UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

NATIONAL INSTITUTION BUILDING PROJECT
(Directly Implemented Project No. 58898)

Report No. 1037

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Report on the audit UNDP Afghanistan
National Institution Building Project (Project No. 58898)
Executive Summary

From 29 June to 14 August 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the National Institution Building Project (Project No. 58898) (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 March 2012. During the period reviewed, the Project recorded programme and management expenditures totalling $5 million. This was the first OAI audit of the Project. The major donors contributing to the Project were UNDP, India, Japan, Italy, Switzerland, Canada and Australia.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs 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 concerns within Project management and hiring staff under Letters of Agreement. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Organization and staffing				⬛
2. Project management		⬛		
3. Operations				⬛
3.1 Financial and cash management Satisfactory 3.2 Procurement Satisfactory 3.3 Asset management Satisfactory 3.4 Information communication and technology Satisfactory 3.5 General administration Not Applicable				

Key issues and recommendations

The audit raised four issues and resulted in four recommendations, of which three (75 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."

Project management (Issue 1)	<u>Project funding shortfall</u>. As of July 2012 (17 months prior to Project closure), the Project had only mobilized $20 million in resources against a target budget of $115 million. One of the factors contributing to this shortfall was the lack of a mobilization strategy and action plan. Although actions were planned to address the shortfall, they had not been finalized and submitted for review and approval. OAI recommends that the Office: (a) finalize an action plan based on its review of the Project document and assessment of the Project's funding constraints; and (b) present the plan to the Project Board for review and approval.
(Issue 2)	<u>Lack of baselines and target information</u>. Although the Project document's Results and Resources Framework included some indicators, it did not include baselines and targets. Furthermore, there were no indicators that would allow the measurement of capacity development and strengthening of government ministries, which was one of the main objectives of the Project. OAI recommends that the Office comply with relevant Programme and Operations Policies and Procedures requirements by ensuring that: (a) the Project document contains specific indicators with baselines and targets that are approved by the Project Board; and (b) annual progress reports include reporting on the implementation of activities as well as the progress made against the planned outputs.
(Issue 4)	<u>Inadequate controls over recruitment of Project personnel under the Letter of Agreement</u>. There was no assurance that personnel recruited by the responsible party were recruited on a competitive basis. For eight of 10 recruitments reviewed by OAI, the results and recommendations of the selection panel were not available. Also, there was no justification for hiring of two candidates who were not among the top ranked candidates. OAI recommends that the Office ensure that Project management and the concerned government institution comply with the provisions of the Letter of Agreement when hiring personnel by requiring that a competitive recruitment process is undertaken and that recruitment actions are adequately justified and documented.

Management comments and action plan

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

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I.   Introduction

From 29 June to 14 August 2012, OAI conducted an audit of the National Institution Building Project (Project No. 58898), 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 we 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, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 31 March 2012. During the period reviewed, the Project recorded programme and management expenditures totaling $5 million.

II.   About the Project

The Project is a four-year programme which started in 2010 with a budget of $115 million, of which UNDP allocated $4 million. It has two main objectives: (a) to develop the organizational capacity of leading government ministries and local authorities; and (b) to strengthen the capacity of the Afghanistan Civil Service Institute and its centres at the national and sub-national level, as well as the General Directorate of Projects Design and Management of the Independent Administrative Reform and Civil Service Commission.

In 2011, Project activities consisted of strengthening the institutional and organizational capacity of nine government ministries, improving service delivery and supporting public administration reform. In addition, the Project supported the Independent Administrative Reform and Civil Service Commission in improving its coordination capacity and providing training programmes for civil servants.

In April 2011, the Office merged the activities of the Policy Analysis and Development (PAD) Project into the Project in order to provide greater programme coherence and reduce operational costs. The merger included oversight responsibility of the Project over the active Letters of Agreement with seven government institutions, and a budget of $5.2 million. Due to resistance by the Project Manager and the concerned government institution in assuming responsibility, the PAD Project was subsequently transferred to the Office's newly created Policy Facilitation Unit in March 2012.

In view of the concerns noted by OAI in the management of the PAD Project as well as the request from the Office, OAI has undertaken a comprehensive audit of the PAD Project and issued a separate report on it. Hence, the related audit findings on the PAD Project are not included in this report.

III.   Detailed assessment

1. Organization and staffing	Satisfactory

As of July 2012, the Project had 74 staff positions, of which 34 were vacant. The high number of vacancies was due to a recruitment freeze imposed by the Office between August 2011 and March 2012. OAI noted that the vacancies contributed to the internal control weaknesses identified during the audit. Considering that OAI conducted an audit of the Office's human resources management (Audit Report No. 974 issued in September 2012) and as recruitment for most of the positions was underway, no recommendation has been made.

No other reportable issues were identified.

2. Project management	Unsatisfactory

The Project provided advisory services to nine ministries at the national level and two ministries at the sub-national level during the audit period. For example, the Project's annual progress report indicated that it supported the ministries in taking up comprehensive analysis of the organizational structures, facilitating analyses of strengths, weaknesses, and opportunities of different ministries, and understanding the existing policy documents, strategies, and reports. The Project also implemented several planned activities to support these ministries in completing their capacity assessments and preparing capacity development plans.

OAI raised an issue relating to weak Project oversight. The Project Board had not met since August 2011 because the Board members were not available according to the Project Manager. The mid-term review was also not completed due to staff shortages. Accordingly, the quarterly and annual progress reports were not submitted to or approved by the Project Board. The Project Board also did not review and approve changes in Project implementation, such as the creation of a new output due to the inclusion of the PAD component within the Project. In their response to the draft audit report, the Office management indicated that Project Board meetings had been reinstated and a mid-term evaluation was conducted in October 2012. The Office also forwarded copies of the minutes of the Project Board meetings and the management response to the mid-term evaluation. As Office management had taken appropriate action, OAI assessed this issue as being closed.

Due to the following reportable issues noted, OAI assessed this area as "unsatisfactory."

Issue 1   Project funding shortfall

According to the Programme and Operations Policies and Procedures, the Project should be adequately funded to ensure planned activities can be implemented. Furthermore, the Project Manager should monitor Project activities to ensure that it is making progress toward achieving intended outputs and mobilizing sufficient resources.

The amount of Project resources mobilized fell short of the targeted amount by 83 percent. The Project document which was finalized in January 2010, had a target budget of $115 million, and the Project planned to implement activities in 25 government ministries. However, the Project was able to implement activities in nine of the 25 ministries because it had only mobilized $20 million in resources as of July 2012 (17 months prior to the end of the Project).

The Project Manager, who joined the Project in late 2011, indicated that the main reasons for the funding shortfall were the absence of a mobilization strategy and action plan, and the inadequate review of progress. At the start of the Project, the Office had allocated $4 million in resources and the remaining unfunded budget of $111 million was to be mobilized, but a strategy had not been formulated. The Project Manager further indicated that the situation was being addressed by a review of the Project document, an assessment of the

progress made on the Project and the impact of the funding shortfall. However, OAI noted that the planned actions had not been finalized and presented to the Project Board for review and approval.

Successful implementation of Project activities and achievement of desired outputs are at risk in the absence of a formal resource mobilization strategy and action plan to address the Project's funding constraints.

Priority	High (Critical)
Recommendation 1: The Office should: (a) finalize an action plan based on its review of the Project document and assessment of the Project's funding constraints; and (b) present the plan to the Project Board for review and approval.	
Management comments and action plan: __√__ Agreed _____ Disagreed Management stated that the Project is undertaking a major revision to accommodate new realities and to design a strategy for a UNDP capacity development intervention beyond 2014. The following actions are being implemented: (a) hiring an international consultant to facilitate revision of the current Project document and preparation of a new Project document; (b) holding meetings among the Office senior management, stakeholders and partners; and (c) consulting with the UNDP Regional Center in Bangkok to ensure their active involvement in the process.	

Issue 2   Lack of baselines and target information

The Programme and Operations Policies and Procedures require the Office to report progress on programmatic outcomes. In order to effectively monitor progress towards achieving planned outputs and outcomes, indicators with baselines and targets must be developed and tracked systematically.

Although the Project document's Results and Resources Framework included some indicators, it did not include baselines and targets. The indicators were mostly activity-focused, such as implementing reform plans, preparing strategies/manuals, and coaching civil servants. As a result, the 2011 annual progress report focused on reporting the activities completed and provided limited coverage of the progress made in achieving planned outputs. For example, while the annual report indicated that the Project had worked with 12 ministries dealing with over 100 policies and knowledge products, the Results and Resources Framework did not provide baseline targets for the number of government institutions to be supported or the number of policies and strategies to be prepared. In the absence of baselines and targets, OAI could not determine whether the Project was on track. Furthermore, there were no indicators to determine whether the capacity of government ministries had been strengthened, which was the main objective of the Project. The Office stated that the shortcomings were due to an oversight when there was a change in Project management.

Without establishing baselines and targets, progress toward achievement of intended output cannot be assured.

Priority	High (Critical)
Recommendation 2: The Office should comply with relevant Programme and Operations Policies and Procedures requirements by ensuring that: (a) the Project document contains specific indicators with baselines and targets that are approved by the Project Board; and (b) annual progress reports include reporting on the implementation of activities as well as the progress made against the planned outputs.	

Management comments and action plan:	√ Agreed	_____ Disagreed

Management stated that the Office would present the new indicators during a Project Board meeting scheduled for February 2013. Further, the 2012 annual progress report on Project outputs in relation to outcomes would focus on "what has changed."

Issue 3   Lack of a strategy to sustain Project achievements

According to the Programme and Operations Policies and Procedures, each project must develop capacity and an exit strategy to ensure that sustainable and effective entities are left behind when the project ends.

In order to ensure the sustainability of achievements, one of the Project's objectives was to ensure that the National Capacity Development Advisor/Officer positions would continue as permanent positions in the Independent Administrative Reform and Civil Service Commission. However, the Project did not develop a strategy to ensure that this important objective could be achieved. As such, the Project achievements may not be sustained once the Project is closed.

Priority	Medium (Important)
Recommendation 3:	
The Office should develop a strategy to ensure that the Capacity Development Advisor/Officer positions become permanently funded within the Independent Administrative Reform and Civil Service Commission.	

Management comments and action plan:	√ Agreed	_____ Disagreed

The Project management is considering two options: (a) ensuring attractive terms and conditions for the Capacity Development Officer to join the Civil Service Commission; and (b) establishing self-sustaining Capacity Development Officer institutions or professional associations offering capacity development services. These options are being discussed with the government counterpart.

Issue 4   Inadequate controls over recruitment of Project personnel under the Letter of Agreement

Letters of Agreements are meant to establish the conditions, expectations, and responsibilities when a government institution is to cooperate with UNDP and carry out activities as a responsible party on a project that is directly implemented by UNDP. A responsible party is directly accountable to the implementing partner in accordance with the terms of the agreement or contract with the implementing partner.

The Office and a government institution signed a Letter of Agreement that authorized the government to recruit personnel to undertake Project activities. These personnel were to be recruited on a contract with the government institution. In addition, the Letter of Agreement provided that if required, the Office could also recruit Project staff on a UNDP contract.

As of 31 May 2012, the Project had 40 personnel (one with a UNDP fixed-term contract, nine with UNDP service contracts and 30 with government contracts). OAI reviewed the supporting documentation concerning the recruitment and payment of 10 government contract holders and confirmed the existence, qualifications and attendance of two personnel with service contracts. As discussed below, the Office did not adequately monitor the recruitment undertaken by the government institution, and its participation in the selection process did not serve to strengthen the competitive nature of this process.

According to the Letter of Agreement signed by the Office and the government institution, a competitive recruitment process should be undertaken when hiring personnel. All candidates should be scored and ranked according to pre-determined criteria, and a recommendation made for selection. The government institution was to manage the recruitment process with the Project Manager and the Office staff member serving on the selection committee.

OAI found that there was no assurance that personnel were recruited on a competitive basis. For example, the results and recommendations of the interview panel were not available for eight of the 10 recruitment actions reviewed by OAI. Furthermore, two of the selected candidates were ranked 19 and 22 out of the 25 candidates reviewed. There was no written justification for their selection over those candidates who were ranked higher. Since the Letter of Agreement had been signed, Project management believed that it could only recommend candidates, while the government institution had overall responsibility and accountability for recruiting staff and the final selection of candidates to be hired, including the maintenance of adequate supporting recruitment records.

When recruitment processes are not adequately implemented and documented, there is no assurance that the selected candidates are the most qualified and suitable for the positions.

Priority	High (Critical)
Recommendation 4: The Office should ensure that Project management and the concerned government institution comply with the provisions of the Letter of Agreement when hiring personnel by requiring that a competitive recruitment process is undertaken and that recruitment actions are adequately justified and documented.	
Management comments and action plan: __√__ Agreed _____ Disagreed Management stated that discussions had been held with the government institution to ensure due process for each recruitment conducted and the maintenance of complete supporting records, including interview reports.	

3.   Operations   Satisfactory

3.1 Financial and cash management   Satisfactory

During the audit period, the Office processed 691 vouchers totaling $5.3 million, of which OAI selected 12 vouchers totalling $0.5 million for detailed review, which included determining whether: (a) proper delegation of authority existed; (b) expenditures were incurred for the Project in accordance with the approved Annual Work Plan; and (c) expenditures were adequately supported. No reportable issues were noted except for those vouchers related to the PAD Project (covered in a separate report - see Section II of this report "About the Project").

3.2 Procurement   Satisfactory

During the audit period, the Office processed 226 purchase orders valued at $2.9 million, of which OAI reviewed 11 valued at $1 million or 35 percent of all purchase orders processed. The Office was centrally managing the main procurement process while the Project staff responsibilities were limited to preparing the annual procurement plan and certifying satisfactory receipt of goods and services. The OAI review was limited to the Project's procurement responsibilities. No exceptions were noted.

3.3 Asset management   Satisfactory

As of 28 May 2012, the Project had 286 assets valued at $0.7 million. OAI physically verified 15 assets valued at $0.4 million. The Office had established adequate asset management controls, including conducting regular physical inventory of Project assets. Accordingly, no reportable issues were identified.

3.4 Information and communication technology   Satisfactory

OAI assessed this area as low risk based on its review of the supporting documents provided by the Office during the audit planning stage. Accordingly, no further testing was performed during the audit fieldwork.

3.5 General administration   Not Applicable

The Project spent $0.3 million on travel costs during 2011, of which OAI reviewed $0.04 million or 13 percent. The majority of airline tickets were bought through a travel agency, with which the Office had signed a Long Term Agreement. Since the Office was centrally managing this agreement and OAI covered the travel related purchase orders during the procurement audit (conducted by OAI in November 2012), no further testing 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.