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Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

ENHANCING LEGAL AND ELECTORAL CAPACITY FOR TOMORROW PROJECT- PHASE II

(Project No. 63078)

Report No. 1459

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Report on the Audit of UNDP Afghanistan
Enhancing Legal and Electoral Capacity for Tomorrow - Phase II
(Project No. 63078)
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of Enhancing Legal and Electoral Capacity for Tomorrow - Phase II (Project No. 63078) (the Project) from 14 to 23 April 2015. The Project was nationally implemented by the Independent Election Commission (IEC); however, many activities were directly implemented by UNDP Afghanistan (the Office). In response to the draft audit report, the Office informed OAI that a decision had been taken to close the project with effect from 31 July 2015. A new Project Document was being formulated and the new project was expected to be developed by the end of 2015. In the meantime, a Project Initiation Plan was being developed to cover the period from August to December 2015 to support the completion of the Project's closeout activities, to support the development of a new project, and to ensure a smooth transition.

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) governance and strategic management (organization and staffing, 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, procurement, asset management).

The audit covered the directly implemented part of the Project's activities from 1 January 2014 to 31 March 2015. The Project recorded expenditures totalling $158 million ($152 million in 2014 and $6 million in the first quarter of 2015). The last audit (conducted by an audit firm on behalf of OAI) of the directly implemented part of the Project's activities was conducted in August 2014 (Report No. 1385, issued on 23 December 2014). The audit firm provided an unqualified opinion on the Statement of Expenditures and a qualified opinion on the Statement of Assets, as assets amounting to $0.3 million were not being used by the Project. OAI also audited the internal controls of the directly implemented part of the Project in May 2013 (Report No.1169, issued on 13 November 2013), which resulted in a "partially satisfactory" rating. The audit of the nationally implemented part of the Project's activities was conducted by an external audit firm covering the financial statements from 1 January to 31 December 2014. The audit resulted in an unqualified opinion.

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 could be seriously compromised." This rating was mainly due to weaknesses in organization and staffing, project management, and asset management.

Key recommendations: Total = **10**, high priority = **4**

The 10 recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 6 and 7); (b) effectiveness and efficiency of operations (Recommendations 1, 3, 5 and 8); (c) safeguarding of assets (Recommendation 10); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 4 and 9).

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:

Failure to follow up on significant weaknesses in salary payments to IEC staff (Issue 1)	The Project had been making salary payments and top-up allowances to IEC staff since its inception. Salaries paid to IEC staff amounted to approximately $12 million during 2014. In December 2014, the Project contracted an audit firm to undertake an independent verification of payroll payments made to IEC staff during 2014. The payroll verification report presented to the Office in March 2015 highlighted significant concerns. No independent confirmation could be obtained from the bank that salary payments had been made to individual bank accounts. There were also weaknesses in the time sheet system. Further, the recruitment files of some staff were not available and hence no assurance could be obtained on how they were recruited. Despite these weaknesses, the management of the Project had not taken adequate actions to address them as at the date of the audit fieldwork. Recommendation 1: The Office should enhance controls over salary payments to IEC staff by: (a) developing a time-bound action plan to address all of the concerns and discrepancies highlighted in the payroll verification report; (b) withholding future salary payments including top-up allowances; and (c) identifying any amounts for the previous periods that may need to be recovered from the IEC, in case issues identified by the verification exercise cannot be resolved within a specific time-frame. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a project in 2016
Inadequate controls over salary payments to IEC's polling staff (Issue 2)	The IEC had recruited temporary staff to assist in polling stations during the presidential elections in April and June 2014. The IEC paid approximately $14 million in cash to these temporary polling staff. This approach involved high risks as the cash payments were being made at provincial and district levels in various parts of the Country. The Project explained that the cash payment method was adopted based on the assumption that some staff in remote areas may not have had bank accounts. However, as some polling staff were based in Kabul and in regions where banking facilities existed, salary payments could have been made through bank accounts to these staff. Given the risks involved, as well as the inadequate capacity of IEC (as also confirmed in the respective micro-assessment evaluation), the Project had not taken appropriate measures to mitigate the risk of cash payments. OAI had noted similar weaknesses in cash payments by IEC in Audit Report No. 1169. Due to the fact that the issue from the previous audit seems to be recurring, OAI is re-opening the previous recommendation.

	Recommendation 2: The Office should establish measures to manage the high inherent risk of cash payments, including by ensuring that the Independent Election Commission avoids cash transactions and makes payments by cheque or direct transfers to payees' bank accounts. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.
Unclear project results and no assurance on achievement of results (Issue 4)	The Project's outputs, baselines, indicators and targets included in the 2014 Annual Work Plan were not articulated clearly, which impacted the assessment of progress towards agreed results. In many instances, the Project reported the completion of activities as results achieved, without linking the activity completion to the overall result. Further, some annual targets were not results-oriented. Outputs were not results-based and there was no assurance as to whether the results were achieved. As a result, the efficiency and effectiveness of capacity-building interventions could not be assessed.
	Recommendation 3: The Office should enhance capacity-building interventions by: (a) articulating clear results to be achieved; (b) developing appropriate indicators that are specific and measurable; (c) identifying appropriate baselines as reference points; (d) ensuring the advisory and technical support provided is results-oriented and measurable; (e) and developing a comprehensive capacity-building strategy that consolidates the Project's support to enhance capacities. This recommendation is applicable to a new project in 2016.
Weaknesses in asset management (Issue 13)	The Project's assets amounted to $9.7 million, out of which $9.4 million corresponded to 71 vehicles. These vehicles were in excess of existing requirements; therefore, 24 vehicles (valued at $2.7 million) were loaned to other projects and/or the Office. Although some vehicles had been loaned since 2009, the Project had not received any reimbursement for the use of the vehicles. The Project had retained 47 vehicles; however, these were being underutilized.
	Recommendation 10: The Office should improve controls in asset management by: (a) transferring the 24 vehicles which are currently on loan back to the Project; (b) recovering the amount of $2.7 million; and (c) undertaking a comprehensive review of the Project's needs to dispose of vehicles that are in excess of the requirements. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.

Implementation status of previous OAI audit recommendations:

(i) Report No. 1385 (23 December 2014)
Total recommendations: 4
Implementation rate: 25%[1]

(ii) Report No. 1169 (13 November 2013)
Total recommendations: 7
Implementation rate: 100%

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 have been incorporated in the report, where appropriate, and have been summarized for the purposes of concise reporting.

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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[1] This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented.

I. About the Office and the Project

The Office is located in Kabul, Afghanistan (the Country). During 2014, the programme and management expenditures of the Office amounted to $777 million, delivering in one of the world's most insecure environments. The challenges of the Office are significant, both internally and externally, as are the opportunities for sustainable development, which are made more difficult by the security and political context and the socio-economic transition the Country is facing.

The Project was originally conceived as a two-year project in 2012 that would build the capacity of the Country's IEC to administer and supervise elections. Based on the recommendations of a needs assessment mission in June 2013, the Project Document was revised to provide the necessary support for electoral operations, as well as capacity development interventions for the presidential and provincial council elections held in 2014 and the parliamentary elections, which were then anticipated to be held in 2015. Hence, the Project was extended until the end of 2015.

The Project was nationally implemented by the IEC, with some activities directly implemented by the Office. A Project Management Unit had been established to assist in the implementation and management of the Project. The Project Management Unit was headed by a Chief Technical Advisor (P6 level) and had three distinct divisions (Electoral Operations, Public Outreach, and Operations), each headed by international professional staff at the P5 level. In addition, there were eight Regional Offices that provided project management and support in the provinces.

In response to the draft report, the Office indicated that a decision had been taken to operationally close the project with effect from 31 July 2015. A new Project Document was being formulated and the new project was expected to be developed by the end of 2015. In the meantime, a Project Initiation Plan was being developed to cover the period from August to December 2015 to support the completion of the Project's closeout activities, to support the development of a new project, and to ensure a smooth transition.

II. Audit results

OAI made four recommendations ranked high (critical) and six 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 controls over salary payments to IEC staff (Recommendation 1).
(b) Enhance capacity-building interventions (Recommendation 3).
(c) Improve controls in asset management (Recommendation 10).
(d) Establish measures to manage the high inherent risk of cash payments (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(a) Improve the review and verification of payments to vendors (Recommendation 7).
(b) Enhance controls over the management of performance bonds and bank guarantees (Recommendation 8).
(c) Improve performance management and recruitment processes (Recommendation 5).
(d) Improve the quality of procurement submissions to procurement review committees (Recommendation 9).
(e) Improve the reporting process (Recommendation 4).
(f) Improve the management of expenses (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Organization and staffing

Issue 1 Failure to follow up on significant weaknesses in salary payments to IEC staff

UNDP's 'Financial Regulations and Rules' require that the head of offices be responsible and accountable for the effective and efficient use of resources. Accordingly, the Office and the Project should take prompt action on payments by the implementing partners that are not adequately validated.

The Project had been making salary payments and top-up allowances to IEC staff since its inception. During 2014, the Project paid salaries totalling $12 million to IEC staff.

The OAI audit of internal controls (Report No. 1169, issued 13 November 2013) noted weaknesses in monitoring payments of IEC staff member salaries and professional allowances and issued a recommendation, which was still not fully implemented at the time of the audit. To mitigate the risks pertaining to IEC staff salary payments, the Project hired an independent audit firm to verify $5.2 million in salary payments made to IEC headquarters staff in Kabul in 2014, and to perform a headcount and verify the number of IEC staff. The firm conducted the verification exercise from December 2014 to February 2015.

In its final report submitted to the Project on 14 March 2015, the audit firm concluded that there was inadequate assurance that the IEC salary expenses of $5.2 million reviewed were actually paid to IEC headquarters staff during 2014. The report highlighted several significant exceptions, including the following:

- There were unusual changes to staff categories and/or staff titles or levels, which resulted in significant changes in salaries paid.
- The IEC did not provide 142 of 374 personal files requested for review. Therefore, there was no assurance that the 142 staff were recruited in accordance with established recruitment policy and procedures.
- The verification report indicated that no confirmation could be obtained from the bank on whether the transfers had been made to IEC staff individual bank accounts, which raised concerns about whether funds received from the Project by the IEC for salary payments to IEC staff had in fact been paid to them.
- The IEC did not provide government payroll sheets of government staff in the IEC's headquarters for five months (from January to May 2014). As such, the audit firm was unable to validate the eligibility of government staff receiving top-up allowances for these five months for which the government payroll sheets were not made available.
- Attendance records for IEC headquarters staff were not complete.
- Of the 686 staff in IEC headquarters, 86 staff could not be physically verified when a headcount was conducted during December 2014.

There was no evidence that the Project had developed any formal action plan to address the issues highlighted in the payroll verification report as at the audit fieldwork date. Further, as mentioned above, there were similar weaknesses noted in OAI Report No. 1169, under "Monitoring payments of IEC staff members salaries and professional allowances."

Despite the serious deficiencies noted above, neither the Office nor the Project appeared to have taken adequate follow-up actions, as described below:

- The IEC was not asked to provide the relevant documents, such as the personal files and the system-generated bank records, to the audit firm.
- The IEC was not requested to clarify the concerns pointed out by the audit firm in a timely manner with the appropriate action to be taken to address concerns highlighted.
- Despite limited assurance on salary payments made by the IEC, the Project continued with the existing practice of making salary payments to the IEC.

The Office's management reported that the IEC had installed a digital/electronic finger-printing machine to record attendance of staff, however, this action alone may not adequately address the issues highlighted in the payroll verification report. Lack of adequate and timely corrective action to address the discrepancies identified above may result in fraudulent payments being made.

Priority High (Critical)

Recommendation 1:

The Office should enhance controls over salary payments to Independent Election Commission staff by:

(a) developing a time-bound action plan to address all of the concerns and discrepancies highlighted in the payroll verification report;
(b) withholding future salary payments, including top-up allowances; and
(c) identifying any amounts for the previous periods that may need to be recovered from the IEC, in case issues identified from the verification exercise cannot be resolved within a specific timeframe.

[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]

Management action plan:

Management has undertaken actions to address some of the recommendations above. Further, the Project ceased making salary payments to IEC staff effective 10 June 2015, as the Government will be making salary payments from its own resources for all IEC staff.

Apart from the initiatives already taken, the Office will also contract the same audit firm to undertake a verification exercise to confirm that all concerns highlighted in the payroll verification report have been satisfactorily addressed.

Estimated completion date: 31 August 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.

Issue 2 <u>Inadequate controls over salary payments to IEC's polling staff</u>

UNDP's 'Programme and Operations Policies and Procedures' require that senior management assess risks, and take actions to manage the risks. Risks which cannot be adequately managed should be escalated to higher levels within the organization.

The IEC had recruited temporary staff to assist in polling stations during the presidential election in April 2014 and the subsequent run-off election in June 2014. The IEC paid about $14 million in cash to these temporary polling staff at provincial and district levels in various parts of the Country, which increased the risks of theft, incorrect amounts, or fraudulent payments being made. The Project explained that the cash payment method was adopted based on the assumption that some staff in remote areas may not have had bank accounts. However, as some polling staff were based in Kabul and regions where banking facilities existed, salary payments could have been made through bank accounts. Given the risks involved, as well as the inadequate capacity of IEC (as also confirmed in the respective micro-assessment), the Project had not taken appropriate measures to mitigate the risk of cash payments. It was not clear why temporary staff in Kabul and other regions, where banking facilities were available, were not paid through the bank. Further, it was also not evident what controls were put in place to mitigate risks arising from the IEC making cash payments to polling station staff during the elections.

The Project had undertaken a procurement exercise to hire a vendor to monitor payments to polling staff. Eventually, the procurement was cancelled due to high costs proposed by the selected firm and several exceptions in the procurement process as highlighted by the procurement review committee.

The audit indicated the following weaknesses regarding salary payments to polling staff:

- In April 2014, the Project conducted a spot check (with the assistance of a consultant) of an amount of $6 million which had been given as an advance by the Project to the IEC. This amount included a part of salary payments to polling staff in cash. The following issues were noted:

  - The spot check conducted did not cover the entire $14 million in salary payments made to the polling staff. The Project's Finance Unit informed OAI that subsequent to the audit, they had reviewed all of the remaining payments made to polling staff and had found no exceptions; however, no documented evidence was made available to OAI to support this.
  - The spot check was undertaken on a *post facto* basis during April 2014, after the presidential election. The Project carried out a desk review in Kabul with site visits made to four Regional Offices. However, the desk review provided limited assurance that payments were actually received by all polling staff as indicated in records submitted.
  - A spot check exercise should normally be conducted on site to physically observe processes and verify transactional documents, which did not happen in this case as the spot check only covered four Regional Offices, even though cash payments were made to temporary staff in various parts of the Country.
  - The spot check exercise led to 11 recommendations; however, there was no evidence as to whether the Office implemented these recommendations.

- The national implementation modality audit of the 2014 IEC expenditures noted several internal control weaknesses. A payroll verification exercise undertaken by an external audit firm also highlighted significant weaknesses (refer to Issue 1).

- The Project had several international staff in the eight Regional Offices. They could have undertaken oversight of cash payments made by the IEC to these temporary polling staff to mitigate the risks involved; however, there was no evidence that this was done.

- The OAI Investigations Section was investigating allegations that the IEC's Finance Unit had submitted fraudulent travel claims, further indicating weak controls.

OAI had noted similar weaknesses in cash payments by the IEC in Audit Report No. 1169 and had raised a recommendation that the Office should enhance controls over cash payments made by the IEC. In response, the Office confirmed that they had enhanced controls over payments and the recommendation was assessed as implemented. Due to the fact that the issue from the previous audit seems to be recurring, OAI is re-opening the previous recommendation.

As payments to the polling staff were made in cash, there was a risk of non-existent staff being included in the payment records and that the documents submitted to the Project may have been forged.

Priority High (Critical)
Recommendation 2: The Office should establish measures to manage the high inherent risk of cash payments by ensuring that the Independent Election Commission avoids cash transactions and makes payments by cheque or direct transfers to payee bank accounts. [While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]
Management action plan: The Office's management has undertaken appropriate actions to address the recommendations above. Further, in the future, based on discussions held with the IEC, it has been proposed that polling staff payments be taken up by the Government from its own financial resources (refer to Issue 1). **Estimated completion date:** 30 June 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.

Issue 3 <u>Inadequate project governance</u>

The Office and the Project operate in an unstable environment and face various challenges, such as the recruitment of experienced staff, high security risks, and the absence of a developed commercial market and financial institutions. These factors have exposed the Project to high risks, and it is important that good governance is in place to ensure that project resources are effectively used for the intended purposes.

Project governance was not adequate, as evidenced by the following:

(i) Financial sustainability of the Project at risk

The Project had a total budget of $338 million for the entire project duration and total expenditures of $214 million for the period from 2012 to March 2015. The proposed budget for 2015 amounted to $117 million, although the Annual Work Plan together with the budget were yet to be approved. The Project had received total commitments of $238 million from donors, with $230 million already collected. Overall, there was a funding gap of $108 million.

As of April 2015, the Project was in a critical situation because its financial resource balance was only $9 million. The Office expected to receive $35 million from two donors. However, it was uncertain whether funds from the two donors would be received in full.

The critical financial situation was partly due to uncertainty around the date when the parliamentary elections (originally planned for early 2015) would be held. As a result, the Project continued to maintain its operations from September 2014 up to April 2015 at levels corresponding to the scenario that the elections would be held in the very near future. As the date of the parliamentary elections had still not been decided, excess resources that were not required were being utilized.

The weak financial situation was also due to available resources not being managed efficiently, as presented below:

- The Project did not recover the cost of 24 vehicles that it had loaned to the Office and/or other projects since 2008 and continued to maintain vehicles in excess of its requirements (refer to Issue 13).
- Two helicopters with a cost of $8.8 million per year were being leased despite limited utilization (refer to Issue 10).
- The Project had been engaged in IEC capacity-building activities since 2012. However, the significant resources dedicated were not based on results, thus there was no assurance that resources spent on training and capacity-building were meeting intended targets (refer to Issue 4). Therefore, OAI could not determine the total resources deployed for capacity-building and if they were used efficiently.
- The Project did not take prompt action on the weaknesses identified in the salary payments to IEC headquarters staff by an independent audit firm (refer to Issue 1).
- The Project continued to pay salary top-ups, although not provided for by UNDP's 'Programme Operations Policies and Procedures' and there was inadequate documented evidence to support that recruitments were carried out in accordance with the Human Resource Plan (refer to Issues 6 and 7). Subsequent to the audit fieldwork, the Project informed OAI that salary top-up payments were stopped in May 2015.
- The Project continued to recruit staff even though it was not always required. For example, the Project encumbered the Media Commission Specialist position although the Government's Election Media Commission should have been closed 45 days after the presidential elections took place in September 2014 (refer to Issue 8).

The Project had initiated actions to reduce operating costs, including reducing about 10 positions in May 2015, and considering other options to further reduce operating costs. However, OAI is of the view that the Project should have developed various plans depending on contingencies, such as lack of uncertainty on the parliamentary election date and should have undertaken cost-saving measures earlier.

The Office's management informed OAI that work plans and operating costs were regularly discussed with the donors who agreed with the Office's plans and the operating costs – including those for the first quarter of 2015. However, it was only in late April 2015 that the donors informed the Office that resources would be limited, which impacted the Office's financial sustainability.

(ii) Vacant senior positions

The senior management positions in the Project remained vacant for several months. For instance, the Chief Technical Advisor's position was vacant from September 2014 until January 2015. In addition, the vacant positions for the heads of the three divisions, between one and four months, resulted in a lack of overall leadership and strategic guidance for the Project.

(iii) Annual Work Plan for 2015 not approved

At the time of the audit, only the 2015 first quarter project work plan had been approved. The Annual Work Plan for the remaining part of 2015 was yet to be finalized and approved.

The above aspects, including the various issues raised under the areas of project management and operations, were indications that the overall governance of the Project needed to be enhanced.

Inadequate governance of the project increases the risks that project objectives and the intended development outcomes may not be achieved.

Subsequent to the audit fieldwork and in response to the recommendation raised, the Office's management commented that they had taken adequate actions to address concerns highlighted in this audit observation, such as having an approved Annual Work Plan from March to July 2015 to coincide with the remaining period of the Project, substantially reducing staff to conserve funds, and terminating the lease of two helicopters.

Comment

OAI is not making a recommendation as the project would be operationally closed in July 2015. OAI would follow up to determine effectiveness of financial management in a new project, which is expected to succeed this project in 2016.

B. Project management

Issue 4 Unclear project results and no assurance on achievement of results

UNDP's 'Programme and Operations Policies and Procedures' define outputs as results for which the project has direct accountability for delivery. These outputs are articulated in the Annual Work Plans, which also identify specific targets that contribute to the overall project outputs. Indicators measure the progress towards achieving the specific outputs, and should be specific, measurable, attainable, relevant and time-bound. According to UNDP's 'Handbook on Monitoring and Evaluation', the fewer the indicators the better, as measuring change is costly. Therefore, using fewer critical indicators is recommended.

(i) Project outputs, baselines, indicators and targets not articulated clearly

- The Project outputs, baselines, indicators and targets included in the 2014 Annual Work Plan were not articulated clearly, which impacted the assessment of progress towards agreed results. In particular, the emphasis was on the large number of activity-level indicators and corresponding targets, making it difficult to link all these to the overall output as part of the results chain. For example, Output 1 had 4 activities, and each activity had 2 to 4 indicators and a baseline for each of the indicators. This resulted in 11 activity-level indicators and 9 corresponding baselines for Output 1 alone. Further, many of these indicators were not specific and measurable to determine the extent of desired results. For example, the public outreach-related indicators were only quantitative and did not measure the impact of achieving the number of planned activities (Indicators 3.2, 3.2, 3.4). Similarly, the indicators for Activities 1.1b to d and 4.2 were not consistent with the target being measured.

- Baselines were unclear in some instances, making it difficult to measure whether targets were achieved. For example, baselines for Activities 6.1a, 7.1a and 7.1c were all phrased as targets rather than baselines.

- Some annual targets were not results-oriented. For example, Target 1.2a was phrased as "the extent to which review electoral regulations and procedures for the 2014 presidential and provincial council elections are effectively implemented." This target was phrased as a qualitative indicator rather than an intended result.

(ii) Outputs not results-based

The 2014 Annual Work Plan for the Project had a budget of $164.8 million and almost all outputs included significant elements for the institutional strengthening of the IEC, with Output 1 entirely focused on capacity development. Though the Project reported expenditure of $152 million during the year, the total resources deployed for capacity-building could not be calculated. As a result, the capacity development outputs were not results-based and the efficiency and effectiveness of the process could not be assessed. In addition, the following weaknesses were noted:

- The Annual Work Plan for 2014 included that international and national Project staff should provide technical services and advisory support to develop the IEC's capacity in the areas of procurement, finance, human resources and asset management. However, the same international staff were also involved in operational activities for the Project, therefore it was not feasible to segregate the resources deployed for capacity-building and those deployed for operational support.

- Similarly, the Project had employed 37 international advisors and specialists (excluding operations staff) to provide technical and advisory support to IEC staff. However, the support was not results-based, as clear output indicators had not been established for these advisors.

The Project stated that events related to the presidential elections, the subsequent run-off and the elections audit thereafter took precedence over the planned activities. Nevertheless, according to the Project, since the 2014 elections were far less costly and with relatively fewer international staff, it was an indication that IEC staff capacities had been built. OAI acknowledges that capacity had been enhanced. However, the capacity development process was ongoing since 2012. A mid-term review undertaken by the Office in August 2014 concluded that "the Project had not employed a holistic, institution-wide capacity development plan, and as a result, capacity levels were disparate and IEC has not realized the benefits of consistently well-equipped staff." Further, the capacity development efforts of the Project were *ad hoc* and not results based. Therefore, the efficiency and effectiveness of capacity-building could not be assessed.

In the absence of a clearly articulated capacity-building plan with a clear results chain, there is a risk that the Project may not achieve capacity-building results, and therefore may expose UNDP to reputational risks.

Priority	High (Critical)
Recommendation 3: Enhance capacity-building interventions by: (a) articulating clear results to be achieved; (b) developing appropriate indicators that are specific and measurable; (c) identifying appropriate baselines as reference points; (d) ensuring the advisory and technical support provided is results-oriented and measurable; and (e) developing a comprehensive capacity-building strategy that consolidates the Project's support to enhance capacities. [This recommendation is applicable to a new project in 2016.]	
Management action plan: As the Project will be phased out as of 31 July, 2015, a new Project Document is being formulated, which is expected to be completed by the end of 2015. The Office plans to incorporate all audit recommendations from (a) to (e) in the new Project Document by December 2015. **Estimated completion date:** December 2015	

Issue 5 Weaknesses in the reporting process

The UNDP 'Programme Operations Policies and Procedures' state that the Annual Project Report should include a summary of results achieved against pre-defined annual targets and baselines at the output level, measured against a set of quantitative and qualitative indicators, disaggregated by gender. Further, the Office established guidelines that indicate that progress reports should include the immediate objective, outputs to achieve objectives, and a brief description of actions and activities undertaken and/or completed towards achieving the output in the specific quarter.

The following weaknesses were identified in the 2014 progress and annual reports:

- The 2014 Annual Report focused on the achievement of activities, without linking this to the actual target to be achieved. For example, statements such as "the Project assisted IEC in revising Standard Operating Procedures" does not provide an indication of whether these procedures were subsequently utilized for the intended purposes or not, how many were revised, or the extent of revisions. Similarly, terms such as "on-target" or "delayed" were used to describe whether the annual target was achieved or not; these terms did not provide an indication of whether the target was achieved or partially achieved, or not implemented at all. There was no reference to the overall intended outcome that the Project contributed to.

- There was ambiguous reporting, for example, where the target was to develop an enterprise resource planning system and a knowledge management and archiving system. The 2014 Annual Report stated that the Project had met this target, when in fact the activities implemented were specifically linked to the 2014 elections process, rather than developing an institution-wide enterprise resource planning system and knowledge management system. Upon further discussions with Project staff, it was noted that only a concept note for the knowledge management and archiving activity was developed.

- The Office reported that the 2014 targets for electoral regulations, Codes of Conduct review and implementation were reached. However, similar targets were also reported as achieved in 2013, and therefore, it was not clear what was actually implemented in 2014. The 2014 Annual Report stated that provincial offices and warehouse construction, as well as security upgrades were completed, except for one. However some of these construction works had also been undertaken in 2013. Therefore, it was unclear as to what had been accomplished in 2014 *vis-à-vis* 2013.

- By the end of 2013, 3.4 million new voters had been registered; the same number was reported as implemented in 2014 (over 3 million voter cards distributed). So it was not clear what and which activities were planned and completed in 2014.

While OAI acknowledges that 2014 was an election year, with the focus on the elections process itself, it is critical to ensure that progress reporting is accurate so that stakeholders are kept informed on project progress to ensure that necessary adjustments are made in a timely manner. Additionally, poor quality reports may lead to donor mistrust.

Priority	Medium (Important)

Recommendation 4:

Improve the reporting process by:

(a) adhering to the reporting timelines set internally by the Office; and
(b) strengthening the capacity of relevant programme and project staff members to report, including explaining the context, challenges, action taken and how they have contributed to the Office's programme outcomes.

[This recommendation is applicable to a new project in 2016.]

Management action plan:

Capacity of the relevant staff will be enhanced through trainings. Other identified weaknesses will be addressed in the upcoming Annual Report of the Project, which will be shared with the donors in March 2016.

Estimated completion date: March 2016

Issue 6 Payment of top-ups to IEC permanent government staff

The UNDP 'Programme and Operations Policies and Procedures' disallow direct payments to government staff for their additional work contributions on donor-supported development projects. The government officials cannot be funded by UNDP projects since this would undermine ownership and sustainability of projects. The Project had been providing salary top-ups to government permanent staff since the Project's inception. The total salary top-ups paid to government staff amounted to $0.6 million in 2014. For 2015, the Office budgeted $0.8 million for a total of 430 approved IEC posts. The following weaknesses were noted regarding these top-up payments:

- The Project stated that the list of personnel against which salary top-up payments were made was based on the government staff payroll list provided by a relevant government ministry, however, the Project could not verify the accuracy of this list.

- The Project shared a copy of a letter from a relevant government ministry agreeing to the continuation of the salary top-ups until such a time when the project budget was to be channelled through the government financial and accounting system, leaving it open-ended.

- The payment of salary top-ups was a deviation from UNDP policy; however, no corporate decision or approval had been obtained from the Regional Bureau for Asia and the Pacific. The issue of salary top-ups for government staff was raised in Audit Report No. 1169, and a recommendation was made to recover funds from three staff, which was still in progress at the time of the audit (refer to Issue 1).

The Office stated that the payment of salary top-ups to senior level IEC staff (Commissioners) had been discontinued since January 2014. The Office was considering a two-phase approach to phasing out the top-ups to ensure that technical staff would be retained for the upcoming elections. The first phase would involve the discontinuation of salary top-ups for IEC non-technical staff, and the second phase would then target the technical staff and would take place after the parliamentary elections; the date of these elections had yet to be announced by the Government.

Subsequent to the audit fieldwork and in response to the draft audit report, the Office provided evidence that salary top-up payments had been stopped since 31 May 2015.

The payment of salary top-ups to government staff may divert critical resources from the core project objectives, and may also have an impact on national ownership and on the support to the IEC's operations.

Comment
OAI is not making a recommendation given the action already taken by management.

C. Operations

1. Human resources

Issue 7 Weaknesses in performance and development assessment and recruitment processes

A review of human resources management relating to the Project disclosed the following weaknesses:

(i) Lack of documented justification for positions in Human Resources Plan

The Project had an approved Human Resources Plan for 2014 and 2015. However, there was no justification for the number of posts included in the Plan. Given that it was uncertain when the parliamentary elections would be held, a smaller number of staff might have been sufficient compared to the previous year. For example, the Election Media Commission Specialist position of the Project was still active, even though the Election Media Commission of the Government had closed 45 days after the presidential elections. Similarly, the Logistics Advisor positions in the eight Regional Offices continued to be active even though they were expected to perform duties mainly during the elections or the period leading up to the elections. The Project continued to hire a P2 level staff for managing project assets and for capacity development with unclear terms of reference and with 96 percent of the assets being vehicles (refer to Issue 13).

The Project explained that the Human Resources Plan was discussed and approved by the Office of Human Resources and the Programme Units. However, in the absence of documented justification for the posts in the Plan, it was not evident if management had considered aspects such as funding availability and expected volume of work when preparing and reviewing the Plan. This increased the risk of hiring more personnel than required.

(ii) Key results set during the performance management and development assessment process not specific

According to the 'UNDP Guidance Note on Performance Management and Development', the assessment process requires constant dialogue between the staff and the supervisor. Further, key results indicated at the planning phase of this process should be specific and measurable where possible.

The review of the 2014 staff performance and development assessment process indicated that key results of staff were not specific and their assessments were generally subjective, and did not make reference to achievements made in comparison to key results established. For instance, the indicators for performance assessments of five international and local staff in the Project's Procurement Unit which were reviewed were general, such as "providing professional management, to be part of a successful procurement unit that provides support, guidance and undertake procurement process and timely and proper preparation of procurement plans, establishment of deadlines and monitoring of the project implementation." 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.

(iii) Weaknesses in recruitment process

Recruitment processes are guided by the principles of competition, objectivity, transparency, diversity and accountability as set out in UNDP's 'Recruitment and Selection Framework'.

During the audit period, the project recruited 13 fixed-term appointment and 1 temporary appointment staff.

Of the 14 applications reviewed to determine the accuracy of the recruitment's longlisting and shortlisting process, 5 applicants who met the minimum criteria required in terms of qualifications and experience were not shortlisted. Additionally, the Project did not document justifications for not shortlisting these applicants.

The head of the Human Resources Unit indicated that after September 2014, they had been documenting justifications for not shortlisting applications. As management has taken action, OAI is not making a recommendation for this part of the audit observation.

Priority	Medium (Important)
Recommendation 5: Improve performance management and recruitment planning by establishing specific and measurable performance indicators and targets and monitoring these accordingly and document sufficiently the need for future human resources [This recommendation is applicable to a new project in 2016.]	
Management action plan: The Project was being phased out as of 31 July 2015. A new Project Document will be formulated, which is expected to be developed by end of the year and rationalization of positions will be addressed. Measurable performance indicators and targets for the performance management and development process will be undertaken for 2016. A training will be conducted for better understanding of formulating the performance management and development results and indicators. **Estimated completion date:** January 2016	

2. Financial and cash management

During the audit period, the project processed 1,106 payment vouchers valued at $47 million. OAI reviewed 80 payment vouchers valued at $12 million, representing 21 percent of all payment vouchers processed, as well as petty cash and safe operations, cash and banking, and expense management.

Issue 8 Weaknesses in expense management

(i) Implementation support services costs

The UNDP 'Programme and Operations Policies and Procedures' provide that implementation support services costs should be based on the universal price list. During the period under review, the Office charged $273,000 as implementation support services costs to the Project. The payroll validation service was charged at $32.86 per staff, which was higher than the universal price list equivalent of $20.80. The Office did not have documented justification for this higher price. For the period under review, this led to higher costs of $13,300 for the Project.

(ii) Incorrect use of the Chart of Accounts

The UNDP 'Programme and Operations Policies and Procedures' state that for appropriate financial reporting and cost classification, costs should be posted to the correct expense accounts as provided for in the Chart of Accounts.

In 10 vouchers ($0.7 million) out of 80 ($12 million) reviewed, the respective amounts had been posted to the wrong Chart of Accounts.

(iii) Liabilities not accrued in Project's accounts

The UNDP 'Programme and Operations Policies and Procedures' require that all expenditures be posted to the correct accounting period. Expenditures for services rendered but not paid at year-end should be posted as expenses for that year.

The Project had received invoices amounting to $1.4 million for transportation services provided by a vendor. These costs were not accrued at year-end and did not form part of the Project's 2014 expenses. There was a dispute in the amount claimed (in excess of $1 million compared to the contracted amount) by this vendor and the case was referred to the Legal Support Office. However, the remaining amount that was not in dispute was not recorded as expenditure.

Further, there were three other expenses incurred by the IEC during the audit period amounting to $0.8 million, and for which the requests for direct payment had been withheld by the Project. The Project had referred these cases to OAI's Investigations Section, and these expenses were not recorded as part of 2014 expenses.

Failure to properly record the project expenses mentioned above led to an understatement of expenses in the 2014 Combined Delivery Report by a total of $1.8 million.

(iv) Advance payments for helicopter leasing incorrectly recorded as expenses

UNDP follows the International Public Sector Accounting Standard that requires payments for services that have not yet been rendered to be recorded as advances/prepayments and transferred to expenses upon the receipt of the related services. This is also helpful in the tracking of expenses to ensure the related service was ultimately provided or where necessary, the cost was recovered.

An amount of $4.3 million (helicopter costs per the Memorandum of Understanding signed with the United Nations Assistance Mission in Afghanistan) paid on 14 Dec 2014 was recorded as an expense though the payment related to the period from 1 October 2014 to 31 March 2015. This led to an overstatement of the Project's 2014 Combined Delivery report by $3 million.

Priority	Medium (Important)
Recommendation 6: Improve the management of expenses by: (a) reviewing and validating implementation support services charges before they are posted to accounting systems; (b) using the correct Chart of Account codes to post expenses; and	

(c) improving on the year-end financial statement closing procedures to ensure all expenses and advances are posted to the correct accounting periods.

[While this recommendation is applicable to the Project that is closing at 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.]

Management action plan:

Management has already implemented actions to address the above recommendations, such as orientating project personnel on the use of correct account codes and recording all expenses and advances to the correct accounting period.

The expenses highlighted in sub section (iii) in the audit issue above will be addressed as soon as the Office liaises with the Legal Support Office and the Office of Audit and Investigations.

Estimated completion date: December 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.

Issue 9 Inadequate supporting documents on payments to vendors

The UNDP 'Programme and Operations Policies and Procedures' require a review of the accuracy of payments to be made, including checking the terms and conditions of each payment which should be consistent with the contract signed. Further, the Project Manager should record the satisfactory receipt of goods and services as part of the process.

The Project engaged Vendor A for capacity-building activities for a government entity under a two-year reimbursable cost agreement of $6.1 million. During the period under review, an amount of $2 million was paid to this vendor. The vendor submitted monthly invoices to be settled by the Project.

The contract signed with the vendor required the vendor to provide names of four key staff stated in the contract and placed responsibility on the vendor to provide invoices with sufficient details of the services rendered.

The following weaknesses were noted on the claims submitted by this vendor in 2014:

- In five invoices covering services for five months, valued at $1million, the details of staff hired and engaged by the vendor on this assignment, or actual bills in regard to sub-contracted services (such as security and transport) were not included in the claim.

- In four cases, the certification of payment for satisfactory receipt of services was made by operations staff and not by the Project Manager, as required. There was no evidence of the Project Manager authorizing the operations staff to certify that the services had been provided.

- While the contract entered into was on a "not to exceed cost basis", the audit disclosed that the budget line on travel, which was $232,000 in the first year, had actually reached $253,000 by July 2014. There was no evidence of approval for exceeding this travel budget. In October 2014, management noted the gap in the invoices submitted and proposed to have a comprehensive review of the invoices submitted by the vendor in January 2015. However, as at the time of the audit fieldwork, there was no evidence that this review had been conducted.

Failure to properly review and check payments may lead to payments being made without corresponding services delivered to the project.

Priority	Medium (Important)
Recommendation 7: Improve the review and verification of payments to vendors by: (a) complying with the contract and ensuring vendors' invoices are adequately detailed and supported by evidence of payments made to third parties; (b) having the Project Manager confirm receipt of services, as required in the signed contract; and (c) reviewing all payments made to each vendor under each contract. [This recommendation is applicable to a new project in 2016.]	
Management action plan: As the Project is being phased out as of 31 July 2015 a new Project Document is being formulated. In case there is similar support envisaged in the new Project Document, then it will be based on programme modality rather than procurement modality, based on the lessons learned from the current International Foundation For Electoral Systems contract. **Estimated completion date:** 31 December 2015	

Issue 10 Inefficient and ineffective use of leased helicopters

In March 2014, the Project entered into a Memorandum of Understanding with the United Nations Assistance Mission in Afghanistan for the lease of two helicopters for one year for aviation logistics support for elections. This agreement that was to expire on 7 March 2015 was extended for one year to 7 March 2016. The total contract price for the helicopters was estimated as $8.8 million per year. This amount was paid in semi-annual advances to the Mission in accordance with the Memorandum of Understanding.

The audit disclosed the following:

(i) Weaknesses in monitoring utilization of leased helicopters

The 'UNDP Financial Regulations and Rules' provide that offices should ensure efficient and economic use of resources. Given the high cost of leasing helicopters, the Office should have closely monitored helicopter utilization to support UNDP's commitment to accountability for results and resources entrusted to it. This should have included a scenario analysis on whether both helicopters were required or if the Office could have managed with one helicopter or alternately without any helicopter, by using any other United Nations aircraft, or private/government aircraft.

The Office monitored the hours flown, as well as passengers and cargo on board on a daily basis. However, this monitoring was not effective, as the analysis that followed did not include the capacity utilization of the two helicopters compared to available capacity. Furthermore, the Project had hired an Air Operations Advisor at the P4 level whose terms of reference included ensuring the efficient utilization of the Project's air assets; however, this was not done. Based on the information monitored by the Project, the utilization was low as can be deduced from the following:

The total volume of passengers that could be carried by the two helicopters during a month was not available. However, during November 2014, the helicopters flew 303 passengers. OAI considered this as the monthly capacity and noted that the capacity utilization was quite low based on the following:

- Less than 80 passengers were carried during four months (August to October 2014 and January 2015) indicating a capacity utilization of less than 30 percent.
- In August 2014, only five passengers were carried by either helicopters, or less than 2 percent of overall capacity utilization.

Given the cost of maintaining the helicopters, an important consideration would have been whether the travel undertaken was urgent, and whether any other and more economical options existed. However, this information was not available.

Each helicopter had a capacity of 4 tonnes of cargo per trip and assuming a minimum usage of 10 working days (in a month); therefore, it could carry 80 tonnes per month or 640 tonnes during 12 months (from April 2014 to March 2015). However, the two helicopters actually transported only 38 tonnes of cargo during this 12 month-period.

The helicopters were initially leased to respond to presidential and parliamentary elections scheduled for April 2014 and early 2015, respectively. The presidential elections were completed by September 2014, and as of the date of the audit, there were no clear indications as to when the parliamentary elections would be held. However, in March 2015, the Project extended the contracts for the two helicopters to March 2016 at an estimated cost of $8.7 million. There was no documented utilization forecast prepared by the Project on how the two helicopters would be used in 2015, even though it would be expected that utilization in 2015 would be even lower as the parliamentary elections date was not yet known.

The Office informed OAI that the various scenario analyses were undertaken in consultation with donors who agreed with the extension of the two helicopters. They added that the demobilization and mobilization costs were another factor in continuing to lease the helicopters. The audit disclosed that since September 2014, the helicopters were being used mainly for monitoring construction projects and conducting monitoring visits to various regions.

(ii) Weaknesses in liability waiver forms

Transport services on these leased helicopters were also provided to non-United Nations passengers (mainly staff of the IEC). These passengers were required to complete general release of liability waiver forms.

The following weaknesses were noted:

- This waiver of liability form was only available in English, and in three out of five cases reviewed, the details of the itinerary (journey to be covered and for which the waiver was applied) were not fully completed, most probably due to language constraints.
- The form used for IEC staff was different from the one provided for in Annex 2 of the Memorandum of Understanding and did not include any indication that the flight was operated by an independent operator.
- There was no evidence to indicate that the form used had been agreed with the IEC at the senior management level.
- The form made reference to the peacekeeping operations environment, even though the use of these helicopters was related to development support by UNDP and not peacekeeping.

These weaknesses may result in UNDP being susceptible to third party claims in the event of an accident.

Subsequent to the audit fieldwork and in response to the draft audit report, the Office provided evidence to indicate that they had already terminated the lease of these two helicopters on 23 April 2015.

Comment

OAI is not making a recommendation given the action already taken by management.

3. Procurement

Issue 11 Inadequate controls in management of performance bonds and bank guarantees

The UNDP 'Programme and Operations Policies and Procedures' state that when an advance payment exceeding $30,000 is made, the vendor shall provide a bank guarantee (valid for the duration of the contract) or an equivalent certified cheque. Further, a bank guarantee equivalent to 10 percent or a performance bond equivalent to 30 percent of the contract amount has to be submitted by the contractor when undertaking civil contracts.

The review of the Project's management of performance bonds and bank guarantees highlighted the following discrepancies:

- The beneficiary stated in these bank guarantees or performance bonds was often recorded under UNDP or UNDP ELECT instead of the Resident Representative. This presented the risk of unauthorized UNDP personnel encashing these financial instruments, and potential financial losses for UNDP.

- There were inadequate controls over the safe custody of these bank guarantees and performance bonds as they were not placed in the Office safe but instead kept in the Procurement Unit's cabinet and files.

- In one case of a contract amounting to $3.2 million, the bid security did not specify the amount of the guarantee (Vendor B).

- In another case of a contract amounting to $0.9 million (Vendor C) there was no evidence that the vendor provided performance and bank guarantees for the defect liability period (a period when any defects arising should be repaired by the vendor).

- In one procurement case, Vendor A was paid $0.6 million as a one-off contract inception cost (which was effectively an advance payment), however the vendor was not requested to provide a bank guarantee. Further, the inception advance provided was not in compliance with UNDP requirements as the amount advanced was not adjusted against the monthly payments and was also not recommended by the Advisory Committee on Procurement.

- The Project did not maintain complete records of the performance bonds and bank guarantees received from vendors. All bank guarantees received were instead kept in file in a cabinet, hence there was inadequate control in terms of recording bank guarantees received and their expiry dates. This may give rise to the risk of not being able to trace missing bank guarantees while in the custody of the Project.

- There was no established procedures for renewing or releasing these performance bonds or bank guarantees.

Inadequate controls exercised over the management of bank guarantees and performance bonds may expose UNDP to the risk of financial losses if unauthorized personnel encash these financial instruments.

Priority Medium (Important)

Recommendation 8:

Enhance controls over the management of performance bonds and bank guarantees by:

(a) ensuring that the Resident Representative is noted as the beneficiary of bank guarantees;
(b) obtaining bank guarantees from vendors in accordance with contracts signed; and
(c) establishing procedures to record and retain performance bonds and bank guarantees in the Office's safe.

[While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]

Management action plan:

Management will take actions immediately to address the above recommendations. It will ensure that the Resident Representative is noted as the beneficiary of bank guarantees and it will also adjust its present recording of the performance bonds and guarantees.

Estimated completion date: July 2015

Issue 12 Weaknesses in submission of procurement cases to procurement review committees

UNDP procurement review committees are advisory bodies that have been established to determine whether procurement processes are conducted in accordance with UNDP policies and procedures, and to make recommendations to the heads of the business units that undertake the procurement processes.

The review of 50 procurement transactions and 15 submissions to the Advisory Committee on Procurement identified the following discrepancies:

- The request for services and price schedules were not expressed clearly. For example, it was not clear if billboards were to be rented or constructed. As a result, the Advisory Committee on Procurement advised the Project to send a revised price schedule to responsive bidders that reflected the actual requirements.

- The Advisory Committee on Procurement commented that responses provided by the Office over two rounds of clarifications (Vendor A) were often inadequate, incorrect, vague and did not address the concerns of the Committee. Many other concerns were also highlighted by the Committee, such as the absence of curricula vitae of a vendor's technical staff, the lack of a technical evaluation on a proposal received, and poor financial analysis of a proposal.

- A bid extension was only approved for two bidders, although an extension should have been requested from all bidders. Requesting extensions from only responsive bidders did not achieve full transparency of the process, as indicated by the Advisory Committee on Procurement (Vendors C and D).

- There was lack of adequate planning, which led to a situation where direct contracting was used that provided only two days of response time to the bidder (Vendor H).

- The evaluation panel changed the criteria during the bid evaluation process. The successful bidder did not meet the criteria of minimum annual turnover of $500,000 for the past five years (2008-2012) as per the invitation to bid (Vendor E). However, the evaluation panel changed this criteria, which enabled this bidder to meet the new criteria. Although the Advisory Committee on Procurement approved this procurement, it highlighted this concern and reminded the Office not to repeat this practice, which it had noticed in the past as well.

- There were delays in procurement processes, which often limited the time available to the procurement review committees. Even though the procurement submissions were not up to standard, the procurement review committees approved these cases due to the urgent procurement needs for the presidential elections in April 2014. The examples include procurement cases of Vendor F for$5.5 million, Vendor F for $5.3 million, Vendor H for $0.9 million, and Vendor E for $0.9 million.

Submissions of cases that are not up to standard may require extensive time and effort from the procurement review committees and may delay the procurement process.

Priority	Medium (Important)
Recommendation 9: Improve the quality of procurement submissions to procurement review committees by ensuring that all procurement processes are conducted in accordance with the UNDP rules, policies, procedures and principles. [This recommendation is applicable to a new project in 2016.]	
Management action plan: Management takes note of the recommendation and plans to improve its quality of submission to procurement review committees.	

Estimated completion date: July 2015

4. Asset management

Issue 13 Weaknesses in asset management

As of 31 December 2014, the Project had 146 assets valued at $9.7 million (96 percent being armored vehicles). The review included matching of physical verification reports to the year-end assets report, assessing the controls established in management and safeguarding of assets and fuel, examining the process of asset disposals and ascertaining whether the Office maintained a complete record of the assets register. The Assets Unit was comprised of four staff, and was headed by an international staff member at the P2 level. The staff were based at the IEC premises with mandates both for capacity-building at the IEC and management of the Project's assets.

The audit noted the following:

(i) Costs of vehicles loaned to other projects and/or the Office not recovered

The UNDP 'Programme and Operations Policies and Procedures' require that all internal transfers of assets be accompanied by an equal transfer of resources equivalent to the Net Book Value of the assets transferred.

As at 31 December 2014, the Project had 71 vehicles valued at $9.4 million. Out of these, 24 vehicles valued at $2.7 million were borrowed for use by other projects and/or the Office, as a loan. The Project had not recovered any amount from the other projects and/or the Office, even though 20 of the vehicles had been transferred more than four years prior (2009 and 2010). The Project had used the depreciation charge of $1.2 million for the loan duration to estimate the amount that should have been recovered. However, had the Project transferred these assets at Net Book Value, the amount to be recovered would have been $2.7 million.

The Office indicated that discussions were ongoing at the senior management level on the amount that should have been recovered, but that a final decision had not been made at the time of the audit fieldwork. Given that such transfers were being made since September 2008 and that these vehicles seemed to be in excess of the Project's requirements, as the 2014 elections had been successfully undertaken without their use, it would have been preferable to transfer them to the other projects and/or the Office.

Failure to recover the amount mentioned above may result in the Project not being able to use the funds for programmatic activities.

(ii) Vehicles in excess of requirements

The 'UNDP Financial Regulations and Rules' provide that offices should ensure efficient and economic use of all resources. Of the 47 vehicles (valued at $7 million) recorded as being with the Project, 26 were located in Kabul and the remaining 21 in the Regional Offices.

The Project had vehicles in excess of its requirements, as 14 out of the 26 vehicles located in Kabul travelled less than 1,000 km per month. Further, two vehicles covered less than 10 km during the period from September 2014 to January 2015.

Failure to ensure efficient utilization of resources and to recover amounts due may result in a waste of resources and may impact donor relations.

Priority	High (Critical)
Recommendation 10: The Office needs to improve controls in asset management by: (a) transferring the 24 vehicles which are currently on loan to projects/entities in need of vehicles and recover the cost of vehicles from them (b) recovering the amount of $2.7 million; and (c) undertaking a comprehensive review of the Project’s needs to dispose of vehicles that are in excess of the requirements. [While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation as applicable to a new project in 2016.]	
Management action plan: Management will initiate actions to implement the recommendations above. **Estimated completion date:** December 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 <u>not included in this report</u>.