UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

KYRGYZSTAN

Report No. 2190

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Report on the Audit of UNDP Kyrgyzstan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Kyrgyzstan from 20 April to 5 May 2020. 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 – planning and risk management; and organizational chart and overall staffing.
(b) Development activities – Country Programme; implementation modalities; and project administration.
(c) Operations – procurement and finance.

OAI designed three performance audit questions to guide the review of the following areas and sub-areas:

(a) Governance:
  (1) Were the Office's 2019 strategic objectives clearly set to address the Country's priorities and needs and were they in line with the Country Programme Document?

(b) Development activities:
  (2) Were the programme outputs in line with the strategic objectives and was project implementation adequately and timely monitored?
  (3) Were programme and project results measurable, were targets achieved, and was the Office able to effectively assess programme and project impact?

The audit covered the activities of the Office from 1 January 2019 to 31 January 2020. The Office recorded programme and management expenses of approximately $21 million. The last audit of the Office was conducted by OAI in 2016.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's observations of Office interactions and dynamics.
(c) Project site visits were not conducted.
(d) Safe and petty cash contents were not verified.

Overall audit rating

OAI assessed the Office's performance as **satisfactory**, which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Key recommendation: Total = **1**, high priority = **0**

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 efficiency of the payment process.

The recommendation aims to ensure effectiveness and efficiency of operations (Recommendation 1, medium priority).

Implementation status of previous OAI audit recommendations: Report No. 1741, 13 January 2017.
Total recommendations: 1
Implemented: 1

Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it. Comments and/or additional information provided have been incorporated in 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Bishkek, Kyrgyzstan (the Country) and its Country Programme covered the period from 2018 to 2022 with the following development priorities:

(a) Sustainable and inclusive economic growth;
(b) Good governance, rule of law, human rights and gender equality; and
(c) Environment, climate change and disaster risk management.

During the period from 1 January 2019 to 31 January 2020, the Office spent $19.9 million on development activities – a decrease by 12.6 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit are:

Title	Expenses during the audited period $million	Total expenses from start of project $million
Effective HIV and TB control project in Kyrgyzstan	9.2	15.7
Strong and Inclusive Parliamentary Democracy	1.24	2.4
Integrated Area-Based Development in Osh	0.9	3.9
Disaster Risk Reduction and Climate change	0.67	4.8
Biodiversity of Western Tian Shan	0.93	2.1
Total	**12.95**	**28.9**

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
The Global Fund	7.1
Russian Federation	2.5
Global Environment Facility	1.6
Total	**11.2**

II.   Audit results

Satisfactory performance was noted in the following areas, arranged according to their respective performance audit questions:

(a) Governance

(1) Were the Office's 2019 strategic objectives clearly set to address the Country's priorities and needs and were they in line with the Country Programme Document?

The Office's 2019 strategy note clearly set the strategic objectives and identified the Country's priorities and needs and was consistent with the Country Programme Document and Integrated Work Plan for

2019. The same priorities were planned to continue in 2020. Risks identified in the strategy were assessed to inform the programme design.

(b)   Development activities

(2) Were the programme outputs in line with the strategic objectives and was project implementation adequately and timely monitored?

The programme focused on the strategic objective of strengthening the capacity of the Government. The Office adequately monitored project implementation and achieved a delivery rate of 85.9 percent against the target for 2019. The audit noted a good cooperation and coordination with the project boards and the partners. To strengthen delivery, in 2020 the Office started implementing quarterly planning targets in project annual work plans and started discussing these in bi-weekly meetings. This initiative resulted in successful delivery of sampled projects. Quality assurance was conducted as required and monitoring and evaluation plans were developed and implemented. The Office planned to improve its project risk management through this process.

(3) Were programme and project results measurable, were targets achieved, and was the Office able to effectively assess programme and project impact?

Results indicators, baselines and targets were developed, and achievement of results was monitored through corporate tools. The Office effectively assessed programme and project impact through independent project evaluations which verified the achievement of measurable targets. Through these evaluations the Office noted that for the completed projects, the planned targets were generally achieved and identified further actions for enhancing monitoring, assessment of results and impact of follow-on projects affected by regional and national changes. The evaluations also assessed relevance, effectiveness, efficiency, sustainability and Impact and recommendations for improvement were implemented timely. The independent programme evaluation for the previous CPD cycle in 2017 identified areas for improvement which continue to be implemented in the current programming period.

OAI made one recommendation ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendation:

(a)   Enhance efficiency of the payment process (Recommendation 1).

The detailed assessment is presented below, per audit area

A. Operations

1. Finance/Payments

Issue 1   Need to enhance efficiency of the payment process

UNDP promotes the use of Electronic Funds Transfer (EFT) to transmit payment instructions to financial institutions for payment processing. The interface to enable this needs to be compatible with Atlas (enterprise resource planning system of UNDP) and the local bank. Only the UNDP Treasurer shall grant the authority to establish an EFT local interface between Atlas and the local bank.

The Office had to manually re-enter Atlas data for the local bank, as it used a Cyrillic character set that was not supported by the Atlas. To address this problem, the Office developed an in-house solution in 2019 to export payment information from Atlas to the bank's standards. This solution had not been approved by Treasury.

However, Treasury did not provide any guidance on how to adjust the corporate payment information for including Cyrillic characters required by the local banks. The Office, in response to the audit, approached the Regional Bureau for further guidance and support in developing a solution that would be corporately acceptable. In the meantime, to avoid payment delays, four personnel were assigned to re-enter the payment data in the e-banking application, two of them on a full-time basis.

Manually re-entering Atlas data is inefficient as it requires more personnel and creates opportunities for errors.

Priority	Medium (Important)
Recommendation 1: To enhance the efficiency of the payment process, the Office should continue engaging the Regional Bureau for Europe and the Commonwealth of Independent States for guidance and support in liaising with Treasury, to develop a solution for the transfer of payment information from Atlas to the local bank's system in a more efficient way and in line with the criteria required by Treasury and local banks.	
Management action plan: The Office will continue collaborating with Treasury and the Regional Bureau to develop a solution that would meet the criteria required by Treasury and local banks. **Estimated completion date:** March 2021	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

▪ **Satisfactory**

The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Some Improvement Needed**

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.

▪ **Partially Satisfactory / Major Improvement Needed**

The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

▪ **Unsatisfactory**

The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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 <u>not included in this report</u>.