



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

### **REPORT 2014/025**

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#### **Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan**

**Overall results relating to effective management of UNHCR operations in Kyrgyzstan were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY  
SATISFACTORY**

**22 April 2014**

**Assignment No. AR2013/141/05**

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# AUDIT REPORT

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) operations in Kyrgyzstan (hereafter referred to as ‘the Representation’).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. UNHCR established the Representation in Kyrgyzstan in 1995 to support the Kyrgyz government for protection and material assistance to more than 20,000 refugees who fled from the 1992 civil war in Tajikistan. The Representation functions operationally under the supervision of the UNHCR Regional Office in Kazakhstan, and has established a branch office in Bishkek, a sub-office in Osh and a field office in Jalal-Abad. From June to December 2010, UNHCR deployed a rapid emergency response team to assist 300,000 internally displaced persons (IDPs), 75,000 refugees who fled to Uzbekistan, and a further 25,000 persons affected during the June 2010 events (ethnic conflict) in Osh and Jalal-Abad.
4. The Representation spent \$19.4 million in 2010, \$7.5 million in 2011, and \$5.0 million in 2012. As at 31 July 2013, the Representation had filled 33 of the 34 authorized posts. The Representation’s warehouse in Osh accommodated 81,563 items of inventory valued at \$0.6 million as at 31 December 2012. As at 31 December 2012, the Representation managed 56 items of property plant and equipment (PPE) with book value of \$0.6 million, and had 671 serially-tracked items (STIs) whose value totalled \$0.2 million.
5. Comments provided by UNHCR Representation in Kyrgyzstan are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Representation’s governance, risk management and control processes in providing reasonable assurance regarding **effective management of UNHCR operations in Kyrgyzstan**.
7. This audit was included in the 2013 risk-based annual work plan due to risks in the control environment and operational complexity as the Representation transitioned from an emergency operation in 2010 to a stable regular UNHCR operation.
8. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Project management** - controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of the Representation’s project activities.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures exist, are adequate and are effective for financial management, procurement, and the management of assets.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from 5 August to 30 September 2013. The audit covered the period from 1 January 2010 to 31 July 2013.

11. The audit team conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted tests to determine their effectiveness. To validate the Representation's primary responsibility to monitor controls over implementation of projects by partners, OIOS visited six partners for the review of project implementation and reporting, financial reporting processes, procurement and asset management, and external audits of projects.

### III. AUDIT RESULTS

12. The Representation governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **effective management of UNHCR operations in Kyrgyzstan**. OIOS made six recommendations to address issues identified in the audit.

13. Project management was assessed as partially satisfactory as: (a) action was needed to strengthen performance monitoring over project progress; and (b) the Representation's monitoring of banking arrangements at partners needed to be strengthened. The Representation took corrective action by strengthening performance monitoring and monitoring of banking arrangements.

14. Regulatory framework was assessed as partially satisfactory because: (a) controls on procurement planning needed to be improved; and (b) improvements were required for the vendor registration process. The Representation took corrective action to align the delegation of authority plan (DOAP) to the financial internal control framework (FICF) and improve controls over: tendering, handling, and evaluation of bids.

15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

**Table 1: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in Kyrgyzstan	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## A. Project management

### Action was taken to strengthen monitoring over project progress

16. The Representation needed to monitor implementation of the Implementing Partner Project Agreements. These agreements required partners to prepare and submit narrative reports indicating the performance of projects against specific indicators and link physical progress with the financial indicators in the Implementing Partner Final Reports (IPFRs).

17. OIOS' review of IPFRs and verification reports for three of the six partners showed that the Representation released instalments to partners totalling \$1.7 million for the periods 2010-2012 without verifying the physical progress in the projects. The Representation did not verify and compare activities actually implemented with planned targets before they were uploaded in FOCUS, which is the risk-based management tool of UNHCR. As an example, one of the partner's IPFR for January to December 2012 reported that a total of 850 persons were assisted with civil status registration and 1,043 persons received assistance concerning the acquisition of nationality and legal assistance. The Representation did not validate these reported accomplishments and thus made payments to the partner without correlating expenditures with the physical progress of the project. This was because supervisory controls for monitoring partner activities were weak.

**(1) The UNHCR Representation in Kyrgyzstan should strengthen supervisory controls over monitoring of partner activities to ensure correlation of the project's financial and physical progress as reported in the partner's narrative report.**

*The Representation accepted recommendation 1 and stated that supervisory controls have been strengthened and were now in place. Based on the action taken by the Representation, recommendation 1 has been closed.*

### Action was taken to strengthen banking arrangements for implementing partners

18. UNHCR rules required the Representation to review implementing partner financial management arrangements and ensure that the partners maintained proper accounts for the receipt and disbursements of UNHCR funds, and separate interest-bearing bank accounts for UNHCR funds. Partners could also be allowed to use general or pooled accounts if the deposit and the use of UNHCR funds remained traceable.

19. Quarterly verifications of IPFRs by the Representation were weak and thus failed to detect the following shortcomings noted during OIOS' visit to six of the ten implementing partners:

- it was not possible to individually trace a partner's fund transfers, for the period June 2010 to December 2011, from UNHCR to the partner's main bank account in Bishkek and from Bishkek to its sub-office bank account in Osh.
- the 2010 bank accounts and reconciliation records for a partner could not be located due to staff turnover and the existing staff members lack of familiarity with accounting files.
- another partner had its UNHCR funds deposited in a separate bank account and did not have a practice of preparing bank reconciliations. Although the bank and book balances agreed for the month of December 2012, the absence of monthly bank reconciliations posed risks related to undetected fraud and errors.

- For the period from June 2010 to December 2012, a partner deposited UNHCR funds in the personal bank account of its accountant, from where the individual withdrew cash for payments. Further, this accountant handled all bookkeeping functions as well as cash custodial functions. The accountant was also the sole custodian of the automated teller machine card and the personal information number for the bank account. Although a review of transactions did not identify any irregular transactions, the lack of segregation of duties and use of cash instead of bank transfers or cheque payments combined with the use of a personal account for UNHCR funds exposed the Representation to the risk of fraud or loss of funds.

**(2) The UNHCR Representation in Kyrgyzstan should establish an action plan for ensuring that partners fully comply with the requirements of UNHCR for the maintenance and operation of bank accounts.**

*The Representation accepted recommendation 2 and stated that an action plan to strengthen monitoring procedures for control arrangements ensuring that partners comply with financial reporting requirements was in place. Based on the action taken by the Representation, recommendation 2 has been closed.*

## **B. Regulatory framework**

### Action was taken to make the Delegation of Authority Plan consistent with the Financial Internal Control Framework

20. The UNHCR Financial Internal Control Framework (FICF) required the design, implementation and maintenance of a DOAP to ensure appropriate segregation of incompatible functions. The FICF also specified that payment approvers should not approve payments that benefited them directly or indirectly. Examples of such transactions were travel claims, hospitality, and salary advances.

21. The Representation's DOAP did not fully comply with the FICF. For example, six staff members were both requisition approvers and receivers of goods and services. The same six staff were also spending and purchase approvers for non-purchase orders. They also had the roles of: (i) purchase order approver, a function that is incompatible to that of a requisition approver; and (ii) match manager role – which increased the risk of irregularities as any conflicts arising from a purchase order previously approved by these staff members could be cleared when performing the match manager role. In addition, six payment approvers had approved a total of 20 payments to themselves for various entitlements, including daily subsistence allowance advances, salary advances, rental advances, reimbursement of expenses, home leave travel, relocation and assignment grants totalling \$60,000.

22. Hence, the DOAP objective of ensuring appropriate segregation of duties was not fully achieved. This situation arose due to the reduction in staff numbers that occurred after the 2010 emergency operations in Kyrgyzstan.

**(3) The UNHCR Representation in Kyrgyzstan should amend the roles of six staff in the Delegation of Authority Plan to ensure adequate segregation of duties and to ensure that other staff cannot approve their own claims.**

*The Representation accepted recommendation 3 and stated that the latest DOAP was revised in February 2014, incorporating staffing changes and more importantly ensuring segregation of functional approval roles, according to FICF. The review was done taking into account limited*

*number of senior managers.* Based on the action taken by the Representation, recommendation 3 has been closed.

Controls on procurement planning needed to be improved

23. UNHCR rules outline the controls on procurement planning, including those related to: (i) identifying, quantifying and planning needs; and (ii) evaluating sourcing options.

24. A review of 22 purchase orders showed that required annual procurement purchasing plans for 2010 to 2012 were not prepared although the Representation procured goods and services totalling \$2.4 million during the period. The staff responsible for procurement were thus only informed of procurement cases when the end-users raised and communicated the relevant requisitions. They thus had limited time to prepare tender documents and request for bids. There were also no source selection plans for procurement cases. Such plans (jointly signed by buyer and end-user) could have outlined sourcing options and processes (i.e. requisitioning, specifications, tendering, handling and treatment of bids, bids evaluation, awarding and contracting, delivery) and the risks/challenges associated with each procurement case. There was also no structured monitoring of the status of each procurement case at a given time.

25. As a result of the above weaknesses, the risks associated with inadequate planning, inappropriate tendering, unfair handling and treatment of bids in all the observed cases were not adequately mitigated. The weaknesses arose because of a lack of knowledge among operational managers and supply staff, and a lack of periodic oversight by managers.

**(4) The UNHCR Representation in Kyrgyzstan should arrange procurement training for operational managers and increase managerial oversight on procurement planning and tendering.**

*The Representation accepted recommendation 4 and stated that it had prepared and shared a purchasing plan for 2014 with the Supply Management and Logistics Service (SMLS). In order for improving the oversight and development of capacity of operational managers and staff on procurement planning and tendering as recommended under the audit report, the Representation and the Bureau were coordinating to ensure that needful training was provided to concerned staff members. Since there was no supply and procurement specialist in the sub-region and since the training would need to be coordinated and organized with SMLS, it was due to take place in September/October 2014. Recommendation 4 remains open pending completion of the training on procurement.*

Action needed to ensure full implementation of vendor registration process

26. UNHCR rules on the vendor registration process require that offices streamline the process of pre-qualifying vendors, improve transparency, put in place a clearly defined document trail and enhance vendor database quality and sourcing infrastructure. Templates have been created for the vendor registration process, vendor evaluation checklist, vendor performance evaluation, the recommendation of new vendors and suspension of vendors, and the terms of reference of the Vendor Review Committee (VRC).

27. The Representation established the VRC only on 16 September 2013. For the period from 2010 to August 2013, it registered vendors only when they were awarded a contract instead of once it was determined that the vendor had satisfied the registration requirements. The Representation did not conduct performance evaluations of 11 vendors who provided goods or services to UNHCR, as it was not aware that this needed to be done.

28. The VRC did not review the registration of vendors and in absence of vendor performance evaluations there was no basis for updating the status of vendors.

**(5) The UNHCR Representation in Kyrgyzstan should develop an action plan to fully implement the terms of reference of the Vendor Review Committee.**

*The Representation accepted recommendation 5 and stated that the Vendor Review Committee was established in September 2013. As recommended, the action plan to implement the terms of reference of the Vendor Review Committee would be developed in the course of the next months. Recommendation 5 remains open pending receipt of the action plan to implement the terms of reference of the Vendor Review Committee.*

Action was taken to improve handling/treatment of bids and bid evaluation

29. UNHCR rules provide guidance on tendering, handling, treatment of bids and the procedures for bid evaluation.

30. A review of 15 purchase orders indicated that:

- The Representation did not record the time of receipt of the bids for the purchase orders. It thus did not have the means of ensuring that all the bids were received before the cut-off time indicated in tender documents.
- The Representation did not use the two-envelope system for separating financial and technical bids. The bids received from vendors contained both the financial and technical offers, as the tender documents did not require segregation. Hence, financial offers were already known by bid opening members before technical evaluations, whereas financial bids should only be opened after technical evaluation.
- Except for three purchase orders, the determination of whether vendors met the required technical specifications was done by one staff member instead of the required two-person team.
- The Representation did not enforce the requirement for evaluators to indicate on the technical evaluation report and bid tabulation sheets the express statements of “no conflict of interest” and confidential treatment of offers by not sharing information with other bidders.

31. The above shortcomings prevented the Representation from having an adequate evaluation process that ensured fairness in tendering, handling, and treatment of bids.

**(6) The UNHCR Representation in Kyrgyzstan should develop and implement an action plan to strengthen review and monitoring controls over treatment and handling of bids and bid evaluations. This should include: (i) proper procedures for the receipt of bids; (ii) separation of technical evaluation from financial evaluation; (iii) express declaration by evaluators of “no conflict of interest” and confidentiality; and (iv) establishment of clear weighted vendor evaluation criteria.**

*The Representation accepted recommendation 6 and stated that the required changes relating to the treatment and handling of bids and bid evaluations were introduced. Based on the action taken by the Representation, recommendation 6 has been closed.*

#### **IV. ACKNOWLEDGEMENT**

32. OIOS wishes to express its appreciation to the Management and staff of UNHCR Representation in Kyrgyzstan for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* David Kanja  
Assistant Secretary-General for Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The UNHCR Representation in Kyrgyzstan should strengthen supervisory controls over monitoring of partner activities to ensure correlation of the project's financial and physical progress as reported in the partner's narrative report.	Important	C	Action completed	Implemented
2	The UNHCR Representation in Kyrgyzstan should establish an action plan for ensuring that partners fully comply with the requirements of UNHCR for the maintenance and operation of bank accounts.	Important	C	Action completed	Implemented
3	The UNHCR Representation in Kyrgyzstan should amend the roles of six staff in the Delegation of Authority Plan to ensure adequate segregation of duties and to ensure that other staff cannot approve their own claims.	Important	C	Action completed	Implemented
4	The UNHCR Representation in Kyrgyzstan should arrange procurement training for operational managers and increase managerial oversight on procurement planning and tendering.	Important	O	Completion of training on procurement	October 2014
5	The UNHCR Representation in Kyrgyzstan should develop an action plan to fully implement the terms of reference of the Vendor Review Committee.	Important	O	Submission of the action plan to implement the terms of reference of the Vendor Review Committee	June 2014
6	The UNHCR Representation in Kyrgyzstan should develop and implement an action plan to strengthen review and monitoring controls over treatment and	Important	C	Action completed	Implemented

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNHCR Representation in Kyrgyzstan in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
	handling of bids and bid evaluations. This should include: (i) proper procedures for the receipt of bids; (ii) separation of technical evaluation from financial evaluation; (iii) express declaration by evaluators of “no conflict of interest” and confidentiality; and (iv) establishment of clear weighted vendor evaluation criteria.				

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

Rec . no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Kyrgyzstan should strengthen supervisory controls over monitoring of partner activities to ensure correlation of the project's financial and physical progress as reported in the partner's narrative report.	Important	Yes	Associate Programme Officer	Implemented	The recommendation has been implemented. Supervisory controls have been strengthened and are now in place.
2	The UNHCR Representation in Kyrgyzstan should establish an action plan for ensuring that partners fully comply with the requirements of UNHCR for the maintenance and operation of bank accounts.	Important	Yes	Associate Programme Officer	Implemented	An action plan to strengthen monitoring procedures for control arrangements ensuring that partners comply with financial reporting requirements is in place.
3	The UNHCR Representation in Kyrgyzstan should amend the roles of six staff in the Delegation of Authority Plan to ensure adequate segregation of duties and to ensure that other staff cannot approve their own claims.	Important	Yes	Assistant Admin Officer, Finance Associate	Implemented	The latest Delegation of Authority Plan (DOAP) was revised in February 2014, incorporating staffing changes and more importantly ensuring segregation of functional approval roles, according to Financial Internal Control Framework. The review was done taking into account limited

<sup>5</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>6</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

Rec . no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						number of senior managers.
4	The UNHCR Representation in Kyrgyzstan should arrange procurement training for operational managers and increase managerial oversight on procurement planning and tendering.	Important	Yes	Senior Regional Program Officer, Senior Desk Officer	September / October, 2014	Representation has prepared and shared a purchasing plan for 2014 with the Supply Management and Logistics Service (SMLS). In order for improving the oversight and development of capacity of operational managers and staff on procurement planning and tendering as recommended under the audit report, the Representation and the and the Bureau are coordinating to ensure that needful training is provided to concerned staff members. Since there is no supply and procurement specialist in the sub-region and since the training would need to be coordinated and organized with SMLS, it is due to take place in September/October 2014.
5	The UNHCR Representation in Kyrgyzstan should develop an action plan to fully implement the terms	Important	Yes	Assistant Admin Officer	June 2014	The Vendor Review Committee was established

## Management Response

## Audit of United Nations High Commissioner for Refugees operations in Kyrgyzstan

Rec no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	of reference of the Vendor Review Committee.					in September 2013. As recommended, the action plan to implement the terms of reference of the Vendor Review Committee will be developed in the course of the next months.
6	The UNHCR Representation in Kyrgyzstan should develop and implement an action plan to strengthen review and monitoring controls over treatment and handling of bids and bid evaluations. This should include: (i) proper procedures for the receipt of bids; (ii) separation of technical evaluation from financial evaluation; (iii) express declaration by evaluators of “no conflict of interest” and confidentiality; and (iv) establishment of clear weighted vendor evaluation criteria.	Important	Yes	Associate Programme Officer	Implemented	The recommendation has been implemented. The required changes relating to the treatment and handling of bids and bid evaluations were introduced.