme delivery of \$8.2 million in the audited period. OAI reviewed the project processes for appraisal, approval, monitoring, evaluation, and donor reporting. The Office had established an adequate system of project monitoring and effective implementation. No reportable issues were identified.

4. Operations

Satisfactory

4.1 Human resources

Satisfactory

The Office had 34 personnel consisting of 2 international staff, 5 national officers, 25 General Service staff and 2 United Nations Volunteers. In addition, 60 service contract holders and 289 individual contract holders were working on projects during the period audited. The human resources function was performed by two Human Resources Associates. The Office processed 11 new fixed-term appointments and 1 temporary appointment during the audited period.

OAI reviewed relevant recruitment and selection processes for 6 staff members, 12 service contract holders, and 25 individual contract holders. These processes were found to be competitive, transparent and properly documented. In addition, OAI reviewed a sample of 10 separated staff members and did not identify any issues.

The Office prepared a comprehensive human resources plan, including training and learning activities for all staff. Not all staff members had completed the UNDP mandatory training at the time of the audit. The Office committed to ensuring that all concerned staff members would complete the mandatory training by the end of 2013.

The Office was not processing the salaries of personnel with service contracts through the global payroll system (Atlas HR module) as doing so would impact the administration of pension payments by the state authorities, and consequently the entitlements due to them. The Office had discussed the issue extensively, and requested for a resolution from the Office of Human Resources and the Legal Support Office at Headquarters. However, as at the time of the audit, the matter had not been resolved and was still under discussion. OAI is not raising an issue and recommendation as the Office is already addressing this issue. No other reportable issues were identified.

4.2 Finance

Satisfactory

The Office recorded 9,000 vouchers valued at \$13.2 million in 2012, and 3,000 vouchers with a value of \$3.6 million in the first four months of 2013. The Finance Unit had five staff. OAI reviewed 31 of these vouchers with a total value of \$1.8 million or about 11 percent of all vouchers recorded during the audit period with no issues identified. OAI also reviewed the payment process, adequacy of supporting documents, management of bank accounts, and the correct use of the chart of accounts. The Office had been using the same bank from 1999. In 2011, it had started a formal process to identify a bank providing the best value-for-money services. The process was completed by the end of 2011 and all information provided to Treasury, Office of Financial Resources Management, which informed the Office that they should wait for the upcoming corporate solution. The bank charges amounted to \$85,000 during the audited period.

Issue 2 Value Added Tax reimbursement not fully received

UNDP presence and activities in the Country are guided by general principles summarized in the Standard Basic Assistance Agreement, which governs assistance UNDP provides to the Government in carrying out its development projects.

The Office is exempt from the Value Added Tax. The procedure requires the Office to pay the Value Added Tax and then quarterly request for reimbursement on a quarterly basis, attaching all relevant supporting documents. The last audit of the Office conducted in 2008 identified inadequate monitoring of Value Added Tax reimbursement claims. Since then, the Office had improved the monitoring process. At the time of our audit, the Office received reimbursement for \$35,000 out of \$64,000 that was outstanding since 2010. The difference of \$29,000 was not reimbursed mainly due to incomplete supporting documents, namely tax invoices, and these were not claimed within the required period of one year from the time of payment. Failure to receive full Value Added Tax reimbursement may result in decreased funds for the Office.

The Office amended standard operating procedures on the Value Added Tax return in order to ensure the timely filing of reimbursements and appropriate follow-up by the Finance Unit and by projects. As a result of the measures introduced, in September 2013, the Office was fully reimbursed for all outstanding Value Added Tax claimed during the audited period. OAI is not raising a recommendation and can only encourage the Office to continue improving the process in constant communication with the concerned government agencies.

4.3 Procurement

Satisfactory

The Office prepared and issued 1,000 purchase orders with a total value of \$5.2 million in 2012, and 244 purchase orders with a value of \$2.5 million in the first four months of 2013. The Procurement Unit comprised of two staff. The Head of Office had a procurement delegation of authority up to \$100,000 in 2012, which increased to \$150,000 during 2013, in line with corporate changes on delegation of procurement authority to Resident Representatives. In 2012, the Regional Advisory Committee on Procurement reviewed 6 procurement proposals, approved 5 and rejected 1, due to the limited technical capacity of a vendor in delivering required goods, and due to limitations relating to international competition. During the first four months of 2013, the Committee reviewed and approved only one procurement proposal.

OAI reviewed 40 purchase orders valued at \$2.4 million or about 31 percent of the total value of purchase orders during the audit period and did not identify any issues in the transparency of the procurement process. OAI also reviewed the procurement files for 25 individual contractors, and no issues were identified in the selection process. Since the last audit, the Office had improved procurement management by introducing 40 Long Term Agreements for 11 service categories to facilitate recurring purchases (e.g. travel, printing, translation, etc.). No reportable issues were identified.

4.4 Information and communication technology

Satisfactory

OAI reviewed the disaster recovery (business continuity) plan, data backup procedures, use of licensed software, and procedures protecting information technology systems from viruses and attacks by hackers, and found them to be adequate. No reportable issues were identified.

4.5 General administration

Satisfactory

OAI reviewed the administration of the office premises, record management, vehicle management and travel. The review assessed whether these services were carried out in accordance with the relevant regulations, rules policies and procedures, whether resources were managed efficiently, and whether expenses incurred in the provision of services to other United Nations agencies were recovered. No reportable issues were identified.

4.6 Safety and security

Satisfactory

The Country is currently at security level 1 - Minimal. The Resident Representative/Resident Coordinator was appointed as the Designated Official for the Country. The latest security plan was approved in June 2013. The most recent Security Risk Assessment from May 2012 resulted in one area at high risk (natural disasters), two areas at medium risk, and four areas at low risk. Mitigating measures were put in place. The latest Security Self-Assessment Survey completed in May 2013 indicated that the Office is 98 percent Minimum Operating Security Standards compliant. No reportable issues were identified.

4.7 Asset management

Satisfactory

The Office performed mid-year and year-end asset verifications for both the Country Office and the project assets. The counting confirmed the accuracy of asset records. The assets net book value as of 31 May 2013 was \$309,000. OAI performed a physical verification during the fieldwork and noted that two assets were obsolete (Information Technology equipment with total net book value of \$600). The Office agreed to address this issue during the mid-year verification at the end of June 2013. No other reportable issues were identified.

4.8 Leave management

Satisfactory

All leave for fixed-term staff was properly administered through eServices in Atlas. Atlas leave records showed that two staff members accrued the maximum allowable limit of 60 days for annual leave as of 31 May 2013. These staff members were accumulating the leave for maternity use before the end of 2013. However, the Office is advising them to take their annual leave before their maternity leave due dates. No other reportable issues were identified.

4.9 Global Environment Facility

Not Applicable

The Office's project portfolio included nine projects funded by the Global Environment Facility, where contributions amounted to \$10.5 million and expenditures totalled \$4.5 million during the audited period. OAI confirmed that the Office had effectively supported the UNDP Global Environment Facility projects and programme formulation, implementation, oversight, resource mobilization and knowledge management processes.

ANNEX Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant 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.