

# Internal Audit of the Kazakhstan Country Office

April 2020

Office of Internal Audit  
and Investigations (OIAI)



Report 2020/01

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## Summary

The Office of Internal Audit and Investigations has conducted an audit of the Kazakhstan country office. The audit was conducted remotely and covered the period from 1 January 2018 to 30 November 2019.

Kazakhstan had an estimated population of 18.4 million in February 2019,<sup>1</sup> of whom 31 percent were under 18.<sup>2</sup> The office was in the fourth year of its current 2016-2020 country programme, which focused activities to help achieve three specific national child-related outcomes. The largest programme component is *Equity and inclusion for children, adolescents and families*; this includes (amongst other things) activities on effectiveness of national social assistance, social work development and quality assurance, and adolescent mental health. The second component, *Child-friendly social environment*, includes capacity building to end Violence Against Children (VAC). The third component, *Innovative partnerships for children's rights*, includes cross-border knowledge exchange, advancing the interests of children in the distribution of development assistance, and a framework for a Child Rights Monitoring system.

The budget for the current five-year programme is US\$ 16.485 million. In addition, the office had utilized US\$ 109,216 in emergency funding. The country office is in Astana. As of the time of the audit, the office had a total of 30 staff positions (two international professionals, 12 national officers, 13 general service, and one United Nations Volunteer). Two positions were vacant at the time of the audit.

### The risks

The audit focused on key risks. These were selected after an initial risk assessment and review of documentation and data.

The key risks identified included the following: capacity strengthening on prevention of sexual exploitation and abuse; recent corporate partnerships for fundraising; delays in liquidation of cash transfers to implementing partners, and the quality of assurance activities on their use; selection and management of partnerships; provision of procurement services to the Government; completeness of reporting on programme results and to donors; and quality of programme monitoring. Some of these issues are reflected in the report that follows; for others, the risks were found to be adequately controlled.

### Results of the audit and actions agreed

The audit team noted a number of areas where the office's controls were responsive to the risks in its environment. For example, the office had enabled evidence-informed programming through adequate thematic evaluation coverage, with seven thematic evaluations planned throughout the country programme cycle in addition to the situation analysis (SitAn) that the country office carried out in 2019 to inform the next country programme. The audit also noted that evaluation findings were monitored, and responses to them were coordinated with the relevant stakeholders and incorporated into workplans.

There was full compliance with the requirements for assurance activities, with 100 percent completion of both spot checks and programmatic visits. There was also 100 percent completion of the required

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<sup>1</sup> Ministry of National Economy, Statistics Committee of Kazakhstan, accessed March 2019.

<sup>2</sup> Committee on Statistics, Children of Kazakhstan Statistical Yearbook, 2018.

assessments of partners' financial management capacity. This is helpful as it enables an office to practice risk-based assurance in line with the principles of HACT.

However, the audit team also found a number of areas where further actions were needed to better manage risks to UNICEF's activities. These are discussed in the report that follows.

## **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.

## Audit objectives and scope

The objective of the audit was to provide independent assurance regarding the adequacy and effectiveness of the governance, risk management and control processes in the country office. The audit covered the period from January 2018 to November 2019. The audit work was performed from November 2019 to January 2020.

This report presents the more important risks and issues found by the audit team and the measures agreed with the Kazakhstan country office management to address them.

## Audit observations

### Partnerships with private sector for fundraising

As part of its resource mobilization strategy, the Kazakhstan Country Office signed agreements with two private companies, one in 2018 and the other in 2019. The companies were to raise money for UNICEF. According to the agreements, the office does not receive funds directly from the donors; instead the companies accumulate donations and remit them in bulk to UNICEF once they reach minimum amounts as specified in the contracts.

During the audit period, only one of the companies was collecting funds, and the amounts had not yet reached the minimum threshold to be transferred to the country office. The companies had granted the country office access to details of donations received and the office could keep track of the amounts collected. However, the audit could see no evidence of reconciliation procedures to confirm that all the donations received by the companies were remitted to UNICEF. It was thus not clear that the office would detect, and claim, any unreported donations – creating a risk of reduced funding as a result of uncollected donations.

**Agreed action 1 (medium priority):** The office agrees to, in coordination with the Private Fundraising and Partnerships office, and in line with UNICEF corporate guidance, implement formal procedures for reconciling amounts to be received from its partners to the contributions made by donors. Records of these reconciliations and of follow-up to recover unremitted amounts should be reviewed and approved by the Chief of Operations and should be retained.

**Responsible staff members:** Representative, Operations Manager

**Date by which action will be taken:** May 2020

### Programme monitoring

Programmatic visits are a component of programme monitoring, but they are also assurance activities under the HACT framework.<sup>3</sup> These are aimed at obtaining assurance that activities are being

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<sup>3</sup> The Harmonized Approach to Cash Transfers (HACT) is a risk-based framework that involves an assessment of the risk involved in working with a particular partner; the type and number of assurance activities will be set accordingly. They include spot checks of financial records and audits as well as programmatic visits, but the latter are important to ensure that the interventions are proceeding as intended.

implemented as agreed, and that the results reported by the partners are accurate. For a good programmatic visit, evidence of the assurance activities should be obtained and documented, including information on what exactly was verified (e.g. activity, result, financial or programmatic report), and the method and findings of the verification. Other meetings with the partner – for example, to discuss the status of programme implementation, review of progress reports from implementing partners, technical support visits etc. – are of value for monitoring purposes in general, but if they do not provide verification on the results achieved and on the use of resources, they do not qualify as assurance activities under HACT.

In 2018, the Kazakhstan Country Office undertook all 25 of its planned programmatic visits and as of November 2019, it had completed 86 percent of the planned visits for the year. Programmatic visits should be focused on the verification of programme implementation and of the use of UNICEF resources by the partners. In general, the reports were complete and contained detailed description of activities implemented and progress made. However, the reports lacked sufficient description of the evidence reviewed by the visiting teams, the specific procedures carried out to confirm the status of the activities, or the findings of the verification. There was thus no assurance that the visits conformed to relevant quality standards, the prerequisite for their effectiveness. For example, some of the partners had undertaken to organize events or training, but there was no description in the visit report of the evidence reviewed to confirm these had taken place or that the reported attendees had indeed been there.

**Agreed action 2 (medium priority):** The office agrees to improve the quality of the reporting on programmatic visits by clearly describing in the visit reports the procedures performed and evidence reviewed by the assurance teams. It should also retain this documentation with the evidence of the verification and any action taken as a result of the visit.

**Responsible staff member:** Deputy Representative

**Date by which action will be taken:** May 2020

## Cash transfers to implementing partners

As stated above, country offices use the HACT framework to assess the risk of working with a particular partner, determine the most suitable method of transferring cash to them, and manage the risks associated with transferring cash resources.

The office transferred US\$ 839,900 to partners during the period 2018-November 2019. Approximately 53 percent of the cash was transferred to NGOs, and 47 percent to Government institutions. Direct cash transfer (DCT) was the main type of transfer used, representing 82.8 percent of total cash transfers. At the time of the audit, there were no advances outstanding for more than nine months. A total of US\$ 650,200 was liquidated in 2018 – that is, the office had confirmed that this amount had been used for the intended purpose.

However, the audit noted delays in the reporting of the utilization of funds by implementing partners; there were also delays in the office confirming that funds transferred to partners had been used for the intended purpose. This confirmation should be done within three to six months of transferring the funds. The audit reviewed a sample of transactions and identified a number of transfers that had not been liquidated for more than six months; it took on average 226 days from the time the office transferred funds to the time when it confirmed utilization of the funds for the intended purpose. This indicates that

either partners were not reporting promptly on how funds had been used, or the office was not timely in confirming the utilization of the funds after receiving reports from the partners. There were thus the risks that the office might be unable to take any prompt remedial actions required – including, for example, initiating actions recover any funds misused by partners.

The audit noted that the office had completed all the 11 spot checks in the 2018-2019 assurance plan. If properly planned and conducted, these spot checks should have resulted in timely confirmation and liquidation of funds transferred to partners. Apparently, this was not case.

**Agreed action 3 (medium priority):** The office agrees to take appropriate steps, beyond the minimum requirements of HACT, to ensure timely confirmation and liquidation of funds transferred to partners. For this purpose, it is encouraged to make use of the available eTools,<sup>4</sup> such as the Trips and Financial Assurance modules, which will help strengthen monitoring and follow-up of assurance activities with implementing partners.

**Responsible staff member:** Deputy Representative

**Date by which action will be taken:** August 2020

### Consultants with staff-type functions

Consultants and individual contractors may be engaged for a limited period only when the assignment is of a temporary nature; they may not perform regular and continuing staff functions. Where an individual contractor is engaged to perform duties and functions similar to those of a staff member, there should be a clear strategy for a long-term regular staffing solution and to demonstrate the continuing need for services.

The office had signed 30 consultancy or individual contract agreements during the period under audit. Three of them were performing duties and functions similar to those of a staff member, including core tasks such as support to the Ministry of Health on policies and services or coordination of Communication for Development and Advocacy activities. Two out of these three consultants have been repeatedly engaged by the country office since 2016, and two of them had been partially funded with regular resources (RR).<sup>5</sup> The office had not determined an alternative staffing solution for those functions, for example through temporary appointments.

**Agreed action 4 (medium priority):** The office agrees to develop a strategy for a long-term regular staffing solution covering those duties that are typical staff functions but have been performed by consultants or individual contractors for a long period.

**Responsible staff member:** Representative

**Date by which action will be taken:** September 2020

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<sup>4</sup> eTools is a suite of applications being rolled out to make regular administrative functions in UNICEF easier. It includes facilities to assist planning and follow-up of assurance activities.

<sup>5</sup> RR are core resources provided by UNICEF centrally and are usually a small percentage of an office's total resources; it raises most of what it needs for the programme itself, as other resources (OR).

## Partnership management

The country office worked with 18 NGOs and had 23 ongoing agreements with them during the audit period. A total of US\$ 447,700 was transferred to the NGO partners during 2018, and in 2019 to November. The audit noted the following.

**Open vs. direct selection:** An office can choose its partners through either open or direct selection. In the first case, the office puts out a call for expressions of interest for an activity, and reviews multiple responses. With direct selection, the office goes straight to a partner they already or know, or think is appropriate. Open selection is more transparent process and should help select the most competent partners. However, a review of the 23 small-scale funding agreements (SSFAs) and programme cooperation agreements (PCAs) that were ongoing during the audit period showed that all but one partner had been selected using the direct selection method.

The audit reviewed a number of submissions to the Partnership Review Committee (PRC) and found that the justifications for using direct selection method were not clearly recorded and that the PRC minutes showed insufficient analysis of the costs budgeted. Also, in cases of late submission, the review and clearance was not included in the PRC minutes. This created the appearance of an PRC that was not as effective as it should be. The audit also noted three cases where the programme document was approved 20 days after the start of activities.

With the launch of the UN Partner Portal (UNPP),<sup>6</sup> the office had started to announce the NGO partnerships for open selection in 2019, after which it stated that for forthcoming partnerships, the ratio of open to direct selection of partnerships entered into was 50/50 during 2019.

**Partner contributions:** Offices determine locally whether there are minimum cash or supply contributions expected from NGO partners. This is to ensure that partners are sufficiently invested in the activities.

Based on analysis of partnership documents, the audit noted that contributions from partners varied from zero to 38 percent of the overall budget. For example, in one case the partner did not contribute anything to the partnership budget and in another instance, the programme management costs paid by UNICEF were 12 percent of the total budget. For the latter, this indicated that UNICEF was financing the partnership's administration (e.g. salaries of partnership staff) and not focusing its contributions on direct programme costs. The office said that they ensured that the contributions stayed within a reasonable share, depending on the nature of the project and the capacity of the NGO. However, the criteria used to assess the partners' capacity and determine that reasonable share were not clear.

**Agreed action 5 (medium priority):** The office agrees to, through the PRC, strengthen its partnerships by:

- i. Systematically using the open method of selection and clearly documenting the justification for any exceptional use of the direct selection method.
- ii. Setting out clear criteria for determining the partners' contributions, and clearly documenting the reasons for the exceptional waiver/adjustment of the contribution requirement.

**Responsible staff members:** Deputy Representative, Operations Manager

**Date by which action will be taken:** May 2020

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<sup>6</sup> A site through which NGOs can find potential partners in the UN system. See [www.unpartnerportal.org](http://www.unpartnerportal.org).



## Donor reporting

To ensure positive relationships with donors and show transparency, it is important that UNICEF's reports to donors are not only timely, but also comprehensive and accurate. It is also critical that there is clarity in terms of what is expected from UNICEF. UNICEF's Public Partnership Division (PPD) advises that, even in the absence of a written donor agreement, UNICEF offices should be transparent by accurately presenting results planned with the Government and the extent of their achievement.

During the period under audit, the Kazakhstan Country Office had a total of 27 grants, reports for 12 of which fell due; all the reports were sent on time. However, the audit noted that the office's reporting on the use of contribution from the Government of Kazakhstan could have been more transparent and comprehensive. This was particularly critical in this case because it is unusual for a Government, the beneficiary of UNICEF programmes, to be both a donor and an implementing partner of UNICEF programmes funded by their own (e.g. the Government's) contributions.

The Government had been the major source (81 percent) of the OR for the country office in the current country programme cycle. In 2017, the office received US\$ 135,000 from the Government through the Ministry of Foreign Affairs (MoFA) to fund specific UNICEF programmatic activities in Kazakhstan. In January 2018 the office received an additional US\$ 50,000 from the Government.

The audit noted that the final donor report to PPD and the Government only covered the US\$ 135,000 and did not cover the additional US\$ 50,000 received by the office in January 2018. To correct this error, the office subsequently sent an updated report for the entire US\$ 185,000 in February 2019. However, the final report in VISION was for the US\$ 135,000 only. The report also lacked information on the achievement of some of the planned results, although the office had held a number of meetings with MoFA during which it had agreed on the results to be achieved and timelines. The report also lacked detailed, itemized expenditure information. Only the total expenditure was reported. Overall, it was not clear how UNICEF assessed its performance or reported on the activities and the use of the total funds received.

Typically, reporting requirements are specified in contribution agreements; in this case, however, there was no written agreement between UNICEF and the Government at the time the funds were received. It was therefore unclear exactly what was expected from UNICEF in respect of this grant.

**Agreed action 6 (medium priority):** The office agrees to ensure that objectives, indicators, targets and activities to be performed by UNICEF are first agreed upon with the Government before accepting any thematic contributions from them. It will also ensure timely and accurate reporting.

**Responsible staff members:** Representative, Deputy Representative

**Date by which action will be taken:** May 2020

## Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, and testing samples of transactions. 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 regional 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 HQ 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 regional-office management but are not included in the final report.

### Conclusions

The overall conclusion presented in the summary falls into one of 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 over 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 over the office needed significant improvement to be adequately established and functioning.