



**DESK REVIEW**

**OF**

**UNDP AFGHANISTAN**

**OVERSIGHT OF THE MONITORING AGENT OF THE  
LAW AND ORDER TRUST FUND FOR AFGHANISTAN**

**Report No. 1310**  
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## Report on the desk review of UNDP Afghanistan's oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a desk review from 24 March to 24 April 2014 of UNDP Afghanistan's (the Office) oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan (LOTFA or the Project), which is being implemented by the Government (the Ministry of Interior or herein referred to as the "Government Implementing Partner"). In this context, "oversight" refers to the Office's management and supervision of the Monitoring Agent of the Project. The objectives of the desk review were to follow up on concerns that were communicated to OAI regarding the Project's activities with a view to do the following:

- (a) determine whether the concerns on the payments for salaries and other benefits of the police force charged to the Project have already been identified and reported by the Monitoring Agent;
- (b) determine whether the Office has taken appropriate and prompt action on the findings and recommendations raised in the reports submitted by the Monitoring Agent;
- (c) determine whether the Office's oversight of the work performed by the Monitoring Agent has been adequate and has taken into account the recommendations raised in OAI's Management Letter of August 2013; and
- (d) assess, to the extent possible, whether the Monitoring Agent has fulfilled the requirements stipulated in its contract with UNDP.

The desk review covered the Office's oversight activities of the Monitoring Agent from 1 January 2013 to 16 March 2014. The Project recorded expenditures totalling \$524 million during 2013.

Given the scheduled presidential elections in the Country in April 2014, it was difficult to conduct an audit in the field. OAI therefore decided to conduct a desk review of the Office's management and supervision of the Monitoring Agent. The desk review was conducted remotely from OAI's Regional Audit Centre for Asia and the Pacific, based in Kuala Lumpur, Malaysia. OAI was in contact with management and personnel of the Office and the Monitoring Agent via conference calls and emails. Also, OAI reviewed the records made available by the Office and was provided with the Monitoring Agent's reports from January 2013 to January 2014 and other information requested from them. During the review, OAI did not contact and did not review records maintained by the Government Implementing Partner or the members of the Project Steering Committee. Relevant excerpts of the draft report were sent to the Government Implementing Partner but no feedback was received. In addition, OAI did not access any of the accounting, payroll and human resource systems and databases of the Government Implementing Partner. To the extent possible, OAI independently identified documents to validate certain observations and information obtained through telephone interviews.

The desk review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall review rating

OAI assessed the oversight of the Office over the Monitoring Agent as **unsatisfactory**, which means, "Internal controls, governance and risk management processes were either not established or functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised."

This rating was mainly due to:

- (a) the ineffective governance structure of the Office's oversight of the Monitoring Agent;
- (b) an inadequate follow-up on the OAI Management Letter and the UNDP Management Review Team's recommendations;
- (c) a lack of critical controls when processing requests for advances from the Government Implementing Partner and their subsequent liquidation; and

- (d) not having presented the reports of the Monitoring Agent to the Project Steering Committee as stipulated in the Terms of Reference.

The rating also partly reflects that the risk management practices of the Office were not fully functioning, as the Office was unable to promptly act on reports of ineligible expenditures brought to its attention by the Monitoring Agent, which could have a negative impact on the reputation of UNDP.

**Key recommendations:** Total = 3, high priority = 3

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Appropriate and timely actions not taken on the Monitoring Agent's reports

In its January 2013 report, the Monitoring Agent reported ineligible costs of \$5 million (or 1 percent out of a total payment of \$506 million) incurred by the Government Implementing Partner during 2012. At the time this report was being drafted, the Office could not provide detailed information on the follow-up action taken to address the issue. Similarly, in its January 2014 report, the Monitoring Agent reported ineligible costs totalling \$23.9 million during 2013 (\$17.6 million for food procurement and food allowances and \$6.3 million for payroll related costs). In their response to the draft report, the Office informed OAI that subsequently, of the \$23.9 million, \$10.8 million had been cleared as eligible expenditures, \$2.8 million had been confirmed as ineligible and deducted from subsequent advances to the Government, and \$10.3 million (or 2 percent of the total payment of \$506 million) remained to be resolved. There were also delays in follow-up from the Office partly because the reports from the Monitoring Agent were delayed. Delays in the finalization of the Monitoring Agent's reports gave rise to delays in follow-up actions by the Office. These delays were mainly caused by the Office taking an average of two months to provide its comments on the draft reports submitted by the Monitoring Agent, and the absence of a contract with the Monitoring Agent for 3.5 months (June-September 2013).

Recommendation 1: Take appropriate and prompt actions on the Monitoring Agent's findings and recommendations by: (a) establishing a deadline for the Office in resolving the ineligible costs being raised in the Monitoring Agent's reports; (b) resolving the remaining ineligible expenditure (\$10.3 million from 2013 and \$5 million from 2012) and recovering funds, as applicable; and (c) including in the Monitoring Agent's contract a timeline for submitting reports and for the provision of management comments.

Inadequate management and supervision of the work of the Monitoring Agent

The Monitoring Agent's work was not adequately supervised and its performance not closely monitored because the Office: (a) had not articulated the specific roles and responsibilities of the concerned Office units, and entrusted the oversight responsibility to a national officer in 2013 who did a limited verification on the work of the Monitoring Agent without any supervisory authority; (b) had not ensured that the Monitoring Agent effectively performed the work required, and that payments of fees made were proportionately adjusted to the actual levels of services delivered as described in the Terms of Reference; (c) had not addressed deficiencies in the Monitoring Agent's Terms of Reference; (d) had not fully implemented the recommendations of OAI's Management Letter from 2013 and the Management Review Team from 2012; and (e) had not submitted the reports of the Monitoring Agent to the Project Steering Committee, as required.

Recommendation 2: Strengthen the supervision of the work and monitoring of

the performance of the Monitoring Agent by: (a) ensuring that respective roles and responsibilities are clearly understood and discharged by all concerned Units of the Office; (b) reviewing and responding appropriately on monitoring plans and reports, providing guidance on any scope limitations and taking actions on appropriate payment modalities for actual work done, and recover as appropriate, any excess payments made arising from the incomplete coverage of all 35 provinces and discontinuation of training and review of food expenditures; (c) addressing the shortcomings of the Terms of Reference by clearly defining the responsibilities and the expected outputs of the Monitoring Agent as well as establishing criteria for assessing the efficient and effective delivery of services; (d) immediately acting on the recommendations of the OAI Management Letter and the Management Review Team; and (e) submitting the Monitoring Agent's reports to the Project Steering Committee through the Technical Working Group.

Inadequate supporting documentation for cash advances

The Office processed the written requests and liquidation of cash advances from the Government Implementing Partner with some supporting documents, including financial reports and completed Funding Authorization and Certificate of Expenditure forms. However, the required bank statements and itemized cost estimates supporting the cash advance requests as required by UNDP's 'Programme and Operations Policies and Procedures' were missing.

Recommendation 3: Strengthen controls in the processes for granting and liquidating cash advances by: (a) requiring the Government Implementing Partner to submit complete supporting documents and itemized cost estimates when submitting requests for cash advances; and (b) processing vouchers as a basis for liquidating cash advances only when the Funding Authorization and Certificate of Expenditures forms are adequately supported with proper documentation, including bank statements.

#### Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Before the issuance of the report, OAI shared a draft with the Monitoring Agent and the comments received in return were included in the report, as appropriate. Similarly, relevant excerpts of the draft report were also shared with a representative of the Government Implementing Partner.

#### OAI further action

The cases of ineligible expenditure have been shared with the Investigations Section, OAI, for further assessment and appropriate follow-up action.



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

## I. About the Office

The Office is located in Kabul, Afghanistan (the Country). The Office is UNDP's largest programme globally, delivering close to 20 percent of UNDP's programme financial expenditure, and does so in one of the world's most insecure environments. The Office's programme and management expenditures totalled \$729 million during 2013.

LOTFA (Project 60964) is the Office's largest project and accounted for 72 percent (\$524 million) of its total expenditures in 2013. It is implemented by the Government. The Project was established in 2002 to mobilize and administer resources from the international community for salary payments, infrastructure creation, capacity development, and gender empowerment of the police force in the Country.

The Office's management is responsible for establishing an organizational structure with clear reporting lines, roles and accountabilities that should enable the Office to achieve its objectives and deliver results. To ensure oversight and monitoring over project activities, the Office had established: (a) the Programme Unit, (b) the Oversight and Compliance Unit, and (c) the Project.

The Project has a Steering Committee, co-chaired by the Government Implementing Partner and UNDP Country Director, with representatives from the Ministry of Finance and funding partners from Canada, Czech Republic, Denmark, European Union, Finland, Germany, Italy, Japan, the Netherlands, Norway, Poland, South Korea, Switzerland, United Kingdom, and the United States. One of the key functions of the Project Steering Committee is to periodically be briefed by the Monitoring Agent of its key findings and areas of concern as well as to review and approve the Monitoring Agent's work plans and monthly reports.

## II. Background of the Review

Due to security restrictions, the Office faced challenges in its monitoring activities over the Project. In 2009, the Project's Steering Committee agreed to engage a Monitoring Agent to monitor and support the Ministry of Interior on finance, management and accountability practices, as well as the human resource system, until the capacity of the Ministry had been developed in these areas.

In August 2009, the Office selected, through a competitive procurement process, an audit firm as the Monitoring Agent. Based on the contract signed by the UNDP Office and the Monitoring Agent, the overall goal of the Monitoring Agent was to monitor, support, and report on the efficient and effective implementation of the remuneration and payment of the police component of the Project as well as to verify and maintain the human resources database. As stipulated in the Monitoring Agent's latest approved Terms of Reference<sup>1</sup> dated September 2013, with an extended duration date up to August 2014, the specific objectives were to:

- review, monitor and audit payments of police salaries, food allowances and procurement, maintenance and operations of non-lethal police equipment and supplies, as well as reimbursement transactions from the Project to the Government Implementing Partner related to eligible expenditures;
- support continuous improvement of fiduciary standards;
- improve capacity of the central, provincial, and district Government Implementing Partner's staff in financial management and accountability of recurrent expenditures related to police payroll and food allowance;
- assist in maintaining the police headcount database; and
- bring critical issues to the early attention of the Office and the Government Implementing Partner, as identified.

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<sup>1</sup> Terms of Reference, Description of Services, Monitoring Agent for the Law and Order Trust Fund for Afghanistan, ANNEX II, Contract No. UNDP/AFG/PS/2013/040, p. 8.

In February 2010, the Government Implementing Partner took over the management of and signed the contracts with the Monitoring Agent. When the contract expired in February 2013, the management of the Monitoring Agent was transferred back to UNDP. The change in contractual arrangement was done to address the risk of potential conflict of interest, considering the Monitoring Agent's role was mainly to review payment of police salaries incurred by the Government Implementing Partner for the Project. The table below shows the details of the contracts issued and fees paid to the Monitoring Agent.

**Table 1. Details of contracts signed with the Monitoring Agent (August 2009-2014)<sup>2</sup>**

Contract Duration		Type of Contract	
		UNDP	Government
1	10 August 2009 to 9 February 2010	\$0.75 million	
2	10 February 2010 to 9 August 2010		\$0.75 million
3	10 August 2010 to 9 February 2011		\$0.75 million
4	10 February 2011 to 9 August 2011		\$0.75 million
5	10 August 2011 to 9 August 2012		\$1.37 million
6	10 August 2012 to 9 February 2013		\$0.69 million
7	10 February 2013 to 9 June 2013	\$0.46 million	
8	14 September 2013 to 28 February 2014	\$0.63 million	
9	1 March 2014 to 31 August 2014	\$0.79 million	
<b>Total</b>		<b>\$2.63 million</b>	<b>\$4.31 million</b>

Source: UNDP Afghanistan, July 2014

In November 2012, a Management Review Team from Headquarters reviewed the management arrangements of the Project and indicated "the fact that procurement fraud occurred and continued undetected for so long was only possible due to the failure of UNDP management, in particular the Office, to provide the necessary oversight, guidance, support and quality assurance to LOTFA (the Project) and staff."<sup>3</sup>

In August 2013, OAI issued a Management Letter on the internal control weaknesses noted during the investigations of the reported procurement fraud in the Project. The Management Letter also included issues and recommendations pertaining to the activities of the Monitoring Agent, procurement activities and training/workshops.

During OAI's audit of the Office's general administration management in February 2014, the audit team sought a general update on the operations of this Project. In this context, concerns were raised about inadequate oversight on the payments of salaries and benefits of the police force and for food procurements being charged to the Project. At the same time, UNDP's Independent Evaluation Office also shared with OAI its concerns on the Project relating to late payments of police salaries, ineligible payments of personnel whose positions were outside the mandate of the Project, and deductions from police salaries.

Given the scheduled presidential elections in the Country in April 2014, it was difficult to conduct an audit in the field. As a result, OAI decided to conduct a desk review of the Office's management and supervision of the Monitoring Agent.

### III. Results of the Review

OAI made three recommendations ranked high (critical) priority.

**High priority recommendations**, arranged according to significance:

- (a) Take appropriate and prompt actions on the Monitoring Agent's findings and recommendations. (Recommendation 1).

<sup>2</sup> The same firm was previously hired as Monitoring Agent for another project.

<sup>3</sup> Law and Order Trust Fund for Afghanistan, Management Review, 15 December 2012, paragraph 4, page 1.

- (b) Strengthen the supervision of the work and monitoring of the performance of the Monitoring Agent (Recommendation 2).
- (c) Strengthen the controls in the processes for granting and liquidating cash advances (Recommendation 3).

The detailed assessment is presented below, per review objective:

### Review Objective 1

#### To determine whether concerns on the payments charged to the Project have been identified and reported by the Monitoring Agent.

OAI concluded that the concerns raised with OAI on the payments charged to the Projects were identified and reported by the Monitoring Agent, for as long as these were within its Terms of Reference as annexed to its contract. There were other concerns, but since they were not in the Terms of Reference, they were not included in the Monitoring Agent's monthly report.

These concerns as well as the results of OAI's desk review and the status of some actions taken by the Office at the report stage of this review are set out in the following two tables (a) and (b).

#### (a) Concerns identified and reported by the Monitoring Agent (within its Terms of Reference)

Identified Concerns	Desk review results and status of Office actions
<p>1. The Government Implementing Partner spent an estimated \$70 million on food, and had a shortfall in food expenditures for which Project funds were asked.</p>	<ul style="list-style-type: none"> <li>▪ There were ineligible expenditures reported by the Monitoring Agent that pertained to food (2014 report on 2013 expenditure) (see Review Objective 2).</li> <li>▪ The Office indicated that it stopped compensating expenditures on food beginning in 2014. The Office provided OAI with a copy of the minutes of the Steering Committee's meeting held in October 2013, where the over-expenditure on police food supply and allowances was discussed with the donors.</li> </ul>
<p>2. Not all expenditures charged to the Project in 2013 were eligible, and a multi-million dollar amount will have to be reversed.</p>	<ul style="list-style-type: none"> <li>▪ In addition to the unsupported expenditures for food and food allowances of \$17.6 million mentioned above, the Monitoring Agent in its January 2014 report, also reported ineligible payroll payments totalling \$6.3 million adding up to about \$23.9 million of ineligible expenditures. These were ineligible because either payment records or personnel files were not available, fund codes used were incorrect, or double payments were made to one member of the police force (see Review Objective 2).</li> <li>▪ The Office updated the status of the \$23.9 million ineligible costs as of 2 July 2014, as follows: supporting documentation for \$10.8 million had been provided and the issue has been resolved; \$2.8 million was finally determined as ineligible and recovered by deducting this amount from subsequent advances to the Government Implementing Partner; and the balance of \$10.3 million is still to be resolved because of the absence of supporting documentation. A deadline of 15 June</li> </ul>

Identified Concerns	Desk review results and status of Office actions
	<p>2014 was given to provide documentation of these ineligible expenditures. Subsequently, the Project Steering Committee agreed on 23 July 2014 to provide the Government Implementing Partner with an additional two months to resolve the remaining balance, otherwise the expenditures would be deducted from the next advance.</p> <ul style="list-style-type: none"> <li>▪ OAI will follow up on these actions during the review of the implementation of the recommendations.</li> </ul>
<p>3. On the basis of security concerns, the Monitoring Agent could not perform some of its functions.</p>	<ul style="list-style-type: none"> <li>▪ The contract required the Monitoring Agent to monitor payroll expenditures to ensure that funds are disbursed to police in all 35 provinces.<sup>4</sup> The Monitoring Agent reported that they could not visit some provinces due to security restrictions. Despite the limited work done compared to what was described in Annex III of the Terms of Reference of the Monitoring Agent, the Office did not reduce the payment (see Review Objective 3).</li> </ul>
<p>4. There were cases of late payment of police salaries.</p>	<ul style="list-style-type: none"> <li>▪ There were identified and reported instances of late payments for a number of months relating to eight provinces due to the remoteness of these areas or high security risks (see Review Objective 3).</li> </ul>

(b) Concerns identified by the Monitoring Agent but not reported by the Monitoring Agent (items not in the Terms of Reference)

Identified concerns	Desk review results and Office's response
<p>5. Payments made by UNDP to non-active members of the police force.</p>	<ul style="list-style-type: none"> <li>▪ The Monitoring Agent explained that the Office did not provide the payment eligibility criteria or the number of senior officers to be paid. Furthermore, there was no centralized human resources database for the Afghan National Police that could be used for validation. The Monitoring Agent stated that the actual number of police paid could not be accurately reported in the absence of a complete human resources database.</li> <li>▪ In response to the draft report, the Office explained that the information on Tashkeel<sup>5</sup> positions with provincial breakdown was not available, making it difficult to conduct payroll verification. The Office further stated that the Government was in the process of establishing the Afghanistan Human Resources Information Management System, which would</li> </ul>

<sup>4</sup> Including Central Ministry

<sup>5</sup> The "Tashkeel" is the physical resources required to accomplish the Afghan National Police mission which consisted of 157,000 positions that are financially and technically supported by the international community. There are additional positions outside Tashkeel to meet specific security needs, which are funded through national or international sources. The Project is mandated to pay the salaries of the 157,000 positions in Tashkeel and additional positions outside Tashkeel (approximately 6,000).

Identified concerns	Desk review results and Office's response
	<p>provide the required information. The Office also indicated that it requested the Government for access to the existing Afghanistan Financial Management Information System, to view information on expenditures at the provincial level.</p> <ul style="list-style-type: none"> <li>▪ The number of police personnel paid and claimed by the Ministry should equal the number of positions in Tashkeel and authorized non-Tashkeel positions.</li> <li>▪ OAI will follow up on these actions during the review of the implementation of the recommendations in this report.</li> </ul>
<p>6. Several apparently inappropriate deductions had been made from the police salaries (cooperative tax, income tax, pension, etc.).</p>	<ul style="list-style-type: none"> <li>▪ The Monitoring Agent explained that the deductions formed part of the payroll, which were statutory deductions of the Government. The Monitoring Agent added that the objective of its review was to determine whether the computation of gross salary and statutory deductions were properly done to compute the net salary and ensure accuracy. The requirement to review the utilization of such funds and tax amounts was outside the scope of its review.</li> <li>▪ In response to the draft report, the Office explained that the deductions are specified in the Electronic Payroll System documents that are public to donors, but that these deductions had not been explicitly set out in the Project agreements. Later, it was clarified to the donors that these deductions were related to taxes, pension fund and cooperative fund, and that these were legal under the law of the Country and part of the Electronic Payroll System document. However, during an investigation, it was determined that there was misuse of the cooperative funds generated from the cooperative tax deductions. The deductions for the cooperative fund were terminated from January 2014.</li> </ul>
<p>7. Quarterly advances paid by UNDP for salaries were transferred out of the Country by the Government to earn interest.</p>	<ul style="list-style-type: none"> <li>▪ The Monitoring Agent explained that their review was limited to payments under relevant funding and object codes based on reports generated from the Afghanistan Financial Management Information System. In their opinion, they did not have authority to review Government treasury accounts and this was not within the scope of their Terms of Reference.</li> <li>▪ The Office later indicated that this concern had been discussed with the Government Implementing Partner, who explained that the Government's treasury system did not allow for transferring project funds out of the Country to earn interest.</li> </ul>

### OAI Comments

At the time this report was being drafted, in addition to giving OAI an update on the status of actions being taken to address the above-mentioned concerns, the Office shared with OAI the new Terms of Reference of the Monitoring Agent. OAI is of the view that, in the context of all the concerns raised, particularly those that are currently outside the current and old Terms of Reference as well as the recommendations contained in this report, there is a further need to reassess and revise the new Terms of Reference. In addition, the Office needs to determine and specify which unit in UNDP or entity (Government Implementing Partner, UNDP, Monitoring Agent, Steering Committee, etc.) is responsible for addressing these issues and who in particular is responsible for managing the contract of the Monitoring Agent, including appropriate payments.

OAI will validate the actions taken by the Office in this regard as part of a follow-up audit mission to the Office, approximately one year after the issuance of this report.

## Review Objective 2

### To determine whether the Office took appropriate and prompt actions on the findings and recommendations made in the reports submitted by the Monitoring Agent.

OAI concluded that the Office did not take appropriate and prompt actions on the findings and recommendations made in the Monitoring Agent's reports.

- Unresolved \$5 million in ineligible costs in 2012. In the January 2013 report, the Monitoring Agent reported accumulated ineligible costs of \$5 million (out of total payment of \$506 million or 1 percent) incurred by the Government Implementing Partner during 2012. These costs related to:
  - disbursements for food procurement not supported with adequate supporting documents (\$0.3 million);
  - inappropriate salaries charged to the Project (\$0.5 million);
  - missing payment records for salaries and food allowances (\$2.5 million);
  - missing contracts for procurement of food (\$1.1 million);
  - discrepancies between the payment records kept in the provincial stations and the Afghanistan Financial Management Information System (\$0.5 million); and
  - other ineligible costs pertaining to acknowledgement receipt of payments of salaries being done by one person only, payments made to police personnel although marked as absent, and use of an incorrect fund code (\$0.1 million).

At the time this report was being drafted, the Office could not provide full information on the follow-up action taken to address the \$5 million in ineligible costs.

- Additional ineligible costs of \$23.9 million in 2013. In the January 2014 report, the Monitoring Agent reported ineligible expenditures of \$23.9 million incurred by the Government Implementing Partner during 2013. As mentioned in Table (a) above, these expenditures mainly related to food procurement and payments for food allowances to police officers (\$17.6 million), and payroll related costs (\$6.3 million). As per mid-June 2014, there was still \$10.3 million in ineligible expenditures.

- *No timelines set for resolutions of ineligible costs.*<sup>6</sup> The Office had not established a deadline for resolving the issue of ineligible costs raised in the Monitoring Agent's reports. The aggregate ineligible expenses were reported in the Monitoring Agent's 2013 Annual Report submitted in January 2014, but the adjustments were made by the Office over six months later in July 2014. As already mentioned, the amount of \$5 million in ineligible costs from 2012 has not yet been addressed by the Office.

In addition, there were delays in the issuance of draft reports by the Monitoring Agent and in the Office's review of the monthly and quarterly reports. The delays in the submission of draft reports by the Monitoring Agent to the Office for management comments ranged from one to five weeks. The Office took two months on average to provide management comments. The contract with the Monitoring Agent did not stipulate specific deadlines for submitting the draft reports, management comments, and final reports by the Monitoring Agent or the Office. In response to the OAI report, the Monitoring Agent explained that it did not have a contract between 10 June and 14 September 2013 and as a result, the review of June 2013 expenses started in October 2013.

Due to the delays in addressing the findings and recommendations in the Monitoring Agent's reports, some ineligible expenses had been reported in the Project's financial statement as appropriate expenditures and already depleted Project funds. This put at risk the financial sustainability of the Project and the reliability of the food procurement and payroll payment processes and systems.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
Take appropriate and prompt actions on the Monitoring Agent's findings and recommendations by:	
(a) establishing a deadline for the Office to resolve the ineligible costs being raised in the Monitoring Agent's reports;	
(b) resolving the remaining ineligible expenditures of \$10.3 million (of the \$23.9 million in 2013) and of the \$5 million in 2012, and recovering funds, as applicable; and	
(c) including in the Monitoring Agent's contract a clear timeline for submitting draft and final reports as well as the provision of management comments.	
<b>Management action plan:</b>	
The Office indicated that the following actions have either been taken or are planned to be taken:	
(a) In its meeting of 23 July 2014, the Steering Committee agreed to identify deadlines and to deduct ineligible expenses if the Government Implementing Partner does not provide documents for verification.	
(b) For the \$23.9 million in ineligible expenditures in financial year 2013 that were reported in the Monitoring Agent's January 2014 report, about \$13.6 million has been resolved either as confirmed eligible expenditures or deducted from subsequent cash advances (\$2.8 million has already been deducted from the advance of July 2014). The Government Implementing Partner was requested to	

<sup>6</sup> According to the Project's Operational Manual (draft), there are two categories of ineligible costs namely: (1) rectifiable ineligibleities and (2) non-rectifiable ineligibleities. Rectifiable ineligible costs can be regularized subsequently upon providing the required documentation, special cases of approvals or authorizations are obtained. On the other hand, non-rectifiable ineligible costs are ineligible by nature, because they are unreasonable, prohibited and not in accordance with the agreement terms and applicable laws and regulations.

resolve the submission of pending documents with a deadline of 15 June 2014. Subsequently the Project Steering Committee on 23 July 2014, agreed to extend the deadline by an additional two months. In 2013, adjustments for \$14.8 million were made in Q4 on the basis of miscoded expenditures.

- (c) The new Terms of Reference include timelines and procedures for review and finalization of the Monitoring Agent reports.
- (d) A Technical Working Group comprised of stakeholders meets every other week on payroll issues. This facilitates reaching consensus on issues raised by the Monitoring Agent or any of the members.

**Estimated completion date:** 30 October 2014

**OAI Response:**

OAI will validate the actions taken by the Office in this regard as part of a follow-up audit mission to the Office, approximately one year after the issuance of this report.

### Review Objective 3

**To determine whether the oversight by the Office of the work performed by the Monitoring Agent has been adequate and takes into account the recommendations made in OAI's Management Letter of August 2013.**

OAI concluded that the Office did not adequately supervise the work and the performance of the Monitoring Agent and was slow in implementing the recommendations made in OAI's Management Letter.

The main weaknesses noted are discussed below:

- (a) *Roles and responsibilities unclear.* While the Office had established an organizational structure for the oversight of the Project involving the Programme Unit, Office of the Country Director, Oversight and Compliance Unit, and Monitoring and Evaluation Unit, the Office had not articulated the specific roles and responsibilities of these units over the Monitoring Agent. All of these units receive copies of the reports of the Monitoring Agent with no indication or agreement on who is directly responsible for supervising the work of the Monitoring Agent and who is specifically responsible for taking appropriate actions on the findings and recommendations. At the time of the desk review, staff in these units were still discussing their specific roles and responsibilities and it was not clear when this process would be completed. As a result, OAI was unable to assess the adequacy of the oversight undertaken by these units of the work done by the Monitoring Agent.
- (b) *Inadequate monitoring at Project and Office levels.* Given the critical role of the Monitoring Agent and the amounts involved, the monitoring of its work at the Project and at the Office levels was not fully ensured by the Office. In 2013, the Office assigned to the Project's Monitoring and Evaluation Officer (national officer) the responsibility of coordinating the work of the Monitoring Agent, but did not entrust the Monitoring and Evaluation Officer with any oversight or supervisory responsibilities.
- (c) *Limited action on Monitoring Agent's reports.*
  - The Monitoring Agent was required to prepare the monitoring plan, operational manual and monitoring reports and submit them to the Project's Steering Committee for review and approval. Although the Monitoring Agent submitted the monitoring plan in 2013, the Office did not ensure

that the Monitoring Agent reports were presented, reviewed, and approved by the Project Steering Committee, as stipulated in the Monitoring Agent Terms of Reference.

- The monitoring plan included important steps in conducting monitoring, such as sample size and methodology. The Monitoring Agent proposed a sample size of less than 1 percent for physical verification of police personnel (1,000 out of approximately 130,000) and 50 percent for the review of disbursements of police food allowances or procurements.

OAI considered the sample size of 1 percent stated in the monitoring plan as insignificant for physical verification of police personnel. As such, the Office would not get a reasonable level of confidence on the physical existence of police personnel being paid from the payroll. The Office did not raise this issue with the Monitoring Agent. In response to the OAI report, the Monitoring Agent commented that the proposed 1 percent verification would be conducted for each contract period and specified that during the contract period from 14 September 2013 to 28 February 2014, a total of 3,478 police personnel, or 2.4 percent, were verified.

- The Office did not address the limitations encountered and reported by the Monitoring Agent in their work. For example, the Monitoring Agent could not conduct physical verification in some locations due to security restrictions. This scope restriction was a recurring issue and on average, the Monitoring Agent could not visit 5 of 35 provinces (14 percent). However, the Office did not establish alternative procedures to address the scope limitation, either by using technology (pictures, telephone or virtual interviews) or by a proportionate reduction in fees. The breakdown of the contract prices and the basis for the payment of fees and reimbursement of expenses (time and related fees with the involvement of 34 personnel for a number of months, tenure and operation of central and regional Monitoring Agent's offices, related travels and training costs) were set out in Annex III (pages 19-20) of the Terms of Reference of the Monitoring Agent. However, the Office did not consider this as basis for payment and had not raised the issue of proportionate deductions or adjustments in the Monitoring Agent's fees based on the reduced work actually done.

The Monitoring Agent reported that regular training workshops on the eligibility of the expenditures were conducted, including coaching the Government Implementing Partner's provincial Financial Officers on how to properly submit financial reports and documentation. There was no evidence that the Office reviewed the effectiveness of these training activities and determined whether good value for money was obtained. In OAI's view, the training workshops were not effective because similar weakness and deficiencies remained prior to and after the workshops were conducted. For instance, the Monitoring Agent continued reporting ineligible costs due to unavailability of supporting documents or incorrect recording of expenditures, which were supposed to be the main focus of the workshops.

In response to the draft report, the Office indicated that the Monitoring Agent was no longer providing training workshops and the Project's personnel took over this responsibility. As the Monitoring Agent's scope had been reduced, this should have also been appropriately reflected in the fees payable to the Monitoring Agent.

(d) Unclear Terms of Reference of the Monitoring Agent.

- There was no clear agreement on whether or not the Monitoring Agent was performing audit services. The Terms of Reference provided that "the Monitoring Agent will provide pre and post auditing services" and the specific assignment objectives included, "Review, monitor and audit payments of police salaries, food allowance and procurement".<sup>7</sup> However, the Monitoring Agent in its reports clearly stated that their "monitoring activities are based on agreed upon procedures to ensure that the expenditures incurred are eligible for reimbursement by LOTFA. And these agreed-

<sup>7</sup> Terms of Reference, Description of Services, Monitoring Agent for the LOTFA, Annex II, page 14.

upon procedures do not constitute an audit and as consequence, our report does not provide any opinion on the financial statements related to Law and Order Trust Fund for Afghanistan generated from the Afghanistan Financial Management Information System".<sup>8</sup> Additionally, the contract extensions continued to include the objective of "audit of payments" while the Monitoring Agent continued to report that they had not undertaken an audit as a basis for expressing an opinion.

- The Terms of Reference were ambiguous in regard to the expected deliverables from the Monitoring Agent, and ambiguous in how the payment of fees would be affected if there were any changes in the implementation of activities. Therefore, OAI could not assess if the actual work undertaken by the Monitoring Agent was commensurate with the payments made to it. Examples of these were the cases already described above, as follows: (a) the sampling methodology used for physical verification of police personnel; (b) the absence of specific provisions on the payment of fees if the Monitoring Agent could not complete all tasks; (c) payment in full even though not all 35 provinces were visited since the inception of the contract; (d) the termination of its services for training workshops; and (e) the reduction in scope of work from January 2014 as police personnel were no longer being compensated for food expenditures, which also reduced food procurement activities.
- The Terms of Reference also referred to the "Overall goal of monitoring, supporting, and reporting on the efficient and effective implementation of payment of police remuneration and maintenance of human resources database."<sup>9</sup> However, there was no evidence that any specific criteria or key performance indicators were established or agreed upon in regard to how the implementation would be assessed as "efficient" or "effective." There were no indications in the Monitoring Agent's reports that the required assessment was conducted.

(e) Recommendations from OAI (Investigations Section) and Management Review Team not fully implemented

- In its Management Letter of August 2013, OAI recommended that the Monitoring Agent, together with the Project's personnel, ensure that the Monitoring Agent's recommendations were addressed, review the expenses claimed by the Monitoring Agent, and ensure the independence of the Monitoring Agent. The Project's Monitoring and Evaluation Officer explained that he conducted field visits in 2013 and provided copies of site visit reports as evidence. He also indicated that he verified the work done by the Monitoring Agent by calling the Government's provincial offices, but these actions were not documented.

In response to the OAI recommendation, the Office indicated that it would, among other things, recruit a staff member to check the accuracy of monthly salary payments, hire a new Monitoring Agent, manage the Monitoring Agent's contract, and ensure that the new Monitoring Agent reports to the Project Steering Committee. Despite efforts made to undertake these planned actions, such as the recruitment of a new Monitoring Agent, the Office had not fully implemented the recommendations as of the desk review date or more than a year after the issuance of OAI's Management Letter. The Office had neither recruited staff, nor had it been able to hire a new Monitoring Agent to address the recommendation.

- In December 2012, the Management Review Team from Headquarters<sup>10</sup> made a number of recommendations to strengthen the role of Monitoring Agent, quoted as follows: "The Monitoring Agent should continue to monitor payments through electronic funds transfer, but at a more reduced level unless problems appear, and shift greater attention to food procurement and payment of salaries other than through the banking system. Monitoring Agent should be tasked to prepare

<sup>8</sup> Monthly Report, January 2014, Joshi and Bhandary, Independent Monitoring Agent, February 2014, page 1.

<sup>9</sup> Terms of Reference, Description of Services, Monitoring Agent for the LOTFA, Annex II, page 15.

<sup>10</sup> At the request of UNDP senior management, a management review on the management arrangements of the Project was conducted in November 2012.

draft guidelines for issuance by the Government Implementing Partner regarding coding and processing of salary payments.”<sup>11</sup> There was no indication that the Office had acted on this.

In response to the draft report, the Office explained that part of the recommendation was no longer applicable. For example, the Office discontinued covering the police food expenditures beginning in 2014 and that preparing guidelines on coding and processing of salary payments was not within the mandate of the Monitoring Agent. However, the Office did not clarify why they did not inform the Management Review Team that the recommendation on coding and processing of salaries was outside the scope of the Monitoring Agent. Further, the Office did not provide evidence of implementation of the other recommendation relating to payment of salaries other than through the banking system.

- The Office also shared with OAI a matrix (prepared in February 2014 upon request by a donor) of the actions taken to address various recommendations pertaining to the Project. In the matrix, OAI took particular note of those recommendations pertaining to the Monitoring Agent in which the Office reported that all such recommendations were implemented, except for the required reporting of findings and recommendations to the Project Steering Committee. This was contrary to what OAI noted during the desk review. In addition to required reporting to the Project Steering Committee, the recommendation to ensure better follow-up on the Monitoring Agent’s findings were also not yet implemented.

The inadequate management and supervision of the work performed by the Monitoring Agent increases the risk that project funds may not be used for the intended purposes, and weakens the intended oversight role of the Monitoring Agent.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
Strengthen the supervision of the work and monitoring of the performance of the Monitoring Agent by:	
(a) ensuring that respective roles and responsibilities of the Office’s Programme Unit, Office of the Country Director, Oversight and Compliance Unit, Monitoring and Evaluation Unit, the Steering Committee and the Project on the Monitoring Agent are clearly understood and discharged by all concerned;	
(b) reviewing and responding appropriately on monitoring plans and reports, providing guidance on any scope limitations such as alternate procedures and taking actions on appropriate payment modalities for incomplete work done, and recover as appropriate, any excess payments made arising from the incomplete coverage of all 35 provinces and discontinuation of training and review of food expenditures;	
(c) addressing the shortcomings of the Terms of Reference by clearly defining the responsibilities and the expected outputs of the Monitoring Agent as well as establishing criteria for assessing the efficient and effective delivery of their services;	
(d) submitting the Monitoring Agent’s reports to the Project Steering Committee through the newly created Technical Working Group; and	
(e) immediately acting on the recommendations of the OAI Management Letter and Management Review Team.	

<sup>11</sup> Law and Order Trust Fund for Afghanistan, Management Review, 15 December 2012, paragraph 61, page 16.

**Management action plan:**

The Office indicated that it had taken the following corrective measures:

- (a) Established the oversight and assurance responsibilities of the Programme Unit, the Oversight and Compliance Unit, and the Project, and will formalize them.
- (b) Since April 2014, the Office has established monthly meetings with the Monitoring Agent to discuss the monitoring reports and shared the results of the discussion with the Technical Working Group. Starting in July 2014, weekly operational meetings will be held, including tracking of report clearances and recommendations. The Project will also hire additional personnel to follow up on payroll issues in the provinces.
- (c) The new Monitoring Agent's Terms of Reference addresses the shortcomings noted in the responsibilities of the Monitoring Agent.
- (d) Since 20 February 2014, the Project has been submitting Monitoring Agent reports to all donors.
- (e) Weekly Technical Working Group meetings discuss technical issues and the monitoring report recommendations, including clearance of the reports. In addition, the Office prepares monthly updates on issues related to the payroll component. Finally, capacity is currently being strengthened to enhance the Office's tracking and knowledge management system to ensure proper follow-up action on recommendations from the Monitoring Agent, OAI, management reviews or any other reviews within a real-time and universally accessible environment.

**Estimated completion date:** While some have been completed, the remaining will be completed by end September 2014.

**OAI Response**

OAI will validate the actions taken by the Office in this regard as part of a follow-up audit mission to the Office, approximately one year after the issuance of this report.

**Review Objective 4**

**To the extent possible, assess whether the Monitoring Agent has fulfilled the requirements stipulated in the contract with UNDP.**

OAI was unable to conclude that the Monitoring Agent had fulfilled the requirements as stipulated in the contract with UNDP. OAI could not make a full assessment, as some of the contract deliverables were ambiguous. The criteria for assessment of compliance with the provisions were also not clearly stated, as discussed under Review Objective 3.

However, for the following contract deliverables were specific and OAI was able to make an assessment:

- Submit monthly and quarterly reports to the Office and Government Implementing Partner by the set delivery dates.
- Prepare monitoring plans and an operations manual.
- Conduct physical verification of delivery of contracted quantities.
- Conduct training workshops on the eligibility of expenditures.

OAI was able to obtain documented evidence that the Monitoring Agent submitted monthly and quarterly reports, monitoring plans and operations manuals. Additionally, the monitoring reports included details of physical verification conducted on the delivery of contracted quantities and training workshops. However, as mentioned under Review Objective 2, there were delays in the submission of such reports.

### Other matters

During the desk review, OAI noted the following reportable control weakness in processing cash advances and liquidation:

- Inadequate supporting documents for the liquidation of cash advances to the Government Implementing Partner

The Office processed the requests for and liquidation of cash advances based on the written requests from the Government Implementing Partner with some supporting documents, including financial reports and completed Funding Authorization and Certificate of Expenditure forms. However, OAI noted that the supporting documents were incomplete, as the documents required as per the 'Programme and Operations Policies and Procedures' were not presented, namely the bank statements and itemized cost estimates supporting the cash advance requests. The Office was unable to provide the reason for not requiring the Government Implementing Partner to provide these supporting documents. The Finance Specialist, who joined the Project in March 2014, had requested the Government Implementing Partner for copies of the bank statements from 2013 onwards.

There could be a risk of improper use of funds if the Government Implementing Partner is not required to submit complete and proper documentation at the time of the liquidation of such advances.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
Strengthen controls in the processes for granting and liquidating cash advances by:	
(a) requiring the Government Implementing Partner to submit complete supporting documents and itemized cost estimates when submitting requests for cash advances; and	
(b) processing vouchers as a basis for liquidating cash advances only when the Funding Authorization and Certificate of Expenditures forms are supported with adequate and appropriate documentation, including bank statements.	
<b>Management action plan:</b>	
The Office indicated that the following actions have been taken or planned:	
(a) The Government Implementing Partner now forwards the bank statements, expense reports, and detailed data from its finance system. In addition, the Office will strive to receive the bank statements showing disbursements from the Implementing Partner to commercial banks for salary payments, and evidence of subsequent disbursement to individual accounts. In addition, it was agreed with the Government Implementing Partner that Project staff will have access to the Afghanistan Financial Management Information System for better verification.	
(b) The Project has been improving recording and documenting advances requested by the Implementing Partner. The Project also requested the Government Implementing Partner to provide annual budgets	

showing the number of police personnel per province and their ranks. The Office will ensure the participation of the Government Implementing Partner in the Technical Working Group to have direct technical inputs and ensure that the Implementing Partner is accepting their responsibilities. Furthermore, the Office is working with the Implementing Partner in enhancing the existing payroll and finance systems to allow oversight of the monthly expenditure at the provincial level.

**Estimated completion date:** December 2014

**OAI Response**

OAI will validate the actions taken by the Office in this regard as part of a follow-up audit mission to the Office, approximately one year after the issuance of this report.

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **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.
- **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.
- **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.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

#### PRIORITIES OF REVIEW RECOMMENDATIONS

- **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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.