UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

PROGRAMME MANAGEMENT

Report No. 1096

Issue Date: 21 May 2013

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Report on the audit of UNDP Afghanistan - Programme Management
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 programme management in the UNDP Country Office in Afghanistan (the Office). The audit covered the programme activities of the Office during the period from 1 January 2011 to 31 July 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $1.3 billion. The last audit of the Office was conducted by OAI in July 2012.

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 Office programme management 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 due to weaknesses on programme governance and project assurance activities. Ratings per sub-areas are summarized below.

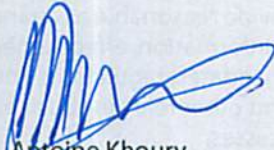| Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Programme management				
1.1 Governance	Unsatisfactory			
1.2 Project assurance	Unsatisfactory			
1.3 Organizational structure	Partially Satisfactory			

Key issues and recommendations

The audit raised six issues and resulted in six recommendations, of which four (67 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."

Governance (Issue 1)	<u>Deficient oversight and assurance systems for the Country Programme</u>. Adequate systems were not in place to provide assurance and to monitor the Office's progress in meeting Country Programme outcomes. Specifically, the weaknesses pertained to: (a) an annual review of the progress made in implementing the Country Programme Action Plan was not undertaken, resulting in a lack of effective monitoring and oversight for this area; (b) outcome boards were not established to monitor the Office's progress and to provide guidance on the implementation of Country Programme outcomes; and (c) the Office did not have a plan for conducting outcome evaluations. OAI recommends that the Office put into place formal assurance and monitoring systems for the Country Programme by: (a) instituting regular annual reviews of the Country Programme Action Plan; (b) establishing outcome boards for each outcome to monitor progress and to provide assurance on implementation; and (c) revising the Country Programme Development Evaluation Plan so as to include outcome evaluations.
Project assurance (Issue 2)	<u>Weaknesses in project design, appraisal and approval</u>. The Office did not have a system in place to ensure an appropriate selection of implementation modalities for projects, and lacked a proper appreciation of the inherent risks and associated oversight responsibilities. In addition, the Office did not consistently undertake the required capacity assessments of implementing partners or responsible parties prior to entering into partnership with them. Monitoring and evaluation plans were also not in place for over half of the projects sampled. OAI recommends that the Office improve its project design, appraisal and approval by ensuring that: (a) programme staff are trained on project implementation modalities and their corresponding risks and controls; (b) the implementation arrangement for Project No. 61104 is reassessed based on a detailed capacity assessment of the implementing partner; (c) programme staff develop monitoring and evaluation plans for all ongoing and upcoming projects; and (d) capacity assessments of implementing partners or responsible parties are undertaken and results are then used to decide on the suitability of a partner as well as the extent of monitoring and assurance that the Office will need to exercise.
(Issue 3)	<u>Weak oversight by the project boards</u>. Project monitoring and oversight was not regularly exercised by the project boards for seven of nine sampled projects. In the case of one project, the board did not meet at all during the audited period. Also, in the case of a different project, the membership of the board did not include a government representative. In three cases, the meetings of the project boards did not serve to exercise the expected steering and oversight functions but they were merely a reporting forum for the project management. OAI recommends that the Office ensure that project boards: (a) meet at least quarterly and include government representatives; (b) exercise their steering and oversight functions over the projects; and (c) approve annual work plans in the last quarter of the preceding year. Further, the Office should ensure that all annual work plans are signed by the implementing partner before the related activities begin.
(Issue 5)	<u>Poor management of Letters of Agreement</u>. The Office had made extensive use of Letters of Agreement, but there was no system in place to keep track of these letters and of the commitments made thereunder. OAI also noted that a number of Letters of Agreement were not in accordance with the UNDP standard template and in some cases the transfer of funds to government counterparts was not consistent with the provisions stated in the Letters of Agreement. OAI recommends that the Office establish a system for the proper management of Letters of Agreement by: (a) designating staff who will be responsible for ensuring the adequate use of standard Letters of Agreement; (b) following the schedule of disbursements and activities in accordance with the respective provisions in the Letter of Agreement; and (c) finalizing measures to put in place a centralized database of Letters

of Agreement and related Office commitments.

Management's comments and action plan

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

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

I. Introduction

From 4 to 22 November 2012, OAI conducted an audit of programme management in UNDP 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 Office programme management: governance, project assurance, and organization structure and staff capacity. The audit covered relevant activities during the period from 1 January 2011 to 31 July 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $1.3 billion. The last audit of the Office was conducted by OAI in July 2012.

II. About the Office

The Office, located in Kabul, Afghanistan (the Country), carries out its functions according to its current 2010-2013 Country Programme Document. Its programme focuses on four themes: stabilization and peace building; democratic governance; livelihoods, natural resource management and disaster risk reduction; and national development policies for economic growth and poverty reduction. The programme portfolio consisted of 18 key projects. This total number of projects was the result of a criticality exercise carried out in 2012, by which the Office consolidated and clustered its project portfolio by closing, merging and streamlining several of its former 35 projects.

The Office was operating in a precarious security situation and in a period of complex transition, with the International Security Assistance Forces widely expected to depart fully, or reduce their presence drastically by 2014. It was also expected that along with the military transition, there would be a significant reduction in official development assistance and budget subsidies provided by international donors (even though there may be an immediate temporary increase), inevitably resulting in a difficult economic transition.

III.   Detailed assessment

1. Programme management	Unsatisfactory

1.1 Governance	Unsatisfactory

Organizationally, the Office was divided into five programmatic units: national governance; rule of law; cross practice; sustainable development; and sub-national governance. Each unit was responsible for overseeing and providing programme assurance for the projects in its portfolio. The responsibility for programmatic oversight of the projects and strategic direction of the programmes was divided between the Office's two Deputy Country Directors who reported directly to the Country Director. Aside from these units, the Office had also established a Project Support Unit and a Policy Unit. OAI reviewed the roles and responsibilities of all seven units. During the audit fieldwork, the Office was in the process of establishing two more units (Oversight Compliance Unit and External Relations and Communications Unit). As these new units were not yet fully functional, they were not reviewed as part of this audit.

OAI noted that the Office did not have programme strategies in place at the start of the audited period to guide the work of the Office in meeting Country Programme Document outcomes. Rather, the Office was driven by a conglomerate of projects for which funding was partially or wholly secured. At the beginning of 2012, the Office began a process of developing programme strategies. The Office also consolidated and clustered its project portfolio by closing, merging and streamlining several of its former 35 projects into 18 projects. At the time of the audit, the Office was still in the process of finalizing its programme strategies. Considering the progress made by the Office on the issue of developing programme strategies, OAI has not raised any issues.

The Office did not have a monitoring plan for the Country Programme during the audited period. At the time of the audit, the Office was in the process of putting into place a monitoring plan to enable the measurement of progress in meeting its Country Programme Document targets. Thus, OAI has not raised any issues.

Due to the deficiencies in oversight and assurance of the Country Programme noted below, OAI assessed this area as "unsatisfactory."

Issue 1   Deficient oversight and assurance systems for the Country Programme

OAI observed that adequate systems were not in place to provide assurance and to monitor the Office's progress in meeting Country Programme outcomes. In particular, OAI noted the following deficiencies:

(a)   Absence of an annual review of progress in implementing the Country Programme Action Plan

According to the Programme and Operations Policies and Procedures, a review of the Office's progress in implementing the Country Programme Action Plan is to be undertaken at least annually by, at minimum, the Resident Representative and a high-level representative of the national coordinating agency. Furthermore, the review is meant to consider and comment "on the Results Oriented Annual Report before its submission by the Office to HQ" and to identify "potential for joint programming and ensure that the processes for implementation are in place."

However, the Office did not undertake an annual review in implementing the Country Programme Action Plan for 2011. As a result, no oversight was provided over the Office's progress in the implementation of the Country Programme Action Plan; no formal review or assurance was provided over the Office's Results Oriented Annual Reports submitted to Headquarters; and, no reviews were undertaken to identify the

potential for joint programming. At the time of the audit, the Office had only one joint programme in place. A process of annually reviewing the Country Programme Action Plan had not been put into place. Management stated this was due to difficulties in securing the availability of government partners.

(b)   Absence of outcome boards

The Programme and Operations Policies and Procedures stipulate that "in consultation with the Government Coordinating Agency, the Programme Manager (Resident Representative or his/her designate) should ensure that each programme component has an outcome board to be created at the time when the Country Programme Document is developed. The outcome boards should meet at least once a year and are responsible for monitoring the realization of the expected outcome(s) under its programme component by assisting the Programme Manager in managing interdependency of different projects contributing to the realization of the outcomes. They are also responsible for programme assurance at the country programme level."

The Office had not established outcome boards, mainly due to lack of supervision. As such, formal monitoring and assurance of the Office's progress towards meeting the outcomes set in its Country Programme did not take place.

(c)   Missing outcome evaluations for the Country Programme

The Programme and Operations Policies and Procedures stipulate that "the conduct of outcome evaluations is mandatory." All offices are required to select and commission outcome evaluations that provide substantive information for decision-making. At least one outcome evaluation should be conducted in each Country Programme Document programme area. Outcome evaluations identified in the plan should provide adequate programme coverage to help UNDP better manage for results. They should also to enable end-of-cycle evaluations, such as the evaluation of the Assessment of Development Results and the United Nations Development Assistance Framework evaluations.

The Office's Country Programme Development Evaluation Plan included evaluations at the project level but not outcome level. Outcome evaluations had not been planned, which the Office stated was an oversight. Without these, the Office did not have a formal means of independently assessing whether it was achieving the outcomes set in the Country Programme Document or whether it was attaining value for money.

Priority	High (Critical)
Recommendation 1: OAI recommends that the Office put into place formal assurance and monitoring systems for the Country Programme by: (a) instituting regular annual reviews of the Country Programme Action Plan; (b) establishing outcome boards for each of the Country Programme outcomes to monitor progress and to provide assurance on implementation; and (c) revising the Country Programme Development Evaluation Plan so as to include outcome evaluations.	

Management comments and action plan:	__√__ Agreed	____ Disagreed

Management stated that they will take the following actions: (a) review of the 2010-2013 Country Programme Action Plan in a consultative process with its national partners and major donors by April 2013; (b) establish outcome boards with relevant stakeholders; and (c) revise its Evaluation Plan and add three outcome evaluations. The outcome-level evaluations will be completed by the first quarter of 2014 in order to feed into the next Country Programme Document, which starts on 1 January 2015.

Management added that they had created an Oversight and Compliance Unit in October 2012, which consisted of international and national staff to strengthen important functions across the Office's programmes and practices.

They also established the cluster mechanism in September 2012 to focus on three major strategies (sub-national governance and development; inclusive and legitimate governance; and rule of law) and two cross-cutting strategies (capacity development and gender), along with one emerging priority on poverty environment. These six strategies are being formulated and will encourage greater synergy and coordination between projects.

1.2 Project assurance   Unsatisfactory

At the time of the audit, the Office was implementing a total of 18 projects, 10 of which were reported by the Office to be through the direct implementation modality (DIM). The Office's programme delivery totalled $744 million in 2011 and $633 million in 2012. The bulk of programme funds were divided among projects linked to the following thematic areas: crisis prevention and recovery (85 percent), democratic governance and poverty reduction (7 percent), and MDG achievement (6 percent), with the remaining funds representing management and joint projects (2 percent). A sizeable portion of programme funds linked to crisis prevention and recovery were delivered through the Office's Project No. 61104, using the national implementation modality (NIM) (Table 1). This project represented 80 percent of the Office's entire delivery in 2011 and the trend indicated the same delivery in 2012.

Table 1: Office's list of major projects and their financial deliveries in 2011-2012

Project Name	Atlas Project No.	Project Modality	2011 Expenditure	2012 Expenditure
1. Law and Order Trust Fund for Afghanistan – Phase VI	61104	NIM	$597 million	$495 million
2. National Area Based Development Programme	57359	NIM	$62 million	$45 million
3. Enhancing Legal and Electoral Capacity for Tomorrow	57970 43217	DIM	$21 million	$10 million
4. Afghanistan Sub-National Governance Programme	58922	DIM	$13 million	$18 million
5. Afghanistan Peace & Reintegration Programme	60777	NIM	$10 million	$34 million

Source: UNDP Executive Snapshot as of December 2012

OAI noted that the Office had not conducted the Local Project Appraisal Committee meetings required by the Programme and Operations Policies and Procedures for a period beginning prior to and extending into a portion of the audited period. However, in the first half of 2012, the Office had endeavoured to rectify the issue. The Office's Programme Support Unit had developed guidelines for all Programme Officers pertaining to Local Project Appraisal Committee meetings. Therefore, an audit recommendation has not been made.

Considering the four high-priority issues noted below, OAI assessed this area as "unsatisfactory."

Issue 2   Weaknesses in project design, appraisal and approval

According to the Programme and Operations Policies and Procedures, when designing a project, offices are required to ensure that a Project Document is put in place that defines the implementation modality; the outcomes, outputs and activities to be implemented; the project's resource requirements; and how progress on the project, including resource utilization, will be monitored and evaluated. These standard requirements emanate from the principles of results based management, which are promulgated and espoused by UNDP.

OAI noted the following weaknesses in project design, appraisal and approval:

(a)   Inadequate analysis in the selection of implementation modalities. The Programme and Operations Policies and Procedures require that UNDP projects be nationally implemented. However, direct implementation by UNDP is appropriate in specific circumstances, such as: a request by the host government for UNDP to directly implement project activities; or if project implementation requires speedy delivery and decision-making; or if national authorities are unable to function or their capacity has been severely reduced.

For Project No. 61104, there was inadequate analysis in the selection of implementation modalities and a lack of a proper appreciation of the inherent risks and associated oversight responsibilities. For example, the cover page for one Project Document showed that the project was to be directly and nationally implemented. However, the 'Management Arrangements' section of the same Project Document stated that the project was to be nationally implemented – yet it indicated that the government counterpart did not have the capacity to implement the project.

OAI also noted that in three other projects (58922, 59538 and 51206), although considered directly implemented by the Office, most activities were outsourced to government counterparts through Letters of Agreement. In discussions with OAI, programme staff explained that there was often a lack of understanding of the differences in implementation modalities and the associated assurance procedures that needed to be established.

(b)   Poor formulation of Results and Resources Framework. The purpose of the Results and Resources Framework is to help define project results to support the planning, management and monitoring of development activities. The Results and Resources Framework places the project in its larger framework within the Country Programme, and ensures consistency among outcomes, outputs, activities and inputs. The Results and Resources Framework must take into account the need to measure progress in relation to the outcome, and to verify when the outcome has been achieved. Outcomes, outputs and activities must therefore be specific, measurable, achievable, relevant and time-bound, with precisely defined input requirements.

OAI noted that Results and Resources Frameworks were poorly framed for all nine projects reviewed. For example, Project No. 61104 listed an output of "facilitation for establishment of mutual accountability mechanisms for the police." It was unclear what exactly was to be achieved by the activities financed under that output. An activity listed under Project No. 58922, "strengthen financial management, budgeting and internal audit systems in the Independent Directorate of Local Governance," was vaguely defined and made monitoring very difficult, because any expenditure could be linked to the project. OAI also noted that for three sampled Results and Resources Frameworks, detailed budgets were not provided for activities (Project Nos. 59538, 61104 and 58922). Properly defined Results and Resources Frameworks are a key control to effectively monitoring project progress, in the achievement of results and related resource expenditures. The Office management

acknowledged this weakness and organized training in 2012 for programme staff. Accordingly, an audit recommendation has not been made.

(c)   Lack of monitoring and evaluation plans. The Programme and Operations Policies and Procedures stipulate that "planning for monitoring and evaluation must start at the time of programme or project design, and they must be planned together. While monitoring provides real-time information for ongoing programme or project implementation required by management, evaluation provides more in-depth assessments." OAI noted that four of nine sampled projects did not have monitoring and evaluation plans in place (Project Nos. 57520, 59538, 58922 and 63078). A monitoring and evaluation plan is critical for the Office to track the progress and impact of projects as well as to learn from past successes and challenges. Without this, the Office is exposed to the risk that projects lose track and that problems are not detected early, thus delaying the implementation of appropriate solutions. This may result in major cost overruns or implementation delays.

(d)   Lack of capacity assessments for implementing partners. The Programme and Operations Policies and Procedures require that "potential IPs must have been identified during the Country Programme Action Plan preparation or during the process for 'Justifying a Project'. Through the process 'Defining a Project', these potential implementing partners must be assessed in order to validate the initial identification. The review shall also assist in identifying capacities of a prospective implementing partner with the objective of identifying those areas in need of strengthening. Where deficiencies are noted, the assessment should include recommendations to address them." Similarly, an implementing partner should assess the capacity of responsible parties when it relies on them for their specialized skills, to mitigate risk and to relieve administrative burdens.

The Office did not consistently undertake capacity assessments of implementing partners or of responsible parties to determine whether they had the necessary financial reporting and management systems in place to manage funds entrusted to them, before having them endorsed by the Local Project Appraisal Committee as implementing partners or responsible parties. OAI noted that capacity assessments were not undertaken for three of nine sampled projects (Project Nos. 61104, 58922 and 51206).

For capacity assessments that the Office indicated had been completed, the Office could not provide information about when the assessments had been completed, or documentation on implementing partners or the responsible parties. It was unclear how many projects shared identical implementing partners or responsible parties and whether the assurance mechanisms put in place were sufficient and appropriate in relation to the implementation modalities used. Without capacity assessments in place, the Office could not properly determine the risks involved in deciding to work with a given implementing partner or responsible party and what measures needed to be taken to adequately mitigate those risks.

Priority	High (Critical)

Recommendation 2:

OAI recommends that the Office improve its project design, appraisal and approval by ensuring that:
(a) programme staff are trained on project implementation modalities and their corresponding risks and controls;
(b) the implementation arrangement for Project No. 61104 is reassessed based on a detailed capacity assessment of the implementing partner;
(c) programme staff develop monitoring and evaluation plans for all ongoing and upcoming projects; and
(d) capacity assessments of implementing partners or responsible parties are undertaken and results are then used to decide on the suitability of a partner as well as the extent of monitoring and assurance that the Office will need to exercise.

Management comments and action plan: __√__ Agreed   ____ Disagreed

Management stated that the Office has taken action to ensure compliance with the Programme and Operations Policies and Procedures. This included:
(a) reorganizing the functions of the Programme Support Unit in December 2012;
(b) annually attending the five-day workshop on Policies, Programme and Operations (previously held in September 2012 and facilitated by UNDP experts);
(c) making the submission of a monitoring and evaluation plan mandatory for all projects and a pre-condition to the signature of annual work plans; and
(d) initiating a procurement process for the services of an independent entity to conduct the capacity assessment of all implementing partners.

Also, a Management Review Team, which was conducted a field visit in October-November 2012, made recommendations for the current and future phases of the Law and Order Trust Fund for Afghanistan (Project No. 61104). The project has gone through extensive reviews and assessments, which were taken into consideration in the design of the new phase of the project. This has been included in the 2013 Annual Work Plan.

Issue 3   Weak oversight by the project boards

According to the Programme and Operations Policies and Procedures, project boards maintain project oversight, meeting on a quarterly basis. As part of its project oversight and steering functions, the board must approve project annual work plans and budgets, review expenditures and Combined Delivery Reports and monitor the progress of projects. Annual work plans should be approved by project boards in the last quarter of the preceding year and signed by implementing partners before implementation.

OAI noted that project boards did not regularly exercise project oversight in seven of nine sampled projects (Project Nos. 57250, 59538, 61104, 58922, 50535, 47111 and 58922). For Project No. 51206, the board did not meet at all. For Project No. 59938, government representatives were excluded from the project board, which consisted only of United Nations agencies. The Office commented that regular project board meetings did not occur, due to the unavailability of government representatives or because there were no issues for which meetings were considered warranted.

A review of minutes of meetings showed that the project boards had not exercised the steering and oversight functions for three of nine projects (61104, 50535 and 45877). For example, there was no evidence that they

reviewed and approved annual work plans, project expenditures and Combined Delivery Reports. Rather, project boards were used merely as reporting forums for project management.

OAI noted that, as a result of the poor functioning of the project boards, two projects had implemented activities and expended resources without approval of the project's annual work plans (Project Nos. 59538 and 61104) or with implementation delays averaging five months (Project Nos. 57520, 61104 and 58922). The lack of regular project board meetings had also resulted in poor performance on projects, which was not addressed. For example, Project No. 58922 had approved budgets of $39 million and $22 million in 2011 and 2012 respectively, but only managed to implement one-third of its target in 2011 ($13 million) and half of its target in 2012 ($11 million).

Priority	High (Critical)
Recommendation 3: OAI recommends that the Office ensure that project boards: (a) meet at least quarterly and include government representatives; (b) exercise steering and oversight functions over the projects; and (c) approve annual work plans in the last quarter of the preceding year. Further, the Office should ensure that all annual work plans are signed by the implementing partner before the related activities begin.	
Management comments and action plan: __√__ Agreed ____ Disagreed Management stated that the Office has created a specific indicator for quarterly project board meetings under the project management output of all projects in 2013. The Office will also develop more elaborate terms of reference for the project board and apply it across all projects. Further, the Office will seek to have all annual work plans approved during the last quarter of the preceding year and to have them signed by implementing partners before the start of project activities.	

Issue 4   Deficient project assurance

According to the Programme and Operations Policies and Procedures, the Programme Officers are responsible for providing project monitoring and assurance, in addition to the regular direct implementation modality and national implementation modality audits. Specifically, the Programme Officers' functions include: undertaking field verification visits to projects at least once a year and documenting the visits within seven days of returning to the Office; ensuring that Atlas is used for project reporting, risk management and quality management; and ensuring that procurement plans and annual work plans are defined precisely for all projects to enable progress and expenditures on projects to be tracked.

OAI noted that Programme Officers undertook programme monitoring and assurance visits sporadically for three of nine sampled projects (61104, 58922 and 57520). The Office did not have documentation to show that field verification visits actually occurred for three projects (51206, 47111 and 57970) and there were no field visits undertaken for two projects (58898 and 45877).

Programme Officers also did not undertake spot checks or operational reviews of activities during the audited period on any of the projects sampled. All procurement activities were handled and managed between the project's personnel and the Office's procurement and finance units, without the review or involvement of

Programme Officers. Procurement plans for 2011 did not exist for three of the nine sampled projects (59538, 61104 and 58922) and one project (57520) had no procurement plan for 2011-2012.

Programme Officers did not ensure that Atlas was used for project reporting, risk management and quality management. In particular:

(a) Atlas quality management was not used for any of the nine sampled projects;
(b) Atlas project monitoring was not instituted for Project Nos. 57520, 59538, 58922 and 51206, and only partially done for Project No. 61104; and
(c) risk logs were partially completed for Project Nos. 57520 and 59538 and were not completed for Project Nos. 57520, 59538 and 51206

In discussions with OAI, the Programme Officers and Heads of programme units explained that the reason for the deficiencies in project monitoring and assurance was the lack of adequate staffing at the programme management level. As a result, they could not find the time to undertake all the needed assurance activities. OAI noted that seven of the 13 positions approved in the Programme Management Unit were vacant at the time of the audit.

OAI also noted an unclear division of responsibilities between projects and programme oversight. In discussions with OAI, project personnel and programme staff explained that they did not fully understand the division between the two levels. And because several key management positions had been vacant for certain projects (58922 and 58898), the Office had to step in to manage them. An evaluation report for Project No. 59822 also noted an instance of micro-management on the project from programme management.

Priority	Medium (Important)

Recommendation 4:

The Office should institute stronger project monitoring and assurance by ensuring that:
(a) Programme Officers undertake field verification visits regularly and document their findings in a report within seven days of returning to the office;
(b) Programme Officers provide assurance for procurement activities on projects and undertake operational reviews;
(c) Programme Officers follow up projects to ensure that Atlas is used for reporting, risk and quality management;
(d) vacant positions in programme units are filled as soon as possible;
(e) training is provided to programme staff on programme management and assurance; and
(f) the division of roles and responsibilities between programme staff and project personnel is clearly communicated and implemented.

Management comments and action plan: __√__ Agreed   ____ Disagreed

(a) The Office will increase mandatory and regular field verification visits and initiate joint field visits across clusters, as well ensuring information is captured in unit and project plans. This specific aspect has been made mandatory in the monitoring and evaluation plan of all projects to be submitted together with the annual work plans.
(b) While the Programme Officers should be involved in procurement and operational reviews, they should keep their priority on overall project and programmatic assurance to ensure management for development results.
(c) The Office has started and will continue to organize training on the project management module of Atlas and each Programme Officer will be made accountable to ensure that project(s) under his/her portfolio are

properly managed in Atlas.
(d) Standard operating procedures for recruitment in Human Resources will be reviewed to find ways of speeding the process, and senior management will monitor, on a weekly basis, progress made by Human Resources to take necessary action as appropriate.
(e) In September 2012, a Programme, Policies and Operations workshop was conducted for the same purpose and the Office will continue investing in developing the programme management's capacity; the Programme Officer shall be required to complete certification in Prince 2 Foundation.
(f) Senior management will have more proactive interactions with project staff and thereby ensure a proper and clear delineation of roles and responsibilities between programme and project teams. The Office has a detailed governance plan in place to address issues related to roles and responsibilities.

Issue 5   Poor management of Letters of Agreement

According to the Programme and Operations Policies and Procedures, the Office must use a Letter of Agreement 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. The Letters of Agreement are signed to define responsibilities and to ensure that there is a clear understanding of the resources available, the activities to be undertaken and the results to be achieved.

The Programme and Operations Policies and Procedures require proper management of Letters of Agreement, including compliance with its provisions.

Assurance systems and procedures in the use of Letters of Agreement were inadequate. The Office had made extensive use of Letters of Agreement, but there was no centralized system to provide an overview of the Letters of Agreement that were signed and to keep track of the commitments that the Office had made thereunder. The Office has since introduced efforts to address this weakness. Nonetheless, OAI noted the following:

(a) Letters of Agreement signed with responsible parties did not follow the standard template. They lacked clarity or were incomplete (Project Nos. 61104, 58922, 51206 and 47111). For example, on Project No. 61104, the Letter of Agreement was unclear about whether UNDP or the government procurement rules should be applied. Additionally, the Letter of Agreement did not provide clarity on whether UNDP will assume partial or entire responsibility for the activities mentioned (e.g., procurement). On Project No. 58922, Letters of Agreement with provincial governments did not include schedules of payment or financial reporting forms. As a result, the Office had, at the time of the audit, been experiencing difficulties in obtaining financial liquidation reports from government counterparts.

(b) Funds transferred to government counterparts were contrary to the provisions stated in the Letters of Agreement (Project Nos. 43217, 71801 and 58922). In a separate audit of Project No. 43217, it was noted that the government counterpart paid its temporary personnel fixed monthly transportation allowances ranging from $500 to $750 each, whereas the signed Letter of Agreement stated that the government counterpart would arrange for transportation for temporary staff through a transportation company. For Project No. 58922, the Office transferred funds amounting to $0.9 million in 2011 to 11 municipalities as an advance for activities based on the quarterly action plans. However, the transfers were not in compliance with the Letters of Agreement, which allowed only for the transfer of funds to the Provincial Governor's Offices and not to the municipalities. Moreover, the Office paid personnel salaries totalling $1.5 million in 2011, although project management did not review the timesheets and activity reports, as was required by the signed Letters of Agreement.

The Office did not establish a system for proper management of Letters of Agreement, such as: designating staff responsible for ensuring the proper use of the standard Letter of Agreement template and compliance with its provisions; ensuring that no funds are transferred until the Letter of Agreement has been fully executed; ensuring that activities and transactions are compliant with the terms and conditions of the Letters of Agreement; and maintaining a central database of signed Letters of Agreement and Office commitments. Due to poor Letter of Agreement management, there is no assurance that intended outputs will be achieved or that resources will be utilized properly.

Priority	High (Critical)

Recommendation 5: The Office should establish a system for the proper management of Letters of Agreement by: (a) designating staff who will be responsible for ensuring the adequate use of standard Letters of Agreement; (b) following the schedule of disbursements and activities in accordance with the respective provisions in the Letter of Agreement; and (c) finalizing measures to put in place a centralized database of Letters of Agreement and related Office commitments.
Management comments and action plan: __√__ Agreed   ____ Disagreed Management stated they have taken the following actions to ensure proper management of Letters of Agreement: (a) A staff member in the Programme Support Unit has been assigned to ensure compliance with policies and procedures. (b) The role of Programme Managers now includes a requirement for robust monitoring of the agreements and is being supported technically by a member of the Programme Support Unit staff. The Oversight and Compliance Unit now has responsibility for the overall oversight on Letters of Agreement. (c) A tracking database of agreements is being developed to provide accurate and up-to-date information.

1.3 Organizational structure	**Partially Satisfactory**

According to the organization chart, the Office had three national and two international staff members responsible for managing each programme unit and at least one Programme Officer supporting them. The Office had terms of reference in place for these staff members in accordance with standard corporate templates, including the role of policy-making and analysis. However, discussions with programme staff and a review of their Results and Competency Assessments showed that those roles were not being performed. The staff indicated that staffing shortfalls and frequent changes to the distribution of projects between programme units gave programme staff limited opportunities to develop thematic expertise for their individual sectors.

In response to the situation, the Office had established a Policy Unit, which was separate from the programme units. OAI pointed out the risk that by not being integrated with the programme units, the Policy Unit might not be fully aware of the realities and programmatic opportunities in the field and might not have gained the full benefit of lessons learned from programming. As a result, the Policy Unit might not be in a position to provide practical policy advice relevant to the context in which the Office operates. The Office had taken note of this risk and agreed to take measures to mitigate such risk when designing the Policy Unit. Accordingly, OAI has not made a recommendation.

Considering the medium-priority issue noted below, OAI assessed this area as "partially satisfactory."

Issue 6   Protracted business processes and sub-optimal division of programmes

The Office entrusted the Project Support Unit with various quality assurance functions, for which the programme units shared the same responsibilities. In discussions with OAI, some project personnel stated that there were delays in implementation, because the documents were considered cleared only when they received approval from both units. OAI noted that sharing assurance functions between these units (e.g., clearance of annual work plans, Atlas, and clearance of advances) had created protracted and time-consuming business processes, presenting a risk that this may slow down project implementation.

OAI noted that programmes that should normally be within the same thematic portfolio were divided between the two Deputy Country Directors, with separate reporting lines. For instance, the national governance and sub-national governance portfolios were split between the two Deputy Country Directors, which may hamper policy formulation and programme development by impeding communication, collaboration and the sharing of lessons learned between projects in thematically related areas. The Office explained that this arrangement was discussed with the recent visit of the Associate Administrator and a decision was made to keep the current structure. Since this had already been discussed and addressed, an audit recommendation has not been made.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen its programme organizational structure in order to build synergies therein by ensuring that the sharing of responsibilities between the Project Support Unit and the other programme units is clearly defined so as to shorten review and clearance processes.	
Management comments and action plan: __√__ Agreed ____ Disagreed Management stated that as part of the Office's restructuring process, the roles and responsibilities of the Programme Support Unit, programme units, Oversight and Compliance Unit and Partnership Unit will be clarified. The Office's senior management team has also been discussing linkages, challenges and priorities across all relevant programme units. A matrix on roles and responsibilities is currently being drafted. The Programme Support Unit established a Results Management Team in December 2012 to enhance results based management.	

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.