UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

FINANCIAL MANAGEMENT

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United Nations Development Programme
Office of Audit and Investigations

Report on the Audit of Financial Management in UNDP Afghanistan
Executive Summary

From 8 to 19 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of financial management in the UNDP Country Office in Afghanistan (the Office). The audit covered the finance operations during the period from 1 January 2012 to 31 August 2013. During the period reviewed, the Office processed payment vouchers totalling $1.1 billion. The last audit of the Office, which included financial management, was conducted by the United Nations Board of Auditors in November 2012. OAI conducted an audit of the Office in August 2008.

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

Audit rating

OAI assessed the Office's financial management 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 due to weaknesses in management of bank reconciliation, cash management, disbursement functions, and processing of general ledger journal entries. Ratings per sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Cash, banking and investment				
2. Financial closure of development projects and trust funds				
3. Financial management and execution modalities				
4. Financial operations management				
5. Revenue and expense management				
6. Resource planning and funding				

Key issues and recommendations

The audit raised 6 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:

Cash, banking and investment (Issue 1)	Serious lapses in bank reconciliations. The Office's five bank accounts were not reconciled as of 9 September 2013 and three of these had not been reconciled since 2004. OAI recommends that the Office further strengthen its bank reconciliation process by: (a) maintaining adequate documentation for verifying unreconciled amounts and evidence of supervisory oversight; and (b) instituting accountability of the staff members involved in the reconciliation process by reflecting their performance in the Performance Management Development assessment. OAI also recommends that the Office develop an action plan with milestones to ensure that long outstanding unreconciled amounts are resolved in a cost effective manner.
(Issue 2)	Inadequate cash management. During the period from 2004 to 2013, more than 1,000 cash advances to projects amounting to $37.8 million were incorrectly recorded as expenses. Further, the Office did not establish a mechanism to ensure proper monitoring of these advances. As a result, OAI noted delays in liquidating these advances. OAI recommends that the Office enhance its oversight and monitoring of project cash advances by: (a) establishing stricter controls for the timely liquidation of advances, such as deducting them from the staff salaries or entitlements when not settled within the required timeframe and/or not issuing new advances until the previous advances are cleared; and (b) using the bank facilities to make direct payments to vendors and workshop/training participants to limit the use of project cash advances.
Revenue and expense management (Issue 5)	Control weaknesses in disbursements. Disbursing officers did not review the details of the supporting documents relating to payment vouchers before approving the payment in Atlas. OAI recommends that the Office ensure compliance with the Programme and Operations Policies and Procedures by: (a) ensuring that the disbursing officers review the details of the payment voucher supporting documents prior to finalizing the payment in Atlas; and (b) limiting the number of personnel preparing letters to the bank and using only one template for the letter.
(Issue 6)	Inadequate controls in processing general ledger journal entries. The Head of the Financial Resources Management Unit approved journal entries exceeding his delegated authority. Further, there were inadequate supporting documents to validate the appropriateness of some journal entries. OAI recommends that the Office ensure that: (a) approving managers only approve general ledger journal entries within their authorized delegation of authority; (b) journal entries are only processed if adequate supporting documents are attached; and (c) there is proper coordination between the Office and Project Manager before processing general ledger journal entries.

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 8 to 19 September 2013, OAI conducted an audit of financial management in UNDP Afghanistan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

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 finance operations directly managed by the Financial Resources Management Unit and the Strategic Management Support Unit of the Office. The activities included management of cash advances and liquidation, revenue and expense management, costs recovery, disbursements, and resource planning and funding. The Office had delegated certain finance functions, such as processing and approving payment vouchers in Atlas to the directly implemented projects. However, OAI did not assess these financial activities undertaken by directly implemented projects as they were covered by another audit arranged for the projects. The audit covered relevant activities during the period from 1 January 2012 to 31 August 2013. During the period reviewed, the Office processed payment vouchers totalling $1.1 billion. The last audit of the Office was conducted by the UN Board of Auditors in November 2012, which included finance management. OAI audited the Office in August 2008.

II. About the Office

The Office, located in Kabul, Afghanistan (the Country), is operating under its 2010-2013 Country Programme Document. Its programme focuses on four themes: stabilization and peace building; democratic governance; livelihoods, natural resource management and disaster risk reduction; and national development policies for economic growth and poverty reduction. The Office's programme and management expenditures totalled $650 million during 2012 and $455 million from January to August 2013.

The Office is operating in a complex environment with limited banking facilities. In addition, staff are prohibited from traveling to certain areas in the Country due to security reasons.

The Financial Resources Management Unit has 19 personnel (4 national officers, 6 General Service staff, and 9 service contract holders). In 2013, the Office had made several improvements in its financial management, including (a) closely monitoring staff outputs, (b) amending the existing contract with a local bank so that the latter could make payments to vendors and workshop participants and eliminate transactions with money dealers, (c) arranging training for finance personnel, and (d) cleaning up the Office's vendor records in Atlas.

III. Detailed assessment

1. Cash, banking and investment — Unsatisfactory

During the audited period, the Office maintained the following bank accounts:

Bank	Type of accounts maintained		Period
	(US dollars)	(Local currency)	
A	☑	☑	From 2004 to September 2012*
B	☑		From 2004 to present
C	☑	☑	From September 2012 to present

Source: UNDP Afghanistan, September 2013
* The bank ceased operations in Afghanistan

OAI reviewed the monthly bank reconciliation reports for all five bank accounts above and noted material control weaknesses as described below:

Issue 1 Serious lapses in bank reconciliations

According to the Operational Guide of the Internal Control Framework for UNDP, bank reconciliations are important internal controls, and unreconciled amounts must be reviewed monthly to detect errors promptly and to reduce the risk of error or fraud. The completed bank reconciliation should be submitted to a supervising officer for review. The bank reconciliation reports should be kept on file for audit purposes and to assist the reconciliation process if the accounts later become unreconciled.

The Office had not reconciled the five bank accounts and there were serious differences in the bank reconciliation reports as of 9 September 2013, three of which had been outstanding since 2004 as shown in Table 1 below:

Table 1: Status of bank reconciliations of the UNDP Afghanistan as of 9 September 2013

Bank	Amounts to be reconciled		Unreconciled items outstanding since
	(US dollars account)	(Local currency account)	
A	$1,071,404	n/a	2004
	n/a	AFN 9,866,952	2004
B	$233,671	n/a	2004
C	$40,611	n/a	September 2012
	n/a	AFN 8,950	September 2012

Source: Atlas report

The records of the verification and analysis done on the unreconciled items of the Office’s accounts with Bank A and Bank B were also not made available to OAI. For example, the bank reconciliation reports for Bank A US dollar account showed unreconciled payments of $0.8 million, while the unreconciled external items showed nil as of 30 June 2012. However, the reconciliation report as of 30 June 2013 showed that the unreconciled payments were significantly reduced to $11,000, but the unreconciled external items had increased to $1.0

million. OAI requested, but the Office did not provide any supporting documentation for these changes. According to the finance staff, the unreconciled items involved transactions from 2004 (when Atlas was launched) up to September 2012 (when the account with Bank A was closed). Similarly, the unreconciled amounts in Bank B were outstanding since 2004. Regarding the local and US dollar accounts with Bank C, OAI noted 64 payments (9 payments totalled AFN 8,950 for a local bank account and 55 payments totalled $40,608 for US dollar account) that remained unreconciled for at least six months.

There were several reasons for the serious lapses in the bank reconciliations, including (a) assigning only one finance staff without adequate knowledge to conduct bank to book reconciliations, (b) the Head of Financial Resources Management Unit did not exercise effective supervisory oversight, (c) not maintaining documentation when conducting the verification of unreconciled amounts, and (d) inadequate review by the Office management prior to signing the bank reconciliation reports. Additionally, the Office did not institute accountability for the incomplete bank reconciliation. OAI reviewed the 2012 Results and Competency Assessments (later replaced with Performance Management Development) of the staff involved in the bank reconciliation process and noted that the weaknesses in bank reconciliation were not reflected in their assessments.

The Deputy Country Director (Operations) informed OAI that as soon as she joined the Office in October 2012, she became aware of the bank reconciliation issues. She indicated that she initiated several actions that included hiring a consultant to assist the Office in reconciling the transactions, organizing training for finance staff, strengthening the bank reconciliation process by assigning other finance staff, conducting bank reconciliations on a daily basis (instead of monthly) starting in July 2013, and ensuring proper oversight from the Head of Financial Resources Management Unit.

The Office has been making efforts to clear the outstanding unreconciled amounts in all five bank accounts. However, OAI noted some areas still needed to be strengthened, including maintaining adequate documentation in verifying the unreconciled amounts and evidence of supervisory oversight, and instituting staff accountability in the reconciliation process. Further, the Office had not developed an action plan with milestones to successfully complete the reconciliation in a cost effective manner. In response to the draft audit report, the Office reported that unreconciled amounts in three of the five bank accounts had already been reconciled.

If unreconciled items in the bank reconciliations are not resolved promptly, the risk of undetected fraud or misuse of funds increases.

Priority	High (Critical)
Recommendation 1: The Office should further strengthen its bank reconciliation process by: (a) maintaining adequate documentation for verifying the unreconciled amounts and evidence of supervisory oversight; and (b) instituting accountability of the staff members involved in the reconciliation process by reflecting their performance in the Performance Management Development assessment.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office initiated actions to implement the recommendation, as follows: (a) Supporting documentation relating to the bank reconciliation process is now maintained and accountability is captured in the Delegation of Authority and Performance Management	

Development assessment of the staff involved in the reconciliation process. (b) A wide range of measures has been established to strengthen its bank reconciliation process, including enhancing staff skills establishing standard operating procedures, instituting segregation of duties, obtaining the support of Treasury, and conducting daily reconciliation and monitoring of bank transactions.

Priority	High (Critical)
Recommendation 2: The Office should develop an action plan with milestones to ensure that long outstanding unreconciled amounts are resolved in a cost effective manner.	
Management comments and action plan: __√__ Agreed ____ Disagreed	

Issue 2 Inadequate cash management

(a) Weaknesses in safeguarding petty cash

The Programme and Operations Policies and Procedures require the Office to do the following: (a) conduct a monthly physical cash count; (b) designate primary and alternate safe custodians; and (c) prepare monthly reports on the contents of the safe. The Office had two safes and maintained a petty cash fund equivalent to $1,000 and designated the staff from the General Administrative Services Unit as petty cash custodians. At the project level, the Office designated the Finance Assistants as petty cash custodians with a petty cash fund equivalent to $2,000. OAI conducted a physical verification on the contents of the two safes, and reviewed records of petty cash transactions and designation of safe custodian in the Office and in Project 00058922.

Although no exceptions were noted during the physical verification of the safes and petty cash, the review of records disclosed that the Office did not conduct regular monthly physical counts of petty cash (both at the Office and projects) as required. Further, it did not designate primary and alternate safe custodians, or prepare a monthly report on the contents of one of the two safes in the Office. Subsequent to the audit fieldwork, the Office provided evidence of corrective actions taken. Accordingly, OAI did not make a recommendation.

(b) Inadequate controls over cash advances to projects

In March 2012, the Office of Finance and Resource Management allowed the Office to continue issuing operational cash advances of up to $2,000 per project and workshop/training cash advances of up to $20,000 per activity. The Treasury's approval included certain conditions that the Office should follow, such as: designating staff with fixed-term appointments as petty cash custodians, liquidating the advances seven days after the completion of the project activities, and recording the advances against advance account 16007.

During the audited period, the Office made cash advances totalling $1.6 million to 112 individuals. OAI noted the following control weaknesses in the management of cash advances:

- More than 1,000 cash advances (approximately $37.8 million) were recorded against expense account 74605 from 2004 to 2013. Further, the Office did not establish a mechanism to ensure proper monitoring of these advances. As of November 2013, the Office reported that about 230 cash advances (approximately $0.3 million) remained unliquidated. The inadequate monitoring of cash advances was also raised in the prior Country Office audit (Audit Report No. 589 issued on 24 March 2009).

- The Office did not ensure proper management of cash advances by the custodians. For example, one staff, who received a cash advance totalling $0.3 million as of March 2012, indicated that she was not aware of the status of the cash advances she received. She explained that after cashing the cheques, she turned over the cash to the project staff, who then used funds for the project activities. This same issue was raised in OAI's audit of Project 00047111 (Audit Report No. 1103 issued on 17 May 2013). The Office explained that the arrangement for receiving and clearing cash advances was communicated to the staff.

  There were delays in liquidating cash advances. For example, the cash advances totalling $0.3 million released to the staff in February and March 2012 were fully liquidated only 30 and 58 days, respectively, after the completion of the activities. Due to the absence of documentation, it was not clear if the cash remained with individuals to whom it was entrusted or the cash was fully utilized. Four other sampled payment vouchers totalling $2.9 million were liquidated after a delay of at least 10 days following the completion of activities.

- One Project Manager (who separated from the organization on 31 December 2012) had a cash advance of $93,000 that remained unliquidated as of the audit fieldwork. The Office informed OAI that this advance would be written off.

- The Office continued issuing new advances even though the previous advances had not been liquidated. For example, for those advances recorded against the expense account 74605 during the period from 2004 to 2013, at least 300 individuals received additional advances even though their previous advances had not been fully liquidated. A similar issue was also raised in the prior Country Office audit (Audit Report No. 589 issued on 24 March 2009).

The above control weaknesses occurred mainly due to the inadequate oversight and monitoring by the Financial Resources Management Unit and the Strategic Management Support Unit – both units were responsible for ensuring proper management of cash advances. Further, the Office's management did not establish controls to ensure recovery of long outstanding advances, such as deducting them from the staff salaries or entitlements and not issuing new advances until previous advances were cleared.

In several audits conducted since 2008, OAI had raised the issues regarding the risk of issuing large cash advances and making cash payments, and had recommended limiting the use of cash advances. The audit of the Institutional Capacity for Gender Equality Project (Audit Report No. 1136 issued in July 2013) disclosed that an advance of $28,000 had been stolen and which was later written off as reported by the Office.

The Office informed OAI that they had recently signed an agreement under which the bank will make the payment of allowances directly to workshop/training participants. The Office added that this arrangement will limit the number of cash advances being released to project staff.

Due to inadequate controls in managing the project cash advances, funds may have not been used for their intended purpose and non-recovery of unused cash advances may result in financial losses to UNDP.

Priority	High (Critical)

Recommendation 3:

The Office should comply with the Programme and Operations Policies and Procedures to ensure adequate oversight and monitoring of project cash advances. This should include: (a) establishing stricter controls for the timely liquidation of advances, such as deducting them from the staff salaries or entitlements when not settled within the required timeframe and/or not issuing new advances until the previous advances are cleared; and (b) using the bank facilities to make direct payments to vendors and workshop/training participants to limit the issuance of project cash advances.

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

The Office initiated actions to implement the recommendation, as follows:

(a) Significant progress has been made in clearing outstanding advances
(b) The existing Standard Operating Procedures will be updated to reflect the recommendation (a) above.
(c) The new Cash Management Guidelines issued in July 2013 has been implemented.
(d) The monthly analysis of the advance accounts has been strengthened.
(e) The amended agreement with the local bank will now limit the issuance of project cash advances.

2. Financial closure of development projects and trust funds — Partially Satisfactory

In January 2013, OAI conducted an audit of the Office's donor relations (Audit Report No. 1137 issued on 17 July 2013). The report included an issue regarding 26 operationally closed projects with donor residual balances amounting to $15 million not cleared in a timely manner. During the audit fieldwork, OAI reviewed the status of the implementation of the recommendation and noted that financial closure of 19 projects remained in progress.

3. Financial management and execution modalities — Satisfactory

During the audited period, the Office approved 413 vouchers ($898 million) as cash advances to nationally implemented projects and recorded them against advance account 16005. OAI reviewed a sample of 45 vouchers ($13.5 million) to determine if the Office followed the requirements in UNDP's Guidelines and Procedures on National Implementation of UNDP Supported Projects when issuing and clearing cash advances. Specifically, OAI determined whether the cash advances were liquidated within six months and supported with adequate documentation.

OAI noted a total of $1 million in cash advances issued to four projects (00051206, 00057359, 00058898, and 00060777) that remained unliquidated for more than six months as of September 2013. As the Office provided evidence of follow-up and no further cash advances were released to the projects, OAI is not making a recommendation on the issue.

Further, the review of 45 selected payment vouchers disclosed non-reportable issues, such as missing copies of bank statements (10 cases) and closing balance in the bank statements not matching with the Funds

Authorization and Certificate of Expenses forms (2 cases). OAI suggested and the Office agreed to take corrective actions.

OAI did not find any reportable issues.

4. Financial operations management — Partially Satisfactory

OAI reviewed the Financial Resources Management Unit's organigram and personnel training records. All the finance personnel had completed the mandatory training and also signed up for the Corporate Finance Training and Certification Programme.

Issue 3 Unclear structure in the Financial Resources Management Unit

The functions of the Financial Resources Management Unit are grouped into the following three sections: (a) Disbursements; (b) Account Management and Treasury; and (c) Payroll. The Disbursements and payroll sections are each managed by a Financial Analyst (national officer) while the Account Management and Treasury section is managed by a Financial Specialist (international staff). All three sections are supervised by the Head of Financial Resources Management Unit (national officer), who reports directly to the Deputy Country Director (Operations).

The Finance Specialist's job description required dual reporting to both the Head of Financial Resources Management Unit and the Deputy Country Director (Operations). The heads of the other two sections reported only to the Head of the Financial Resources Management Unit. Due to the challenges the Office faced on cost recovery and bank reconciliations, the Deputy Country Director (Operations) explained that the Finance Specialist should have a direct reporting line to her to ensure proper oversight. In OAI's view, the dual reporting by the Finance Specialist could create confusion within the Unit, which could lead to ambiguity regarding responsibilities and accountability. This was especially significant since some responsibilities of the Finance Specialist and the Head of Financial Resources Management Unit, such as managing cost-recovery and bank reconciliations, overlapped. Further, to efficiently and effectively utilize the Finance Specialist, the Office should consider requiring this individual to report only to the Deputy Country Director (Operations), which would enable the Head of the Financial Resources Management Unit to monitor the Disbursements and Payroll sections more closely.

The overlapping and unclear reporting responsibilities may inhibit the effectiveness of operations within the Unit.

Priority	Medium (Important)
Recommendation 4: The Office should ensure that there is no ambiguity in the roles and responsibilities between the Finance Specialist and the Head of the Financial Resources Management Unit, by ensuring that their Terms of Reference are clear regarding their functions and that there are no overlapping responsibilities.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office indicated that the job description and in the Performance Management Development will be	

updated to prevent any ambiguity.

5. Revenue and expense management — Unsatisfactory

OAI reviewed the management of disbursements, collection of Government Local Office Costs, use of the hospitality account, review of the Office's financial status, and the use of general ledger journal entries. The Office processed 16,620 vouchers from 1 January 2012 to 31 August 2013 with a value of $1.1 billion. OAI selected a sample of 248 payment vouchers, totalling $16.3 million, for detailed review and testing. OAI had also conducted a total of nine audits (one functional audit and eight audits of directly implemented projects) in 2012-2013 and reviewed payment vouchers in all those audits. Based on the results of these audits, the sample selection was focused on financial transactions assessed to be of higher control risks.

The Office had inappropriately charged expenditures for accommodation and refreshments of workshop participants totalling $0.2 million to the hospitality account. Subsequent to the audit fieldwork, the Office conducted training for staff and project personnel on the proper use of this account. As the Office also took prompt action to correct the entries in Atlas, OAI did not make a recommendation. The other weaknesses noted are discussed below:

Issue 4 Outstanding Government Local Office Costs

According to the Programme and Operations Policies and Procedures, host governments are expected to contribute towards the cost of Country Offices. The Government Local Office Costs totalling about $3.6 million covering the period from 2001 to 2013 had not been paid by the Government.

As the Office had regularly followed up on this issue and the Regional Bureau for Asia and the Pacific were aware of the status, OAI did not make a recommendation.

Issue 5 Control weaknesses in disbursements

According to the Programme and Operations Policies and Procedures, the disbursement process includes the following: (a) the finance staff running the paycycle; and (b) the disbursing officer checking the details of supporting documents prior to finalizing the payment in Atlas and authorizing the bank to transfer funds to the payees. Additionally, the Operational Guide of the Internal Control Framework for UNDP requires maintaining adequate supporting documentation that validates the disbursements.

The Office assigned two Finance Analysts to run the paycycle and the disbursing officer role was delegated to the Office's management (Head of the Financial Resources Management Unit, two Finance Analysts, and the Procurement Specialist). As there was a potential conflict of interest, the Office withdrew the delegation to the Head of the Financial Resources Management Unit and one Finance Analyst as disbursing officers and only retained their role as approving managers.

(a) Disbursing officer responsibility not fully performed

OAI observed the processing of disbursements for 10 approved vouchers totalling $20,000 and noted that none of the disbursing officers had reviewed the details of the supporting documents before the payments were finalized in Atlas. According to finance personnel, the disbursing officer was not required to review the supporting documents as these were already reviewed by the approving managers. The disbursing officers were only signing cheques or letters to the bank requesting transfer of funds to the payee's account. OAI also noted weaknesses in this process because the Office assigned five finance personnel to prepare the letters to the bank and they used different templates. Further, one bank signatory indicated that he was not reviewing the accuracy of the banking details of the payees prior to signing the letter to the bank.

The Office informed OAI that it was testing a system that has a direct interface with Atlas and another bank system to eliminate the manual notification for fund transfers.

(b) Lack of proper supporting documentation

OAI noted deficiencies in the supporting documents attached to 68 payment vouchers reviewed. Specifically, 11 of 68 payment vouchers did not have the fuel coupons to support the validity of the fuel costs, or the coupons had discrepancies, such as the issuer and recipient of the fuel coupon being the same person, and the vehicle numbers receiving the fuel not appearing on the coupons. Furthermore, three of six payment vouchers (124507,128136 and 126566) for telephone charges contained no evidence showing that personal telephone calls were identified and that the associated costs were recovered.

The risk of ineligible payments increases if the disbursing officer's responsibility is not fully exercised and if the supporting documents are not adequately maintained.

Priority	High (Critical)
Recommendation 5: The Office should ensure compliance with of the Programme and Operations Policies and Procedures on the disbursement of funds. This should include: (a) requiring the disbursing officer to review the details of the supporting documents of the payment vouchers prior to finalizing the payment process in Atlas; and (b) limiting the number of personnel preparing letters to the bank and using only one template for the letter.	
Management comments and action plan: __√__ Agreed _____ Disagreed The Office indicated that the disbursing officers are now signing the pay registers after reviewing the supporting documents of the payment vouchers and the paycycle function has been assigned to two staff only. The Office also explained that the direct interface between the bank system and Atlas will eliminate preparing manual wire transfer letters.	

Priority	Medium (Important)
Recommendation 6: The Office should follow the Operational Guide of the Internal Control Framework for UNDP in maintaining proper documentation to support the validity of disbursements, by ensuring that payment vouchers for fuel costs and telephone charges are supported with properly completed fuel coupons and the identification of personal calls.	

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

The Office indicated that it is revising its internal policy and standard operating procedures for managing fuel costs and telephone charges, including maintaining supporting documentation.

Issue 6 Inadequate controls in processing general ledger journal entries

According to the Operational Guide of the Internal Control Framework for UNDP, approving managers exercise the authority to approve general ledger journal entries within their authorized delegation. Furthermore, the general ledger journal entries should be supported by appropriate documentation and securely filed as part of the Office's records. Senior management and the Head of the Financial Resources Management Unit were delegated the authority to approve general ledger journal entries. The weaknesses in the processing of journal entries are discussed below:

(a) Limitation of approving authority not followed

During the audited period, the Head of the Financial Resources Management Unit approved 206 general ledger journal entries, of which 117 (57 percent) were amounts that exceeded his authorized delegation of $30,000. The highest amount approved was $23 million, which pertained to transfer of fund balances between outputs within the same project. The Head of the Financial Resources Management Unit explained that there was no approving limit in Atlas for staff with general ledger journal entry approving authority. He indicated that he would no longer approve journal entries of more than $30,000.

(b) Inadequate supporting documents

The audit team reviewed a sample of 12 general ledger journal entries and noted that 8 did not have adequate supporting documents to establish the appropriateness of the transactions. Specifically, general ledger journal entries 4518216, 4568471, 4612604 and 4682311 pertained to a recovery of accommodation costs from project staff totalling $0.5 million. The documents available did not include the Project Managers' agreement on the costs being charged to their respective projects. Further, the supporting Excel sheet showing the breakdown of costs did not provide the name of the preparer or any evidence of supervisory review of the accuracy and the appropriateness of the amounts. Additionally, general ledger journal entries 4749780 and 4754674 totalling $233,000 were apparently processed to record the exchange rate gains/losses under account 16007 without any supporting documents attached.

The Office informed OAI that controls would be established to ensure that (a) Project Managers approve the allocation of accommodation costs of project staff, and (b) adequate supporting documents exist prior to processing the general ledger journal entries.

(c) Delayed processing of a general ledger journal entry

The Office processed general ledger journal entry no. 0004745095 amounting to $1 million to record the 2012 common services costs of Project ID 00060777. Although the costs were incurred in 2012, the transactions were only recorded in January 2013 due to the delay in determining the amount to be allocated to the Project. The Strategic Management Support Unit confirmed that the late recording understated and overstated the Project's expenditures by $1 million in 2012 and 2013, respectively. The misstatement could no longer be corrected due to the closure of 2012 financial records in Atlas. Accordingly, OAI did not make a recommendation.

Aside from the delay in processing the common services costs, OAI noted the lack of coordination between the Office and the Project staff in ensuring proper recording of financial transactions. Further, Office staff did not obtain clearance from the Project before processing the general ledger journal entries.

The risk of inappropriate charges to projects increases if the general ledger journal entries are processed without the prior approval of the Project Manager.

Priority High (Critical)
Recommendation 7: The Office should ensure compliance with the Operational Guide of the Internal Control Framework for UNDP by requiring that: (a) approving managers approve general ledger journal entries only within their authorized delegation of authority; (b) journal entries are only processed if adequate supporting documents are attached; and (c) there is proper coordination between the Office and Project Manager before processing the general ledger journal entries.
Management comments and action plan: __√__ Agreed ____ Disagreed The Office indicated that: (a) general ledger journal entries are now approved by the Head of Financial Resources Management Unit (up to $30,000) and Deputy Country Directors (more than $30,000); and (b) a general ledger journal entry approval form has been developed requiring pre-approval from the Project Manager.

6. Resource planning and funding — Satisfactory

OAI reviewed the Office's costs recovery related to the implementation support services rendered and the expenditures incurred under the Development Advisory Services Facility (fund 11888), which requires agreement from the Government on the use of this fund. The Office started recovering the costs of the implementation support services provided in 2012 and 2013 and collected a total of $0.6 million as of September 2013. Regarding the use of fund 11888, the Office provided a copy of its Annual Work Plan showing that the fund was used for different programme activities, which was also agreed to by the government counterpart.

No reportable issue was noted.

ANNEX Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.

- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.