

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP AFGHANISTAN

INSTITUTIONAL CAPACITY BUILDING FOR GENDER EQUALITY PROJECT
(Directly Implemented Project No. 45877)

Report No. 1136
Issue Date: 11 July 2013

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**Report on the audit of UNDP Afghanistan
Institutional Capacity Building for Gender Equality Project (Project No. 45877)
Executive Summary**

From 28 January to 11 February 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of Institutional Capacity Building for Gender Equality, Project No. 45877 (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). The audit covered the activities of the Project during the period from 1 January 2011 to 31 December 2012. During the period reviewed, the Project recorded programme and management expenses totalling \$4.7 million. The following donors contributed to the Project: UNDP, Italy, and the Canadian International Development Agency. The Office signed Letters of Agreement with three government institutions to undertake some project activities (hereinafter referred to as responsible parties).

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Project as **partially satisfactory**, which means “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to deficiencies with cash management. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Organizational structure and staffing				
2. Project management				
3. Operations				
3.1 Human resources				Satisfactory
3.2 Finance				Unsatisfactory
3.3 Procurement				Satisfactory
3.4 Asset management				Satisfactory
3.5 Information systems				Satisfactory
3.6 General administration				Satisfactory

Key issues and recommendations

The audit raised four issues and resulted in five recommendations, of which four (80 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

The high priority recommendations are:

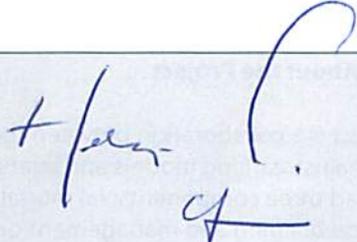
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|---------------------------------|---|
| Project management
(Issue 3) | <p><u>Inadequate monitoring over responsible parties’ recruitment and personnel management.</u> The Office did not adequately monitor the responsible parties’ process for the recruitment of personnel. Nor was there adequate monitoring of the responsible parties subsequent processes for the remuneration, and monitoring of personnel deliverables for the recruitments. OAI recommends that the Office enhance monitoring of the responsible parties’ compliance with the terms of the Letters of Agreement relating to personnel, including: (a) establishing controls to ensure that there is adequate justification and approval for the creation of Project positions; (b) ensuring that a complete and accurate list of personnel recruited by the responsible parties under the Letters of Agreement is provided and updated on a regular basis, and that requests for payment of salary are verified with the list prior to processing; (c) liaising with responsible parties to ensure that recruitment is in compliance with the financial regulations and rules and that a common salary scale is established; and (d) ensuring that all required support documentation is received from the responsible parties prior to processing payments.</p> |
| Finance
(Issue 4) | <p><u>Inadequate controls over cash advances to provincial offices.</u></p> |
| ▪ Cash advances | <p>Office management did not have adequate controls over cash advances of \$1.3 million made to the Provincial Coordinators to cover the cost of workshops in the provinces. There was inadequate segregation of duties as the Provincial Coordinators, who received the cash advances, also solicited quotes and subsequently selected the vendors and made cash payments for goods and services. Documentation to support the validity of payments was inadequate and did not provide assurance of the receipt of the underlying good, service or activity, or of the appropriateness of the amount of the expenditure. OAI recommends that the Office enhance controls over cash advances by: (a) ensuring that advances are managed by UNDP staff (if this is not feasible, the Office should consult the Bureau of Management or explore the possibility of establishing common operational support centres to provide support services to all UNDP managed projects in a particular location); (b) ensuring that when cash advances are cleared, adequate supporting documents are submitted, with the requirement that the documentation include details such as the full names of the workshop participants, their contact numbers, copies of participants’ identification cards, a group photograph of participants where possible, and signatures of government officials who participated in the workshop certifying the attendance sheets; and (c) undertaking spot checks either in person or by telephone, especially when large advances are involved.</p> |
| ▪ Cash management | <p>There were inadequate controls over cash management. The Office had continued to make payments in cash, even though the number of banks operating in the country had increased, and many of the vendors and workshop participants may have had bank</p> |

accounts. OAI recommends that the Office enhance controls over cash management by limiting cash payments. This should include ensuring that payments to workshop participants and vendors are made directly to their bank accounts, or that payments are issued by cheque.

- Allegation reporting There was a lack of compliance with rules, policies, and procedures regarding reporting allegations of impropriety. An allegation of impropriety had been made but at the time of drafting this report had not been reported to Headquarters in New York, in accordance with the UNDP Financial Regulations and Rules, which require that such allegations shall be reported to the Bureau of Management and the Regional Bureau for Asia and the Pacific. Additionally, the Office had not reported the allegation to the Investigations Section of OAI. Therefore, OAI recommends that the Office ensure compliance with the UNDP Financial Regulations and Rules and inform the Bureau of Management, the Regional Bureau for Asia and Pacific and the Investigations Section of OAI, of any allegations of impropriety in a timely manner to permit appropriate follow-up and action.

Management comments and action plan

The Resident Representative accepted all the recommendations and is in the process of implementing them.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Introduction

From 28 January to 11 February 2013, OAI conducted an audit of the Institutional Capacity Building for Gender Equality Project, which is directly implemented and managed by the UNDP Country Office in Afghanistan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Project: organization and staffing, project activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 31 December 2012. During the period reviewed, the Project recorded programme and management expenses totalling \$4.7 million.

II. About the Project

The Project is a collaboration between the Government of Afghanistan and the Office aimed to develop effective gender mainstreaming models and strengthening the capacity of government ministries and institutions. The Project had three components: (a) modelling gender mainstreaming through selected ministries; (b) sustainable knowledge building and management on gender issues; and (c) women's empowerment through conflict resolution, justice, security and peace at the sub-national level. The Project started in February 2007 with an initial budget of \$10 million and it ended on 31 December 2012. During this period, the Project incurred expenses totalling \$10 million. While UNDP contributed \$6 million, the other two donors were the Government of Italy which contributed \$3 million and the Canadian International Development Agency which contributed \$1 million. The Office established four provincial offices to provide programmatic and operational support services to the Project. A new gender-related project was initiated in January 2013 with an initial budget of \$30 million that represented a second phase of the Project.

III. Detailed assessment

1. Organizational structure and staffing

Satisfactory

OAI reviewed the Project's organizational structure and staffing, including the Human Resources Plan for 2012. The Project Manager completed her assignment on 31 December 2012 and the Office had completed recruitment for her replacement, who was expected to join in April 2013. No reportable issues were identified.

2. Project management

Partially Satisfactory

OAI reviewed the Project Document, annual work plans, combined delivery reports, quarterly and annual progress reports and interviewed Office staff members as well as Project personnel. The Project's budgets and expenditures for the last three years are shown in Table 1 below:

Table 1. Annual budgets and expenditures from 2010 to 2012

Year	Budget (in \$ million)	Actual expenditure (in \$ million)
2010	1.8	1.6
2011	2.1	2.1
2012	3.0	2.6

Source: Executive snapshot

While most projects have undertaken significant gender related activities, a common country-wide gender strategy had yet to be developed to enable the coordination and streamlining of gender activities among the other projects being implemented by the Office. As the Office had initiated actions to develop a gender strategy which was expected to be completed by March 2013, no recommendation has been made.

The control weaknesses noted in management of the Project are discussed below:

Issue 1 Absence of a valid Project Document

According to the Programme and Operations Policies and Procedures, when designing a project, Offices are required to ensure that a Project Document is developed which includes the implementation modality, details of the activities to be undertaken, as well as the expected outcomes and outputs. There is also a provision stating that an annual work plan together with a Country Programme Action Plan can be a substitute for the Project Document.

The initial Project Document was signed in February 2007 and was extended until February 2010. The project activities in 2011 and 2012 were therefore undertaken based on annual work plans only. However, the Programme and Operations Policies and Procedures do not endorse the use of annual work plans in place of an expired Project Document. The absence of a valid Project Document impacted the Project as discussed below:

- The original Project Document stated that one of the expected Country Programme Action Plan outputs would promote women's empowerment by establishing the institutional capacity for gender mainstreaming. However, in the 2011 Annual Work Plan, the expected Country Programme Action Plan output was changed to "sustainable livelihood is promoted through district and community based development initiatives for strong citizen participation especially youths and women." The output was

changed again in the 2012 Annual Work Plan, which indicated that the expected output was “Government has greater capacity to foster an enabling environment for poverty reduction and private sector development.” The absence of proper linkages between the activities and the outputs and outcomes made it difficult to assess the results achieved by the Project.

- The original Project Document stated that UNDP would be directly implementing the Project. However, the Office subsequently signed Letters of Agreement with three government institutions to conduct recruitment of Project personnel, which was not in line with the Project Document.
- The former Project Manager commented that the absence of a valid Project Document hindered resource mobilization efforts which resulted in UNDP being the sole contributor to the Project in 2011 and 2012.

Even though the Project ended in December 2012, a Project Document was developed for the new Project which was scheduled to begin in January 2013. As such, OAI has not made a recommendation in regard to the deficiencies noted above.

Issue 2 Deficiencies in project management

During the audit, OAI noted the following deficiencies relating to project management:

(a) Inadequate project assurance

According to the Programme and Operations Policies and Procedures, Programme Officers are responsible for providing project assurance on behalf of UNDP. The Office programme staff undertook various assurance activities, such as reviewing progress reports and annual work plans. However, the programme staff conducted only two field visits during the audited period. Programme staff indicated that this was due to a lack of adequate staffing resources and the heightened security concerns in the provinces. OAI noted, however, that the security restriction on travel had not been imposed on the four provinces continuously during the audited period. The inadequate number and frequency of field visits contributed to the lack of monitoring of the management of cash advances in the provincial offices (see Issue 4).

The job description of the Project Associate entails regular monitoring of both the programmatic and operational aspects of project implementation. The Project personnel conducted 12 field visits to the provincial offices for monitoring purposes. However, these visits focused on monitoring programmatic activities. Project personnel did not monitor or review operational risks, nor did they follow up on operational issues at the provincial offices. For example, the weaknesses in cash management highlighted by the Financial Resources Management Unit were not followed up on or addressed.

(b) Inadequate oversight by Project Board

The Programme and Operations Policies and Procedures state that the Project Board is responsible for making management decisions when guidance is required, including recommendations for approval of the Project Plan and any proposed revisions to the Plan. The Programme and Operations Policies and Procedures further state that the Board should meet annually at a minimum, but recommends that it meet at least quarterly. The Project Board only met four times during the audited period. The Project Board had not carried out its oversight role effectively, as it was not involved in key Project processes, such as the review and approval of the annual work plans, human resources plans, or review of the Project’s financial management. There was no evidence that the Project Board had discussed the various challenges faced relating to the management of cash advances, such as

theft of cash while in transit, or the irregularities in the submission of documents by a Provincial Coordinator. Further, at the time of the audit fieldwork, the 2013 Annual Work Plan for Phase II had not yet been finalized or approved.

Inadequate project monitoring and assurance may result in the Project failing to achieve its intended results.

(c) Untimely evaluation and subsequent inadequate control over implementation of recommendations

The Project Document indicated that a mid-term evaluation would be conducted to assist in determining whether the Project needed to be scaled up. Hence, a mid-term project evaluation should have been conducted in September 2008; however, the evaluation was not carried out until December 2011. Further, the Office had not established any mechanism to track the implementation of the recommendations made in the evaluation report. The 40 recommendations in the evaluation report included suggestions for: down streaming gender responsive budgeting in the government institutions; preparing an organizational development plan for policy development centres; and establishing monitoring and evaluation units in more government ministries. As the Office had not tracked the implementation of the recommendations, OAI was unable to assess the status or determine an implementation rate. Further, OAI found no evidence that the lessons learned were considered in preparing the Project Document for Phase II of the Project.

The delay in performing the evaluation prevented the Office from ascertaining whether the Project needed to be scaled up and from making the necessary adjustments in a timely manner, in order to gain the greatest impact on outcomes. The failure to monitor and track the implementation of the recommendations hinders the Office's ability to analyse and capitalize on lessons learned.

Priority	Medium (Important)
Recommendation 1:	
<p>The Office should ensure that the implementation of similar types of projects is in compliance with the provisions in the Programme and Operations Policies and Procedures. This should include:</p> <ul style="list-style-type: none"> (a) enhancing the project assurance activities, such as conducting regular field monitoring visits to provincial offices, and ensuring that monitoring visits address both operational risks and issues as well as the monitoring of programmatic activities; (b) enhancing the effectiveness and frequency of the Project Board meetings by ensuring that key aspects of the Project, such as annual work plans and financial resources management are discussed; and (c) undertaking evaluations in a timely manner and establishing a mechanism to ensure that recommendations made in the project evaluation report are tracked and implemented. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>The Office advised that it started implementing the recommendation. This includes the recruitment of a Monitoring and Evaluation Specialist to monitor activities implemented at the provincial and regional levels. Further, steps were also being initiated to enhance project assurance activities, such as conducting field visits and holding Project Board meetings.</p>	

Issue 3: Inadequate monitoring over responsible parties' recruitment and personnel management

The Letters of Agreement provided that the responsible parties recruit personnel to carry out project activities in government institutions. However, the absence of a Project Document (see Issue 1) contributed to having no established controls to ensure proper oversight. OAI reviewed the practices in place and noted that the Project did not adequately monitor the recruitment of personnel or the subsequent payment of their salaries by the responsible parties as discussed below:

- (a) The Letter of Agreement provided that relevant responsible parties' financial regulations and rules should be followed and these responsible parties should put forth their best efforts to ensure that personnel recruited for the Project meet the highest standards of efficiency, competence and integrity. One way of achieving this would be to have a competitive selection process. In 7 out of 16 cases, the responsible parties did not use a competitive selection process for recruitment of personnel. There was no evidence to indicate whether this issue had been noted by project management or if they had sought to clarify and address it with the responsible parties.
- (b) OAI noted that the Project Manager, along with the responsible parties determined the salary offered to successful candidates. Such practice could result in inconsistent salaries being offered to candidates with similar experience or qualifications. Having a standard salary scale would have been more transparent.
- (c) The Project was unable to provide accurate records of personnel hired by the responsible parties under the Letters of Agreement during the audited period. Hence, there was no assurance that only authorized personnel were paid salaries. Further, the 2012 Human Resources Plan indicated that eight Project personnel would be recruited under Letters of Agreement even though 16 personnel were actually recruited. Project management did not provide any documentation justifying the additional eight positions.
- (d) The Letters of Agreement required that the responsible parties provide a memo explaining the activities completed as well as a detailed budget when submitting a request for payment to the personnel recruited. However, when reviewing the Project's documentation relating to the payment of salaries to personnel contracted under the Letters of Agreement, OAI did not find such supporting documentation. In addition, there was no indication that the Office had requested that the responsible party provide the supporting documentation.

Priority	High (Critical)
Recommendation 2:	
<p>The Project should enhance monitoring of the responsible parties compliance with the terms of the Letters of Agreement relating to personnel. This should include:</p> <ul style="list-style-type: none"> (a) establishing controls to ensure that there is adequate justification and approval for the creation of project positions; (b) ensuring that a complete and accurate list of personnel recruited by the responsible parties under Letters of Agreement is provided and updated on a regular basis, and that requests for payment of salary are verified with the list prior to processing; (c) liaising with responsible parties to ensure that recruitment is in compliance with the responsible parties' financial regulations and rules and that a common salary scale is established; and (d) ensuring that all required support documentation is received from the responsible parties prior to processing payments. 	
<p>Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>The Office indicated that it will enhance controls over responsible parties, including controls relating to the management of personnel retained under the Letters of Agreement.</p>	

3. Operations

Partially Satisfactory

3.1 Human resources

Satisfactory

Since OAI recently conducted an audit of the Office's overall human resources management (Report No. 974), the review of this area focused mainly on the management of the Project's service contract holders. The recruitment of some personnel for this Project was carried out by responsible parties in accordance with Letters of Agreement signed with the Office. The Office's lack of monitoring over human resources management of personnel recruited under the Letters of Agreement has been highlighted in the project management section of this report.

The Project Management Unit hired staff under UNDP fixed-term appointments. However, these staff members had not used the Atlas e-services system for leave applications and management. Since the Office has taken steps to address the issue, no recommendation has been made.

3.2 Finance

Unsatisfactory

During the audit period, the Office processed 1,378 vouchers totalling \$4.3 million, of which OAI selected 90 vouchers totalling \$0.8 million for detailed review. Since 2010, the Treasury Division authorized the Office, under certain conditions, to provide cash advances of up to \$20,000 for project activities, such as organizing workshops and trainings. This authorization was subject to several conditions. The cash advances made to the Project during the audit period in 2011 and 2012 amounted to \$1.3 million, which was about 41 percent of total cash advances made to directly implemented projects in the Office.

Issue 4: Inadequate controls over cash advances to provincial offices

- (a) OAI noted the following weaknesses and risks associated with the management of cash advances
- The Office had approved cash advances to the Project Manager and recorded them in Atlas. This was despite the fact that the Project Manager was not directly involved in the management of cash advances. Instead, the Office transferred these cash advances directly to the Provincial Coordinators through money dealers in four provincial offices. This practice created a lack of accountability and resulted in an increased risk of misuse, loss, or misappropriation of funds. At the time of the audit, cash advances totalling \$93,000 recorded in the name of the Project Manager had yet to be cleared, even though she had left the Project on 31 December 2012.
 - Provincial Coordinators who received and managed cash advances were holding service contracts. This was contrary to the conditions stipulated by the Treasury Division, which required that advances be made only to staff holding fixed-term appointments.
 - The Provincial Coordinators used the cash advances for procuring goods and services needed for project activities, such as organizing workshops. However there was inadequate segregation of duties as the Provincial Coordinator solicited quotes from different vendors for workshops, selected the vendors, received the goods/services and also made payments to the vendors in cash.
 - The system to track advances was inadequate, as it was difficult to clearly track the advances made to respective Provincial Coordinators and clearances made against these advances. The Financial Resources Management Unit usually ran the outstanding advances report in Atlas to track cash advances made to projects, although it did not indicate to which Provincial Coordinator the advances had been made.
 - Documentation to support validity of the payments was not adequate. Documentation supporting payment of per diem to the workshop participants included only the first names of participants rather than the full names. Copies of identification cards of participants were not attached, and relevant information, such as the number of workshop days was not mentioned in the documentation to support clearance of the advances. There was limited evidence that the participants who received per diem reimbursements had actually attended the training, as daily attendance records were not consistently used. Additionally, there was no assurance that full payments were only made to participants who had actually attended the workshops.
 - The documentation to settle the cash advances included the payment of per diems. However, there was no guidance establishing the rate to be paid, which led to the payment of varied and inconsistent per diem amounts. The per diem rates used varied from AFN 430 (\$8.60) to AFN 3,000 (\$60) – for instance the per diem paid for attendance of the Mullahs Exchange Visit in Herat workshop held on November 2012 was AFN 430 (\$8.60), while the per diem for the Mullahs Training in Bamian held on February 2012 was AFN 3000 (\$60).
 - There were delays in the clearance of advances as discussed below:
 - The Treasury Division had stipulated that advances must be cleared within 30 days. However, in 14 of the 38 cash advances (37 percent) reviewed, OAI noted that the cash advances had not been cleared within the 30 days, but were only cleared after a period ranging between 36 days to 92 days.

- The Treasury Division advised that cash advances should be made only after clearance of all previous outstanding cash advances. However, the Office made multiple advances to the Project without ensuring that previous advances had been cleared. For example, in February 2012, six cash advances amounting to \$111,000 were made to a Provincial Coordinator within ten days, which was above the \$20,000 limit imposed by the Treasury Division and not compliant with the requirement that prior advances be cleared.
- (b) Inadequate follow-up on Financial Resources Management Unit recommendations
- The Office's Financial Resources Management Unit undertook spot checks of cash advances with the provincial offices and reported the following weaknesses to the Project and senior Office management:
 - A safe was not available, and therefore cash was kept in desk drawers.
 - Invoices were not supported with adequate documentation to validate the expenditure.
 - Cash vouchers and records were not properly maintained.

There was no evidence that project management took action to address the weaknesses identified above. The Financial Resources Management Unit also indicated that senior management had requested that the Unit continue making advances to projects despite the delays in the clearance of previous ones. OAI noted that the Financial Resources Management Unit regularly followed up with the Project to ensure cash advances were cleared by year end to permit the Unit to submit the reconciliation report to the Treasury Division. This was despite the fact that the Treasury Division had requested the Office to submit reconciliation reports on a monthly basis.

OAI noted that the number of banks operating in the country had increased, and many of the participants may have had bank accounts. Alternatively, the Office could have issued cheques which the participants could have cashed through the bank on presentation of their identity card issued by the Government of Afghanistan.

As a result of these weaknesses and the failure to adhere to the procedures in place, a loss of \$28,000 was incurred in March 2012, when cash in the amount of \$28,000 was stolen from a Provincial Coordinator who had collected the money from a money dealer. The Office had made arrangements with the money dealers to deliver the cash to the provincial offices. However, in this case, the Provincial Coordinator went to the money dealer's premises to collect the cash. It was not clear why the Provincial Coordinator went to collect the cash rather than having it delivered to the provincial office by the money dealer. The Office reported the case to the Investigations Section of OAI for further assessment in May 2012.

Another allegation of impropriety had been made but had not been resolved at the time of drafting of this report. In this case, the Office had not complied in a timely manner with the UNDP Financial Regulations and Rules which require that such allegations be reported to the Bureau of Management and the Regional Bureau for Asia and the Pacific. Nor had the Office reported the allegation to the Investigations Section of OAI.

Given the above weaknesses, OAI did not obtain adequate assurance that the total cash advances for the Project amounting to \$1.3 million had been used for the intended purposes of the Project.

Lack of proper control procedures significantly increases the risks of misuse and/or misappropriation of funds.

Priority	High (Critical)
Recommendation 3:	
<p>The Office should enhance controls over cash advances by:</p> <ul style="list-style-type: none"> (a) ensuring that advances are managed by UNDP staff (if this is not feasible, the Office should consult the Bureau of Management or explore the possibility of establishing common operational support centres to provide support services to all UNDP managed projects in a location); (b) ensuring that when cash advances are cleared, adequate supporting documents are submitted, at a minimum requiring that the documentation include details such as the full name of workshop participants, their contact numbers, copies of participants' identification cards, a group photograph of participants where possible, signature of government officials who participated in the workshop certifying the attendance sheets; (c) undertaking spot checks either in person or by telephone, especially when large advances are involved, to determine if workshop participants and other recipients were paid the correct amounts; and (d) conducting independent visits to workshops, and if possible witnessing the payment of the per diem to the workshop participants. 	
<p>Management Comments and action plans: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>The Office enhanced controls over management of cash advances by briefing staff on detailed documents required to clear advances and establishing a checklist for the Provincial Coordinator. The Office further indicated that challenges faced due to the absence of fixed-term staff and the lack of banking facilities affected all projects, and that they were in discussions with the bank for increasing options for direct payment.</p>	

Priority	High (Critical)
Recommendation 4:	
<p>The Office should enhance control over cash management by limiting cash payments. This should include ensuring that payments to workshop participants and vendors are made directly to their bank accounts or that payments are issued by cheque.</p>	
<p>Management Comments and action plans: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>The Office agreed with the recommendation and commented that it has initiated actions to minimize payments made in cash to workshop participants as well as monitoring project cash advances. The Office also initiated training for new procedures that became effective 01 July 2013.</p>	

Priority	High (Critical)
Recommendation 5:	
The Office should ensure compliance with the UNDP Financial Regulations and Rules and inform the Bureau of Management, the Regional Bureau for Asia and Pacific and the Investigations Section of OAI, of any allegations of impropriety in a timely manner to permit appropriate follow-up and action.	
Management Comments and action plans: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office added that they have launched a range of Ethics Training Workshops, in which the responsibility of all staff to report suspected misconduct has been emphasized.	

3.3 Procurement **Satisfactory**

The Office was responsible for the Project’s procurement of goods and services with a value of \$2,500 and above. The Project was responsible for preparing the annual procurement plan, raising e-requisitions in Atlas, and receipt of goods and services. During the audit period, the Office processed 330 purchase orders valued at \$1.2 million. OAI had undertaken a detailed audit of the Office’s Procurement Unit in November 2012 (the draft report was being prepared at the time this report was being written). OAI undertook a limited review of 23 purchase orders totalling \$0.25 million (or 21 percent) to gain an understanding of the procurement process and noted no exceptions.

3.4 Asset management **Satisfactory**

OAI reviewed the Project’s asset management process. According to the asset listing as of 31 December 2012, the Project had 105 assets valued at \$0.2 million. As of the conclusion of audit fieldwork, the Office had not conducted a physical verification of assets, although it was required to submit the certified asset listing to the Financial Resources Management Unit by 4 February 2013. As the Office had subsequently initiated actions to undertake the physical verification of assets, no recommendation has been made.

3.5 Information systems **Satisfactory**

OAI noted that majority of the transactions processed relating to human resources, finance, and procurement and the critical supporting files were kept at the Office. Based on the documents reviewed at the audit planning stage, OAI assessed this area as low risk and no further fieldwork was performed.

3.6 General administration **Satisfactory**

Based on the review of relevant documents during the audit planning, OAI assessed this area as low risk. However, OAI noted that overall, the Project had established adequate controls over general administration and travel-related transactions. Therefore, no further fieldwork was performed.

ANNEX Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.