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Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

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

Follow-up of OAI Report No. 1310 dated 9 October 2014

Report No. 1554
Issue Date: 24 December 2015

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Executive Summary

From 18 to 22 October 2015, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit that covered the Oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan (LOTFA) under the purview of the UNDP Country Office in Afghanistan (the Office). This on-site follow-up audit was undertaken in view of the 'unsatisfactory' audit rating assigned by OAI as a result of its audit per Report No. 1310 dated 9 October 2014. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Audit scope and approach

The follow-up audit reviewed the implementation of three audit recommendations. OAI conducted appropriate tests of transactions and activities by the Office from 10 October 2014 to 30 September 2015 and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by the Office in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

Of the three audit recommendations, the Office had fully implemented two recommendations, while one recommendation has been withdrawn, resulting in an implementation rate of 100 percent as per CARDS on 3 November 2015 as shown below:

Implementation status	Number of recommendations	Recommendation Nos.
Implemented	2	1, 2
In progress	-	-
Not implemented	-	-
Withdrawn	1	3
Total	**3**	

The detailed implementation status of the three recommendations has been updated by OAI in CARDS.

Section I summarizes the recommendation that has been withdrawn by OAI, as corrective action is no longer necessary.

Section II presents additional audit issues. While checking the implementation status of previous audit recommendations, OAI took note of an additional two audit issues pertaining to non-recovery of ineligible costs within the same fiscal year, and verification documents supporting expenditure deemed eligible that were not retained.

The two recommendations aim to ensure the reliability and integrity of financial and operational information.

Management comments and action plan

The Resident Representative accepted the two new recommendations and is in the process of implementing them.

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

I. Details of recommendation withdrawn

Recommendation No. 3

Strengthen controls in the processes for granting and liquidating cash advances by:

(a) requiring the Government Implementing Partner to submit complete supporting documents and itemized cost estimates when submitting requests for cash advances; and

(b) processing vouchers as a basis for liquidating cash advances only when the Funding Authorization and Certificate of Expenditures (FACE) forms are supported with adequate and appropriate documentation, including commercial bank statements.

Implementation status reported by UNDP Afghanistan

The monthly advance is only used to pay the salaries of Afghanistan National Police/custodial police, following a breakdown by rank and the salary scale of the ministry involved. LOTFA does not provide any advance for other activities. The budget calculation is based on the actual and updated numbers at the beginning of the year and the monthly advance paid is 1/12 of the budget calculation minus any remaining balance. Documents attached and submitted together with the request for a monthly advance to LOTFA/UNDP include the following: FACE form reflecting expenditure and the request for the new advance; government accounting system expenditure data justifying the number reported in the FACE form; bank statement; and confirmation of receipt of the monthly advance. Based on the above, this recommendation is considered implemented.

OAI's justification for withdrawing the recommendation

This recommendation was withdrawn, based on the following:

(a) Based on the Commitment Letter signed between UNDP and the Government, the monthly advance payments to the Government are based on the salary payments of a predetermined number of police personnel with specific grade levels, and the funds are advanced as lump sum amounts. The Monitoring Agent then verifies these payments based on the number of police personnel and grade levels. There are no other payments made to the Government, therefore there are no supporting documents, such as itemized cost estimates to be attached to the FACE form. This recommendation is therefore withdrawn.

(b) The supporting documents provided for the liquidation of cash advances included the statements from the LOTFA bank account maintained by the responsible ministry. The lump sum advance for the police personnel was deposited into this account, and the entire amount was then transferred by the responsible ministry to commercial banks for subsequent disbursements to project activities. Bank statements from these commercial banks were not provided, as this was considered a third-party arrangement between the responsible ministry and the commercial banks. However, the Office was provided with access to the government accounting system that is used to compare the expenditures reported in the FACE form, and to the LOTFA bank account statement, thereby confirming the transactions from the government treasury. This recommendation is therefore withdrawn.

II. Other audit issues

While checking the implementation status of the previous audit recommendations, OAI took note of additional audit issues as described below:

Issue 1 Non-recovery of ineligible expenditure within the same fiscal year

According to the contract signed between the Monitoring Agent and the Office, the Monitoring Agent has up to 50 days for the preparation and submission of monthly draft reports to the Office. Thereafter, the Office submits the draft reports to the responsible ministry that in turn has 60 days to verify any ineligible expenditure and submit the supporting documentation to the Monitoring Agent. The Office determined that the process from the verification of expenditure by the Monitoring Agent to the deduction of ineligible amounts identified would be completed in 4.5 months, and has developed a checklist based on this timeline in order to ''track'' progress of the completion of the monthly monitoring reports prepared by the Monitoring Agent.

The above timelines, however, did not allow for ineligible costs for the months of August to December to be deducted within the same fiscal year. For example, the Monitoring Agent report for August 2015 would only be finalized in mid-January 2016 according to the established timeline. Therefore, any deductions of ineligible expenditure incurred in August-December 2015 would only be effected in 2016, consequently impacting the 2016 budget.

The Office explained that the government budget was allotted on an annual basis, including those expenses that fall outside of the scope of LOTFA's funding commitments. Therefore, the responsible ministry did not have the fiscal capacity to maintain a 'contingency fund' to absorb the budget deficits that resulted from deductions of ineligible expenditure for the previous year. Recently, the Office reached an agreement with the ministry to reduce the 60-day window to 30 days, thereby reducing the overall process timeline from 4.5 months to 3.5 months. While this timeline allows for ineligible expenditure up to September to be deducted within the same fiscal year, it does not provide assurance that all ineligible expenditure incurred will be deducted within the same fiscal year.

Not deducting ineligible expenditure within the same fiscal year it is identified may impact subsequent annual budgets.

Priority	Medium (Important)
Recommendation 1: The Office should consult with the Project Board and the Regional Bureau for Asia and the Pacific to establish a feasible solution for the deduction of ineligible expenditure.	
Management action plan: Given the circumstances as described above, the Office will undertake the following management actions to address this issue: (a) Present this issue to the LOTFA Project Board through the Support to Payroll Management Technical Working Group and LOTFA Oversight Sub-Committee, and to the Regional Bureau for Asia and the Pacific for guidance on addressing the issue. (b) Based on guidance from both the Project Board and the Regional Bureau for Asia and the Pacific, the Office will determine which appropriate solution can be feasibly implemented, and communicate this solution to OAI.	

Estimated completion date: June 2016

Issue 2 Verification documents supporting expenditure deemed eligible not retained

The UNDP 'Programme and Operations Policies and Procedures' require that relevant supporting documents be maintained to support payments made.

During implementation of the previous OAI recommendation regarding the resolution of $17 million of ineligible expenditure, the Office reported that this amount had been verified as eligible by the Monitoring Agent and the Office based on supporting documentation, such as government personnel/payroll verification documents. The current follow-up review could not validate the amount deemed as eligible, as the supporting documents were no longer available.

The Office reported that while the Monitoring Agent reviewed the supporting documents, these were not obtained back by the Office when the contract of the Monitoring Agent expired in February 2014. When contacted by the Office in October 2015, the Monitoring Agent stated that the respective documentation had been discarded, since the contract had expired and there was no clause for documentation retention in the contract. Furthermore, the existing contract with the Monitoring Agent valid until February 2016 did not include a document retention/retrieval clause.

Not retaining supporting documentation poses the risk that the expenditure cannot be reviewed/recovered at a later stage, if such a need arises.

Priority Medium (Important)

Recommendation 2:

The Office should seek the advice of the Legal Support Office to amend the existing contract with the Monitoring Agent and include a provision on document retention for a specific period, including sharing the documents with the Office as required.

Management action plan:

The Office will undertake the following management actions to address this issue:

(a) Assess which type of documents for retention are legally viable, including their cost estimate.
(b) Subsequently, with the guidance of the Legal Support Office, make an amendment to the Monitoring Agent's contract to include a provision on document retention.

Estimated completion date: June 2016

ANNEX Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented** The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.
- **In progress** The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.
- **Not implemented** The audited office has not taken any action to implement the recommendation.
- **Withdrawn** Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. 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.

C. 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>.