

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT
OF
UNDP AFGHANISTAN

POLICY ANALYSIS AND DEVELOPMENT PROJECT
(Directly Implemented Project No. 51206)

Report No. 1123
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Report on the audit of the UNDP Afghanistan Policy Analysis and Development Project (Project No. 51206) Executive Summary

From 4 to 22 November 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the Policy Analysis and Development Project, Project No. 51206 (the Project), which was 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 2009 to 31 October 2012. During the period reviewed, the Project recorded expenditures totalling \$5 million. The Project was funded mainly through UNDP regular resources.

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 **unsatisfactory**, which means “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.” This rating was mainly due to concerns within the areas of governance and project management. Ratings per audit area and sub-areas are summarized below.

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

Key issues and recommendations

The audit raised nine issues and resulted in five recommendations, all of which 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.” These recommendations include actions to address weak project governance, poor management of Letters of Agreement, weaknesses in project management, inadequate controls over management of temporary contractors and weaknesses in management of financial resources.

The high priority recommendations are as follows:

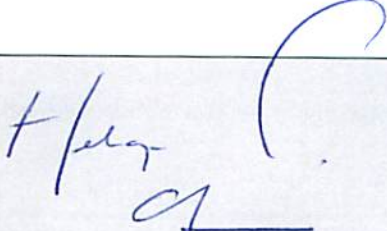
Governance (Issue 1)	<p><u>Weak project governance.</u> OAI noted that governance arrangements over the Project were either not established or not working. The Project was not reviewed by the Local Project Appraisal Committee and a Project Document was not finalized. The Results and Resources Framework and the Project Board were not established and there was no evidence of any project assurance activities having occurred from January 2009 to April 2012. OAI recommends that in order to avoid the reoccurrence of the shortcomings identified in the Project, the Office should draw upon the lessons learned and implement corrective measures to its processes and monitoring mechanisms for future development activities.</p>
Project management (Issue 5)	<p><u>Weak monitoring of personnel recruited under Letters of Agreement (LOAs).</u> The Office did not monitor the recruitment processes or the salaries paid to personnel hired under the LOAs. This resulted in a lack of assurance regarding compliance with applicable laws or the terms of the LOA and in a few personnel having received significant salary increases without adequate justification or receiving salaries from both the project and the Government. Due to the lack of monitoring by the Office, OAI was unable to determine whether salaries paid totalling \$1.6 million were consistent with the LOAs and local laws. OAI recommends that for personnel hired under LOAs, the Office establish procedures to permit adequate documentation and monitoring of the recruitment and remuneration of personnel and ensure a continued compliance with the terms of the agreement. This should include seeking written confirmation from the government institutions that the recruitment and the payment of salaries to these personnel are in compliance with all relevant laws and the agreement.</p> <p>OAI further recommends that the Office continue with its efforts to confirm whether staff members under LOAs received salaries from other sources in addition to UNDP, such as other major donor agencies. Based on the results of this exercise, the Office should, as applicable, confer with the Legal Support Office on the appropriate course of action.</p>
Human resources (Issue 6)	<p><u>Inadequate controls over management of temporary contractors.</u> Of the 13 cases reviewed, the certification of deliverables was not attached to the final payment voucher in six cases (46 percent). Further, the terms of reference of three contractors were unrelated to the Project. In the absence of the certification of deliverables, there is a risk that contractors may be paid without satisfactory completion of work, or for work not authorized. OAI recommends that the Office The Office enhance controls over payment of remuneration to temporary contractors. This should include ensuring the satisfactory Certification of Deliverables related to the Project before making final payment to the contractors.</p>
Financial and cash management (Issue 7)	<p><u>Weaknesses in management of financial resources.</u> The review of 60 vouchers totalling \$3 million showed limited documentation to support the validity of the expenditures. The Project staff and Office Finance Unit staff members were uncertain as to who was responsible for ensuring the adequacy of supporting documents. OAI recommends that the Office ensure compliance with the UNDP Internal Control Framework and Programme and Operations Policies and Procedures by ensuring that: (a) staff members are aware of their individual</p>

responsibility and accountability when approving payments; (b) for the payment vouchers sampled without adequate supporting documents, the Office should follow up to determine why the payments were made without the required supporting documentation, and that controls are in place to prevent future occurrences, and that further, the Office should request that the supporting documentation be provided in order to determine the validity of the payments; and (c) the outstanding cash advance of \$0.4 million is immediately liquidated.

In addition, Issue 3 "Poor management of LOAs" was also considered critical. However, as the Project was closed at the end of 2012, and since OAI has already made a recommendation to address similar issues in Audit Report No. 1096 (Audit of Programme Management in UNDP Afghanistan), OAI has not repeated the recommendation in this report. LOAs are used when a government institution cooperates with UNDP and carries out activities as a responsible party on a project that is directly implemented by UNDP. There were serious deficiencies in the management of the 12 LOAs signed by the Office with government institutions. Many of the signed LOAs did not follow the standard UNDP template, and/or lacked complete information regarding the budget and activities to be undertaken. In addition, the conditions stipulated in the LOAs were not enforced. For example, the LOAs required the government institutions to provide an annual report of expendable equipment and a certified statement of accounts. However, only one of the 12 government institutions complied with this provision, and there was no evidence that the Office had followed up with the remaining 11 government institutions to request or obtain these documents.

Management's comments and action plan

The Country Director accepted all five recommendations and is in the process of implementing them.



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Director
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