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AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

Afghanistan Sub-national Governance Programme (Project No. 58922)

Report No. 1408

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Table of Contents

Report on the audit of UNDP Afghanistan – Afghanistan Sub-national Governance Programme
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 18 August to 2 September 2014, conducted an audit of Afghanistan Sub-national Governance Programme (Project No. 58922) (the Project), which is directly implemented and managed by UNDP Afghanistan (the Office). The Project has some parts that are nationally implemented and managed by responsible parties (namely, the Independent Directorate for Local Governance [IDLG], provincial governors' offices and municipalities). The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) organization and staffing (project organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
(b) programme activities (programme management, partnerships and resource mobilization, project management); and
(c) operations (human resources, finance, general administration, asset management).

The audit covered the activities of the Project from 1 January 2013 to 31 July 2014, except for information and communication technology and procurement, as these areas were covered by OAI through functional audits of the Office. The project expenditures during the period audited amounted to $27.2 million ($21 million in 2013 and $6.2 million in the first half of 2014).

There were two previous OAI audits of the Project, which both resulted in unsatisfactory ratings. The first was a combined financial and internal control systems audit and covered the period from 1 January to 31 December 2010 (Report No. 905, dated 21 August 2012). The second was an assessment of the adequacy and effectiveness of the governance, risk management and control processes and covered the period from 1 January 2011 to 31 March 2012 (Report No. 1062, dated 19 July 2013). The nationally implemented part of the Project was audited by an external audit firm in 2014 and covered the period from 1 January to 31 December 2013. Further, an independent and final evaluation of the Project was conducted by an independent evaluation team contracted by the Office in early 2014, which reported on several weaknesses on governance and management structures, achievement of outputs, and lack of pathways to change (Final Evaluation Report, 12 June 2014).

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

Overall audit rating

OAI assessed the Project as **unsatisfactory,** which means, "Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity (in this case, the Project) could be seriously compromised." This rating was mainly due to weaknesses in project governance and project management.

Key recommendations: Total = **12**, high priority = **8**

The 12 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1, 2); (b) reliability and integrity of financial and operational information (Recommendation 10); (c) effectiveness and efficiency of operations (Recommendations 3, 4, 5, 6, 7, 9, 12); (d) safeguarding of assets

(Recommendation 11); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 8).

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:

Ineffective project governance (Issue 1)	The three main stakeholders (the Project Management Unit, the Office, and IDLG) did not have good working relationships and did not set the appropriate "tone at the top" in the governance of the Project. There was no agreement on how to discharge their respective responsibilities, no common understanding on how the Project should have been implemented and how resources were to be allocated. In addition, decisions were either delayed or not made at all. There was a lack of communication and adequate consultation, which lead to issues remaining unresolved. This resulted in a lack of trust among the three main stakeholders in their abilities to lead and deliver expected results, which had impacted the Project negatively, leading to slow progress and waste of resources. <u>Recommendation</u>: Enhance governance of the Project by bringing together all parties concerned to resolve issues, developing written and clear guidelines on respective roles, responsibilities and accountabilities, and requesting the intervention of higher level decision makers in UNDP and in the Government, if necessary.
No strategies, definite plans or decisions on Project's future (Issue 2)	The Project was scheduled to end in 2014 and yet, at the time of the audit, there was no finalized exit strategy, no agreement as to whether the Project was going to be extended or was going to transition to another phase, and there was no comprehensive and written resource mobilization strategy. <u>Recommendation</u>: Take immediate action to ascertain the future of the Project in 2015 by finalizing and obtaining agreement by all concerned parties on the draft exit strategy and have the Project Board decide immediately whether to extend to Phase II or transition to another phase in 2015, and take the necessary measures, as called for. *[NOTE: On 29 October 2014, the Project Board approved a six-month extension of the Project until 20 June 2015.]*
High percentage of Project's funds spent for management and administrative costs (Issue 3)	The Project's management and administrative costs of 47 percent ($9.8 million of the total expenditure of $21 million during 2013) was high. This was mainly due to a complex structure set up for managing the Project (large contingent of staff at the Project Management Unit in Kabul and in seven Regional Offices, each headed by an international professional staff member), high costs incurred for common services, incorrect basis of cost recovery for support services and travel of some UNDP staff. <u>Recommendation</u>: Undertake an extensive cost analysis and cost reduction exercise by: (a) reviewing the existing project management structure and instituting one that should reflect its technical advisory and capacity-building role and have it approved by the Project Board; and (b) implementing cost saving-measures by exploring opportunities for outsourcing common and

	support services, minimizing non-essential travel, as well as entrusting additional responsibilities to Regional Offices where applicable.
Ad hoc monitoring of Project and inadequate reporting on progress (Issue 4)	The Office, Project Management Unit, and the Regional Offices each conducted monitoring activities, but these were done on an ad hoc basis, were not coordinated, and were not linked to the monitoring and evaluation plans. Relevant reports made no reference to project indicators and targets to be monitored. Progress of the Project was difficult to assess because of missing or unclear indicators as well the absence of the Project's contributions to the overall country programme outcome in the 2013 Annual Report. Recommendation: Improve project monitoring by: (a) preparing a monitoring plan with the relevant elements to be monitored; (b) revising the monitoring report template to include indicators; (c) documenting follow-up actions to address challenges and issues identified; (d) updating project risks to indicate current status and mitigating actions taken; (e) establishing a robust reporting process; and (f) ensuring that results of monitoring activities are brought to the attention of the relevant decision makers.
Weaknesses in project planning, implementation and oversight (Issue 5)	Preparation and approval by the Project Board of the 2013 and 2014 Annual Work Plans were delayed, Annual Work Plans of the Project and of the Regional Offices were not directly linked, some project components were not implemented, and Project Board oversight and documentation of its proceedings were inadequate. Recommendation: Improve project planning, implementation and oversight by ensuring that: (a) work plans are prepared and approved before commencement of the year of implementation; (b) Project Board meetings are planned and conducted regularly; (c) issues are escalated to the appropriate decision makers for immediate resolution; and (d) substantive changes affecting the project outputs are discussed and endorsed by both the Local Project Appraisal Committee and the Project Board.
Project baselines, indicators and targets not well defined (Issue 6)	The following weaknesses were noted: (a) similar targets were repeated in the Annual Work Plans for 2013 and 2014 and some output indicators were not specific; (b) baselines were provided as percentages without an indication of the actual numbers needed for accurate monitoring; (c) and a number of indicators were activity-related rather than output-related. Recommendation: Formulate a complete and well-designed instrument for monitoring and assessing the progress of projects by: (a) identifying indicators that are specific, measurable, attainable, relevant and time-bound; (b) determining and setting baselines for measuring change; and (c) explicitly stating targets of desired levels of change to be achieved.
Ineffective use of Letter of Agreement (Issue 7)	As in previous audits, provisions of the Letter of Agreement (LOA) were not fully complied with, such as the inadequate capacity development of staff at the provincial governors' offices, municipalities and the IDLG, and the non-involvement of the Project Management Unit in the recruitment of staff and in authorizing salary increases.

	Recommendation: Ensure effectiveness of the Letter of Agreement by: (a) reviewing its use by the responsible parties; (b) revising the standard operating procedures; and (c) developing clear rules of engagement among the IDLG, the Project Management Unit and the Office to ensure that their roles and responsibilities in the management of the Agreement are well-understood.
Inadequate oversight of bank accounts and poor management of cash advances (Issue 10)	The bank accounts of responsible parties had not been closed. Adequate controls on cash advances were not in place as some of these were long outstanding, some project funds were used for non-project related expenses, expenditures were not well documented and the standard operating procedures for Letters of Agreement were updated. The granting of cash advances to IDLG was inappropriate because of these inadequate controls and the availability of banking facilities in Kabul where the IDLG is based. Recommendation: Strengthen the oversight of bank accounts and enhance the management of cash advances and expenditures by: (a) working closely with responsible parties to close the remaining active bank accounts; (b) reviewing the process of granting cash advances to the IDLG; (c) requiring that all expenditures be supported with adequate and appropriate documents; and (d) updating the standard operating procedures to reflect the direct payments being made to provincial governors' offices and municipalities.

Implementation status of previous OAI audit recommendations: Report No. 1062, 19 July 2013.
Total recommendations: 7
Implementation status: 71%

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.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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I. About the Office and the Project

The Office is located in Kabul, Afghanistan (the Country). During 2013, the programme and management expenditures of the Office amounted to $760 million, globally delivering UNDP's largest programme, which is close to 20 percent of all of UNDP's delivery, in one of the world's most insecure environments, with unparalleled challenges. The challenges of the Office are immense, both internally and externally, as are the opportunities for sustainable development, and made even more difficult as a result of the security, political and socio-economic transition facing the Country.

The Project is a multi-donor programme assisting the Government since 2006 in building institutional structures and capacity for governance and implementing administrative reforms to improve delivery of services at the sub-national levels of the Government.[1] The Project's main government partner is the IDLG, which discharges its responsibilities as a responsible partner based on an LOA with the Office. The IDLG works with 34 provincial and district governors' offices, and 19 municipalities. The UNDP Project Management Unit, which is led by the Chief Technical Adviser/Project Manager, is based in Kabul and oversees project management and implementation and is supported by Regional Coordinators/Advisors based in UNDP's seven Regional Offices and one provincial office. A Project Board (consisting of executives and senior officers of the Office and IDLG, some donors, and the Project Manager) is responsible for overseeing the Project and making relevant decisions.

Phase I of the Project (2006-2010) focused on reforms in governance at the provincial, district, and municipal levels and incurred $43.2 million of expenditures when it ended and transitioned to Phase II. Phase II (2010-2014) was to scale up existing activities in policy development and implementation; national capacity-building of IDLG; assistance to provincial, district and municipal administrations and respective councils; and support to local coordination mechanisms at the provincial and district levels and required $180 million resources. However, only $56 million was mobilized for this Project. The total Phase II project expenditures from January 2010 to July 2014 were $58.7 million, compared to a budget of $112 million. At the time of the audit, Phase II was in its last year of implementation and discussions on the project's future were ongoing.

The Project has two components: (a) activities undertaken by the Office and the Project Management Unit that are directly implemented by UNDP, and (b) activities undertaken by IDLG and the provincial and district governors' offices and municipalities that are nationally implemented.

This audit of the direct implementation modality (DIM) component was undertaken by OAI upon the request of the Office and it covered the period from 1 January 2013 to 31 July 2014 and on the basis of previous audit reports on the DIM component (Report No. 1062 dated 19 July 2013 and Report No. 905 dated 21 August 2012[2])

[1] Sub-national governance refers to a restructuring of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity. Based on this principle, functions (or tasks) are transferred to the lowest institutional or social level that is capable (or potentially capable) of completing them. Sub-national governance relates to the role of and the relationship between central and sub-national institutions. [UNDP (2004) Decentralized Governance for Development: A Combined Practice Note on Decentralization, Local Governance and Urban/Rural Development]

[2] OAI Report No. 1062 (a combined financial audit and audit of internal controls) covered the period 1 January to 31 December 2010 with an expenditure of $12.6 million. The financial audit resulted in a qualified opinion and a disclaimer on project assets; the management of the Project was rated unsatisfactory. OAI Report No. 905 (audit on adequacy and effectiveness of the governance, risk management, and control processes) covered the period from 1 January 2011 to 31 March 2012 with a recorded expenditure of $12 million ($9.9 million in 2011 and $2.1 million in the first quarter of 2012). OAI's rating was unsatisfactory.

as well as on the latest audit report on the national implementation modality (NIM) component of the Project.[3] OAI met with all the concerned representatives of the Office and the Project Management Unit as well as representatives of the IDLG. The two DIM audits resulted in "unsatisfactory" ratings and the financial audits of the DIM and NIM resulted in modified opinions on the relevant statements.

The Office and the Project Management Unit had made some progress in addressing issues raised in the previous audit reports, such as enhancing the monitoring of project operations, closing some of the bank accounts that were improperly opened by the responsible parties, discontinuing with the granting of cash advances to responsible parties and UNDP making direct payments for project activities entrusted to provincial governors' offices and municipalities. While some progress was noted, there were weaknesses in governance, internal controls and risk management of the Project that remained unresolved since the beginning of Phase II of the Project.

The Office also arranged an independent evaluation that concluded that the Project was considered necessary and its activities were timely at all levels (i.e., central government, provincial and district levels, and municipalities), as an implementation mechanism was working reasonably well. The report indicated some weaknesses as well. The Project Management Unit had a large management infrastructure, which was not reflective of its technical advisory and capacity-building character, and had very poor communication and coordination with key partners, including the IDLG and the Office. The Project had not fully achieved its outputs, its project structure was not properly streamlined, strategic governance and oversight of the project was weak, and it lacked a clearly defined pathway to change. In addition, financial reporting capacity was weak and delivery on substantive outputs was low, and UNDP did not take a strategic approach in its support for sub-national governance in the Country, and did not leverage on its knowledge of the relevant global best practices.

II. Audit results

OAI made eight recommendations ranked high (critical) and four recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

(a) Enhance governance of the Project (Recommendation 1).
(b) Take immediate action to ascertain the future of the Project in 2015 (Recommendation 2).
(c) Improve project planning, implementation and oversight (Recommendation 5).
(d) Improve project monitoring and reporting (Recommendation 4).
(e) Ensure effectiveness of the Letter of Agreement (Recommendation 7).
(f) Undertake an extensive cost analysis and a cost reduction exercise (Recommendation 3).
(g) Strengthen the oversight of bank accounts and management of cash advances and expenditures (Recommendation 10).
(h) Formulate a complete and well-designed instrument for project monitoring and assessment of progress (Recommendation 6).

[3] The NIM audit (February 2014 by Ernst & Young) covered the period from 1 January to 31 December 2013 with expenditures of $11.1 million which is about 53 percent of the total expenditures ($21 million). Ernst & Young rendered qualified audit opinions on the Statements of Expenditures and Cash Position and an unqualified opinion on the Statement of Assets and Equipment.

Medium priority recommendations, arranged according to significance:

(a) Improve performance management and recruitment processes (Recommendation 9).
(b) Enhance controls and management of project assets (Recommendation 11).
(c) Enhance the use of project vehicles by exploring options for a more cost efficient and effective use of the armoured vehicles (Recommendation 12).
(d) Undertake the planned capacity assessment of responsible parties and implementing partners (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Organization and staffing

Issue 1 Ineffective project governance

The Office and the Project operate in an unstable and conflict environment and continuously face various challenges, such as recruitment of experienced staff, high security risks and absence of a developed commercial market place and financial institutions. These factors have exposed the Project to high risks, such as the failure to achieve objectives, complex working relationships with partners and other stakeholders, mismanagement or misuse of funds, and the inability to fully account, support and report on accomplishments and on the use of resources. It is therefore important that good governance is in place to ensure that project resources are effectively used for the intended purposes.

The 'UNDP Accountability Framework' and the oversight policy outlined therein require managers to demonstrate proper stewardship of resources entrusted to them by ensuring clarity of roles and responsibilities as well as monitoring of project activities. Further, the tone at the top regarding the expectation for orderly, ethical, economical, and proper conduct from all UNDP staff at all times, set by the Executive Board and the Administrator as part of the UNDP management philosophy, operating style and organizational culture, is the foundation for effective oversight and good governance.

The three main stakeholders for this Project (the Office, the Project Management Unit and the IDLG) did not have good working relationships and did not share the same views on how the Project was to be managed and implemented and what their respective responsibilities were. Effective communication and coordination of work was also non-existent, resulting in tense relationships and issues not being resolved in a timely manner. Considering that two stakeholders were the Chairs of the Project Board, and that the third stakeholder was the Project Manager, all of whom were tasked with overseeing and managing the effective implementation of the Project, such tense relationships and lack of trust among them resulted in very weak governance and a tone at the top that was not conducive to efficient project implementation and achievement of objectives.

On several occasions, the IDLG conveyed to UNDP their concerns about the Project. The IDLG believed that significant resources (almost 50 percent) were allocated for UNDP project management (mostly salaries of international staff and project overhead costs), thus leaving limited resources for the Country's beneficiaries (only $3.7 million out of the $20 million was allocated for operations costs of all components). However, the Office and the Project Management Unit were of the view that the concerned staff were not performing management functions, but technical assistance and capacity-building directly benefitting sub-national governance, and therefore their salaries were considered direct costs to the Project (please refer to Issue 3). The IDLG also indicated that there were issues on the performance of Regional Officers, such as inaction to their requests for the resolution of issues, delays in fund transfers, recruitment of staff without the appropriate qualifications, weak implementation of programmes and activities at the local level, Annual Work Plans that were too generic for provinces and the centre, and an approach that was capacity substitution rather than capacity-building and transfer. IDLG further stated that there was lack of consultation by the Project Management Unit with IDLG on negotiations with donors and with governors on procurement for provincial governors' offices as well as the non-sharing of important documents like donor agreements, drafts of Annual Work Plans, etc. Moreover, IDLG was of the view that there was a leadership crisis and problems in the working relationships within the Project and so coordination and cooperation between them and IDLG had been minimal.

On the other hand, the Project Management Unit believed that the IDLG had not effectively managed the resources entrusted to them, particularly on the management and use of funds advanced to them and absence of adequate supporting documents for some payments made, issues that were also raised in previous audits (please refer to Issue 10 as well as the 2014 NIM audit report). There were also concerns on the number of personnel hired and contracted under the LOAs by the IDLG as well as their recruitment process (please refer to Issue 7). Further, there was a concern that the IDLG had unduly delayed the adoption of the national technical assistance policy, thereby delaying the preparation of the Annual Work Plan for 2014. The IDLG suggested that 2014 be considered as a transition period for the adoption of the technical assistance policy in order to address potential differential treatment between their LOA and non-LOA staff. The technical assistance policy was supposed to take effect in January 2013 but was eventually implemented in mid-2014.

At the same time, the Project Management Unit and the Office had a strained relationship due to divergent views on their specific roles and responsibilities, such as the extension of UNDP project personnel contracts and travel authorizations. During OAI's meetings with them, the Project Management Unit was of the opinion that the Office was micro-managing and overstepping its assurance function, while the Office stated that the Project Management Unit was unilaterally making decisions on matters that were under the Office's purview.

While all parties committed to meet more frequently to resolve outstanding issues, meetings became even less frequent in 2014. In their October 2013 bilateral meeting, they agreed to establish a task force consisting of representatives from the Office, the Project Management Unit and the IDLG with the aim to enhance cooperation, coordination and communication between the IDLG and the Project Management Unit. However, the task force was discontinued after December 2013 as it was not effective in resolving issues.

After the termination of the task force, the three main players held several meetings but without many results, as their differences continued to persist. The unresolved issues and differences were again mentioned during the exit bilateral meetings of OAI with senior officers of the Office and the Project Manager. While there were expressed desires to address these issues, actual progress was very limited, and therefore did not contribute to a very positive tone at the top in the oversight and governance of this Project.

The absence of an appropriate tone at the top and the failure to resolve issues put the achievement of objectives and intended development outcomes at risk. It also put at risk the reputation of UNDP as a trusted partner in the Country.

Priority	High (Critical)
Recommendation 1: Enhance governance of the Project by: (a) bringing all parties together to resolve issues and agree on specific and time-bound steps that also indicate the responsible individuals concerned; (b) developing written and clear guidelines for all parties to have an agreed upon and clear understanding of their roles, responsibilities and accountabilities in the management of the Project and delivery of expected results; and (c) requesting the intervention of higher level decision makers in UNDP and in the Government, if necessary.	
Management action plan: The 2015 Annual Work Plan would clearly specify responsibilities and deliverables of the Project Management Unit and the Government counterpart. Further, two Project Board meetings were expected to be convened by end of June 2015. In addition, as per existing practices, there would be at least two bilateral meetings (meeting between IDLG and UNDP/Project at senior officials' level to discuss and resolve the issues), and bi-weekly meetings between the senior management of UNDP and Project Management team. Also, there would be regular meetings between the Programme Unit, the project management team and the government counterpart at least on a weekly basis. The Office implemented a change management process in November 2014, and this was expected to bring clarity in the roles and responsibilities between the Project Management Unit and the Programme Unit. The Office also indicated that subsequent to the audit, they had requested the intervention of higher level decision makers within UNDP, as recommended above. **Estimated completion date:** June 2015	

Issue 2 No strategies, definite plans or decisions on Project's future

The 'Programme and Operations Policies and Procedures' require proper planning to determine the resource requirements to meet the specific annual targets that contribute to the overall project output, and ultimately to an intended outcome.

Phase II of the Project was scheduled to end in December 2014, however, as at the time of the audit, there were no finalized strategies and plans on what was to be done, and no decisions had been made.

There was no definite agreement by all concerned parties on the next steps, i.e., whether or not the Project was going to be extended, whether or not it was going to be a no-cost extension, and what project implementation modality was to be adopted. The Office indicated that Headquarters in New York had agreed to extend the Project for one year, but this extension had not yet been agreed to by the Project Board. The IDLG raised reservations on the intended project extension because of lack of clarity on what kind of extension was to be used, the time frame, and the available resources.

The Office and the Project Management Unit had been discussing the extension but had not prepared any formal document or plans to determine the scale of operations and programme activities to be undertaken and the resources required. The Unit estimated that the $7 million in resources available (for the extended period) could fund project activities for only three months of the extension period, and were therefore extending resource mobilization efforts and reaching out to existing and new development partners. However, a well-articulated and comprehensive resource mobilization strategy had not been developed to facilitate resource mobilization efforts. Meanwhile, at the time of the audit fieldwork, donors were not responding to the mobilization efforts as they were awaiting the results of the presidential elections.

The Office presented a proposed extension at the Project Board meeting on June 2014 in the context of their discussion on the draft exit strategy and the new UNDP programme on sub-national governance. The reason for such an extension was to provide time for the new administration to set its priorities since they would have to approve new programmes and the funding of the costs associated with the extension were not yet available. The Office asked the Board to agree in principle on the extension with the condition that the exact timeframe would be provided in the next meeting. There was no specific decision explicitly reflected in the minutes and therefore, this could not be considered as Board approval of the extension.

Also, a review of the exit strategy presented to the Board revealed that this was a very rough draft and large sections were still missing and needed more work. It was not clear whether other stakeholders in the Government, such as the Ministry of Finance, Ministry of Economics, and Ministry of Rural Rehabilitation and Development were involved in the preparation of the draft exit strategy. The absence of a well-prepared exit strategy was already raised in the previous OAI audit of the Project. Having an exit strategy prepared well ahead of the project's intended closure is critical so that appropriate actions are implemented in a timely manner. Preparing the exit strategy at the 11th hour does not add much value to the Project and puts at risk the sustainability of the Project.

The imminent end of the Project and the uncertainty on the nature, duration and available resources for the extension would have an impact on the UNDP project personnel who needed to be given two months' notice (subject to contract modality and years of service) in case their contracts were to be terminated. In addition, this would also affect the 355 staff contracted under LOA based in IDLG, provincial governors' offices and municipalities, as the Project contributed to their salary payments.

The absence of an agreement among the main stakeholders and the absence of the timely approval by the Project Board on the next steps to be taken, along with the lack of well-prepared exit and resource mobilization strategies and of a formal documented plan for the extension of the project may create uncertainties, distract focus from project implementation and adversely affect capacity-building efforts, and may give rise to financial obligations for UNDP. Should this situation continue when the Project comes to an end, the Project's sustainability will be at risk and all gains and progress (such as capacity-building, policy advisory and institutionalizing laws) achieved in the past would be lost.

As OAI had raised similar issues together with recommendations pertaining to the absence of an exit strategy and a resource mobilization strategy in the previous audit report (Report No. 1062, 19 July 2013), no further recommendation is being made in this respect. The Office further informed OAI that the draft exit strategy would be finalized and submitted for Project Board approval once a Government decision was made on sub-national governance and on whether Phase II of the Project would be succeeded with a new sub-national governance programme or extended into Phase III.

Subsequent to the audit, the Office informed that in October 2014, the Project Board had agreed to a six-month extension until 30 June 2015.

Priority	High (Critical)
Recommendation 2: Take immediate action to ascertain the future of the Project in 2015 by finalizing and obtaining agreement by all concerned parties on the draft exit strategy and have the Project Board decide immediately whether to extend to Phase II or transition to another phase in 2015, and take the necessary measures, as called for.	
Management action plan: The Project Board approved, at their meeting on 29 October 2014, a six-month extension of the Project until 30 June 2015. Subsequently, the Project Management Unit reduced the number of Regional Offices from eight to four, with the closure of Lashkar Gah (Helmand), Jalalabad, Kunduz and Bamiyan offices. While some personnel were not extended, others whose performances were consistently evaluated as high were reassigned to the Office in Kabul to replace staff who had moved on to other jobs, as this Office would be assuming the Jalalabad and Bamiyan regional responsibilities. A new staffing table and organogram is being finalized. Deliverables are being specified in the Annual Work Plan in line with the available budget for the six-month extension. **Estimated completion date:** June 2015	

Issue 3 High percentage of Project's funds spent on management and administrative costs

UNDP's 'Financial Regulations and Rules' require that the head of an office be responsible and accountable for the effective and efficient use of UNDP resources in the implementation of programmes and operations.

In 2013, the Project's management and administrative costs amounted to about $10 million, which were considered high as these constituted 47 percent of the total project delivery expenditure for the year. These were incurred for payment of salaries of UNDP personnel working on the Project ($5.1 million), common services and other activities ($3.4 million) and General Management Services ($1.3 million). This was one of the main concerns of the IDLG, i.e., that the Project was spending too much on the management and overhead costs of UNDP, leaving limited funds for activities that were directly related to the Project.

The following factors contributed to the high management and administrative costs of the Project:

1. Staffing structure of the Project Management Unit: The Project Management Unit had staff based in Kabul and in the seven Regional Offices, each headed by a Regional Coordinator/Advisor (international professional staff at the P4 level) and supported by six national staff. The Regional Offices were set up in September 2009 to bring the Project closer to the local institutions which were geographically spread out in the Country and were the intended beneficiaries of Project. The Project Management Unit also indicated that the Regional Office structure was established based on the project document and they were working towards entrusting additional responsibilities to the Regional Offices to reduce costs. However, there was no clear indication that cost savings were achieved ever since the regionalization approach was initiated in 2009.

   During a meeting with OAI, the IDLG representatives raised concerns not only on the structure and costs, but also on the performance of the Regional Offices. They were of the opinion that national staff could replace the international staff since their tasks involved coordinating training workshops, preparing reports and supervising salary payments. This would have greatly reduced costs and would have built local capacity.

The Final Evaluation Report indicated the need to streamline the structure of the Project Management Unit with 97 staff positions, 12 of which were international staff and 75 national staff. In total, 40 percent of the total project personnel were based in Kabul and such a structure was too complex for managing a project of this nature. The report also concluded that, based on two Regional Offices visited, the Regional Managers had established effective lines of communication across the three project components which made them more visible. However, they were continuously challenged by having to cover many provinces within their respective regions, security challenges which limited their access to remote provinces and districts, and difficulties in filling positions.

OAI was not able to make an assessment because a detailed analysis was not available to justify the structure, the staffing levels and numbers as well as the costs of maintaining the Regional Offices.

2. <u>Common services provided by the Office</u>: The Project was charged very high costs for common services provided by the Office, such as $1,525 a month for a gardener, $1,750 for a cleaner, and $2,612 for a plumber/carpenter/mechanic. These services could have been outsourced at a much reduced cost. For instance, cleaning services could be outsourced to local companies at a monthly cost of $260 per person as indicated in OAI's report on the audit of the General Administration function in UNDP Afghanistan (Audit Report No. 1287), which is much less than the $1,750 that was being charged from the Project. The Office charged $2.2 million from the Project for common services, which was 8 percent of the total project expenditure of $27.2 million incurred during the audited period.

3. <u>Basis of cost recovery for support services</u>: UNDP's cost recovery policy states that the basis for determining costs for support services is actual costs for clearly identifiable transactions. The Office charged $0.2 million based on the universal price list in 2013 for support services rendered to the Project. The Project Management Unit had an operations team headed by an international staff member at the P4 level and 13 other personnel who actually performed most of the processes for every transaction relating to these services. However, the Office still charged the Project for the full amount of the transaction fee in the universal price list. For instance, the human resource business processes, such as recruitment, contract renewal, and performance evaluation were mainly performed by the Project Management Unit's operations team, but the Office recovered costs as if they undertook all of these tasks.

4. <u>Frequent and unnecessary travel</u>: The Project incurred travel expenses of $0.5 million during the audit period (3 percent of the $16 million in expenditure disbursed by UNDP directly for the audit period). Most of these travel expenses were incurred from travels abroad by the Project Manager and staff between Kabul and provincial offices. The IDLG considered that most of the travels between Kabul and the provinces were frequent and unnecessary because the Project already had a decentralized structure. Further, concerns were raised on travel abroad by the Project Manager. For instance, during the audit period, OAI observed that he travelled to the United Arab Emirates twice to mobilize resources, but as at the time of the audit, no funds from that country had been received. The Project Management Unit explained that the Project Manager's mission to the United Arab Emirates generated positive results in line with the mission plan, as an arrangement was made with the Dubai School of Governance to train provincial government officers there, although no further details were shared as to the number of such trainings undertaken and if more cost efficient options for such trainings were considered.

The Project Management Unit explained that the Project's comprehensive sub-national mandate in the Country's provinces, districts and municipalities involved higher management and administrative costs to mitigate certain risks and challenges, in comparison with similar programmes in other countries. This is because of the costs of working from and living in Minimum Operating Security Standards compliant offices and residences as well as in implementing projects in highly insecure areas across the Country.

Subsequent to the audit fieldwork, the Project Management Unit explained that in their analysis, only about 20 percent of total project expenditures were spent on management costs. OAI was not able to verify the accuracy of this statement based on evidence provided. Instead, OAI was shown a letter from the Project Manager to the IDLG indicating that 47 percent of project expenditures in 2013 were spent on project management and administrative costs. As earlier indicated, this was another indication of the lack of common understanding among the main stakeholders on what exactly constituted management costs and its reasonable ratio against total project expenditures, what was the most economical way to provide common services, and the basis for determining reimbursable costs for support services.

High management and administrative costs may result in the risk of the Project having fewer resources for undertaking programmatic activities and delivering results.

Priority	High (critical)

Recommendation 3:

Undertake an extensive cost analysis and a cost reduction exercise by:

(a) reviewing the existing project management structure and instituting one that is streamlined and adequately reflects its technical advisory and capacity-building role and have this approved by the Project Board; and
(b) implementing cost-saving measures by exploring opportunities for outsourcing common and support services, minimizing non-essential travel, as well as entrusting additional responsibilities to Regional Offices where applicable.

Management action plan:

Four Regional Offices are being closed in January 2015 and the Office has taken a series of measures to reduce the cost of support services and common services, such as: (a) outsourcing security services; (b) outsourcing cleaning services; (c) developing new templates for a more detailed accounting for cost-recovery of support services; and (d) having a new contract and supplier for the provision of internet services. Travel needs will be thoroughly assessed and closely monitored.

Estimated completion date: February 2015

B. Project management

Issue 4 Ad hoc monitoring of Project and inadequate reporting on progress

The 'Programme and Operations Policies and Procedures' stipulate that when implementing a project, UNDP must ensure that the project is making progress towards intended outputs and that resources entrusted to UNDP are utilized appropriately. However, monitoring of this Project was undertaken in an ad hoc manner and project progress reports lacked information on progress made towards its intended outputs and outcomes.

A review of the back-to-office monitoring reports highlighted the following weaknesses:

1. Ad-hoc monitoring of projects with very limited coverage and inadequate reports

Project monitoring was occurring at various levels. The Project Management Unit together with the Project's Regional Offices and the Office undertook various monitoring activities based on their respective monitoring plans, and these were not coordinated and were ad hoc in nature.

- Field visits conducted by the Regional Offices and Project Management Unit were undertaken on an ad hoc basis and not linked to the monitoring and evaluation plan they had prepared. The Office and the IDLG commented that some of the monitoring visits conducted by the Project Management Unit may have been redundant because these could have been more effectively undertaken by the Regional Offices, as they were closer to the provinces. As also stated earlier, these visits contributed to the high amount of travel expenses (please refer to Issue 3).

- The relevant monitoring reports made no reference to the project indicators and annual targets to be monitored. Observations recorded in the back-to-office reports were not well captured, and the follow-up of issues identified were not clear. For example, the loss of a project motorcycle was raised in a field visit report dated February 2013 and the same issue was again mentioned in a field monitoring report one year later. This indicated that no follow-up actions were taken to address issues raised during monitoring visits. Similarly, the follow-up of issues relating to the return of project laptops, cameras and cheque books by project personnel was not documented; therefore, it was unclear whether these issues were resolved.

- There was minimal assurance by both the Project Management Unit and the Office over programmatic activities, such as indicating the timely implementation of project activities or assessing the quality of work undertaken by the LOA staff and clearly linking these to the project outputs, indicators and baselines. Out of over 80 back-to-office reports reviewed, less than 10 were specifically dedicated to monitoring project progress. The other monitoring reports mainly focused on the operational aspects of the Project, such as financial liquidation, assets, procurement, and did not state the programmatic indicators to be monitored, nor the targets to be met as indicated in Annual Work Plans.

- There was also no indication of adequate risk recording, monitoring and management. The risks of political support, stakeholder engagement, lack of baseline information, lack of qualified human resources and fraud and corruption that were identified in the project document were not monitored nor assessed for regular updating. Key risks such as security issues, challenges in the timely liquidation of advances, and the less than ideal working relationship with the IDLG were not documented in the monitoring reports.

The Project Management Unit had developed a field visit report format template; however, there were no output indicators against which progress was to be measured, or the annual targets to be achieved.

2. Weaknesses in reporting on the progress of the Project

- It was difficult to assess from the reports the real progress made, mainly because of missing or ambiguous indicators.

- The 2013 Annual Report of the Project did not mention the overall Country Programme Document outcome and the Project's contributions to the outcome. The report lacked a substantive reflection of what the cumulative progress was, with no data on quality and impact. Capacity development scores were indicated in the Annual Report; however, the rationale behind these scores was not explained.

In addition, the Final Evaluation Report stated that the quality of outputs was not always measured, and therefore impacted project outputs not fully achieved. It also stated that the consistent increase in budget expenditures did not seem to reflect increased levels of output delivery. Despite the increase in expenditures from $4 million in 2010 to $21 million in 2013, a substantial number of planned activities were either not implemented or not yet completed.

OAI had made an audit recommendation for a similar issue on project progress reports in the audit Report No. 1062.

The absence of regular and proper project monitoring and reporting undermines the credibility of progress reports and puts at risk the reputation of UNDP as an effective administrator of multi-donor funded programmes.

Priority	High (Critical)
Recommendation 4: Improve project monitoring and reporting by: (a) preparing a monitoring plan with the relevant elements to be monitored, baselines, progress indicators towards annual targets, overall project outputs, and an indication as to which offices will undertake monitoring activities and when; (b) revising the monitoring report template to include indicators of progress, both qualitative and quantitative; (c) documenting the follow-up actions to address challenges and issues identified during the monitoring missions; (d) updating of project risks to indicate current status and mitigating actions taken; (e) establishing a robust reporting process, with quality checks undertaken to ensure that progress are accurately reported against indicators, and that reporting is linked to the results chain; and (f) ensuring that results of monitoring activities are brought to the attention of the relevant decision makers for their appropriate decisions or actions.	
Management action plan: All points will be observed in the Project's 2015 monitoring plans and reporting.	

Estimated completion date: June 2015

Issue 5 <u>Weaknesses in project planning, implementation and oversight</u>

The 'Programme and Operations Policies and Procedures' require that Annual Work Plans identify specific annual targets that are to be approved by the Project Board well in advance of the implementation period. It states further that the Project Board is also responsible for making by consensus, management decisions for a project when guidance is required by the Project Manager. A review of the project planning, implementation and oversight highlighted the following weaknesses:

1. Delayed presentation and approval of the Annual Work Plans for 2013 and 2014

The 2013 Annual Work Plan was endorsed by the Office and the IDLG in February, but was only presented to the Project Board on 3 April 2013. The minutes of the Board did not specifically reflect an approval of the plan with a budget of $18.6 million, however, OAI was provided with a copy that was duly signed by the Project Manager, the UNDP Country Director, and a representative from the Government.

In 2013, only two 6-month advances were made to responsible parties instead of the planned quarterly advances, with the first disbursements made in May for payments of salaries of LOA personnel for the first five months of 2013. In addition, provincial governors' offices, such as Bamyan, received their funding significantly late, and based on monitoring reports reviewed, they were given only three days to expend the full sum. The primary reason for the late disbursement of advances to responsible parties was due to delays in the approval of the Annual Work Plan and revisions done in the LOAs. In addition, as a result of the above delays, 6 out of the 11 annual targets were either delayed or off-target, as stated in the 2013 Annual Report.

The 2014 Annual Work Plan was approved on a "no-objection" basis by the Project Board in June 2014, halfway through the year. The late preparation of the Annual Work Plan was due to the slow adoption by the IDLG of the National Technical Assistance Policy and the delayed approval by the Board was due to the inability to hold a Board meeting until after the elections in April. These then delayed the work planning for the provincial and municipal level partners. The LOA staff whose contracts ended in December 2013 were working without valid contracts up until June 2014, since first project disbursements were only made in July. Knowing beforehand that there would be elections in the second quarter of 2014, the 2014 annual work planning process should have been initiated at the end of 2013, well in advance of the elections period.

By September 2014, the Project had expended only $6 million out of a projected $24 million in expenditure (25 percent of the overall budget).

Management explained that while Annual Work Plans were drafted well before the end of the year, approval and signature were delayed due to the lengthy amount of time taken to negotiate allocation of resources with the government counterpart.

Delays in the preparation and approval of work plans puts at high risk the effective and timely implementation of a project which would not only result in waste of resources but also missed opportunities for the successful achievement of objectives.

2. No direct linkage between the Annual Work Plans of the Project and of those developed at the Regional Office levels

Annual work plans were also developed at the regional level; however, their annual targets were not aligned with those in the overall Annual Work Plan of the Project. Therefore, it was not possible to determine the linkage between the regional and project work plans although the Regional Offices were a significant component of the Project Management Unit.

3. Some project components not implemented

The project document also sets out a programme of research to be developed related to sub-national governance and will assist UNDP, donors and the Government with improving their programming and implementation strategies. The subjects of research to be undertaken throughout Phase II were: (a) drivers of change in sub-national governance; (b) responsiveness of local governance; (c) sub-national social capital; and (d) Afghanistan Early Warning System. During the audit, none of these research studies were undertaken nor was the project document amended to indicate that these research programmes would be pursued at a later date. When some components of a project are not implemented and no clear decision is taken if there are any changes, it puts at risk the delivery of expected results and a fair and an adequate evaluation of achievement of objectives.

4. Inadequate Project Board oversight

As recommended by OAI in 2013, the Project Board agreed (in April 2013) to increase the frequency of their meetings to at least three annually, or four when required. However, only two Project Board meetings were held in 2013, and in 2014 (up to the audit fieldwork date) the only meeting was held in June. The Project Management Unit noted that no Project Board meetings were convened prior to June 2014 due to the presidential elections and the unavailability of government officials and donors.

A review of the minutes of Project Board meetings revealed that the Project Board did not deliberate on key issues, such as the implementation of the National Technical Assistance policy, delays in project implementation resulting from delays in advances and liquidations relating to the Letters of Agreement, the quarterly project progress and the challenges related to the less than optimal relationships between the Office, Project Management Unit and IDLG. Although there were brief presentations made on the results of the evaluation, the status of the 2012 DIM audit, and the NIM audit for financial year 2013, no decisions or actions were taken. Further, the minutes were inadequate, as they did not explicitly record the conclusions or specific decisions on the agenda items that were proposed or deliberated by the Board.

OAI had raised a similar issue on inadequate Project Board oversight in Report No. 1062.

A Project Board with weak oversight and the inability to meet frequently and take decisions is likely to be disregarded and undermined, which has consequences on the efficient and cost effective implementation of the project. Minutes of meetings with no explicit conclusions increase the risk of misunderstandings or having different interpretations of decisions, with no one being accountable for taking actions. All this could result in reputational risks that could discourage donor support for the Project.

Priority	High (Critical)
Recommendation 5: Improve project planning, implementation and oversight by ensuring that: (a) work plans are prepared and approved before commencement of the year of implementation; (b) Project Board meetings are planned well, conducted regularly to review and approve important programme instruments such as the Annual Work Plans and progress reports or take decisions and that all these are adequately documented in their minutes; (c) issues affecting the Project that are beyond the control of the Project Manager or other main players are escalated to the Project Board for immediate resolution; and (d) any substantive changes affecting the project outputs are discussed and endorsed by both the Local Project Appraisal Committee and the Project Board through a revised project document.	
Management action plan: The Project's activities will be organized in a reduced manner and Project Board meetings will be planned well in advance for the next six months of 2015 based on the assumption that the Government's new plans for sub-national governance are put in place soon. **Estimated completion date:** June 2015	

Issue 6 Project baselines, indicators and targets not well defined

The 'Programme and Operations Policies and Procedures' require that the project outputs and the indicators be specific, measurable, achievable, realistic and time-bound to enable appropriate monitoring. A review of these project baselines, indicators and targets highlighted the following weaknesses:

- Similar targets were repeated in the Annual Work Plans for 2013 and 2014, such as the three laws to be approved and three key legislations drafted. These three laws had already been drafted in 2013 and were awaiting approval by the Parliament, so these should not have been reflected in the 2014 Annual Work Plan.

- Some output indicators were not specific. For example, indicator 1.3 in the 2013 Annual Work Plan stated, "regular monitoring of the deliverables achieved via National Technical Assistance positions supported via central LOA ensured and alignment of these deliverables with the project and National Priority Programmes on Local Governance deliverables ensured." This indicator was not only confusing, but was articulated as an activity, thereby rendering it unmeasurable.

- Baselines were provided as percentages without an indication of the actual numbers, which would have facilitated the accurate monitoring of progress.

- A number of indicators were activity-related rather than output-related. For example, the indicator "monitoring and evaluation system for sub-national governance established" only referred to the activity of establishing the system, rather than stating that it was implemented and functional. Qualitative indicators were generally absent.

- Some baseline figures in the 2014 Annual Work Plan seemed to have declined compared to previous years, as a result of project interventions in previous years. For Output 2, the baseline for Tashkeel staff (government staff in Afghanistan) who had received training on the office manual in the provincial governors' offices was 59 percent in 2013. However, the 2014 Annual Work Plan showed a baseline of 20 percent only, the reason being, as Management explained, was that it included data from 2009 (baseline data for Phase II of the Project) while data used for the 2013 Annual Work Plan was from a different time period.

As a result of these weaknesses, the Project's accomplishments were unclear, with a significant focus on inputs and activity-level outputs, rather than what was actually achieved in terms of overall progress towards project outputs and outcomes.

The absence of proper project baselines, clearly articulated indicators, and measurable targets may increase the risk of not being able to properly track and monitor project progress and achievements against the intended project outputs and outcomes. This could also increase the risk of having differences in the views of the main stakeholders on progress achieved.

Priority	High (Critical)
Recommendation 6: Formulate a complete and well-designed instrument for monitoring and assessing the progress of projects by: (a) identifying indicators that are specific, measurable, attainable, relevant and time-bound and consist of a mix of quantitative and qualitative indicators; (b) determining and setting baselines for measuring change; and (c) explicitly stating targets of desired levels of change to be achieved, as measured by specific and measureable indicators, over a specified period of time.	
Management action plan: All points will be observed in the 2015 Annual Work Plan to the extent applicable and feasible for the remaining six months. **Estimated completion date:** June 2015	

Issue 7 Ineffective use of Letter of Agreement

The IDLG signed an LOA with UNDP which set out roles and responsibilities, resources, activities and expected results. One of the important provisions of the LOA was on how technical staff who would fill the capacity gaps in the IDLG were to be selected, hired and compensated (referred to herein as LOA staff). As in previous audits, OAI continued to observe the following weaknesses in implementing the Agreement, as follows:

1. The IDLG had consistently claimed that the Project supported 87 LOA staff, but the Office and the Project Management Unit had yet to validate this. Despite repeated efforts by the Office, the IDLG had not agreed

to verification by UNDP of the existence and number of LOA staff actually working on the Project as well as their contribution to the delivery of project outputs. Such refusal was not documented.

2. Both the provincial and municipal level partners indicated that the LOA staff were not providing the required level of capacity development, and in some cases, reported that they were actually substituting for the government staff that they were to train. Therefore, the transfer of knowledge and skills was not evident.

3. Since staff recruitment for the provincial and municipal level partners was unilaterally undertaken by the IDLG, the provincial governors' offices noted that those selected did not necessarily meet their specific capacity needs.

4. In 2013, the IDLG recruited 40 personnel without notifying or involving the Project Management Unit, as required by the standard operating procedures established under the LOA.

5. The IDLG authorized salary increments for its 87 staff without the required consultation with the Project Management Unit or the Office. In addition, the Office noted that 13 of these LOA staff received salary increments in 2013 amounting to $72,000. It was subsequently determined, through the quarterly review of liquidation reports, that these staff were not eligible and therefore the salary increments should have been recovered.

6. Required reports were not being submitted by the IDLG to UNDP, particularly from the central level, making it difficult to verify the activities of LOA staff. The Regional Offices were, however, able to verify staff activities at the provincial/district and municipal levels.

7. In early 2013, the IDLG unilaterally introduced a manual for managing the LOA staff working at the offices of the IDLG, provincial governors and municipalities, without consulting the Project Management Unit. As a result, these LOA staff at the provincial and municipal levels did not send reports to the Regional Managers, but directly to IDLG. This was resolved only at the end of 2013 through discussions with the Project Management Unit; therefore, for almost a year, the Regional Managers were unaware of the activities undertaken by the LOA staff at the sub-national level.

The Project Management Unit had followed up with the IDLG to address some of the issues; however, they remained unresolved.

The weaknesses mentioned above along with the lack of consultations regarding the LOA hindered the delivery of project outputs, diverted the focus from resolving LOA related issues, and contributed to increased tension among the Project Management Unit, the Office, and the IDLG.

Priority	High (Critical)
Recommendation 7: Ensure effectiveness of the Letter of Agreement by: (a) reviewing its use by the responsible parties, such as considering gradual downsizing of the LOA posts in order to transfer responsibilities to government staff, and having the handover coordinated with the relevant authorities (such as the IDLG and the Civil Service Commission) to ensure that gains made through project interventions are not lost in the process; and (b) revising the standard operating procedures to reflect the appropriate modus operandi relating to the	

IDLG, the provincial and district governors' offices, and the municipal level offices; and (c) developing clear rules of engagement among the IDLG, the Project Management Unit and the Office to ensure that their roles and responsibilities in the management of the Agreement are well-understood.
Management action plan: A minimal number of LOA staff will be used and the number of LOA staff will be gradually decreased to approximately 200 in 2015. The focus will be on capacity development of Tashkeel staff. In addition, the operation of the LOA has been improved subsequent to the audit fieldwork date with the closure of all remaining bank accounts of the provincial governors' offices and municipalities and with direct payments of salaries of LOA staff based on their delivery reports and timesheets. An additional interoffice memo to supplement the standard operating procedures was issued, explaining how to implement LOAs after the closure of the bank accounts. The change management process which began in November 2014 would clarify roles between the Project Management Unit and Programme Unit. The role of the government counterpart will be determined once there is clarity on the future government structures that will support the sub-national levels. **Estimated completion date:** June 2015

Issue 8 Phase II ending in 2014 with no capacity assessments done

The 'Programme and Operations Policies and Procedures' require that capacity assessments of implementing partners and responsible parties be undertaken to determine the appropriate project implementation modality and support for the capacity development of the partner. This includes the assessment of cash disbursement methods to ascertain the levels of risks and controls on the processes and adopt the applicable procedure for defraying project expenditures.

The capacity assessment of the IDLG as the main implementing partner was planned and budgeted for in 2013; however, this had yet to be undertaken. The Project Management Unit initiated the procurement process in early 2013. When the evaluation of bids was completed, the Office decided that this should have been part of the broader exercise of assessing all implementing partners, and done jointly with other UN agencies operating in the Country. Thus, the terms of reference were then expanded to include all implementing partners in the capacity assessment which was planned to be undertaken in 2015. The Office signed a contract with an audit firm on 18 September 2014 to undertake capacity assessments of eight implementing partners, including the IDLG. During the Project Board's meeting of June 2014, the IDLG indicated that a lot of work had been done during the first two phases of the Project. However, with the absence of a capacity assessment, the achievement of the Project's focus on capacity enhancement of the IDLG and of the staff could not be properly ascertained.

The absence of a capacity assessment, particularly on the cash disbursement methods, prevented the Project Management Unit from ascertaining the levels of risks and controls put in place and the applicable procedures for defraying project expenditures adopted by the responsible parties. Therefore, when the Unit enhanced controls in April 2014, different procedures were adopted for the IDLG and for the provincial governors' offices and municipalities, without ascertaining the risks and controls in these offices (please refer to Issue 10).

The untimely cancellation and the protracted resumption of the initial procurement process (more than a year) had resulted in the waste of critical resources in terms of time and effort. This again demonstrates the inadequate communication and lack of consultation between the Office and the Project Management Unit.

OAI had raised a similar issue on LOAs together with recommendations in Report No. 1062.

The lack of capacity assessments of implementing partners puts at risk the development of practical working arrangements and meaningful performance indicators for effective project implementation.

Priority	Medium (Important)
Recommendation 8: Undertake the planned capacity assessments of the responsible parties and implementing partners.	
Management action plan: The newly elected Government has yet to articulate its agenda and priorities, and provide greater clarity on the government structures that will support the sub-national level. It is not yet clear how the new Government will organize the IDLG or a successor organization. A micro-assessment of the IDLG will start as soon as its future shape is clarified. Given that this is likely to take more time and that the Project will end in June 2015, the micro-assessment will be undertaken in the context of the formulation of the new sub-national governance project. **Estimated completion date:** To be determined, subject to government decisions.	

C. Operations

1. Human resources

Issue 9 Weaknesses in management of positions, performance and recruitment processes

The review of human resource management relating to the Project disclosed the following weaknesses:

(a) Human resource plans not updated to reflect exact number of approved project posts

There was no definite number of approved project positions for 2013 and 2014. The number of positions reflected in the human resource plans (103 for 2013 and 92 for 2014) were not consistent with those reflected in the organogram for the Project. OAI attempted to determine the number of positions by taking into account the number of vacant positions between January 2013 and early 2014, but the number arrived at did not reconcile with the 113 positions reflected in the October 2012 plan (when the Project Management Unit established) as it appeared the actual number of project staff positions was higher than what was indicated in the human resources plan. The Project Management Unit explained that all plans are discussed and reviewed by the Human Resources and Programme Units, and based on these reviews, amendments are made. However, such amendments or revisions had not been adequately reflected in the human resources plans, hence, there was no definite number of duly approved project positions. This situation may increase the risk of not having the correct number of posts, as indicated in the human resource plans.

(b) Performance management development process not completed within deadline

The yearly performance management and development process for staff should be completed by 31 March of the subsequent year. However, at the time of the audit, the Project Management Unit had not fully completed the process. The performance management and development process of one senior staff member for 2013 had not been completed. At the time of the audit fieldwork, 11 staff had not yet completed the 2014 planning phases of their performance management and development process. OAI conducted an audit of the Office's overall human resources management in 2014, which included the Project (Report No. 1286 issued on 3 June 2014). As that report included a recommendation on the timely completion of performance development, and as that recommendation was also applicable to the Project, no separate recommendation is being made in this regard.

The review of completed staff performance management and development processes indicated that key results of staff were not specific and that assessments were generally subjective without making reference to achievements made in comparison to key results established. Examples of very general indicators for performance assessments are: "Assist provincial governors' offices in creating more opportunity for women to work with sub-national governance entities and participate in governance and development" and "Assist in developing and fostering an enhanced level of partnership and cooperation among provincial governors' offices, provincial councils, donors, directorates." Given the general description of the indicators, it was difficult to determine and assess the staff's direct and specific contributions towards the project outputs.

(c) Weakness in recruitment processes

Recruitment processes are guided by the principles of competition, objectivity, transparency, diversity and accountability as set out in UNDP's 'Recruitment and Selection Framework.' OAI reviewed three recruitment cases and noted weakness in one case. The Office and the Project Management Unit conducted a recruitment process for three positions (Regional Managers in Kandahar, Kunduz and Jalalabad) without interviewing applicants, as the Office was authorized to undertake "fast track" measures. However, the scoring sheets that documented key information, such as summary of relevant work experience and number of years of experience, were left blank. Additionally, reasons for disqualifying a long-listed candidate who met all requirements were not stated. Finally, the candidate ranked first by the selection panel was not recruited. The Project Management Unit indicated that the concerned candidate rejected the offer, but at the time this report was being drafted no documentation had been made available to confirm this.

In the absence of complete documentation, there is limited assurance that recruitment processes are transparent, fair, and competitive, and in line with the 'Recruitment and Selection Framework.'

Priority	Medium (Important)
Recommendation 9: Improve performance management and recruitment processes by: (a) establishing specific and measurable performance indicators and targets and monitoring these accordingly; and (b) undertaking all the relevant activities in the recruitment process and adequately documenting them.	

Management action plan: The Project will ensure compliance with the corporate human resource rules and procedures. **Estimated completion date:** June 2015

2. Financial and cash management

Issue 10 Inadequate oversight of bank accounts and poor management of cash advances

A review of the Project's financial and cash management processes highlighted the following weaknesses:

(a) All bank accounts of responsible parties had not been closed

As previously recommended by OAI in Report No. 1062, Recommendation No. 3 (a), the Office is to close all bank accounts opened by responsible parties (provincial governors' offices, municipalities and IDLG) to minimize UNDP's financial risk. During this audit, 32 out of the original 108 accounts were still active and were yet to be closed. Further, the Project Management Unit had not regularly obtained the bank statements to determine usage and monitor balances of these accounts. The Project Management Unit followed up on the closure of these bank accounts with the concerned provincial governors' offices and municipalities as well as with the IDLG. Failure to close the bank accounts may increase the risk of these accounts being misused and may have an adverse effect on UNDP's reputation.

OAI raised a similar issue on bank accounts in Report No. 1062, although no recommendations were made in this regard.

(b) Inappropriate disbursement method for responsible parties

In April 2014, the Project Management Unit enhanced controls on disbursement methods for the responsible parties by making direct payments for project activities entrusted to the provincial governors' offices and municipalities. The practice of granting cash advances was discontinued in these offices, as it was determined that they had inadequate controls in their financial processes. For instance, a staff member misappropriated $41,000 in project funds in November 2013 in one of the provincial governors' offices, and this amount remained as a cash advance in their accounts. However, the change was not adopted for the IDLG, which had been granted $1.3 million in advances during the audit period. Given that the IDLG was based in Kabul, where banking facilities were available and making direct payments to vendors or project service providers could have easily be undertaken, the practice of granting of advances in this case was not adequately justified.

Further, the NIM audit report on 2013 expenditures noted that in multiple instances, the IDLG withdrew project funds, and then after a few months, re-deposited cash amounting to $200,000 in six separate transactions. Upon inquiry, the IDLG explained that they had temporarily used $21,000 for non-project related activities. Other control weakness included cheques not properly managed and some payments not adequately supported.

The adoption of cash disbursement methods for project expenditures that are not based on the existing levels of controls increases the risk of misuse of project funds. The practice of using funds for non-project related expenditures, even on a temporary basis, not only increases the risk of misusing funds, but is contrary to financial regulations and rules.

(c) Long-outstanding advances to responsible parties

The 'Programme and Operations Polices and Procedures' require offices that grant advances to responsible parties to monitor and ensure timely liquidation as well as take appropriate action for long-outstanding advances. As at 26 June 2014, advances amounting to $311,637 were outstanding for more than six months. This included advances to some responsible parties that had been outstanding since 2012 (e.g., $19,000 from the IDLG since 2012 and $41,000 that was misappropriated in November 2013 at the Ghazni provincial governor's office). Failure to recover long-outstanding advances may result in funds being idle and not used for programmatic activities. The Office indicated that they had made a police report on this alleged misappropriation and subsequently referred the case to OAI. This case is now closed.

OAI raised a similar issue on long-outstanding advances together with a recommendation in Report No. 1062.

(d) Expenditures by the IDLG not always documented

The IDLG and the provincial governors' offices, district governors' offices and municipalities did not always provide adequate supporting documentation for expenses incurred. As a result, the Project Management Unit could not assess the validity of the relevant expenditures incurred. This issue had been indicated in previous audits, including the NIM audit in 2014.

(e) Standard operating procedures not reflecting new payment procedures

The existing standard operating procedures for the management of LOAs had yet to be revised to incorporate the change in payment procedures from the granting of advances to sub-national partners to direct payments by UNDP. Outdated procedures may cause confusion for the users.

Priority High (Critical)
Recommendation 10: Strengthen the oversight of bank accounts and management of cash advances and expenditures by: (a) working closely with responsible parties to close the remaining 32 active bank accounts in the name of the provincial governors' offices and municipalities; (b) reviewing the process of granting cash advances to the IDLG and adopt direct payments for activities under the Letter of Agreement and advise them to immediately discontinue using project funds for non-project related expenses; (c) requiring that all expenditures be supported with adequate and appropriate documents; and (d) updating the standard operating procedures to reflect the direct payments being made to provincial governors' offices and municipalities.
Management action plan: Subsequent to the audit fieldwork, all provincial bank accounts have been closed. The IDLG has agreed in principle to close its account as well, but has not done so thus far. The Project Management Unit will continue to insist on the closure of one remaining bank account, as well as on full compliance with the Letter of Agreement and the standard operating procedures. Letters have been sent to the IDLG, advising them to discontinue using project funds for non-project related expenses. The Project Management Unit insisted that

all cash advances be cleared prior to the closing of 2014, and in all cases, the IDLG agreed in principle, but held back from clearing its accounts. Except for the IDLG account, clearance of advances is no longer applicable, as the bank accounts are closed and direct payment has been adopted. **Estimated completion date:** June 2015

3. Asset management

Issue 11 Weaknesses in recording and physical verification of project assets in storage

A review of the asset management processes highlighted the following weaknesses:

(a) Assets not included in Atlas (Asset Module)

Since January 2012, offices were required to enter project asset details in Atlas (Asset Module), but 12 assets amounting to $19,500 purchased in 2014 were not included. The Project Management Unit was liaising with the Office to manually include these assets in Atlas.

(b) Assets in storage not properly recorded and managed

The Project Management Unit did not have adequate control over assets kept in storage in Kabul. There were old, unused assets and damaged assets in storage, which had yet to be disposed of. These assets were not properly recorded in a list to control movement of assets in and out of storage.

Inadequate control and management increased the risk of misuse or loss of project assets.

Priority	Medium (Important)
Recommendation 11: Enhance controls and management of project assets by: (a) maintaining a complete, accurate and up-to-date list of assets in Atlas (Asset Module); and (b) ensuring that all assets in the Project's storage are safeguarded and movement properly tracked including proper disposal thereof, when necessary.	
Management action plan: Recommendation (a) has already been implemented and Recommendation (b) will be fully implemented by the end of February 2015. **Estimated completion date:** February 2015	

4. General administration

Issue 12 Inappropriate use of project armoured vehicles

UNDP's 'Financial Regulations and Rules' require that the head of the office be responsible and accountable for the effective and efficient use of UNDP resources. During the audit, the Office had 21 armoured vehicles, of which 12 were being used in Kabul and the rest in the Regional Offices. The total purchase cost of these 21 armoured vehicles was $3.1 million (average cost per vehicle was $150,000). The vehicles based in Kabul were mainly used for transporting 30 project staff between their homes to the Office every day. This service was being provided for free to national staff of the Project. Since these vehicles were being used exclusively by the Project and not included in the common pool of vehicles being used by the Office, they were kept idle most of the day. Given the high costs of the vehicles and their maintenance, the acquisition of these vehicles may not have been the best use of project resources. It was also not clear if all the national project personnel needed to be transported in armoured vehicles, since staff of other UN entities in Kabul were not using such vehicles.

The Office also provided shuttle services to their national staff and required them to pay $26 per month for these services. This showed the inconsistencies in practices between the Office and the Project.

Subsequent to the audit fieldwork, the Resident Representative, in a memo dated 25 September 2014, informed all UN national staff in the Country that transportation services would be discontinued from 1 January 2015. In the interim, all national staff who used the transportation services of the Office or of the projects would be required to pay the actual costs incurred by the Office. Hence, OAI is not making any recommendation pertaining to recovery of costs incurred from local staff that used transportation services provided by the Office.

Inappropriate use of the Project's assets may lead to the waste of resources.

Priority	Medium (Important)
Recommendation 12: Enhance the use of project vehicles by exploring options for a more cost efficient and effective use of the armoured vehicles.	
Management action plan: In late December, the Office decided to extend the use of shuttles for national staff until 31 January 2015. During this time, the Office will explore other options for better use of the armoured vehicles. **Estimated completion date:** February 2015	

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

- **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.