UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP AFGHANISTAN

ENHANCING LEGAL AND ELECTORAL CAPACITY FOR TOMORROW PROJECT

(Directly Implemented Project Nos. 43217, 57970 and 63078)

Report No. 1169

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Table of Contents

Report on the audit of UNDP Afghanistan
Enhancing Legal and Electoral Capacity for Tomorrow Project (Project Nos. 43217, 57970 and 63078)
Executive Summary

From 27 May to 11 June 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of Enhancing Legal and Electoral Capacity for Tomorrow, Project Nos. 43217, 57970 and 63078 (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). The audit covered the activities of the Project during the period from 1 January to 31 December 2012. During the period reviewed, the Project recorded programme and management expenses totalling $13.4 million. The following donors contributed to the Project: European Union, Japan, United States, Canada, Australia, Germany, United Kingdom, Denmark, Turkey, Sweden, Norway and Republic of Korea.

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

Audit rating

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

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

Key issues and recommendations

The audit raised 8 issues and resulted in 7 recommendations, of which 5 (71 percent) were ranked high (critical) priority, meaning "Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level."

The high priority recommendations are as follows:

Project management (Issue 3)	Weaknesses in monitoring the use of financial resources. The Project did not adequately monitor the $6.8 million expenditures directly incurred in 2012 by the Independent Election Commission (IEC), the Office's national partner. This was due to weaknesses in monitoring of the IEC's: (a) provincial operating costs; (b) payments of staff member salaries and professional allowances; and (c) procurement activities. OAI recommends that the Office enhance controls over expenditures directly incurred by the IEC by: (a) ensuring a breakdown of the Annual Work Plan budget by province and activity and regular monitoring of expenditures to determine their validity; (b) conducting an independent verification to ensure that payments of salaries and professional allowances to IEC staff members comply with the signed agreement and Afghan law; and (c) ensuring that over payments of salaries or professional allowances are recovered as appropriate.
Finance (Issue 5)	Weaknesses in cash management. A total of $0.5 million in 2012 was advanced to IEC officials instead of to Project staff members holding UNDP fixed-term contracts, as advised by the Treasury Division. OAI also noted that the IEC made cash payments to participants in training activities for allowances, travel incidentals and other related costs even though most of the training was held in Kabul where banking facilities exist. OAI recommends that the Office follow the corporate guidelines on cash advances under the national implementation modality by ensuring that cash advances are either transferred to the IEC's bank account or channeled through the Government's Treasury account. OAI further recommends that the Office establish measures to manage the high inherent risk of cash payments. This should include ensuring that the IEC avoids cash transactions and makes payments by cheque or direct transfer to payee bank accounts.
Asset management (Issue 7)	Failure to take prompt action on missing assets. Project assets valued at $0.6 million were either missing or transferred without the requisite review process and approval by the designated authority. OAI recommends that, in line with the Programme and Operations Policies and Procedures, the Office: (a) take prompt action regarding the project assets valued at $0.6 million that were reported lost or missing, by promptly investigating the reasons for the loss, determining which personnel were responsible, submitting the case to the Contracts, Assets and Procurement Committee for review and appropriate action (the review should be completed within a time bound framework and should be closely monitored); and (b) determine the reasons for the delays in taking prompt action and establish procedures to prevent such delays in the future.
(Issue 8)	Inadequate controls over asset transfers. UNDP staff members approved transfers of project assets valued at $3.2 million to government institutions without having a delegated authority to do so. OAI recommends that, in line with the Programme and Operations Policies and Procedures, the Office should: (a) ensure that only properly authorized staff members approve asset transfers; (b) obtain post facto approval from the Contracts, Assets and Procurement Committee or Regional Advisory Committee on Procurement for assets transferred to government institutions; and (c) assess why project assets valued at $0.7 million were transferred to government institutions not directly involved in project activities without obtaining necessary approval and establish procedures that prevent such asset transfers in the future.

The implementation status of previous OAI audit recommendations (Report No. 1153, issued on 6 March 2013) was also validated. Of the seven recommendations, one was fully implemented and the implementation of the remaining recommendations was in progress.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 27 May to 11 June 2013, OAI conducted an audit of the Enhancing Legal and Electoral Capacity for Tomorrow Project (Project Nos. 43217, 57970 and 63078), which is directly implemented and managed by 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 project: organization and staffing, project activities, and operations. The audit covered relevant activities during the period from 1 January to 31 December 2012. During the period reviewed, the Project expended a total of $13.4 million, $6.6 million of which was incurred by the Office on behalf of the Project and which is covered by the scope of this audit. The balance of $6.8 million in project expenditures was directly incurred by the IEC and was outside the scope of this audit and will be covered under a separate audit to be arranged by the Office.

The implementation status of previous OAI audit recommendations (Report No. 1153, issued on 6 March 2013) was also validated. Of the seven recommendations, one was fully implemented and the implementation of the remaining recommendations was in progress.

II. About the Project

The United Nations Electoral Assistance Project in Afghanistan (the Country) consisted of two phases. The first was the Office directly implemented Phase I (2006 -2011). Phase II (2012-2013) is being nationally implemented by the IEC and focuses on four outputs, namely: (a) developing institutional, operational and technical capacity of the IEC; (b) improving the quality of the voter registry to support future electoral operations; (c) strengthening IEC capacity to encourage broader democratic participation; and (d) providing support to the Project's management. The IEC is preparing for the next Presidential election scheduled for April 2014.

The Project is operating in a complex and challenging environment where it has to meet the varying requirements of its government partner, donors, and other stakeholders. In such an unstable conflict environment, the security risks are high, and UNDP staff members are not permitted to travel to remote areas where some of the Project's activities are implemented. Other challenges include the recruitment of experienced staff members, the absence of a well-developed commercial marketplace and fully developed financial institutions.

III. Detailed assessment

1. Organization and staffing — Satisfactory

OAI reviewed the Project's organizational structure and staffing, delegation of authority and cost recovery of Implementation Support Services. The Office's Country Director delegated the Project's Chief Technical Advisor and the Senior Technical Advisors with project manager authority, and the Procurement Specialist was designated as approving manager level 2. The Office appropriately recovered Implementation Support Services costs from the Project. No reportable issues were identified.

2. Project management — Unsatisfactory

Phase II of the Project had a total budget of $90 million for a period of two years (2012-2013). The revised final budget for 2012 was $20 million, which included $14.6 million of carried-over funds from Phase I. Accordingly, Phases I and II of the Project were concurrently implemented in 2012. Detailed expenditures for 2012 under the two phases are shown in Table 1.

Table 1: Details of Phase I and II budgets and expenditures for 2012

Phase	Award	Project	Budget ($'million)	Expenditure ($'million)	% Expenditure
Phase I	57970	71801	7.7	7.1	92
	43217	50324	6.9	2.7	39
Subtotal			***14.6***	***9.8***	***67***
Phase II	63078	80395	0.2	0.0	0
		83558	0.9	0.4	44
		80394	0.3	0.3	100
		80393	2.0	0.8	40
		80396	2.0	2.3	115
Subtotal			***5.4***	***3.8***	***70***
Total			**20.0**	**13.6**	**68%**

Source: Executive snapshot July 2013.

Due to several material weaknesses noted, this area was assessed as "unsatisfactory."

Issue 1 <u>Weaknesses in project governance</u>

According to the Programme and Operations Policies and Procedures, the Project Board is responsible for providing general oversight of project activities and for approving the monitoring plan and the Annual Work Plan, which should be based on available funding and include activities that can be realistically achieved within the year. The following weaknesses were identified in regard to project governance:

<u>Unclear project implementation modalities</u> - The signed Project Document for Phase II stipulated that the IEC would be the Implementing Partner. However, the IEC recognized its weak capacity and requested the Office to continue to directly implement the Project during 2012. As a result, the Letter of Agreement that was signed for Phase I was amended to stipulate that the IEC would carry out its activities as a Responsible Party directly accountable to the Office, which retained its role as Implementing Partner. However, there was no evidence that the Project Board had approved this new arrangement or that the Project Document was revised to reflect the

change in implementation modality. Project management indicated that both the direct and national implementation modalities were used in 2012. The audit noted that this created ambiguity in the roles and responsibilities of the Chief Technical Advisor, and the IEC Chairperson and Chief Electoral Officer. The same concern was raised in the Mid-Term Review Report (February 2013). Under the national implementation modality, the Chief Technical Advisor's role is an advisory one, while the IEC Chairperson or Chief Electoral Officer has overall responsibility for implementing activities. However, in this case, the Chief Technical Advisor was responsible for overall management of project activities, which would only be applicable under a direct implementation modality. The Office indicated that the roles and responsibilities of the Chief Technical Advisor, the IEC Chairperson and Chief Electoral Officer are clear. They further informed that the Annual Work Plan will clearly delineate activities for which the Implementing Partner is responsible.

In April 2013, the Office and the IEC signed a Service Level Agreement wherein the IEC was designated as the Implementing Partner and the Office as the Responsible Party, in accordance with the provisions of the signed Project Document for Phase II. However, the IEC again indicated that it did not have the capacity required to carry out the national implementation modality and requested that the modality be revised to direct implementation by the Office. Ultimately, while the Project was being nationally implemented, the Office continued to provide operational support similar to that provided under the direct implementation modality. The Office maintained a fully-fledged Project Management Unit structure, typical of a directly implemented project, including senior human resources, procurement, finance and operations staff members. The Project management stated that donors had wanted the Project to be Afghan-led, and believed that reverting to direct implementation by UNDP could erode gains already made in this respect.

Annual Work Plan not approved in a timely manner – While the minutes of the November 2011 Project Board meeting indicated that the Chief Technical Advisor had requested approval of the 2012 Annual Work Plan, the Plan was not approved until mid-February 2012. The Plan should have been approved in the last quarter of 2011 in order to avoid delays in implementation of planned 2012 activities. During the audit fieldwork, the Project did not provide an explanation for the delay in approving the Annual Work Plan.

Monitoring framework not established - The Project management did not develop a monitoring and evaluation plan for 2012. The 2013 plan did not identify monitoring activities to be undertaken, data collection methodology, frequency of monitoring activities, responsible persons and the resources required to undertake monitoring activities.

Due to inadequate monitoring of the IEC provincial offices, the security upgrades of the perimeter walls were of sub-standard construction. While the security upgrades were supervised by IEC engineers, the Project management explained that these engineers did not have the requisite experience to undertake these tasks. The Project management further stated that it planned to hire a Design and Quality Control Engineer in the first quarter of 2012, but this individual did not report until the third quarter of the year. The Project management had attempted to address the problem regarding construction by strengthening the quality control mechanism, which delayed other activities, such as constructing warehouses, until 2013. According to the Project's Senior Technical Advisor, the construction may not be completed by the end of 2013.

Inadequate project governance and implementation may result in weakened accountability and the failure to realize Project outputs.

Priority	Medium (Important)
Recommendation 1: The Office should enhance Project governance by ensuring that the: (a) Implementing Partner designates a National Project Director that conforms with the Project's implementation modality; (b) limited capacities of the Independent Electoral Commission are adequately managed; (c) Project Board approves the Annual Work Plan prior to the implementation period; and (d) a monitoring and evaluation framework is developed prior to Project implementation.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office informed that the Implementing Partner will be requested to designate a National Project Director and a micro-assessment of the Implementing Partner will be conducted in November 2013. They added that capacity development of the Implementing Partner is being addressed. Lastly, the Office informed that the revised Project Document (June 2013) included a detailed monitoring and evaluation framework, which is being followed closely by the Project.	

Issue 2 Challenges to financial management arrangement

According to the Mid-Term Review Reports[1], and Presidential Decree 45 issued in July 2012, the Ministry of Finance was required to develop a plan specifically for election-related assistance to pass through the national budget for the 2014 elections. The Ministry of Finance stated that 100 percent of electoral financing should be on-budget.[2]

Furthermore, the April 2013 review report stated that according to donors, the Project appeared to be slow in reacting to the on-budget arrangement. According to the Project's 2012 annual progress report, the IEC had expressed concerns about the capacity of the different government agencies to handle this arrangement and to deliver an election within a compressed electoral timeframe and to safeguard the independence of the IEC. In response, the Office facilitated a mission from UNDP Headquarters in June 2013 to assess what would be a suitable distribution for channelling funds between the national budget and UNDP. As of the end of audit fieldwork, the mission report had not been finalized.

Failure to incorporate relevant measures for an on-budget modality into the project management structure could hinder the implementation of activities under tight deadlines for the upcoming April 2014 elections.

[1] The Mid-Term review was conducted in two phases and the reports were issued in February 2013 and April 2013, respectively.
[2] On-budget refers to development assistance funding channelled through the Government's Treasury account and is clearly visible in the Government's budget.

Priority	Medium (Important)
Recommendation 2: The Office should find suitable fund management arrangements and take appropriate action so that the obligations for the April 2014 elections are duly met.	
Management comments and action plan: __√__ Agreed ____ Disagreed	

Issue 3 Weaknesses in monitoring the use of financial resources

According to the Programme and Operations Policies and Procedures, the project manager is responsible for ensuring that financial resources are utilized in accordance with UNDP Financial Regulations and Rules, and that proper monitoring mechanisms are in place.

The Office did not adequately monitor the $6.8 million expenditures directly incurred by the IEC during 2012. The weaknesses that contributed to the failure to ensure appropriate utilization of financial resources are discussed below:

IEC provincial operating costs not adequately monitored - In accordance with the Project Document, the Office provided financial support to the IEC for the maintenance and operating costs of 34 IEC provincial offices. However, the Project's Annual Work Plan for 2012 did not provide specific budgets for the expenditures of each province or details of the activities involved. The provincial offices had different operating needs, and the breakdown of budgets for each province would have helped the Project to monitor the planned against actual expenditures. In the absence of such details, Project management was not able to effectively monitor the expenditures at the provincial level.

Payments of IEC staff member salaries and professional allowances not adequately monitored - The 2012 Letter of Agreement signed with the IEC and the 2013 Annual Work Plan included a budget for the payment of monthly salaries to temporary personnel and professional allowances to permanent IEC personnel on government contracts. The Project management explained that the Office and the IEC agreed that permanent IEC personnel should receive monthly professional allowances equivalent to their government salaries. During 2012, payments totalling $4 million (or 29 percent of the Project's total delivery) in salaries and allowances were made to IEC personnel. As discussed below, the Office did not adequately monitor these payments.

There were discrepancies between the list of positions attached to the payment vouchers and the approved list of positions attached to the signed Letter of Agreement. For example, there were 142 listed positions attached to payment voucher no. 111444 (March 2012) as compared to 23 positions in the Letter of Agreement. Further, the total amount paid was $60,738 against the approved budget of $2,892. The audit also noted similar discrepancies in payment voucher nos. 124872, 124869, 124870, 124868,124867 and 124871 involving total payments of $82,000. Project management could not explain these discrepancies.

The names of three IEC officials appeared on both the lists of temporary and permanent staff members attached to the March 2012 payroll. They received payments for salaries ($2,818) and professional allowances ($3,458). As these three officials were permanent staff members, they should have received professional allowances only. The Chief Technical Advisor indicated that this issue was discussed with the IEC and corrected in the July 2012 payroll. The audit reviewed the payrolls from August to December 2012 to verify that the duplicate payments had been corrected. Although the names of these officials only appeared in the list of permanent staff members, the audit found that their professional allowances were increased so that the total amount they received remained the same as before. This was contrary to the agreement that the professional allowances should match the government salaries. Afghanistan law provides that civil servants who receive a government salary should not receive additional salaries from other sources.

The approved 2013 Annual Work Plan included three temporary staff member positions in IEC provincial offices, namely: a Provincial Logistics Officer, a Generator Mechanic and a Security Guard. However, the payroll attached to payment voucher no. 124865 for the month of May 2013 included other positions, such as a Provincial Trainer, an External Relations Officer and a Provincial Security Officer. The total amount paid for these unauthorized positions was about $91,500.

OAI noted that Project management relied solely on the payrolls submitted and signed by IEC officials and did not verify the data to ensure accuracy. In May 2013, the Project management assigned two Finance Associates in the IEC Finance Unit to verify payrolls before submission to Project management for approval. The Head of the Project Operations Management Unit also indicated that a Human Resources Advisor was being recruited to look into the IEC issues. Further, the Office explained that in May 2013 the Government issued the 'Guideline for National Technical Assistance Remuneration Policy', which would harmonize the salaries of staff members working in different government institutions, including the IEC. The Office indicated that it is establishing a database of government staff members receiving salaries and professional allowances from UNDP.

IEC procurement activities not adequately monitored - During the period from November 2012 to May 2013, the Office identified a number of discrepancies in the IEC procurement process which included: inadequate supporting documentation for transactions; concerns relating to the fair value of items being purchased; overuse of notes to file when standard procurement processes had not been followed; and splitting of procurements (e.g. purchase of vehicle parts) in what appears to be a method of keeping the value below the threshold for open bidding procedures. At the end of the audit fieldwork, the Project management was still in the process of following up on these discrepancies with the IEC.

Without proper monitoring mechanisms in place, the Office is at risk of misusing or misappropriating Project resources.

Priority	High (Critical)
Recommendation 3: The Office should enhance controls over expenditures directly incurred by the Independent Election Commission by: (a) ensuring a breakdown of the Annual Work Plan budget by province and activity and regular monitoring of expenditures to determine their validity; (b) properly verifying payments of salaries and professional allowances to Independent Election Commission staff members to ensure that they comply with the signed agreement and Afghan law; and (c) ensuring that overpayments of salaries or professional allowances are recovered.	
Management comments and action plan: __√__ Agreed _____ Disagreed The Office indicated that: (a) the Project is now required to provide a detailed provincial budget that will be included in the Annual Work Plan; (b) a firm is being contracted to conduct a verification of the IEC payroll; and (c) the IEC is being requested to clarify the issue of overpayment of staff members.	

Issue 4 Comparison of budget with actual expenditure

According to the Programme and Operations Policies and Procedures, the Project's Annual Work Plan should identify the activities to be undertaken, the related budget and the designated Responsible Party.

The initial 2012 Annual Work Plan contained a budget of $44 million, but had been revised four times resulting in a final budget of $20 million and actual delivery of $14 million. The delivery rate based on the final budget was 70 percent; however, if compared with the initial budget, the delivery rate was only 32 percent.

Project expenditures by output during 2012 are shown in Table 2 below:

Table 2: Project expenditures for 2012 by output

Project Output	Original budget ($'million)	Revised budget ($'million)	Expenditure ($'million)	Delivery rate original budget	Delivery rate revised budget
Output 1 - Institutional, operational and technical capacity of the IEC to ensure well organized, future Afghan-led electoral processes are strengthened	26	10.9	7.8	30%	72%
Output 2 - The quality of the voter registry to support future electoral processes is improved	10	7	2.9	29%	41%
Output 3 - Capacity of the IEC to encourage democratic participation is strengthened	3	0.2	0	0%	0%
Output 4 - Project management support	5	1.9	1.9	38	100%
Total	**44**	**20.0**	**12.6**	**32%**	**70%**

Source: Project Annual Progress Report (2012).

Some of the key challenges faced in implementing the Project's activities are highlighted below.

Delay in recruitment of key staff members (Output 1) - The annual target in the original Annual Work Plan was to construct 8 permanent offices and 9 warehouses in 10 provinces. However, none of these were constructed. Project management explained that this was due to delays in recruiting the Design and Quality Control Engineer, who was to design the offices and warehouses. Only security upgrades (i.e. construction of perimeter walls) were completed in 10 provinces by the end of 2012.

Delayed voter registration activities (Output 2) - Activities related to the output on the voter registry were significantly impacted by changes at the political level, which were beyond the control of the Office. The initial planned activities involved the replacement of the old voter registration cards with new ones and allowing voters to be linked to specific polling stations. The Government did not make a final decision until late 2012, which resulted in a significant scaling down of this activity by maintaining the existing voter registry and only registering new voters attaining 18 years of age as of April 2014. This project component directly impacted the implementation of the democratic participation/public outreach components.

Planned public outreach activities not completed (Output 3) - The Project's procurement plan for 2012 included procuring contractor services for planned public outreach activities, such as developing TV and radio spots and printing a manual and brochures for the 2014 elections. Due to the challenges encountered during the procurement process (e.g., allegation of procurement fraud), only the development of radio spots were undertaken (for more details see Issue 3).

Delayed recruitment of Project staff members and consultants (Output 4) - Several key positions were not filled in 2012, including the Operations Manager, Finance Specialist and Electoral Information Management Specialist posts. Also, there were delays in hiring international and national engineers during 2012. The Office explained that the delays were due to a decision by the former Country Director to freeze recruitment from late 2011 to early 2012. The Office informed that the hiring freeze was to: (a) respect a security ceiling for international staff members; and (b) await the results of the Strategic Management Review being undertaken by the Regional Bureau for Asia and the Pacific. Project management also indicated that it faced difficulties in attracting suitable candidates, or in some cases, the successful candidates did not accept the offer of appointment. Also, the recruitment processes took from six months to one year, further delaying the hiring of staff members. Although the Office and the Project were aware of the hiring freeze, they continued to plan activities requiring international staff members.

While issue logs were maintained and delays discussed at the monthly Project meeting, it was not clear how actions to address the issues were monitored. Furthermore, the Office agreed that the initial Annual Work Plan could have been overly ambitious.

An important share of the challenges faced in implementing Project activities were outside the control of the Office and would have been difficult to anticipate. Accordingly, OAI has not issued a recommendation.

3. Operations — Partially Satisfactory

3.1 Human resources — Satisfactory

As of 31 December 2012, the Project had 56 personnel comprised of 15 staff members with fixed-term appointments and 41 service contract holders. The Project's Human Resources Unit had one Human Resources Specialist and two Human Resources Associates. OAI noted that the Office recently established a clear delineation of responsibilities between the Project Human Resource Unit and the Office Human Resource Management Unit.

The audit team also reviewed the Human Resource Plan and noted recruitment delays, as discussed above, which limited project delivery in 2012. As mentioned, the Project attributed these delays to a hiring freeze in early 2012 and the difficulty of finding suitable candidates when the hiring started. Considering that all positions have now been filled, a recommendation has not been made.

3.2 Finance — Unsatisfactory

The Office processed 626 payment vouchers totalling $5.1 million during the period 1 January through 31 December 2012. The audit reviewed 55 vouchers totalling $4.1 million, or 80 percent of the total value of all vouchers. Specifically, the audit reviewed the processing of payment vouchers, adequacy of supporting documents and recording of cash advance disbursements and liquidations.

Issue 5 Weaknesses in cash management

In 2010, the Treasury Division authorized the Office to provide cash advances of up to $20,000 for project activities, such as organizing workshops and training. This authorization was subject to several conditions, including delegating staff members holding fixed-term contracts as cash custodians and recording the advances in the 16007 advance account. The audit found that these conditions were not met, as described below.

The Office issued advances to IEC officials totalling $0.5 million during 2012 to cover IEC operating and training costs. However, these advances were contrary to the UNDP Treasury Division's advice that advances should only be made to staff members holding fixed-term contracts. The Office explained that Project staff members felt they could not properly manage cash advances because some of the disbursements were being made in areas where UNDP staff members were not permitted to travel due to security reasons. In their response to the draft audit report, the Office stated that the Treasury Division granted an exceptional approval to issue cash advances to IEC officials.

Additionally, the Project management did not establish controls to manage the high inherent risk of cash payments. The IEC made cash payments for the Daily Subsistence Allowance of training participants, travel incidentals and other training costs, such as food and refreshments. In order to manage the risk of loss or misappropriation, the Project management could either have made payments directly to the bank accounts of the participants and vendors or issued cheques, as most of the training was held in Kabul where banking facilities exist. The Project's Head of the Operations Management Unit indicated that the Project was planning to sign Long-Term Agreements with vendors providing travel services and logistics so that payments could be made directly, thus reducing the need for cash advances to IEC officials.

The lack of proper cash management could result in financial losses or reputational damage to UNDP.

Priority	High (Critical)
Recommendation 4: The Office should follow corporate guidelines on cash advances under national implementation modality by ensuring that cash advances are either transferred to the Independent Election Commission's existing bank account or channeled through the Government's Treasury account.	
Management comments and action plan:	__√__ Agreed ____ Disagreed

Priority	High (Critical)
Recommendation 5: The Office should establish measures to manage the high inherent risk of cash payments. This should include ensuring that the Independent Election Commission avoids cash transactions and makes payments by cheque or direct transfer to payee bank accounts.	

Management comments and action plan: __√__ Agreed ____ Disagreed
The Office indicated that it is exploring options to minimize cash advances.

Issue 6 Unsupported payments to individual contractors

In December 2011, the Office signed a Long-Term Agreement (UNDP/AFG/LTA/2011/2032) with a human resources management firm (vendor ID 00006201) for the provision of recruitment and contractual services. The firm provided 12 international consultants and 2 national contractors for the Project in 2012. Of the 55 payment vouchers reviewed, 12 were for payments totalling $1.1 million to the firm for the services provided by 12 international consultants. The audit team reviewed the supporting documents and noted the discrepancies that follow.

The Long-Term Agreement requires the human resources management firm to report to UNDP monthly on the services and deliverables provided to the Project. Furthermore, the Contract for Service between the management firm and the international consultants provides that the monthly remuneration would be based on the receipt of certifications from the Project Manager that the services provided by the 12 international consultants had been satisfactory and signed and approved timesheets from the Office.

The 12 payment vouchers reviewed were only supported with monthly timesheets signed by the Project Manager (or his designee). The certifications of satisfactory performance were missing, making it difficult to assess whether the consultants had rendered the expected deliverables. The Office explained that the services were outsourced human resources activities and therefore did not require deliverables against payment. In this regard, a performance appraisal had been done at the end of the contracts. However, the Long-Term Agreement contained a provision for monitoring the performance of international consultants by both the Office and the management firm, and the latter preparing the monitoring reports. The management firm indicated that the performance monitoring reports were not done because the Office had not requested them.

Failure to obtain certification of satisfactory performance by consultants prevents the Office from assuring that the services delivered are in line with agreed terms of reference and expectations.

Subsequent to the audit fieldwork, the Office informed that the Long-Term Agreement with the human resources management firm is expiring in December 2013 and will not be renewed. Accordingly, OAI has not raised an issue.

3.3 Procurement — Satisfactory

The Project Procurement Unit included one Procurement Specialist (P3), one Procurement Analyst and one Procurement Associate. The Office authorized the Project personnel to procure goods and services up to $30,000. They were also responsible for preparing the annual procurement plan, raising e-requisitions in Atlas and certifying satisfactory receipt of goods and services. The Office procured goods and services valued in excess of $30,000.

In 2012, 140 purchase orders valued at $2.7 million were issued, of which Project personnel processed 41 purchase orders valued at $1.8 million. The audit reviewed 31 of these purchase orders totalling $0.9 million, or 50 percent of the total value of the purchase orders processed. The audit also reviewed 9 of 29 individual contracts issued in 2012 for the Project as well as a limited review of the Long-Term Agreement finalized by the Office. The agreement had been included in a recent OAI procurement audit in November 2012.

A number of issues were identified and discussed with the Office and/or project management. These issues included two individual contracts exceeding $100,000 which had not been reviewed by the Contracts, Assets and Procurement Committee and the failure to prepare certifications of satisfactory performance for 12 international consultants hired through a human resources management firm prior to making payment (see Issue 6).

The Project's approved Procurement Plan for 2012 called for $11 million in procurement, of which $7.9 million or 72 percent, generally relating to the construction of provincial warehouses and offices, had not been used by the end of 2012. This was mainly due to the delay in hiring a Design and Quality Control Engineer (see Issue 3). As the construction started in 2013 under the Engineer's supervision, an issue has not been raised.

3.4 Information and communication technology — Not Assessed

Management of Project information and communication technology was combined with the Office. Therefore, this area was not assessed.

3.5 General administration — Satisfactory

The Project processed 27 instances of international travel totalling $40,000. OAI reviewed the supporting documents for three trips totalling $20,000 and found that the Project had generally established adequate controls over travel.

3.6 Asset management — Unsatisfactory

As of 31 December 2012, the Project had 255 assets valued at $11.5 million. OAI physically verified 31 assets valued at $2.9 million, or 25 percent of the total value of assets. The Project's Assets Management Unit included three staff members who reported to the Project Operations Manager and were responsible for daily management of assets. The Office was responsible for approving asset disposal, transfers and investigating missing assets. The audit identified a number of control weaknesses that resulted in a rating of unsatisfactory.

Issue 7 Failure to take prompt action on missing assets

The Programme and Operations Policies and Procedures require the following steps to be taken when writing off lost or stolen items: (a) the Contracts, Assets and Procurement Committee must review assets with a net book value in excess of $2,500 and make a recommendation for approval by the Resident Representative (or his designee); and (b) the write-offs exceeding $100,000 must be approved by the Administrator. An investigation must be undertaken to determine the cause of missing assets and the degree of financial recovery to be assigned to the staff member. The Resident Representative had delegated the authority to dispose of the assets to the Country Director.

At the time of the audit, project assets valued at $0.6 million were either documented as missing or transferred without the requisite review and approval by the Country Director, all of which remained in the Project's assets inventory.

- *Assets in IEC headquarters* - 103 laptops valued at $122,000 were transferred to IEC personnel between 2008 and 2010; these were reported missing during the asset verification exercise conducted by Project personnel in October 2011. Since then, there had been slow progress in follow-up action required for lost or missing items.

- *Assets in IEC provincial offices* - 265 assets valued at $379,000 were reported by the IEC as lost or missing in 2009 due to insurgency in the area where the IEC offices were located. The Project management and IEC officials indicated that conducting verification was not possible due to security restrictions. The Office reported the incident to the OAI Investigations Section in May 2013.

- *Assets in the Project warehouse* - 50 assets valued at $72,000 were reported missing by the Project in July 2012. The Special Investigations Unit of the United Nations Assistance Mission in Afghanistan completed an investigation of the missing assets in August 2012. The investigation report indicated that adequate controls were not established and the Project failed to exercise proper supervision, check assets, issue relevant procedures and ensure asset accountability. These assets were not included in the Project assets list.

The audit also noted the Office had only taken limited action regarding the assets that were reported lost or missing since 2009. Specifically, the Office had not completed a full investigation and assessment of negligence. The Administrator's approval for write-off has yet to be obtained. Furthermore, these cases had not even been reported to the Project Board in 2012.

By failing to take immediate action, such as fully investigating missing assets, the chances of recovering the assets and holding the personnel accountable diminish significantly.

Priority	High (Critical)
Recommendation 6: In line with the Programme and Operations Policies and Procedures, the Office should: (a) take prompt action regarding the project assets valued at $0.6 million that were reported lost or missing by promptly investigating the reasons for the loss, determining which personnel were responsible and submitting the case to the Contracts, Assets and Procurement Committee for review and appropriate action (the review should be completed within a time bound framework and should be closely monitored); and (b) determine the reasons for the delays in taking prompt action when project assets valued at $0.6 million were reported lost or missing and establish procedures to prevent such delays in the future.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office informed that two of the cases were finally approved and the assets written off in August 2013. The third case of assets in the warehouse had been submitted to the Contracts, Assets and Procurement Committee and is expected to be closed soon.	

Issue 8 Inadequate controls over asset transfers

According to the Programme and Operations Policies and Procedures, the Resident Representative has the delegated authority to dispose of assets with a net book value of $2,500 per item and up to the delegated procurement authority. To dispose of an item with a net book value of more than $2,500, the Resident

Representative must consult the Contracts, Assets and Procurement Committee or the Regional Advisory Committee on Procurement. During the period under review, the Resident Representative was delegated procurement authority up to $300,000. In addition, the Phase I Project Document required donor approval when transferring assets.

OAI noted the following weakness in the disposal of assets to the IEC and other government departments:

(a) The Chief of the Supply Chain Management Unit approved the transfer of 67 vehicles valued at $2.6 million to the IEC in January 2012. There was no evidence that the staff member who approved the transfer of project assets to government institutions had been delegated the authority to transfer the assets. Furthermore, there was no evidence that the donors had approved the transfers as required by the Project Document.

(b) The former Project Operations Manager approved the transfer of five armored vehicles valued at $0.7 million to the Ministry of Education and Ministry of Finance in November and December 2011, respectively. As these two government ministries were not directly involved with the Project and the value of the assets exceeded the delegation of the Resident Representative, the transfer of Office assets would have required submission to the Regional Advisory Committee on Procurement. The Contracts, Assets and Procurement Committee disposal form was prepared post facto in April 2012, but was not signed by the approving authority. At the time of the audit, the Office had not submitted the relevant asset documentation to the Contracts, Assets and Procurement Committee for review.

The Office explained that there was a lack of understanding of asset transfer procedures. Failure to comply with these procedures increases the risk that the assets may be inappropriately transferred.

Priority	High (Critical)
Recommendation 7: The Office should, in line with the Programme and Operations Policies and Procedures and the Project Document on transfers or disposal of assets: (a) ensure that only staff members with the delegated authority approve asset transfers; (b) obtain post facto approval from the Contracts, Assets and Procurement Committee or Regional Advisory Committee on Procurement for assets transferred to government institutions; and (c) assess why project assets valued at $0.7 million were transferred to government institutions not directly involved in project activities without obtaining necessary approval, and use the results of this assessment to establish procedures to prevent such asset transfers in the future.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office indicated that an asset management tracking system has been developed and disposal form has been completed for the transfer of vehicles and submitted to Contracts, Assets and Procurement Committee for review.	

3.7 Leave management — Satisfactory

The audit reviewed leave management for personnel under fixed-term appointments and service contracts. The staff members with fixed-term appointments used Atlas to request and record annual and sick leave. Service contract holders prepared manual timesheets that recorded both annual and sick leave approved by their supervisor. No leave management issues were identified.

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 <u>not included in this report</u>.