

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

KYRGYZSTAN

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Table of Contents

Executive Summary	i
I. About the Office	1
II. Good practice	1
III. Audit results	1
A. Programme activities	2
1. Project management	2
B. Operations	3
1. Financial resources management	3
Definitions of audit terms - ratings and priorities	5

Report on the Audit of UNDP Kyrgyzstan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Kyrgyzstan (the Office) from 21 November to 2 December 2016. 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 and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2015 to 30 September 2016. The Office recorded programme and management expenditures of approximately \$47.7 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall 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.”

Good practice

The Office implemented the ‘Outcome Board Meetings’ where UNDP and its stakeholders gather to discuss development issues related to UNDP programme results and outcomes. This tool is used also as a mean to communicate achievements in terms of development and to strengthen the Office’s resource mobilization.

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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.” The recommendation includes actions to address the large number of voucher cancellations.

The recommendation aims to ensure reliability and integrity of financial and operational information.

Management comments and action plan

The Resident Representative accepted the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (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, which appears to be 'H. Osttveiten', is written over a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Bishkek, Kyrgyzstan (the Country) and has three project offices in Batken, Naryn and Osh. At the time of the audit, the Office had 38 staff members, 114 service contract holders and a national United Nations Volunteer. The 2012-2016 United Nations Development Assistance Framework (UNDAF) was extended to 2017 and was focused on the following pillars: 1. Peace and Cohesion, Effective Democratic Governance and Human Rights; 2. Social Inclusion and Equity; and 3. Inclusive and Sustainable Growth for Poverty Reduction. The Office programme was concentrated mostly on pillars 1. And 3. and its portfolio, comprised of 41 projects, was mainly under direct implementation. The Office was supporting development of local capacity and started gradual expansion of national implementation with some governmental institutions.

II. Good practice

OAI identified a good practice, as follows:

Partnership and resource mobilization

In addition to the regular Project Board meetings, the Office implemented the 'Outcome Board Meetings' where UNDP and its stakeholders (Government, donors, NGOs, etc.) gather to discuss development issues related to UNDP programme level results and outcomes and reach agreement on the main priorities for further planning. UNDP uses this tool not only to update its partners on achievements and progress related to programme and outcome but also to strengthen the Office's resource mobilization.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. An adequate organizational structure and delegations of authority, risk management and financial sustainability were established. The Office adequately followed up the results of the Global Staff Survey.
- (b) United Nations coordination: Adequate controls were established to manage and lead the United Nations coordination role in the country. The status of the 2018-2022 UNDAF preparation was also on track.
- (c) Programme activities: Controls on programme management, partnership and resource mobilization were found to be effective.
- (d) Human Resources. Adequate controls were established in human resources management.
- (e) Procurement. Management had established adequate risk management, compliance, and control functions related to the procurement process.
- (f) Information and communication Technology. OAI reviewed the Office's management of information and communication technology resources and processes. A physical review of the relevant facilities and equipment was also conducted. The systems managed by the Office, including hardware, software and systems security were operating effectively.

- (g) General Administration and asset management. General administration controls were generally well established and functioning adequately. The management of assets were found to be in line with UNDP policies and procedures.
- (h) Safety and Security. The Office was compliant with the Minimum Operating Security Standards (MOSS). The Country Security Plan and Business Continuity Plan were updated while the Security Risk Assessment was endorsed on November 2015.

OAI made one recommendation ranked medium (important) priority.

Medium priority recommendations:

- (a) Enhance internal controls to reduce voucher cancellations (Recommendation 1).

Low priority issues/recommendations identified in project management and financial management areas were discussed directly and agreed with the Office that undertook immediate action to address them, and are not included in this report.

The detailed assessment is presented below, per audit area:

A. Programme activities

1. Project management

Issue 1 Lack of approval to directly implement projects and projects not financially closed

The 'UNDP Programme and Operations Policies and Procedures' states that direct implementation modality (DIM) is the structure whereby UNDP takes on the role of implementing partner and assumes overall management responsibility and accountability for project implementation. The relevant UNDP regional bureau must assess the country office capacity prior to a selection of UNDP as an implementing partner. Country Offices must make sure that approval is granted for direct implementation before the initiation of project/programme activities. Additionally, UNDP's Financial Regulation and Rules states that financial closure of projects must take place within 12 months of their operational closure.

In January 2012, the Office obtained from the Regional Bureau of Europe and the Commonwealth of Independent States (RBEC) approval of delegation of authority to directly implement a list of projects for the duration of the Country Programme (2012-2016). However, after approval, 24 new projects were initiated for which the Office did not request RBEC's approval. In addition, the Executive Board approved the extension of the Country Programme Document up to 2017. The audit team noted that as of the date of the audit, the Office did not have an approval for the Delegation of Authority for direct implementation of new projects and any other project to be implemented during the extended period (2017) of the current country programme.

Furthermore, the review of Atlas project queries showed that:

- Seven outputs with end dates between 2009 and 2015 had still 'ongoing' status in Atlas. Of which, six outputs were not linked to any projects.
- One project had not been financially closed although it was operationally closed in December 2014 or more than the required 12 months.

Implementing projects without the review and approval from the Regional Bureau Director could put the Office at risk of not being able to fully meet stakeholders' expectations, including achieving intended results. Furthermore, by not properly updating the status of outputs or closing projects in Atlas in a timely manner, unauthorized expenditures could be charged against them.

OAI Comment

On 27 December 2016, the Office obtained RBEC's approval for all 29 directly implemented projects.

The Office also financially closed the seven outputs in Atlas and was processing the financial balances of the operationally closed project. The Office indicated that this remaining operationally closed project will be financially closed by end of January 2017.

OAI acknowledged all actions taken by the Office and also reviewed the supporting documentation. Therefore, no recommendation was made.

B. Operations

1. Financial resources management

Issue 2 Large number of cancelled vouchers

Cancelling a payment in Atlas is normally done for cases in which the payment is rejected/returned by the bank (i.e., the payment needs to be re-processed or in case of a cancelled cheque, the payment needs to be cancelled permanently). If the payment needs to be re-processed, the related voucher is put on hold in Atlas and can be re-used once the reason for the rejection of the payment has been addressed. When a payment is cancelled, Atlas will create a correction entry cancelling the earlier created payment entry.

From January 2015 to November 2016, the Office had 207 cancelled vouchers with a total value of \$0.7 million. These were made up of 87 cancelled and closed vouchers amounting to \$0.5 million and 120 cancelled, re-issued, and paid vouchers amounting to \$0.2 million.

The audit team reviewed a sample of 18 cancelled vouchers amounting to \$0.4 million and noted that cancellations were approved by the Head of Finance Unit or the Operations Manager. Further, the reasons for cancellations, such as incomplete supporting documents or vouchers with incorrect currency or exchange rates, were clearly documented. Nonetheless, OAI noted that the Office did not take adequate action to reduce voucher cancellations.

Having a high number of payment cancellations resulted in unnecessary costs to UNDP. The inadequate controls in the preparation of vouchers could lead to misuse of funds or financial losses to UNDP.

Priority	Medium (Important)
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Recommendation 1:

The Office should enhance internal controls to reduce voucher cancellations. This can include developing and using a cancellation request template to facilitate monitoring, assessing, and reducing voucher cancellations.

Management action plan:

The Office advised in its response to OAI's Exit Meeting Notes that action was taken and instructions were sent to finance and project staff on measures regarding the aim to reduce number of voucher cancellations. Also, following OAI recommendation, the Office developed a standard template request for voucher cancellation document which was issued in December 2016.

Estimated completion date: Implemented

OAI response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.
- **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.
- **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.

B. 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 that are considered moderate. Failure to take action could contribute to 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.