UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

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

Report No. 1123
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Table of Contents

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.
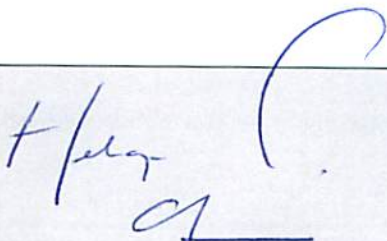
The high priority recommendations are as follows:

Governance (Issue 1)	<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.
Project management (Issue 5)	<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. 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.
Human resources (Issue 6)	<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.
Financial and cash management (Issue 7)	<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

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 4 to 22 November 2012, OAI conducted an audit of the Policy Analysis and Development Project, Project No. 51206 (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). 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 our 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: governance, project management, and operations. The audit covered relevant activities during the period from 1 January 2009 to 31 October 2012. During the period reviewed, the Project recorded expenditures totalling $5 million. OAI became aware of the Project during the audit of the Office's National Institution Building Project (Project No. 58898) in July 2012 as some related expenses incurred in 2011 were recorded against the latter. Due to a number of issues identified, the Country Office and the Regional Bureau for Asia and the Pacific requested a full scope audit of the Project.

During the audit, OAI faced several challenges in obtaining adequate information regarding the Project, i.e., copies of the Project Initiation Plan, and all LOAs signed with government institutions. In addition, much of the documentation was either incomplete or had not been prepared, i.e., details of staff members recruited by and paid through the Project, assets purchased and the supporting documents for expenses incurred.

II.   About the Project

Based on documentation that OAI was able to obtain and review, it appeared that the Project, located in Kabul, Afghanistan (the Country) was established at the request of the Government in October 2008.

The central idea was that the government ministers required expert assistance to provide them with analytical and advisory support for making strategic policy decisions. The Project aimed to enhance the capacity for policy analysis and policy advisory support. The initiative envisaged providing technical assistance to enhance knowledge and experience, thereby creating an environment where research and knowledge could be systematically shared and could constructively impact the policy cycle and decision-making process in government. The Project provided funds to 12 government institutions to assist with their strategic policy work. This mainly involved hiring international and national consultants to provide policy advisory services, organize policy dialogues with national and international authorities and develop "knowledge products and strategies."

In April 2011, the Project was included as Outcome 5 of the National Institution Building Project (Project No. 58898). However, the Project was subsequently taken out of the National Institution Building Project in the

second quarter of 2012 and reverted to its original status, as a stand-alone project. The Project was officially closed in December 2012.

The Project was directly implemented by UNDP and LOAs were then signed between the Office and a number of government entities. LOAs are meant to be used for the purpose of establishing 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.

Between the end of the audit fieldwork and the issuance of this report, OAI was advised that the management of the Office had operationally closed the Project in December 2012.

III.   Detailed assessment

1. Governance	Unsatisfactory

OAI reviewed the organizational structure and staffing of the Project, the signed LOAs with government institutions, and progress reports as well as the monitoring arrangements.

In accordance with UNDP policies, LOAs are used in cases where a government institution cooperates with UNDP and carries out activities as a responsible party on a project that is directly implemented by UNDP. A responsible party is defined as an entity that has been selected to act on behalf of the implementing partner. 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's former Country Director signed a Project Initiation Plan in November 2008. The Project Initiation Plan had an initial budget of $3 million to cover the costs of hiring international and national consultants to provide policy advisory services. On the basis of the Project Initiation Plan, the Office signed 12 LOAs with government institutions (11 government ministries and 1 government bank). Of the 12 LOAs, 9 included budget information totalling $5.6 million, and 3 had no budget information at the time they were signed.

By definition, a Project Initiation Plan is a preliminary document. It is temporary in nature and must not exceed 12 months in duration. It is meant to allow an office to incur expenditures and to undertake activities that facilitate the formulation of a full-fledged and well formulated Project Document, e.g., conduct pre-project data analysis and research, and hire consultants to assist in the project formulation, etc.

Based on documentation made available to OAI, the Office never established a duly formulated, reviewed and approved Project Document. Instead, activities continued to be carried out and expenditures continued to be incurred for over three years under the basic Project Initiation Plan only. Consequently, the required governance and monitoring arrangements over the Project were either not established or were not working. There were limited or no assurance mechanisms to ensure that funds disbursed to government institutions since 2009 were spent for the intended purpose. However, from May 2012 onwards, the Office initiated positive steps to manage and monitor the Project.

In January 2013, the Office informed OAI of the closure of the Project and the last activity was completed on 31 December 2012.

Due to the high priority issues noted below, this area was assessed as "unsatisfactory."

Issue 1   <u>Weak project governance</u>

As per the Programme and Operations Policies and Procedures, the entire project life cycle includes four stages, namely: defining, initiating, implementing and closing the project. However, based on the documentation made available, OAI did not find evidence to properly support that critical components of the project life cycle had been established to ensure successful project implementation and achievement of intended project results:

(a) Weaknesses in project definition and initiation

The Programme and Operations Policies and Procedures require that all projects be reviewed by the Local Project Appraisal Committee to evaluate and decide on the best arrangements for undertaking the project and to ensure that the project meets UNDP standards. The Office did not establish the Local Project Appraisal Committee to review and provide advice on the Project.

The Programme and Operations Policies and Procedures also state that when designing a project, offices should ensure that a Project Document is in place that documents the justification of the project, the Results and Resources Framework, and how the project will be monitored and evaluated. However, the Office did not prepare a Project Document which included these aspects. The Office stated that they prepared a Project Document but it was not finalized. A copy of the document was not made available to OAI during the audit.

(b) Results and Resources Framework not developed

According to the Programme and Operations Policies and Procedures, the Results and Resources Framework serves as a basis to define key activities for each project output and forms part of the Project Document. It should be logical and contribute clearly to Country Program Action Plan outcomes. As the Project Document and the Results and Resources Framework were not finalized, the Project was implementing activities based on the approved Annual Work Plans. However, these contained limited or no information on baselines, indicators or targets. In many cases, the activities described were either not specific or were not measureable against the criteria spelled out in the Annual Work Plans. As a result, there was a lack of criteria by which project results could be measured. Without clear baselines and results indicators, it was not possible to determine if the Project was on track toward meeting the intended results.

(c) Project management arrangements not established

According to the Programme and Operations Policies and Procedures, a Project Board must be established and must meet on a quarterly basis to maintain project oversight. The Board must approve Annual Work Plans and budgets, review expenditures and the Combined Delivery Reports and monitor progress on projects.

The Office did not establish a Project Board for the Project and as a result there was no oversight of the Annual Work Plans, and no review of expenditures or monitoring of progress towards results. Further, when in early 2011 the activities of the Project started being shown as a component of the Afghanistan Sub-National Governance Programme (Project No. 58922) and the National Institution Building Project, neither of the respective Project Boards had been consulted regarding the incorporation of the Policy Analysis and Development Project activities into their projects.

(d) Deficient programme assurance

According to the Programme and Operations Policies and Procedures, programme officers are responsible for providing project assurance. Specifically, undertaking field verification visits to projects and documenting results of the visits and ensuring that Annual Work Plans are defined precisely for projects to enable progress and the tracking of expenditures.

OAI noted that there was no evidence of project oversight activities being completed during the period from January 2009 to April 2012. There was no evidence of spot checks or operational reviews of activities having been performed during the audited period for any of the 12 government institutions.

The Project suffered from a lack of ownership since its inception, as programme oversight responsibilities were transferred between five different units and eight individuals. Furthermore, an officer continued to authorize and approve payments to the 12 government institutions, even though the government institutions did not submit the required quarterly/annual progress reports or the certified financial statements.

In September 2010, the Office decided to terminate activities for 7 of the 12 LOAs with a view to strengthen oversight through regular review meetings and review of technical and financial reports. There is limited evidence of increased oversight having taken place until May 2012, when the Office commenced close monitoring of the Project and took action to address the various weaknesses. This was demonstrated by the Office having completed site visits, requesting quarterly progress reports and initiating the closure of the remaining five LOAs. In addition, the Office facilitated an internal assessment and requested an audit of the Project.

In response to the draft report, management stated that since the arrival of the new Senior Management Team in April 2012, the Office has made comprehensive efforts to strengthen compliance with UNDP rules and regulations, by among other things, implementing new review processes at the project initiation and implementation stages. Management further stated that the roles of the Programme Units and the Strategic Management and Support Unit have been strengthened and an Oversight and Compliance Unit and Partnership Unit were established to further strengthen these important functions.

The disregard of UNDP policies and procedures significantly increased the risks of misuse of funds (Issues 5, 6 and 7), and of reputational damage to UNDP, with no evidence that the Office had properly managed these increased risks.

Priority	High (Critical)
Recommendation 1: 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.	
Management comments and action plan: __√__ Agreed ____ Disagreed The additional information provided by management has been reflected in the observation.	

Issue 2   Weaknesses in project evaluation

The Programme and Operations Policies and Procedures require that, when completing a project, the office commission an evaluation to determine whether the concept should be scaled up or replicated elsewhere and to generate lessons learned.

In 2012, the Office commissioned an evaluation of the Project to determine project effectiveness and impact. However, considering the deficiency of the Results and Resources Framework for the Project (see Issue 1), OAI concluded that it could only place limited reliance on the preliminary results of the Evaluation Team. The final report issued in early January 2013 referred to an "internal assessment" rather than an evaluation. The Evaluation Team clarified that it did not cover the full scope that a comprehensive evaluation normally would, and focused more on the lessons learned and practical recommendations for future action. Since internal staff members were involved in conducting the evaluation, the Evaluation Team considered that it could only be classified as an internal review. OAI concluded that the Evaluation Team did not meet the original objective that the Office had set in 2012.

The Project was closed as of 31 December 2012 and the Office indicated that based on the lessons learned from the Project, it would formulate a methodology to provide policy advice to the Government under its new programmatic arrangement. Accordingly, OAI has not made a recommendation.

Issue 3   Poor management of LOAs

According to the Programme and Operations Policies and Procedures, an office must use the standard LOA when a government ministry/institution cooperates with UNDP to implement project activities. Further, the Legal Support Office should approve any amendments to the LOA template. The LOA is 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.

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 template, and lacked complete information for the budget and activities to be undertaken. In addition, the LOA conditions were not enforced as discussed below.

(a) LOA content discrepancies

▪ In all 12 LOAs, the Office referred to the Project Document, which was not finalized, to provide the necessary detailed project information.
▪ In 3 LOAs, the Office did not provide the required budget information.
▪ In 8 LOAs, the Office did not describe or complete the schedule of activities to be undertaken.
▪ In 8 LOAs, the Office modified the template and included both additional clauses and modifications to existing clauses without seeking the clearance of the Legal Support Office on these amendments.
▪ In 8 LOAs, the job descriptions and terms of reference for the consultants had not been completed.

As a result, it was not clear what specific activities were to be undertaken or to determine the budgeted costs for the activities.

(b)   Non-compliance with LOA terms and conditions

- The signed LOAs required the government institutions to provide an annual report of expendable equipment and a certified statement of accounts. The Office did not have a copy of the annual reports or the certified statements of accounts. In addition, there was no evidence to support that the Office had followed up with the institutions to request submission of the required documents.
- The signed LOAs required the government institution to submit a final report within 12 months of the completion of the agreement. As of the end of field work, the Office could only provide the final report for 1 of the 12 ministries. Once again, there was no evidence that the Office had followed up with the institutions to request submission of the required documents.
- The signed LOAs stated that no further disbursements would be made beyond the expiration of the agreement. The Office continued disbursing funds to four institutions although the LOA had already expired with post facto extensions issued in certain cases.

These shortcomings resulted from weak management both at the time of signing the LOAs and during their implementation. Without authorized approval for the changes from the standard LOA, the Office may have made unauthorized commitments on behalf of UNDP. Where the budget and activity information were incomplete or missing, the Office was unable to determine the levels of the Project's funds to be remitted, their intended purpose, or to assess progress toward the intended outcomes.

During the audit of the programme management of the Office, OAI noted systemic internal control issues in the Office's management of LOAs (Audit Report No. 1096) and made a recommendation to address this issue that included the information provided above. Accordingly, OAI has not repeated the recommendation in this audit. Also, this Project was closed at the end of 2012.

2. Project management	Unsatisfactory

OAI reviewed the available project documentation, and interviewed Office staff, as well as representatives of two of the government institutions.

Due to the control weaknesses highlighted below, this area was assessed as "unsatisfactory."

Issue 4   Weaknesses within project management

(a)   Inadequate criteria for selection of government institutions

The Office did not establish procedures on how government institutions were to be selected. Further, in the absence of a Project Document and a Project Board, the selection of government institutions was undertaken at the Country Director level without documentation of the criteria used or of the justification for their selection. For example, a local bank submitted a two page letter requesting $1.5 million for a Disaster Recovery Centre. There was no documented assessment to support the rationale behind the Office's decision to fund this Disaster Recovery Centre. The Office had expended $0.4 million on the Centre during the period from February 2010 to October 2012, even though the Centre was still not operational.

(b)   Monitoring plan and activities not completed

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."

The Office did not have a monitoring plan and there was no evidence that the Office had undertaken field visits or had reviewed supporting documentation for expenditure incurred during the period January 2009 to May 2012. The Office informed OAI that the Assistant Country Director completed project visits during this period but was unable to provide any documentation of the visits or their results. In September 2010, the Office decided to terminate seven of the LOAs and to increase oversight through regular review meetings and review of technical and financial reports. However, the additional oversight did not take place until May 2012.

OAI noted that there is evidence of inadequately supported and possibly improper expenditures as referred to in Issue 5 below.

(c)   Inadequate project progress reporting

The Programme and Operations Policies and Procedures require, at a minimum, the preparation of an annual progress report and maintenance of an updated risk log in Atlas.

The Project did not prepare quarterly or annual progress reports, and the 2011 Annual Report of Project No. 58898 contained limited information on the Project's activities. Furthermore, the Project's module had not been activated in the Atlas system and no risk logs or monitoring information had been recorded.

The transfer of oversight responsibilities of this Project from five different units within the Office further added to the weaknesses noted above. Furthermore, the lack of consistent oversight responsibilities resulted in unclear accountability over the Project.

OAI noted the Office's attempts to improve the Project's management since May 2012. As the Project was operationally closed on 31 December 2012, OAI has not made a recommendation.

Issue 5   Weak monitoring of personnel recruited under LOAs

The LOAs provided that the government institutions would hire personnel to provide the policy advice and related activities and the Office would pay the salaries of these personnel. Further, as per the LOAs, recruitment of project personnel should meet the following requirements: (a) compliance with relevant government labour laws; (b) be conducted competitively; and (c) ensure that personnel recruited are of the highest standards of efficiency and competence. One LOA provided that UNDP would be involved in the recruitment and another provided that UNDP may review the recruitment of personnel under the LOA. The LOAs also provided that UNDP, as the implementing partner, shall retain overall responsibility for the Project.

There was no evidence that the Office undertook any monitoring of the recruitment process to ensure compliance with the relevant government laws, the competitive recruitment requirements, or the LOA condition that personnel recruited were of the highest standards of efficiency and competence. Nor was there evidence that the Office performed any monitoring regarding the personnel hired or their remuneration for compliance on an ongoing basis.

The Office did not have a complete list of personnel hired by the government institutions. In reviewing the available documentation (i.e., payment vouchers) OAI determined that the government institutions had recruited approximately 90 personnel. There was also no evidence to support that the Office monitored that the salaries paid to recruited personnel were in compliance with the applicable government laws. In four government institutions, 19 staff members were granted significant salary increases (ranging between 20 and 233 percent). Some of these increases included retroactive salary payments. The Office did not request or obtain justification for these increases in order to assess appropriateness or compliance with the relevant laws.

Afghanistan law provides that civil servants who receive a government salary or Tashkeel should not receive additional salaries from other sources. The Office initiated monitoring in May of 2012 and in June 2012 noted that 12 of the 20 personnel who were recruited under an LOA with one ministry and who were receiving salaries through the Project were government civil servants. The Office indicated that a government office had verbally confirmed this. OAI did not find the necessary evidence to confirm that the 12 government personnel had their government payroll suspended while they were receiving pay from the Project. Furthermore, in July 2012, the Office identified four personnel from two government ministries who were receiving salaries through the Project and were also receiving salaries through a World Bank project. One individual identified had since refunded $46,000 to the Office. The Office had not sought written clarification from the Government to confirm whether the personnel recruited under the LOAs were civil servants and receiving salary from other sources.

Though the Project was to focus on analysis and advisory support relating to policy development, the Project's funds were used to pay salaries of general support personnel (including drivers and cleaners). As of 30 April 2012, the salaries paid for general support personnel salaries totalled $59,000. The terms and conditions of the LOAs did not provide for the recruitment of general support staff nor was there evidence that the purpose of either the Project or the LOAs had been duly revised.

In response to the draft report, the Office indicated that it had contracted with a consultant in September 2012 to review the recruitment and contract administration for government personnel hired under LOAs, and to develop standard operating procedures, general terms and conditions for contracts as well as a standard salary scale to be applied to all LOA personnel. Also, simultaneously, the Government had initiated a 'National Technical Assistance' policy to harmonize pay frameworks for civil as well as non-civil servants. The policy was circulated to the international community in late 2012 and approved by the Government in May 2013. The Office further stated that it has followed-up with the ministry concerned to identify personnel hired under LOAs for the Policy Analysis and Development Project and other projects, who are receiving salary payments from more than one source. Two options were offered to address this issue: either the personnel had to give up their Tashkeel status under which they received salary as a civil servant, or the LOA payments were stopped. The ministry also took action to ensure that no personnel received salaries from various donors.

OAI was unable to determine the validity of salaries paid amounting to $1.6 million. The Office was unable to provide the rationale for these actions. Without compliance with the LOAs, including adequate supervision and monitoring of the recruitment and payment of personnel, the Office cannot ensure that the Project's funds were used appropriately.

Priority	High (Critical)
Recommendation 2: For personnel hired under LOAs, the Office should 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.

Management comments and action plan: __√__ Agreed ____ Disagreed
The additional information provided by management has been reflected in the observation.
The Office stated that it expects that the National Technical Assistance policy will be fully implemented for all UNDP LOAs by the end of the year and that the Oversight and Compliance Unit will monitor the projects' continuous compliance with the National Technical Assistance policy.

Priority	High (Critical)
Recommendation 3: The Office should 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.	
Management Comments: __√__ Agreed ____ Disagreed	
The additional information provided by management has been reflected in the observation. The Office indicated that the development and approval of the National Technical Assistance policy will allow for the creation of a central database to track the details of staff under LOAs from all donor agencies, which will facilitate monitoring and oversight over possible double payments.	

3. Operations	Unsatisfactory

3.1 Human resources	Partially Satisfactory

In addition to the personnel hired by the government institutions under LOAs, the Office hired 13 temporary contractors in 2010 to work on the 2010 National Human Development Report for the Project and paid salaries totalling approximately $256,000. The weaknesses noted in the management of these contractors are discussed below:

Issue 6 Inadequate controls over management of temporary contractors

In accordance with the Programme and Operations Policies and Procedures, a Certification of Deliverables should be completed prior to contractors receiving their final payment.

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. For

example, the contractors' descriptions of the work done included the Parliament Project, Poverty Reduction Unit and National Programme Formulation. 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 in the LOA.

Without oversight of deliverables, it cannot be determined whether the Project's funds have been used appropriately.

In response to the draft report, the Office indicated that the payment process for the personnel holding individual contracts was revised in November 2012 and is now in full compliance with the Programme and Operations Policies and Procedures, which require that the performance of an individual contractor must be evaluated and monitored by the responsible manager to ensure that the contractual obligations are being fully met, and further, that relevant documents are submitted.

Priority	High (Critical)
Recommendation 4: The Office should 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.	
Management comments and action plan: __√__ Agreed ____ Disagreed The additional information provided by management has been reflected in the observation.	

3.2 Financial and cash management   Unsatisfactory

During the audit period, the Office processed 477 vouchers totalling $5 million, of which OAI selected 60 vouchers totalling $3 million for detailed review. In view of the issues highlighted below, this area was assessed as "unsatisfactory."

Issue 7   Weaknesses in management of financial resources

(a)   Unsupported payment vouchers

The UNDP Internal Control Framework requires the Office to ensure that there are adequate supporting documents before funds are disbursed. Therefore, the Project Managers are designated as Approving Managers, and the staff members in the Finance Unit must ensure accuracy of the payment amounts and adequacy of the supporting documents. The delegation of authority entrusted to the staff members stipulates their specific responsibility and that they are personally accountable when authorizing and approving payments.

Of the 60 vouchers reviewed, 48 were journal vouchers totalling $2.9 million which pertained to the liquidation of cash advances released to the government institutions. The Office approved payment of these vouchers with limited documentation to support the validity of the expenditures. The expenditures were mainly for payments of salaries for personnel hired under LOAs, but these were not supported with staff contracts, timesheets or the required activity reports.

The remaining 12 payment vouchers totalling $0.1 million mainly related to payments of personnel salaries, printing materials, car rentals and utilities. The vouchers relating to the payment of salaries were not supported with personnel contracts or monthly timesheets, while the confirmations for the receipt of goods or services were missing from those vouchers relating to payment for printing materials and car rentals. The Office should have obtained the supporting documents before approving these payments.

The Office staff members were uncertain as to who was responsible for ensuring the adequacy of supporting documents. The staff members in the Finance Unit believed that this was the responsibility of the Project Manager. As long as the requests for payments had the signature of the Project Manager (or the designated officer), the staff members in the Finance Unit processed the payment vouchers and payments were then disbursed. By not requiring adequate supporting documentation, the validity of the payments cannot be determined.

(b)   Weak management of cash advances

The Programme and Operations Policies and Procedures require that advances to responsible parties should be closely monitored to ensure that the funds transferred are used for their intended purposes. All advanced funds should be liquidated within six months or returned to UNDP upon completion of project activity.

The Office did not provide adequate oversight when releasing advances to the government institutions. Specifically, the Office did not verify whether all the requirements were met or that all required documentation had been submitted (i.e., existence of bank statements, reconciliation, and authorization) prior to disbursing the funds. OAI also noted that bank statements were neither provided nor reconciled with the Funding Authorization and Certificate of Expenditures forms. Furthermore, the Project had $0.4 million in cash advances which remained unliquidated for more than six months as of November 2012.

As adequate supporting documentation was not available and annual certified statement of accounts were not provided (refer to Issue 3), there was no assurance that funds were used for their intended purpose.

In response to the draft report, the Office indicated that: (a) each staff member entrusted with an ATLAS role needs to sign a letter of delegation of authority. The letter specifies the role and responsibilities that are associated with the ATLAS role. In addition, the Finance Management Unit conducts quarterly training for staff, with the most recent training having been conducted on 23 June 2013; (b) the Office Oversight and Compliance Unit has started a review of all existing LOAs, to identify any remaining problem areas relating to documentation and the approval of payments. The results will be used to make proposals for improved LOA management and assurance by November 2013; and (c) The Office has also been following up with the concerned government institutions to address the unliquidated cash advances of $0.4 million. The supporting documentation for over three quarters of these expenses has been obtained and the Office continues to follow up on the balance.

Priority	High (Critical)

Recommendation 5: The Office should 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 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. 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.

Management comments and action plan: __√__ Agreed   ____ Disagreed The additional information provided by management has been reflected in the observation.

3.3 Procurement	**Partially Satisfactory**

During the audit period, the Office processed 89 purchase orders valued at $0.9 million. OAI reviewed 17 purchase orders totalling approximately $0.4 million or about 44 percent.

Due to the significance of the issue below, OAI assessed this area as "partially satisfactory."

Issue 8   Inadequate controls over procurements

According to the Programme and Operations Policies and Procedures, the procurement of goods and services should provide the best value for money. This includes specific procedures to ensure competitive procurement, transparency and detailing the required related documentation.

OAI noted internal control weaknesses in the 17 purchase orders reviewed. For example, quotes were not obtained and the reasons for vendor selection were not documented. Further, some purchase orders were issued after the Office received the invoices. Also, information regarding the payment arrangements and vendor deliverables were not attached to the purchase orders. Accordingly, there was no basis to show how payments should be effected.

The Office did not establish a proper system to ensure that records were properly maintained and available when required. In view of the internal control weaknesses, there was no assurance that the Office had been able to obtain best value for money.

OAI noted that the Office has made efforts to enhance controls since May 2012. As the Project was operationally closed on 31 December 2012, OAI has not made a recommendation.

| **3.4 Asset management** | **Unsatisfactory** |

Due to the issue noted below, this area was assessed as "unsatisfactory."

Issue 9   <u>Inadequate control over project assets</u>

The LOAs stipulated that the title to any equipment and supplies that may be furnished by UNDP or procured through UNDP funds shall rest with UNDP until such time that the ownership thereof is transferred.

The Office did not maintain a list of equipment purchased by the Project or by the government institutions using the Project's funds. Hence, it was not possible to determine the total number of project assets or their corresponding value. With the exception of two government institutions, the Office did not have a list of assets purchased by the government institutions under the signed LOAs. As referred to in Issue 3 above, the LOAs required the government institutions to provide an annual report of expendable equipment. However, none of the 12 government institutions had complied with this provision.

OAI identified assets with a total value of $0.2 million by reviewing the available documentation provided by the government institutions when requesting further advances. As the supporting documentation was not complete, the actual figure might have been higher.

Further, at the time of the audit, the Office had not formally transferred the equipment to the government institutions. By not maintaining a list of equipment, the Office could not verify the existence of equipment or confirm whether it was being used for the intended purpose.

OAI noted that since May 2012, the Office had made efforts to enhance controls. As the Project was operationally closed on 31 December 2012, OAI has not made a recommendation.

| **3.5 Information systems** | **Not Applicable** |

The Office was responsible for maintaining the Atlas system, which also records the Project's disbursements and expenditures, including maintaining emails. The Project does not maintain a separate system.

| **3.6 General administration** | **Not Applicable** |

The majority of project expenditures were through signed LOAs with the government ministries, including those expenditures related to travel. OAI assessed this area as low risk at the planning stage and no further fieldwork was performed.

ANNEX 1. 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.