

## **FINANCIAL MANAGEMENT ASSESSMENT, TRANSFER OF FUNDS, AND RISK ASSESSMENT AND MANAGEMENT PLAN**

### **A. Introduction**

1. This financial management assessment (FMA) has been prepared to support technical assistance (TA) (project number: 52265-001) which is helping, through ADB contribution to creation of Solidarity Fund (SF) for Kazakhstan, aimed to provide dedicated response facility to assist Kazakhstan in fighting the negative impact on the local labor market caused by the COVID-19 pandemic, minimizing the effect on the most vulnerable parts of the population and preparing for the post-crisis socioeconomic development based on newly emerging industries, professions, and jobs. The implementation period of the SF runs through November 2020 – December 2022. United Nations Development Programme (UNDP) will serve as the SF's administrator on behalf of all cofinanciers and it will be responsible for procurement, hiring consultants and financial reporting, guided by Steering Committee. which will serve as the facility's main decision-making body. The SC will be chaired by the Ministry of National Economy (MNE) and it will include one representative from each of the contributing to and participating organizations, Ministry of Labor and Social Protection of Population (MLSP), ADB, UNDP, World Bank (WB).

2. The assessment was carried out in October 2020 and in accordance with relevant sections of the following ADB documents:

- (i) Technical Guidance Note on Financial Management Assessment (2015); and
- (ii) Operations Manual Section J7/OP: Project Financial Reporting and Auditing (2015).

3. The assessment was undertaken to assess the adequacy of UNPD flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, internal and external audit arrangements, and planning and budgeting processes. FMA procedures included: (i) an assessment of financial management systems and capacity of the implementing agency, including potential strengths / weaknesses of project specific financial management arrangements; (ii) risk assessment and preparation of a risk management plan; (iii) initial draft of the project's financial management, funds flow, accounting and auditing arrangements; and (iv) annual financial statements analysis. UNDP is a multilateral agency and has a separate set of governing documents and policies which are not directly affected by Kazakhstan legislative and public financial management framework.

4. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly. UNDP partners with entities and people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its headquarters in New York but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations. The Accountability and governance of UNDP has four main facets; (i) UNDP governing bodies and governance committees: the General Assembly (including the Fifth Committee), the Economic and Social Council and the Executive Board, (ii) UNDP accountability to its development partners and beneficiaries: funding partners,

programme governments, United Nations partners, implementing partners and project beneficiaries, (iii) Institutional oversight mechanisms of UNDP: (a) independent external oversight: the Advisory Committee on Administrative and Budgetary Questions, the Board of Auditors, the Joint Inspection Unit and the Audit and Evaluation Advisory Committee; (b) independent internal oversight: the Office of Audit and Investigations, the Ethics Office and the Independent Evaluation Office, (iv) UNDP internal accountability: the Administrator and Associate Administrator, the Executive Office, the Executive Group (including the Risk Committee), the Organizational Performance Group, regional and headquarters bureaux, regional centres and country offices.

5. The proposed TA provides dedicated response facility to assist Kazakhstan in fighting the negative impact on the local labor market caused by the COVID-19 pandemic through ADB's financial contribution to Solidarity Fund. The SF will, focus on delivering training and re-training programs to assist poor and vulnerable population workers who lost their jobs due to the pandemic finding new jobs in the post-COVID-19 economy. The SF's proposed total budget envelope is \$2,600,000. ADB will cofinance \$1,000,000 the TA with the government of the Republic of Kazakhstan, and other development partners. The government will finance \$1,200,000 of the TA cost through direct financial contributions to the SF. The UNDP will finance a total of \$300,000, including \$120,000 as parallel co-financing through an on-going project, \$180,000 as direct contribution. The WB will provide in kind contribution of \$100,000 through the supervision of Standard Job Procedures activities.

## **B. Project Financial Management System**

### **1. Overview of UNDP's Financial Management and Institutional Context**

6. UNDP as an organization is assessed as competent to financially manage implementation of the TA in compliance to UNDP policies, rules, and regulations.

7. UNDP has enough administrative and accounting capacity to manage the procedures in accordance with the requirements set forth in the ADB Technical Assistance Disbursement Handbook (July 2020).

### **2. Strengths and Weaknesses**

8. UNDP has an accounting information system with capacity to perform offsite back-up storage and project-based reporting customization. UNDP has experienced and well-trained accounting and FM staff working in a finance organization with low turnover and good adherence to policies and procedures and is adequately audited by an independent external audit firm.

9. UNDP has extensive prior experience managing donor-funded projects.

### **3. Personnel**

10. The UNDP will ensure the appointment and retention of required staff responsible for SF. Dedicated UNDP staff with the required qualifications will be in charge for financial

management and accounting functions of the Solidarity Fund performing in line with UNDP corporate Internal Control Framework and UNDP financial regulations.

#### **4. Accounting Policies and Procedures**

11. UNDP's accounting policies and procedures are adequate. UNDP has formalized policies and procedures in respect of financial accounting and reporting, internal audit, and risk management. The financial statements are prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and the Financial Regulations and Rules of UNDP.

#### **5. Internal Audit**

12. UNDP's audit mechanism comprise an external audit and internal audit functions, and an independent Audit and Evaluation Advisory Committee (AEAC), established to advise regarding oversight, financial management and reporting, internal audit and investigation, external audit, risk management, the evaluation and ethics functions and systems of internal control and accountability. The Office of Audit and Investigations (OAI) reports to the UNDP Administrator and submits to the AEAC, for review and advice, its strategy, workplans, budget situations and periodic progress reports. In addition, the Office prepares an annual report which summarizes significant observations from audits and investigations undertaken during the year.

#### **6. External Audit**

13. The United Nations Board of Auditors (Board) was established in 1946 to audit the accounts of the United Nations organization and its funds and programmes and to report its findings and recommendations to the Assembly through the Advisory Committee on Administrative and Budgetary Questions. The Board's report on UNDP's financial statements is a public document. The General Assembly appoints three members, each of whom must be the Auditor-General (or officer holding the equivalent title) of a Member State. The members of the Board have joint responsibility for the audits. By Resolution 55/248 of 12 April 2001, the General Assembly approved a change in the term of office of members of the Board to a non-consecutive term of six years' duration commencing 1 July 2002. Appointments are staggered in such a way that the term of office of one of the members expires every two years. The General Assembly therefore appoints a new Board member every two years. The current members of BOA are Mr. Kay Scheller (Chairman), President of the German Federal Court Auditors; Mr. Hou Kai (Member), Auditor General of the People's Republic of China; Mr. Jorge Bermudez (member), Controller General of the Republic of Chile.

14. The members of the Board are expected to be available for approximately two weeks each year for meetings of the Board and Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. In addition, each member must be available for whatever consultations are necessary throughout the year with the United Nations Administration, the Advisory Committee on Administrative and Budgetary Questions and other governing bodies. If a member of the Board ceases to hold office as Auditor-General (or equivalent title) in her/his country, the tenure of office is terminated and the person who succeeds her/him as Auditor-General becomes the new Board member. A Board member may

not otherwise be removed during her/his tenure except by the General Assembly.

## 7. Financial Reporting and Monitoring

15. UNDP shall provide the certified financial statement by UNDP HQ Comptroller. Required reports summarized in Table 1 are to be prepared by the UNDP. For the annual audited financial statement UNDP will prepare Special Fund Activities (SFA) Framework Account financial statements in accordance with cash-basis International Public Sector Accounting Standard. The project shall be audited in line with UNDP audit policies, rules and regulations as set out in the Administrative Arrangement between ADB and UNDP, the funds shall be transferred to UNDP HQ Contributions bank account and recorded at the level of UNDP Kazakhstan. The funds will be administered jointly by UNDP HQ and UNDP Kazakhstan country office personnel in line with UNDP rules and regulations.

**Table 1. Summary of Required Financial Reports**

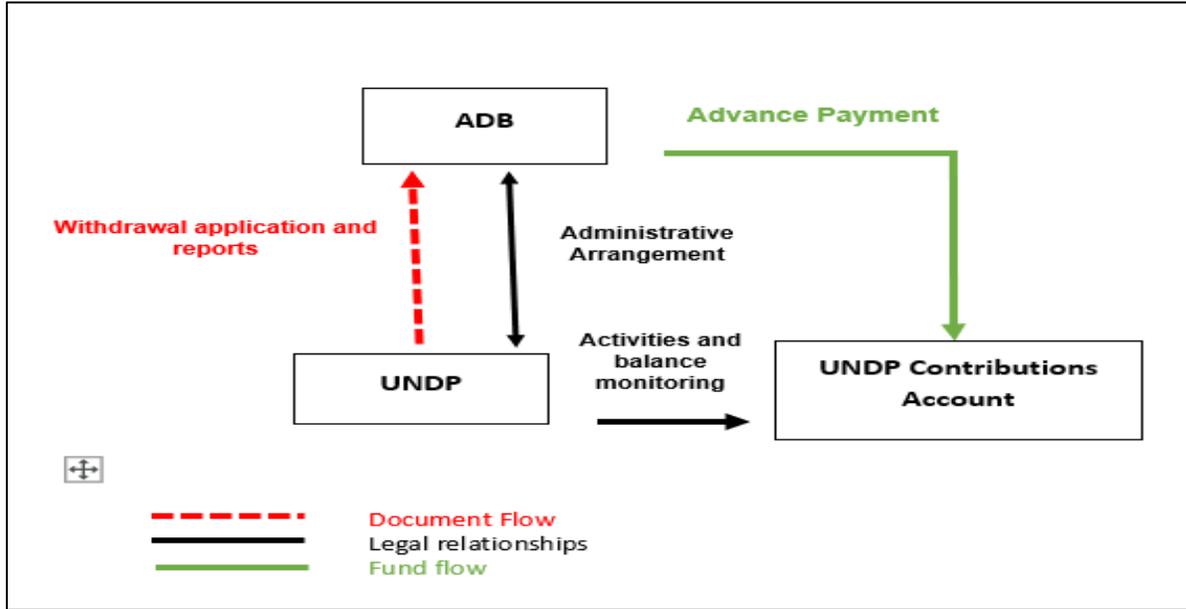
Report	Frequency	Basis	Duration	Due date
Annual Financial Statement certified by UNDP Comptroller	Annual	UNDP Atlas software based on IPSAS	1 <sup>st</sup> January – 31 <sup>st</sup> December	30 June of the following year
Final Financial Statement certified by UNDP Comptroller	Once per project cycle	UNDP Atlas software based on IPSAS	Entire project duration	30 June of the year following the financial closure of the project

## 8. Information Systems

16. UNDP's Enterprise Resources Programme is Atlas. The programme is based on IPSAS accounting standards. The system integrates the information on programme/projects management, operations area (finance, procurement, HR, ICT, travel), risk management, snapshots and strategic overviews of how UNDP is managing its resources and represents a unique and solid UNDP platform of the financial resources management.

9. **Proposed Flow Mechanism**

**Figure: Fund Flow**



ADB= Asian Development Bank, UNDP = United Nations Development Programme

**C. Risk Description and Rating**

17. By virtue of its role, the UNDP faces a range of financial and nonfinancial risks. In 2018 UNDP launched its updated enterprise risk management policy to become a more effective and more agile organization that incorporates responsible risk-taking into its decision-making processes. The revisions to the enterprise risk management policy focus on enhancing the following:

- a) Importance of cultivating a risk culture within the organization to enable responsible risk-taking and risk-informed decision-making;
- b) Unity in the approach and methodology used for risk management across programming and operations (including through a common risk register);
- c) Fostering opportunity management, foresight, and innovation, rather than an approach that focuses only on avoiding harm and reacting to issues as they arise;
- d) Greater alignment between risk categories and programming quality criteria, ensuring that risk management and quality assurance go hand-in-hand;

18. The foregoing assessment of UNDP's FM systems, policies, procedures and overall capacity has identified the following key risks and with suggested mitigation measures:

**Table 2: Financial Management and Internal Control Risk Assessment**

Risk	Risk Assessment	Risk Rating	Risk mitigation Measures
<b>Inherent Risk</b>			
1. Country specific	Not applicable	Low	
2. Entity-specific	Compliance risk - The Financial Regulations and Rules of UNDP are not fully complied.		ADB and UNDP relationships will be governed by acceptable to ADB Administrative Arrangement and Statement of Intent
<b>Overall inherent Risk</b>			

Control Risk-	Project-specific risks		
1. Implementing entity	Donor and host country support may not be adequate to launch SF	Low	UNDP to allocate sufficient internal resources to execute programmed SF operations
2. Funds Flow	Execution risk- advance balance is not managed and recorded properly.	Low	UNDP to ensure sufficient accounting resources.
3. Staffing	Execution risk – staff have limited understanding of ADB reporting requirements and procedures, which may result in project delays	Low	UNDP staff is familiarized with ADB requirements
4. Accounting policies and procedures	UNDP not following IPSAS and its own accounting and financial reporting standards.	Low	UNDP to ensure sufficient accounting resources.
5. Internal audit	Compliance risk – Internal audit scope does not cover financial activities of the project.	Low	Include the project into UNDPs internal audit plan
6. External audit	Compliance risk – not a timely review and updating of project risks, issues, and monitoring due to rare meetings of BOA	Low	Include the project into UNDPs external audit plan
7. Reporting and monitoring	Compliance risk - delayed submission of financial reports undermines ADB's ability to assess UNDP's financial performance to implement, maintain, and operate the project.	Low	UNDP to ensure sufficient accounting resources.
8. Information systems	Potential loss of accounting data due to cybersecurity threat.	Low	UNDP to ensure adequate cybersecurity measures
<b>Overall Control Risk</b>		Low	
<b>Overall Combined Risk</b>		Low	

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19. The Risk monitoring and the project's overall exposure to risk must be reviewed throughout the life of a project and where necessary actions to mitigate risks must be changed or revisions to the project must be considered. The overall pre-mitigation financial management risk for the project is assessed as Low and UNDP's financial management is considered adequate.

#### **D. Proposed Action Plan**

20. UNDP has a sound record in implementing donor funded projects and programs. No financial management action plan is proposed.

#### **E. UNDP Financial Performance**

21. UNDP financial performance assessment is based on audited financial statements. 2018 financial statements are audited by Board of Auditors<sup>1</sup>. Table 3 shows key UNDP

<sup>1</sup> United Nations Development Programme Financial Report and audited financial statements are available on the following link <https://undocs.org/en/A/74/5/Add.1>

historical financial performance indicators for the last two years. UNDP financial statements indicate positive operational income and stable assets.

Table 3: Financial Performance Indicators

<b>(Millions of United States dollars)</b>	<b>2018</b>	<b>2017</b>
Total Assets	12 110	10 662
Total Liabilities	6 732	6 021
Net Assets/Equity	5 378	4 641
Total Revenue	5 517	5 236
Total Expenses	5 097	5 095
Surplus/ Deficit	420	141

#### **F. Conclusion**

22. The assessment concludes that UNDP has low financial management and internal control risks, and no time-bound mitigation measures are needed. UNDP has a sound record in implementing donor funded projects and programs.

23. The assessment finds that UNDP have enough financial management capacity as an executing and implementing agencies for the project, provided that:

- The report of BOA will be posted on the UNDP's external website as a part of UNDP annual report; and;
- UNDP will provide ADB access through UNDP's external portal to: (i) progress report; and (ii) a list of key decisions taken at the regular Steering Committee meetings.