

Internal Audit of the Kyrgyzstan Country Office

March 2017



Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Kyrgyzstan country office. The audit sought to assess the office's governance, internal risk management and internal controls. The audit was conducted on-site from 31 October 2016 to 10 November 2016, and covered the period from January 2015 to September 2016.

The 2012-2017 country programme has three main components: *Equitable, Quality and Responsive Systems for Children; Increased Access to Quality Social Services; and Adolescents and Youth Civic Engagement and Partnerships for Child Rights*. The country programme was originally for 2012-2016, but has been extended by one year until 2017 to align with the National Sustainable Development Strategy (2013-2017).

The total approved budget for the extended 2012-2017 country programme is US\$ 49.4 million, of which US\$ 5.4 million is Regular Resources (RR) and US\$ 44 million is Other Resources (OR). This is an increase of approximately US\$ 19 million on the original OR ceiling for the 2012-2016 country programme, and has been approved based on successful fundraising. Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The country office has one zone office, in Osh. As of 31 October 2016, the country office had 50 approved posts, comprised of six international professionals, 19 national officers, 24 general services staff and one UN Volunteer.

Action agreed following the audit

The audit found a number of controls that were functioning well.

The office had updated its risk profile periodically, most recently in March 2016, with participation by staff from both programme and operations sections and from the zone office.

With the expansion of the programme activities in Southern Kyrgyzstan and the office's successful fundraising efforts, the office had increased the OR ceiling by 176 percent during the country programme cycle (from US\$ 25 million to US\$ 44 million). The office had achieved 87 percent funded status with the new OR ceiling as of October 2016. Subsequently, in response to a declining trend of OR when those programme activities in Southern Kyrgyzstan were completed, the office had hired a consultant to explore opportunities and provide recommendations on non-traditional partnerships. Meanwhile the office had implemented most of the actions set out in the resource mobilization strategy developed in 2015.

The audit team did identify some risks and issues, and the country office has agreed to take a number of measures to address them. One is being implemented by the country office as a high priority – that is, to address issues that require immediate management attention. This is to strengthen the assurance mechanisms for cash transfers so that assurance activities are planned and implemented in a risk-based manner, and to strengthen programmatic visit planning, coordinating and reporting mechanisms for better monitoring of activities and results.

Conclusion

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.

The Kyrgyzstan Country Office, the regional office and OIAI will work together to monitor implementation of all the measures that have been agreed, according to the action plan supplied by the office.

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Objectives and scope

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

Audit observations

Recruitment

During the period 2015-2016, the office recruited three international professionals, four national officers and seven general services staff.

The office's benchmark for recruiting national officers and general service staff was 60 days. However, three of the four national officer recruitments, and four of seven general services staff recruitments, took longer than this. Overall average duration of recruitment — from closure of the advertisement to regional/local Central Review Body (CRB) approval — was 112 and 99 days respectively. Most delays arose from unavailability of relevant staff due to travel or training, and lengthy discussions on short-listing. There were also extended exchanges with the regional office for clarification on recruitment procedures for national officers.

The office's annual management plan had stipulated that the CMT¹ should periodically monitor recruitment to achieve a 60-day benchmark for national officer and general services staff. However, this topic had been discussed only once in CMT meetings in 2016 up to October.

Delays in recruitment risk hampering programme implementation due to lack of adequate expertise and/or an overwhelming workload for existing staff.

Agreed action 1 (medium priority): The country office agrees to prioritise recruitment of staff in the office by determining and addressing the causes of the delays in the recruitment process, and by monitoring the timeliness of recruitment through the Country Management Team.

Responsible staff members: Country Management Team, Operations Manager, Human Resources Assistant

Date by which action will be taken: September 2017

Workplan activities and budget

UNICEF offices agree workplans with their implementing partners. Well-defined activities in the agreed workplans greatly assist the procurement of necessary inputs and requests for disbursements by programme partners, and reduce the need for ongoing clarification or renegotiations in the course of the year. Workplans can be developed on an annual or multi-year basis, or as rolling workplans (RWPs). In the latter case, the workplan is subject to interim review.

¹ An office's country management team (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.

For 2016-2017, the office had established six RWPs with the Government counterparts in the following sectors: Child Protection and Social Policy, Disaster Risk Reduction, Education, Health & Nutrition, Monitoring & Evaluation, and Youth. All RWPs had been endorsed by the Government counterparts in a timely manner, around March 2016.

The audit noted the following.

Planning: Not all the workplans defined the activities, and how funds would be used, as precisely as possible against the planned budget. In the 2016-2017 RWPs, the office defined approximately 64 percent of the two-year budget for all three outcomes (or US\$ 9.2 million of US\$ 14.3 million), including the office's estimation of US\$ 1.1 million for annual staff costs. This gap was particularly evident in two workplans, which did not plan activities for approximately US\$ 5.7 million of the total budget that was unfunded at the time of audit. The office explained that this cautious planning was to prepare for a potential decline in OR funding. However, this approach prevented the office from effectively planning activities based on the assessed needs of the children and mothers. Also, it left room for the office to conduct activities in an *ad hoc* manner, not as agreed in the workplans, which the audit found did occur (see observation *Fund disbursements*, page 7 below).

Quality assurance: In four of the six workplans, the audit team found miscalculations. In total, the budgets in the front pages of the workplans were understated by approximately US\$ 913,000. These errors had been possible because the office's quality assurance process for workplans did not include a thorough review of the figures. The errors risked ineffective monitoring of expenditure against the budgets.

Monitoring budget: The office did not systematically monitor the budget against the approved budget in the CPAP.² In VISION,³ the registered planned budgets did not correlate with the approved budget in the CPAP as revised in 2015 following the office's mid-term programme review. The audit sampled 12 outputs, and found that the budgets for 10 of them were recorded at 120 percent or more above the amount approved in the revised CPAP. In three of these outputs, the OR discrepancy was between 200 and 408 percent (ranging from US\$ 155,000 to US\$ 640,000).

The discrepancies were due to several factors. The office had had two OR ceiling increases approved in 2015-2016, and these had yet to be fully reflected in VISION. Also, the budget in VISION had been an estimate, which meant that the funding gaps shown therein could be overstated or understated. The planned budget was registered and managed in VISION in this manner because the office did not have adequate skills in budget monitoring.

Not properly recording and monitoring the budget increased the risk of ineffective use of resources. This led the office to utilize funds above the approved amount, as noted in the observation *Fund disbursements* (see page 7 below).

Agreed action 2 (medium priority): The office agrees to:

- i. Define the activities and budget in the workplans more precisely, based on the revised country

² The Country Programme Action Plan (CPAP) is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

³ VISION (from Virtual Integrated System of Information) is UNICEF's management system. It is used to record resource mobilization, budgeting, programming, spending and reporting, along with other data.

- programme documents, and include the portion for unfunded Other Resources. Ensure the correctness of the information entered in them, including budgets and programme activities.
- ii. With support from the regional office as needed, conduct training of the key staff involved in budget management. Ensure that they have the required skills for budget management, particularly in recording and monitoring.
 - iii. Assign staff responsibility for the monitoring of planned budgets at output level.

Responsible staff members: Country Management Team, Representative, Deputy Representative, Head of Zone Office, Section Chiefs

Date by which action will be taken: July 2017

Fund disbursements

A workplan is required as a basis for all disbursements. It should also be used by UNICEF programme staff to monitor the implementation of the planned activities and to provide agreed inputs.

The audit sampled cash transfers paid in 2016 to six implementing partners. Three of these six partners were paid above the agreed/planned amount in the workplan, or were paid even though no such payment had been included in it. Specifically, one partner was to have received US\$ 45,000 for an activity but was paid US\$ 69,000, whilst a second was paid US\$ 30,745 instead of the US\$ 11,700 planned for the activity. A third partner was paid over US\$ 10,000 for an activity for which this partner had not been included in the workplan. The initially-agreed budget had already been fully spent on different partners.

These payments had occurred because the disbursements were certified based on the existence of the activities in the workplans, but not always on the budgeted amount. Also, it was not feasible for the office to fully reconcile the budget amount versus disbursements, as the two-year workplans defined only about 64 percent of the planned budget (see also previous observation, *Workplan activities and budget*). This resulted in some outputs utilizing funds above the approved budget in the revised CPAP. A review of five outputs found that, as at October 2016, two outputs had utilized between US\$ 20,000 (or 20 percent) to US\$ 735,000 (or 224 percent) more than the approved OR budget.

Disbursing funds without a clear idea of the approved budget risked ineffective use of resources and/or use of funds on unplanned and unapproved activities.

The audit also noted that some disbursements were recorded under incorrect general ledger accounts. This included equipment rentals and air tickets incorrectly recorded as institutional contracts, comprising about 13 percent (or approximately US\$ 208,000) of the institutional contracts account.

Agreed action 3 (medium priority): The office agrees to:

- i. Establish a process to make appropriate adjustments to the budgets in the workplans and ensure disbursements are made to partners in accordance with the planned activities in the workplans and within the approved budget.
- ii. Ensure disbursements are recorded using correct general ledger codes.

Responsible staff members: Deputy Representative, Operations Manager, Section Chiefs, Finance Assistant

Date by which action will be taken: December 2017

Registration of programme structure

UNICEF offices are required to present their results in the online Results Assessment Module (RAM), which is part of UNICEF's management information system. The statements of progress for each outcome and output⁴ should be updated once and twice a year respectively in the RAM.

The audit compared the latest programme structure as approved by the Executive Board with the RAM for a sample of three outcomes, six outputs and 32 indicators, and noted that there were indicators that were out of date; in some instances, discontinued indicators were still being tracked in the RAM. Conversely, in one of the three outcomes, some of the active indicators were missing in the RAM and were therefore not being monitored in it. Further, in six randomly selected outputs, it was noted that not all indicators, targets and/or baselines were consistent with latest programme structure.

The main purpose of the RAM is to allow the office to monitor resources and implementation against the planned results. If the RAM does not reflect the latest indicators, targets and baselines, this monitoring will not be effective.

Agreed action 4 (medium priority): The office agrees to review the programme structure entered in the Results Assessment Module and ensure it is in accordance with the latest approved programme structure.

Responsible staff members: Deputy Representative, Section Chiefs, M&E Officer

Date by which action will be taken: June 2017

Harmonized Approach to Cash Transfers (HACT)

During 2015 and 2016 (up to October 2016), the office spent US\$ 4.6 million in direct cash transfers; this was the largest programme input and 35 percent of annual budget. At the time of the audit, there were no DCTs outstanding over nine months.

UNICEF offices administer DCTs through the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on the use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner. To make this possible, HACT requires systematic assessment of the risks involved in making cash transfers to a specific partner; the method of funding and the assurance practices used are then chosen accordingly. There is also a macro-assessment of the country's public financial system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audits and special audits.

In the UNICEF Kyrgyzstan office, HACT implementation was monitored by the CMT. However, HACT is also required for UNDP and UNFPA, and the agencies are meant to work together to implement it. The UN agencies therefore had a HACT Task Force Group, which distributed some of the tasks involved between them. The macro-assessment had been assigned to another UN agency, which had

⁴ UNICEF programmes plan for results on two levels. An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

contracted a third-party service provider and planned to undertake the exercise in 2017. The audit noted the following.

Micro-assessment: Micro-assessment is required for partners that receive over US\$ 100,000 during the year. In 2015, one Government partner that received over US\$ 100,000 was not micro-assessed. The office said that this was due to restriction by state regulations in the past; these were no longer effective at the time of audit, but the micro-assessment had not been done.

Of 13 micro-assessments conducted during 2015, nine were of partners that did not receive over US\$ 100,000. This was due in part to the discrepancy between cash transfers planned in the RWP—on which the plans for micro-assessment were based in the beginning of the year—and cash disbursed in practice (see observation *Fund disbursements*, page 7 above).

In addition, the risk ratings of micro-assessments were inaccurately recorded in VISION. In the 2015 Micro-Assessment and Assurance Plan (MAAP), 26 government partners were recorded as micro-assessed with risk ratings allocated accordingly, although they had not in fact been micro-assessed. The office said that as the template had only recently been introduced, some figures had been incorrectly entered. Inaccurate recording of the partners' risk ratings resulted in inaccurate planning of frequency for programmatic visits and spot checks (see also *Spot checks*, below).

Programmatic visits: Programmatic visits are a component of programme monitoring that provide assurance that results reported by the partner are accurate. UNICEF offices should ensure that programmes systematically use programmatic visits to document results achieved with UNICEF support, and any follow-up actions required.

The programmatic visits were not adequately planned, implemented or reported. Based on the 2015 MAAP, the overall implementation rate was 91 percent (or 67 of 74 visits); however, the MAAP had been based on incorrect risk ratings. If measured against the partners that should have been visited according to the HACT guidelines, the implementation rate in practice was 46 percent (or 30 of 65 visits). In VISION, the implementation rate was reported as 172 percent (or 67 of 39 visits). This happened because the partners' risk ratings had not been accurately recorded, resulting in an incomplete recording of the eligible number of programmatic visits. Also, the criteria for what constituted a programmatic visit had not been standardized across the office, which caused inconsistent approaches in counting the number of visits per partner.

Further, there were inconsistencies in reporting programmatic visits. Three partners visited by the audit said that they had had programmatic visits from UNICEF, but these visits were not referred to in the MAAPs. At the same time, the audit looked at a further sample of six partner programmatic visits in MAAP, and found four for which there was no indication of their having taken place. Inadequate planning, implementation and recording of programmatic visits meant that the office could not effectively gain the necessary assurance on the effective use of cash transfers.

Spot-checks: A spot-check is required for any implementing partner that receives cash transfers over US\$ 50,000 per year. In 2016, the office reported a 73 percent (or eight of 11 spot-checks) implementation rate of spot-checks in inSight;⁵ however, the implementation rate was 50 percent (or six of 12 spot-checks) if only the partners that required spot-checks were counted. This was because

⁵ inSight is the performance component of VISION. inSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

some partners were spot-checked when it was not required, while others that did require spot-checks did not get them. There were partners that received cash transfers below US\$ 50,000 yet were still spot-checked, representing a potentially inefficient use of resources.

Further, some Government partners that had not been micro-assessed were rated as moderate or low risk in the MAAP; they should have been assigned a high-risk rating until the assessment was completed. It is therefore highly likely that the number of spot-checks required was under-estimated. This would mean that the implementation rate of 50 percent was itself optimistic.

Audits: Offices are required to undertake audits of partners that receive over US\$ 500,000 in cash transfers during the country programme cycle. In 2015, the office audited five partners, but none had received over US\$ 500,000 since the beginning of the country programme. The office explained that this was due to changes in the amount of cash transfers to those partners against the amount planned. Again, this risked inefficient use of resources.

Agreed action 5 (high priority): The office agrees to:

- i. Revisit and complete the micro-assessment and assurance plans, and the partners' risk ratings in VISION, in accordance with UNICEF procedures.
- ii. Establish mechanisms to adequately plan, implement, monitor and report on assurance activities. For programmatic visits, ensure that these are planned based on the established criteria, monitored for implementation, and consistently reported in programmatic-visit reports and in VISION.

Responsible staff members: Deputy Representative, Operations Manager, Head of Zone Office, Section Chiefs, Operations Officer, WASH Officer, Programme Assistants, HACT Focal Point, HACT Task Force and Regional Office Implementing Partnership Management Specialist

Date by which action will be taken: June 2017

Donor reports and annual report

Besides RAM and other mechanisms, offices have two important reporting tools that should convey accurate data on their results. First, donor reports are crucial to the relationship with the donor (and may be specified in grant agreements). Second, the country office's annual report gives a summary of what has been achieved in a given year that is important to a wider range of stakeholders. The audit noted the following.

Donor reports: Donor reports should show results achieved and resources used during a given period. Information in the reports should be from reliable sources, and offices should ensure its completeness and accuracy.

The office had produced 42 donor reports for the period covered by the audit. Only two of these had been sent late. A review of a sample of three donor reports found that they were generally of good quality. However, in one of the three, the related agreement had been that the office would deliver work in 60 schools, while only 50 were completed; there was no documented agreement with the donor to change the number.

The audit looked at the supporting documentation for 16 achievements reported in the three sampled reports. Four of the 16 were mainly or partially supported only by reports received from the implementing partners. In these cases, the office had not obtained sufficient assurance that the outputs reported in the activity reports were justified and supported. The office did have a quality

assurance review process, but it was not effective. Insufficient verification means that there is an increased risk of reporting inaccurate data on results.

Country office annual report: The audit selected a sample of seven results statements presented in the 2015 report for validation. It noted that four of seven results statements were entirely or partially supported only by information provided by partners or Government. There was no evidence that the information was properly verified for reliability and accuracy.

Agreed action 6 (medium priority): The office agrees to establish mechanisms to ensure that:

- i. The donor reporting quality review process includes validation of delivered results against those included in donor agreements and/or proposals.
- ii. Key results achieved and reported in donor, annual or other reports are validated through programmatic visits or other relevant means, and sources of information are confirmed before the finalization of the reports.

Responsible staff members: Deputy Representative, Section Chiefs, Operations Manager, M&E Officer, HACT Focal Point, HACT Task Force.

Date by which action will be taken: June 2017

Contractor selection and monitoring

The office had 158 institutional contracts during 2015-2016, of which 30 were of a value that exceeded the threshold for review by the office's Contract Review Committee (US\$ 20,000).

The audit tested six contracts totalling US\$ 268,665. It noted that in three of six cases the selection of the contractor was based on the only valid bid received. The office said that this had happened because the contracts were issued very close to the expiry dates of the relevant grants. This meant that, having received only one valid bid, the office could not repeat the tendering process before grant expiry. This reflects inadequate planning that could lead to selection of a vendor that is not the best qualified in terms of timeliness, quality and value for money. It may also increase the risk of fraud or corruption in the contract award process.

The audit also noted that in two of six cases reviewed there were long delays (three to four months) between the expected contract commencement date, as stated in the terms of reference, and the contract's actual starting date.

The audit team attributed the above weaknesses to the lack of monitoring by the office of the planned use of grant funds, and on problems with the contractor procurement and contract implementation processes.

Agreed action 7 (medium priority): The office agrees to establish monitoring processes over the planned use of grant funds, contractor procurement and contract implementation process, including:

- i. Abiding by UNICEF procedures for the selection of contractors by planning for sufficient time to call for, and review, bids before the expiry dates of the relevant grants.
- ii. Establishing and addressing the causes of delays in the implementation of contracts.

Responsible staff members: Section Chiefs, Operations Manager, Supply and Logistics Assistant

Date by which action will be taken: March 2017

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 headquarters 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 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 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 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 the office needed **significant** improvement to be adequately established and functioning.