



**AUDIT**

**OF**

**UNDP AFGHANISTAN**

**SUPPORT SERVICES TO LAW AND ORDER TRUST FUND FOR AFGHANISTAN**  
**(Project No. 61104)**

**Report No. 1417**  
**Issue Date: 24 March 2015**

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## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office and the Project</b>	<b>1</b>
<b>II. Audit results</b>	<b>2</b>
<b>A. Organization and staffing</b>	<b>2</b>
<b>B. Project management</b>	<b>6</b>
<b>C. Operations</b>	<b>10</b>
1. Human resources	10
2. Financial and cash management	10
3. Procurement	11
4. Information and communication technology	14
<b>Definitions of audit terms - ratings and priorities</b>	<b>16</b>

## Report on the audit of UNDP Afghanistan's Support Services to Law and Order Trust Fund for Afghanistan (Project No. 61104) Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 10 November to 3 December 2014, conducted an audit of support services to the Law and Order Trust Fund for Afghanistan, Project No. 61104 (LOTFA or the Project), which is nationally implemented and managed by the Government of Afghanistan's Ministry of Interior Affairs (Government Implementing Partner). In April 2012, the Government Implementing Partner signed a Letter of Agreement with UNDP Afghanistan (the Office) for the latter to provide support services to the Project. The activities outlined the Agreement are directly implemented by the Office.

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, information and communication technology).

The audit covered the directly implemented part of the Project's activities under the Letter of Agreement and the Office's project oversight functions from 1 January 2013 to 30 August 2014. The Office's programme and management expenditures totalled \$729 million in 2013 and \$510 million from January to August 2014. The nationally implemented part of the Project had expenditures totalling \$491 million in 2013, and was audited by an external audit firm in 2014. Furthermore, OAI conducted a desk review of the Office's oversight on the Project's Monitoring Agent in 2014 (Report No. 1310, issued on 9 October 2014). OAI had also audited the Office's human resources management in February 2014 (Report No. 1286, issued 10 June 2014) and had taken results of that human resources audit into consideration when conducting this audit. Further, safety and security management was not included in the scope of this audit, as an audit of the Office's safety and security management that also covered the project had been included in the annual audit plan for 2015. The fieldwork for this audit was completed early March 2015. In addition, in regard to information and communication technology (ICT), at the time of the audit the Office had contracted an audit firm to review the Electronic Payroll System, and therefore, this audit only focused on the management of ICT in the Project.

Subsequent to the audit fieldwork, the Government and the Office signed an agreement in December 2014 (referred to as LOTFA Akheri), which stipulated that the Project's activities would be transferred to the Government over a six-month period from 1 January to 30 June 2015. The agreement also stipulated that the Government would decide on UNDP's future role and responsibility in regard to the Project at the conclusion of a mid-term review that was to be initiated late March. In addition, the Government reserved the right to give a 60-day termination notice. These conditions were taken into consideration when drafting the audit report.

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

### Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to delays in preparing project closure activities, unclear roles and responsibilities, and weak ICT management.

**Key recommendations:** Total = 8, high priority = 4

The eight recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 2); (b) reliability and integrity of financial and operational information (Recommendation 5); (c) effectiveness and efficiency of operations (Recommendations 3, 4, and 7); (d) safeguarding of assets (Recommendation 8); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 6).

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:

Delays in preparing project closure activities (Issue 1)

The Government and the Office signed an agreement in December 2014 (referred to as LOTFA Akheri), which stipulated that the Project's activities would be transferred to the Government over a six-month period from 1 January to 30 June 2015. The agreement also stipulated that the Government would decide on UNDP's future role and responsibility in regard to the Project at the conclusion of a mid-term review that was to be initiated late March. In addition, the Government reserved the right to give a 60-day termination notice. However, the Office had yet to prepare and initiate the closure activities of the Project to facilitate the transfer.

Recommendation 1: Plan and initiate project closure-related activities to facilitate the handover to the Government by: (a) complying with the 'Programme and Operations Policies and Procedures' relating to project closure; and (b) taking appropriate actions based on the results of the mid-term review, such as transferring the Project's management of human resources, finance, and procurement functions to the respective Office operations units.

Unclear roles and responsibilities at Office and Project levels (Issue 2)

There were shortcomings in the delegations of authority to Office staff that contributed to unclear roles and responsibilities at the Office and Project levels. There were also unclear timelines in the work of an international consultant who was hired in October 2014 to support the Office's senior management in planning and implementing a comprehensive change management process, including the delineation of roles and responsibilities at the Project and Office levels. While the consultant's terms of reference were very comprehensive, they did not include a timeframe for the conclusion of the activities or any milestones for seven key deliverables.

Recommendation 2: Establish clear roles and responsibilities at the Office and Project levels by: (a) conducting regular reviews of the delegation of authority to ensure that responsibilities and accountabilities are clearly defined and accepted by the concerned staff members; and (b) reassessing the terms of reference of the consultant for the change management process to ascertain if the key deliverables could be adequately delivered and indicating a timeframe for completing each one.

Implementation targets for Pillars 2 and 3 not met (Issue 4)

The 'Programme and Operations Policies and Procedures' provide that annual project work plans be prepared to indicate the results to be achieved and the corresponding estimated costs. A review of the financial expenditures under Pillars 1, 2, and 3 for 2013 and 2014 (to November) found that not all delivery targets were achieved in 2013 (except for Outputs 1 and 6). It was also unlikely that the targets for 2014 would be met, mainly due to delayed

found that not all delivery targets were achieved in 2013 (except for Outputs 1 and 6). It was also unlikely that the targets for 2014 would be met, mainly due to delayed approval of annual work plans for 2013 and 2014, recruitment and procurement delays and inadequate monitoring activities to ensure that the implementation of the Project was on target.

Recommendation 3: Strengthen project planning and implementation by: (a) initiating and monitoring recruitment processes well in advance to ensure that bottlenecks are addressed in a timely manner, and personnel with the requisite qualifications and experience are recruited; and (b) ensuring that risks and challenges, such as delays in the approval of annual work plans, procurement delays, and inadequate monitoring, are captured, mitigated, and addressed in a timely manner.

Weak ICT management  
(Issue 10)

The Project Management Unit did not have a Disaster Recovery Plan in place, did not establish a back-up system for data, did not have security measures in place to protect computer rooms against damage from fire and water and unauthorized access, and did not maintain a proper inventory of software and a list of respective users.

Recommendation 8: Improve ICT management by: (a) developing a comprehensive Disaster Recovery Plan; (b) establishing a system for backing up the Electronic Payroll System and critical files of the Project; (c) putting in place measures to protect the computer rooms against damage from fire and water and unauthorized access; (d) ascertaining the appropriate number of licenses needed to be procured and coordinate this with the Office's ICT Unit; and (e) maintaining and updating a complete inventory of all software and list of respective users.

### 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.



Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## I. About the Office and the Project

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 in 2013 and \$510 million from January to August 2014. The Project's total expenditures amounted to \$839 million during the same period (see Table 1 below).

LOTFA is the Office's largest project and accounted for 72 percent (\$524 million) of its total expenditures in 2013 and was expected to reach the same delivery rate in 2014. It is implemented by the Government. The Office established the Project in November 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. Since then, the Project has been extended six times. Phase VI of the Project was to end on 31 March 2013, but was extended up to 31 December 2014, in order to achieve higher delivery results under Pillars 2 and 3. These Pillars support the Government Implementing Partner's short-term priorities and reform goals as well as the implementation of the Project's Phase VII, which started in January 2015.

A Project Board that oversees the Project is co-chaired by the Government Implementing Partner and the UNDP Resident Representative, with representatives from the relevant government ministry and donor 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 as members.

A Letter of Agreement was signed in April 2012 between the Office and the Government Implementing Partner for the provision of UNDP support services to the Project. These support services included the recruitment of project personnel, training, and the procurement of goods and services. The Project has two components: (a) activities undertaken by the Government Implementing Partner that are nationally implemented; and (b) activities undertaken by the Office that are directly implemented.

An audit of the Project's nationally implemented component in March 2014 covered the 2013 expenditures, totalling \$491 million. The auditors rendered unqualified opinions on the Statements of Expenditures, Cash Position, and Assets and Equipment. However, the auditors raised the following four audit issues: (a) irregular reconciliation of data between the Electronic Payroll System and the Government's Afghanistan Financial Management Information System; (b) payroll disbursements outside of the Electronic Payroll System; (c) unsupported payment of food items; and (d) absence of a list of equipment maintained by the Government Implementing Partner.

This audit covered the Project's directly implemented component covering the period from 1 January 2013 to 30 August 2014 with expenditures of \$46 million incurred by UNDP. The table below provides the breakdown of expenditures incurred by the entities involved in the Project from 2013 to August of 2014.

Table 1: Details of the Project's expenditures 2013-2014 (to August)

Year	Government (a) \$ million	UNDP (Support Services) (b) \$ million	Others (c) \$ million	Other UN Agencies (d) \$ million	Total Exp. \$ million
2013	491 (audited)	28	2.3	2.7	52
2014 (Jan-Aug)	293	18	1.4	2.8	315
<b>Total</b>	<b>784</b>	<b>46</b>	<b>3.7</b>	<b>5.5</b>	<b>839</b>

Subsequent to the audit fieldwork, the Government and the Office signed an agreement in December 2014 (referred to as LOTFA Akheri), which stipulated that the Project's activities would be transferred to the Government over the course of a six-month period, from 1 January to 30 June 2015. The agreement also stipulated that the Government would decide on UNDP's future role and responsibilities in regard to the Project. During the transition phase from 1 January through 30 June 2015, the entire LOTFA team would be at the disposal of the Government for the provision of technical support, guidance and coordination in order to ensure a smooth transition. The Government would identify activities and functions over which it would begin to assume control over at various points within the transition period, based on benchmarks developed jointly with the donors<sup>1</sup> (refer to issue 1).

## II. Audit results

Satisfactory performance was noted in the following area:

General administration. A review of supporting documentation for 14 international travels found that the Project followed the most direct and economical routes and travel allowances were accurately computed. Further, 72 project assets were physically verified and no exceptions were noted.

OAI made four 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) Plan and initiate project closure-related activities to facilitate the handover to the Government (Recommendation 1).
- (b) Establish clear roles and responsibilities at the Office and Project levels (Recommendation 2).
- (c) Strengthen project planning and implementation (Recommendation 3).
- (d) Improve ICT management (Recommendation 8).

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

- (a) Enhance the monitoring and oversight functions of the Project (Recommendation 4).
- (b) Improve the process for purchasing fuel (Recommendation 5).
- (c) Improve the management of procurement documents (Recommendation 6).
- (d) Strengthen controls in the procurement process (Recommendation 7).

The detailed assessment is presented below, per audit area:

### A. Organization and staffing

The Project falls under the Office's thematic area, 'Justice and Rule of Law' thematic area, and under the management and oversight of the Senior Deputy Country Director (Programme).

As of November 2014, the Project had 10 international staff and 67 service contract holders. The Programme Manager (P6 level) was in charge of the day-to-day operations of the Project and reporting to the National Project Director and to the Office's senior management. The Project had the following three Pillars (components): (a) Afghan National Police and Central Prisons Department salary payment and payroll system; (b) institutional reform and capacity development of the relevant government ministry; and (c) professionalization of the Afghan National Police and Central Prisons Department for improved public safety

<sup>1</sup> Chapter II, Background, Law and Order Trust Fund for Afghanistan VII (LOTFA Akheri) Agreement, page 2

and security. Each component was headed by a Pillar Manager (P5 level). The Operations Manager (P5 level) who joined in September 2014 was managing the finance, procurement, human resources, and general administration functions of the Project.

The Regional Bureau for Asia and the Pacific and the Office enhanced controls and monitoring over the Project starting in October 2013, when a new Programme Manager was appointed, establishing closer communication with donors and the Government Implementing Partner. Furthermore, the Programme Manager and the team had taken some steps to address management gaps, such as taking timely actions on the issues and recommendations in the Monitoring Agent's monthly reports and issuing monthly (rather than quarterly) cash advances to the Government Implementing Partner to facilitate monitoring and liquidating of advances.

#### **Issue 1**      Delays in preparing project closure activities

The 'Programme and Operations Policies and Procedures' provide a list of actions to be taken by Country Offices when closing a project, including reporting all financial transactions within the prescribed period, processing personnel contract terminations and applicable entitlements, transferring the title of the project's assets to the Government, and record keeping. Some of these procedures are to take place even before the project actually ends its activities, to ensure that the project financially and operationally closes in an efficient and timely manner.

The Government and UNDP signed an agreement in December 2014 (referred to as LOTFA Akheri), which stipulated that the Project's activities would be transferred to the Government over the course of a six-month period, from 1 January to 30 June 2015. The LOTFA Akheri agreement also stipulated that following the conclusion of a possible 60-day termination notice period, the Project Management Unit would begin to scale down to a small core team of finance, operations, administration/asset specialists, and reporting specialists. This was decided on in order to manage the Project's closure in accordance with UNDP rules and procedures for trust fund closures, including staff termination of contracts and termination indemnity, final progress and financial reports, final donor reports, and final project audit and evaluations.<sup>2</sup> UNDP was to prepare a detailed closure plan and budget during the transition phase to ensure its readiness to handover the Project to the Government at the appropriate time. The LOTFA Akheri agreement indicated that the Project would be transferred to the Government, which would then decide on the Office's future responsibilities over the Project.

In this regard, the Office had yet to prepare and initiate the closure activities of the Project. Given the length of time involved in the closure of projects, the short transition period of six months and the potential 60-day termination notice period for the services of UNDP, the need for the timely preparation for the closure was apparent.

Not properly planning or initiating project closure-related activities may lead to unnecessary challenges during the transition phase. These challenges may have a negative impact on the relationship among UNDP, the Government, and donors. Furthermore, the challenges could negatively impact UNDP's reputation as a partner.

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<sup>2</sup> Chapter VII, LOTFA Operational and Financial Closure, Law and Order Trust Fund for Afghanistan VII (LOTFA Akheri) Agreement



<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
Plan and initiate project closure-related activities to facilitate the handover to the Government by:	
<ul style="list-style-type: none"> <li>(a) complying with the 'Programme and Operations Policies and Procedures' relating to project closure; and</li> <li>(b) taking appropriate actions based on the results of the mid-term review, such as transferring the Project's management of human resources, finance, and procurement functions to the respective Office operations units.</li> </ul>	
<b>Management action plan:</b>	
A team will be established for the preparation of the project closure plan, which will be supported by UNDP Headquarters and the Bangkok Regional Centre. The plan and implementation timeline shall outline the human resources and capacity support required from the Office, Regional and Headquarters levels. The plan will be endorsed by the UNDP Executive Office to ensure broader corporate support. The transfer of functions from the Project to the Office will be part of the project closure plan.	
<b>Estimated completion date:</b> 30 April 2015	

**Issue 2**      Unclear roles and responsibilities at Office and Project levels

The 'Programme and Operations Policies and Procedures' require the establishment of an organizational structure with clear reporting lines, roles and accountabilities to enable offices to achieve their objectives and deliver results. Furthermore, the UNDP 'Internal Control Framework' requires offices to conduct regular reviews of the internal controls in place to determine their effectiveness and efficiency.

In response to the Report on the Management Review of the Project (December 2012) and OAI's Management Letter (Report No. 1239, issued on 28 August 2013), the Office indicated that specific responsibilities and accountabilities of the Office's Senior Deputy Country Director (Programme), as well as of the Programme Unit and the Project Management Unit would be established.<sup>3</sup> However, the Office did not provide a timeline on the completion of these planned actions. Similarly, OAI's desk review of the Office's oversight of the Monitoring Agent of the Project indicated that the specific roles and responsibilities of the above units over the Monitoring Agent had not been articulated.<sup>4</sup> Additionally, at the time of the audit, the Office had made limited progress in establishing clear roles and responsibilities at the Office and Project levels.

Subsequent to the audit fieldwork, the Office shared a draft Note-to-File dated 25 October 2014 outlining the new or revised distribution of responsibilities among the Project Management Unit, the Programme Unit, and the Oversight and Compliance Unit in regard to the management and supervision of the work undertaken by the Monitoring Agent. In their response to the draft audit report, the Office explained that this Note was to be reviewed as part of the change management process. However, since the Note was a draft and was not yet signed by the Country Director, there was no evidence of its distribution to concerned staff, or of its implementation status.

In October 2014, the Office hired an international consultant to support the Office's senior management in planning and implementing a comprehensive change management process, including the delineation of roles and responsibilities at the Project and Office levels. The consultant's terms of reference were very

<sup>3</sup> Consolidated Updates on Main LOTFA Management and Implementation Recommendations and Action Plans (7 February 2014)

<sup>4</sup> Desk Review of UNDP Afghanistan's Oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan (Report No. 1310 issued on 9 October 2014), page 8

comprehensive, and included the following seven key deliverables: (a) change framework, outlining areas requiring further assessment; (b) change rationale and objectives, including work plan, budget, pilot initiatives, change management arrangements, communication strategies, benchmarks and risk management; (c) organizational assessments; (d) new organogram; (e) new standard operating procedures for key processes; (f) assessment and recommendations to improve management; (g) and coordination and internal controls and risk management. While these terms of reference were very comprehensive, they did not include a timeframe for the conclusion of these activities or any milestones for the seven key deliverables.

Additionally, there were shortcomings in the delegation of authority that also contributed to unclear roles and responsibilities at the Office and Project levels:

- The Operations Manager had been delegated as approving manager (level 2) in Atlas (enterprise resource planning system of UNDP), while the Programme Manager had been delegated as project manager (level 1). This presented the risk of management challenges because the Operations Manager was under the supervision of the Programme Manager.
- The Office’s Finance Analyst (national officer) approved 81 purchase orders for the Project totalling \$200,000 during the audit period. However, her delegation of authority did not include the approval of purchase orders for the Project, but was limited to management projects.
- The Office’s Operations Analyst (national officer) had been delegated an approving manager authority (level 2) for all projects for the procurement of services of individual contractors. For this purpose, the Project’s Operations Manager (P5) and Finance Specialist (P4) served as alternate approving managers only. However, this arrangement was ineffective, since the Project had a fully dedicated management unit, and since the Operations Manager and Finance Specialist had a better understanding of the Project’s needs.

Subsequent to the audit fieldwork, OAI was informed that the restructuring had been implemented for three units: Office of Finance and Oversight, Office for Strategy, Results and Communications, and the Executive Office. It was expected that the remaining areas would be completed by 30 June 2015.

Unclear roles, responsibilities, and accountabilities may result in key decisions not being made in a timely manner.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
Establish clear roles and responsibilities at the Office and Project levels by:	
<ul style="list-style-type: none"> <li>(a) conducting regular reviews of the delegation of authority to ensure that responsibilities and accountabilities are clearly defined and accepted by the concerned staff members; and</li> <li>(b) re assessing the terms of reference of the consultant for the change management process to ascertain if the key deliverables could be adequately delivered and indicating a timeframe for completing each one.</li> </ul>	
<b>Management action plan:</b>	
Both recommendations will be addressed by the ongoing comprehensive change management process.	
<b>Estimated completion date:</b> 30 June 2015	

**Issue 3**      Inadequate number of staff for Office's Programme Unit – Justice and Rule of Law

A programme management unit should be adequately staffed to undertake effective programme oversight over the project portfolio. The Office's Programme Unit on Justice and Rule of Law (JROL Unit) oversees the following three main projects: the Justice and Human Rights project, the Afghan Integrity Initiative, and the Project. It also indirectly works with the Gender Equality Project as well as other programme units.

During the audited period, the JROL Unit had one Coordinator on temporary assignment (P3), one Programme Officer (national officer) and two Programme Associates (General Service staff). The post for the Head of JROL Unit was only filled only in December 2014, after having been vacant since 2012, likely due to the challenging working environment in the Country, which made it difficult to attract suitable candidates.

The number of staff in the JROL Unit was not commensurate with the size, nature and complexity of the Project, and therefore did not have the capacity to carry out effective oversight over all of the projects under their responsibility. Although the Coordinator was the Officer-in-Charge, the lack of personnel in the JROL Unit resulted in gaps in oversight functions.

The lack of staff may result in critical risks not being identified, and issues not being adequately addressed in a timely manner, and may ultimately have an impact on the achievement of development results.

**OAI Comment**

As a senior international staff member already joined as Head of JROL Unit in December 2014, and given the uncertainties of the future role of UNDP in regard to the Project, OAI is not making a recommendation.

**B. Project management**

**Issue 4**      Implementation targets for Pillars 2 and 3 not met

The 'Programme and Operations Policies and Procedures' provide that annual project work plans be prepared to indicate the results to be achieved and the corresponding estimated costs.

A review of the financial expenditures under Pillars 1, 2, and 3 for 2013 and 2014 (to November) found that not all delivery targets were achieved in 2013 (except for Outputs 1 and 6). It was also unlikely that the targets for 2014 would be met.

Table 2: LOTFA Pillars budget and expenditure figures for 2013 and 2014 (to November)

Output	Pillar	2013 (\$ million)		2014 to 30 Nov* (\$ million)	
		Budget	Expenditure	Budget	Expenditure
Support to Law and Order (Output 1-77273)	1	514	507 (99%)	555	471 (85%)
Improving Efficiency (Output 2- 81409)	2	3.5	1 (28%)	47	2 (5%)
Capacity Development and Institutional Reform (Output 3-77274)	2	16	10 (65%)	8	6 (75%)
Police Gender Capacity (Output 4-81410)	2	3.5	0.5 (14%)	7	1 (13%)
Democratic Policing (Output 5 - 77275)	3	12	1.4 (12%)	13	6 (46%)
Technical Assistance (Output 6-78879)	PMU	3.0	4.3 (146%)	7	4 (57%)
<b>Total</b>		<b>552</b>	<b>524.2</b>	<b>637</b>	<b>490</b>

Source: Executive Snapshot as at 8 January 2015

\* At the time the final report was being prepared, final expenditures up to December 2014 had not been posted.

In 2013, Outputs 2, 4, and 5 each had a delivery rate of less than 30 percent. Furthermore, the total delivery for the three Outputs was \$3 million against a budget of \$19 million (or 16 percent).

In 2014 (to November), although Output 5 had increased its delivery rate (from 12 to 46 percent), there was a decrease in the delivery rates for Output 2 (from 28 to 5 percent) and Output 4 (from 14 to 13 percent). Furthermore, the total delivery for the three outputs was \$9 million against a budget of \$67 million or 13 percent.

The main reasons for the lower than planned expenditures were as follows:

- Delayed approval of annual work plans - The approval of the 2013 Annual Work Plan was delayed due to protracted negotiations with donors and the relevant government ministry on the extension of the Project, which was to end in March 2013. The initial plan for the first quarter of 2013 was approved on 28 January and the revised 2013 Annual Work Plan was signed on 6 May 2013. Similarly, the 2014 Annual Work Plan was only signed on 25 May 2014, due again to protracted negotiations among stakeholders, along with the elections that were held in April 2014.
- Recruitment delays - In some cases, suitable candidates could not be identified and some posts were temporarily placed on hold pending the finalization of Phase VII. In other cases, the relevant government ministry suspended recruitment pending the receipt of additional information.
- Procurement delays - The procurement delays occurred at the government as well as the Project and Office levels. These included procurement of services of consultants to undertake certain activities, such as training.
- Weak monitoring - Monitoring activities were not adequate enough to ensure that the implementation of the Project was on target (see Issue 5).

Management indicated that during the last quarter of 2013, the Office was occupied with issues relating to the Afghan National Police (e.g., tax calculations, pension, and physical presence), donor requests, and the Country's ongoing crisis. As such, according to the Office, there was limited time available for monitoring

LOTFA activities. However, there was no indication that any of these issues were brought to the Steering Committee's attention.

Management further indicated that the Project's Phase VI was extended twice (from March 2013 to December 2013 and from December 2013 to December 2014). The reasons for the extension were partly due to delays in completing the project design and in-country political events (i.e., presidential elections). Because of these extensions, the Project's work plans were outdated.

Not meeting set targets may have a negative impact on the reputation of UNDP and may affect donor confidence in UNDP's ability to efficiently manage projects and deliver results.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
Strengthen project planning and implementation by:	
<ul style="list-style-type: none"> <li>(a) initiating and monitoring recruitment processes well in advance to ensure that bottlenecks are addressed in a timely manner, and personnel with the requisite qualifications and experience are recruited; and</li> <li>(b) ensuring that risks and challenges, such as delays in the approval of annual work plans, procurement delays, and inadequate monitoring, are captured, mitigated, and addressed in a timely manner.</li> </ul>	
<b>Management action plan:</b>	
Recruitments under the six-month transition plan were done through detail assignment of UNDP staff, staff of other United Nations agencies, and from the UNDP rosters of national and international consultants. All long-term recruitments have been suspended.	
Additionally, the six-month work plan will be monitored by the Project on a weekly basis. The Project will also be developing an implementation plan for the first time. The Project will report to the Office on a bi-monthly basis to compare against the implementation plan. This will include a review of risks and identification of mitigation measures. Monthly progress reports will be submitted to the Office for review, and progress reports will be submitted to the Board every two months.	
<b>Estimated completion date:</b> 30 June 2015	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

**Issue 5**      Weaknesses in project management

UNDP's 'Handbook on Planning, Monitoring and Evaluating for Development Results' provides that programme and project assurance enhances the quality of monitoring. The assurance role includes periodic monitoring visits and spot checks. An effective monitoring plan should be prepared and should describe the activities and outputs to be monitored.

There were three entities responsible for project oversight: the Steering Committee/Project Board, the JROL Unit and the Project's staff doing the monitoring. The JROL Unit was responsible for the assurance function over the Project.

A review of the assurance function and related activities highlighted the following weaknesses:

- **Incomplete monitoring and evaluation plans** - The 2013 and 2014 monitoring and evaluation plans developed by the JROL Unit outlined general monitoring activities to be undertaken, such as the review of project plans, review of the Project’s monthly Monitoring Agent report, and project site visits. However, these responsibilities were not assigned to any specific programme staff. Indicators to be monitored were not identified, and data verification methods were missing. The estimated budget for the monitoring plans was not prepared and therefore it was not clear how the monitoring activities, specifically the project site visits, would be funded. Further, the 2014 monitoring and evaluation plan was identical to the 2013 plan. As such, both plans had the same deficiencies.
- **Limited project assurance missions** - The monitoring and evaluation plan stipulated that the JROL Unit was to undertake monthly field missions for assurance purposes. However, only two missions were undertaken in 2013 and one mission was undertaken in 2014. The report on the project monitoring mission to the Eastern Region in 2013 highlighted critical issues, such as irregularities in the payment of salaries, mismanagement of police food stocks, and low rate of recruitment of female police. There were also concerns related to the inaccessibility to areas such as Kunar, Laghman, and Nuristan, which posed challenges for the Monitoring Agent when conducting police headcounts and verifying food stocks. There was no documented evidence to indicate that these issues were followed up on by the JROL Unit or the Project Management Unit.
- **Other weaknesses** - Implementation levels under Pillars 2 and 3 were significantly low for both 2013 and 2014, and while the contributing factors were numerous, the JROL Unit was unable to undertake the essential oversight activities to ensure that these issues were flagged and relevant actions were taken. Spot-checks for operational functions, such as procurement and recruitment, were not evident at both the JROL Unit and implementing partner levels.

The absence of an effective monitoring system may have a negative impact on UNDP’s reputation in regard to its ability to successfully manage projects and achieve development results.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
Enhance the monitoring and oversight functions of the Project by:	
<ul style="list-style-type: none"> <li>(a) developing robust monitoring and evaluation plans at the programme level in line with UNDP’s policies and procedures; and</li> <li>(b) ensuring the timely monitoring and adequate oversight of all Pillars.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office’s comprehensive change management process includes centralizing and strengthening the monitoring and evaluation of the Project to ensure more systematic programme level monitoring in line with UNDP policies and procedures and designing the monitoring and evaluation framework in compliance with UNDP’s ‘Handbook on Planning, Monitoring and Evaluating for Development Results’. The design of the three year LOTFA Akheri Project Document included monitoring and evaluation plans, and a consultant recruited in 2014/15 is developing monitoring and evaluation frameworks to support all Pillars. As mentioned in Recommendation 3, the Office and the Project have put in place a rigorous monitoring and internal reporting structure during the six-month period.</p>	
<b>Estimated completion date:</b> (a) 30 June 2015. (b) 28 February 2015	

### OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

## C. Operations

### 1. Human resources

#### Issue 6 Weaknesses in human resources management

As of November 2014, the Project Management Unit had three service contract holders supporting its human resources management.

There were inadequate controls over the management of overtime, incomplete mandatory training courses, and incomplete personnel performance assessments. Specifically, a review of leave and overtime records of 29 personnel found that 15 personnel (11 drivers, 2 guards, and 2 cleaners) worked up to 40 hours of overtime per month between January and August 2014. The Project's Operations Manager explained that this was due to the limited number of drivers providing transport services to 85 international and national personnel. The guards and the cleaners had to be in the office before and after working hours to carry out their tasks. However, working excessive overtime should be discouraged for better performance, and for the health and well-being of personnel.

A total of 4 international staff and 16 service contract holders had not completed the mandatory training courses and security training, respectively, as of the end of the audit fieldwork. Furthermore, the 2013 performance assessment for three of eight international staff had not yet been completed and their 2014 key results had also not been set.

#### Comment

OAI conducted an audit of the Office's overall human resources management in February 2014. The issues on overtime, mandatory training courses and security training, and performance assessment were also raised in the audit report (Report No. 1286, issued on 10 June 2014, Recommendation Nos. 5, 7, and 8). In response to the recommendations, the Office established procedures in the administration of overtime and issued reminders to personnel to complete the mandatory and security training courses. Therefore, no separate recommendation is being made.

### 2. Financial and cash management

As of November 2014, the Project Management Unit had one international staff at the P4 level, and two service contract holders responsible for the Project's financial and cash management, who were all under the supervision of the Operations Manager. From 1 January 2013 to 30 August 2014, the Project processed 286 payment vouchers totalling \$7.7 million. A total of 77 vouchers totalling \$5 million (or 65 percent of total payments) were reviewed to determine whether the payments made were valid and properly supported and documented.

**Issue 7**      Lack of proper supporting documents for fuel purchases

The 'Operational Guide of the Internal Control Framework' for UNDP requires that offices must ensure that payments processed have adequate supporting documentation. A review of nine payment vouchers for the purchase of fuel totalling \$47,000 noted the following weaknesses on the supporting fuel slips:

- None of the fuel slips reviewed had the supplier's stamp as evidence that the purchase was legitimate and authorized.
- 155 of the 249 fuel slips (62 percent) reviewed totalling \$22,000 did not state the quantity of fuel delivered to the Project.

The Office believed that the signatures of the supplier's personnel on the fuel slips were sufficient indication of actual delivery of fuel. However, the supplier's stamp on the fuel slip would provide additional controls in ensuring that the purchase of fuel was valid.

OAI's follow-up of the audit of the Office's procurement management (Report No. 1124, issued on 30 July 2013) revealed that the recommendation relating to the weak management of fuel procurement, receiving, and distribution had not been fully implemented.

The lack of proper supporting documents does not provide assurance on the validity of the transactions and increases risks of incorrect payments.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
Improve the process for purchasing fuel by:	
(a) ensuring that fuel slips processed for payment reflect the quantity of fuel actually delivered to the Office; and	
(b) having the fuel slips properly stamped by the supplier.	
<b>Management action plan:</b>	
The quantity of the fuel received and vendor stamps are evident on every fuel slip. The issue on the vendor stamp has been brought to the attention of the Office for future consideration in the implementation of the long-term agreement with the fuel supplier.	
<b>Estimated completion date:</b> Implemented in December 2014	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

### 3. Procurement

As of November 2014, the Project Management Unit had one international staff at the P3 level, and two service contract holders for the procurement of goods and services and were all under the supervision of the Operations Manager. The Country Director delegated the authority to approve procurement requisitions to



the Programme Manager, and delegated the approving manager authority (level 2, up to \$30,000) to the Operations Manager and Finance Specialist.

From 1 January 2013 to 30 August 2014, there were 258 purchase orders processed totalling \$8.3 million for the Project. Of those, 38 purchase orders totalling \$3.7 million (or 45 percent) were reviewed to determine whether the Office complied with UNDP's procurement policies and procedures, and observed the weaknesses described below.

**Issue 8**      Weak management of procurement documents

The 'Operational Guide of the Internal Control Framework' for UNDP requires that adequate supporting documentation be maintained (e.g., documentation of a competitive procurement process) to support transactions recorded in Atlas and retained based on the organization's retention policy.

The Project Management Unit did not establish a proper documentation system and did not comply with standard operating procedures for keeping and maintaining procurement documents, including determining appropriate storage for original documents, as described below:

- Missing original copies of supporting documents - The Project Management Unit did not provide original supporting documents for three purchase orders amounting to \$19,000.
- Long-term agreement not used for purchase - The Office issued a purchase order amounting to \$55,000 for the provision of internet services to the Project for a period of one year starting in March 2014 even though the Office had valid long-term agreements with three internet service providers. The Project Management Unit did not provide documented justification for not using these providers.
- Inadequate filing procedures and lack of knowledge for the storage for documents - The Project's Procurement Unit did not have an organized filing system in place. In addition, the Project Management Unit's staff could not locate where original files were being kept. In response to the draft audit report, the Office indicated that it had already reorganized its filing system, and therefore, no recommendation is being made in this regard.

Without supporting documentation, there is no evidence to indicate whether the procurement process is competitive or in the best interest of UNDP. In addition, not having a proper filing system in place may result in documents being lost.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
Improve the management of procurement documents by:	
(a) establishing standard operating procedures and setting up systems for keeping and maintaining procurement documents, and designating a specific location where original documents are to be properly filed and retained; and	
(b) requiring all procurement personnel to comply with the standard operating procedures.	
<b>Management action plan:</b>	
The Office will develop standard operating procedures for keeping and maintaining procurement documents.	
<b>Estimated completion date:</b> 30 March 2015	

**Issue 9**      Protracted procurement process

The 'Programme and Operations Policies and Procedures' indicate that procurement activities support project outcomes, and therefore, should be conducted in a timely manner and at reasonable costs.

The procurement process in the Office was long and time consuming, as described below:

- In two cases, the procurement process for the purchasing of software and hardware (totalling \$32,000) took 67 and 121 days to complete.
- In September 2014, the Project Management Unit issued a request for proposal for the procurement of additional software and hardware, instead of using the Office's existing long-term agreement. This occurred because the Office's ICT Unit was not always consulted when procuring computer software and hardware, and the Project Management Unit maintained an incomplete list of long-term agreements.
- 19 out of 125 (or 15 percent) small value procurements (purchases of less than \$5,000) took between 32 and 121 days for the requesting unit to receive the goods. Out of these, six purchase orders were approved between 35 and 55 days from the time the requisitions were raised, and services/goods were delivered over 50 days after the corresponding purchase orders were processed.

The Managers of the Project's Pillars also expressed their concern regarding the delays in receiving the goods or services they needed.

The following reasons for the procurement delays were identified:

- The Project's Procurement Specialist indicated the lack of specifications from requesting units when submitting their requisitions, which resulted in longer processing times.
- Unavailability of long-term agreements with local vendors for goods (e.g., printer cartridges, mouse, cleaning materials, etc.) that are procured on a recurring basis.

During the audit of the Office's management of ICT (Report No. 1407, issued on 13 November 2014), OAI raised issues regarding inadequate oversight over the ICT infrastructure of development projects. In response to the recommendation, the Office indicated that a memo would be sent to the Project Managers, indicating that all ICT related procurement requests need to be cleared by the Office's ICT Unit. Therefore, OAI is not making a recommendation in this regard.

Delays in the procurement process may negatively impact the implementation of project activities. Also, not raising purchase orders in a timely manner increases the risk that sufficient funds will not be reserved for future transactions. Finally, not recording the costs of goods and services delivered in the appropriate financial period increases the risk that the Project will overstate or understate expenditures.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
Strengthen controls in the procurement process by:	
<ul style="list-style-type: none"> <li>(a) preparing a comprehensive procurement plan with full details of the goods and services required;</li> <li>(b) establishing long-term agreements with local vendors for goods procured on a recurring basis; and</li> <li>(c) ensuring the timely procurement of goods or services.</li> </ul>	

**Management action plan:**

A procurement plan has been developed using the standard UNDP procurement template and a process for the establishment of long-term agreements with local vendors for goods (e.g., cartridges, mouse, cleaning materials etc.) has been initiated.

**Estimated completion date:** 30 June 2015

#### 4. Information and communication technology

**Issue 10**      Weak ICT management

The Project had two server rooms – one for the domain controllers/ file servers, and the other for the Electronic Payroll System.

A review of the Project's compliance with ICT-related UNDP policies and procedures noted the following material weaknesses:

- Lack of a Disaster Recovery Plan - The 'Programme and Operations Policies and Procedures' require offices to develop a Disaster Recovery Plan to address challenges to business continuity. However, this requirement had not been met for the Project. The Pillar 1 Project Manager explained that a consultant had been hired to help develop a Disaster Recovery Plan for the Project. Nonetheless, the consultant indicated that the Disaster Recovery Plan would only ensure continuity of the Electronic Payroll System, and not for all of the operations of the Project. Project management was unable to provide an explanation for this arrangement.

Further to the audit of the Office's ICT management (Report No. 1407, issued on 13 November 2014) and as mentioned in Issue 9 above, OAI raised issues regarding the inadequate oversight over the ICT infrastructure of development projects. Specifically, the Office as well as the projects could benefit from coordination and/or oversight by the Office ICT Unit to improve efficiency and effectiveness, including ensuring that a Disaster Recovery Plan is in place. Management indicated that its ICT unit would be conducting spot checks of the projects' ICT infrastructure, including provisions for disaster and risk management.

- Lack of a back-up system - The 'Programme and Operations Policies and Procedures' require offices to: (a) establish back-up arrangements for the critical files on the shared drives and on individual computers; and (b) identify an off-site location to keep the back-up media. However, these requirements were not followed. The Project's ICT Associate explained that he was still waiting for the delivery of the back-up software and hardware, which was requested in September 2014, to be procured by the Procurement Unit. In the interim, files from the server were being backed up on a weekly basis using a personal external hard drive. There were no back-up arrangements in place for individual computers. With regard to the Electronic Payroll System data, Project personnel explained that two external hard drives were being used for weekly back-up. However, no log of back-up activities or dates was provided as evidence that this was being done regularly.

The Project had not yet identified an off-site storage for the back-up media. Therefore, the back-up media was either kept in the Project's safe or brought home by the Project's personnel. However, the use of external hard drives as back-up media and with no specific and secured off-site storage did not provide full protection against unauthorized access or against loss of data. Therefore, payroll data and other critical files were susceptible to loss or unauthorized access.

- Lack of physical security measures to protect computer rooms - The 'Programme and Operations Policies and Procedures' require offices to establish controls to protect the computer rooms against damage from fire and water and unauthorized access. However, these requirements were not followed for both server rooms. In addition, the server rooms did not have fire extinguishers and the floors were not raised to appropriate levels to protect the servers from water damage in case of flooding. The doors also did not have proper locks to prevent unauthorized entry to the server rooms. Furthermore, the Electronic Payroll System room was also being used as storage for office/computer supplies due to the limited space in the office.
- Lack of proper inventory of software - The 'Programme and Operations Policies and Procedures' require that an inventory of software and a list of respective users be regularly updated and properly maintained. The Project's ICT Associate reported that the Project purchased 50 licenses for the Windows operating system and Office 2013, and it planned to buy 50 more. However, there was no documentation to show how many licenses were actually sufficient to meet the needs of the Project. At the end of the audit fieldwork, the Project's staff list only showed 85 staff, which could have been less than the total number of licenses that the Office planned to have. In view of the recent developments in the Project, the required additional licenses might have been changed, which would require coordination with the Office ICT Unit.

Weak ICT management could increase the risk of the Office not being able to continue business operations in the event of a disaster or emergency. Any extended delays in resuming operations could affect the Project's ability to achieve its intended outputs.

<b>Priority</b>	High (Critical)
<b>Recommendation 8:</b>	
Improve ICT management by:	
<ul style="list-style-type: none"> <li>(a) developing a comprehensive Disaster Recovery Plan;</li> <li>(b) establishing a system for backing up the Electronic Payroll System and critical files of the Project;</li> <li>(c) putting in place measures to protect the computer rooms against damage from fire and water and unauthorized access;</li> <li>(d) ascertaining the appropriate number of licenses needed to be procured and coordinate this with the Office's ICT Unit; and</li> <li>(e) maintaining and updating a complete inventory of all software and list of respective users.</li> </ul>	
<b>Management action plan:</b>	
A Disaster Recovery Plan is being developed with the help of a consultant, which will also cover procedures for backing up critical files and the Electronic Payroll System, and maintenance of software inventory.	
<b>Estimated completion date:</b> 30 April 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.