

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

Report No. 1897
Issue Date: 28 December 2017

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Report on the Audit of UNDP Afghanistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Afghanistan (the Office) from 5 to 15 November 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 October 2017. The Office recorded programme and management expenses of approximately \$976 million. The last audit of the Office was conducted by OAI in 2016.

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/some improvement needed**, which means “the assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area. This rating was mainly due to weaknesses in programme and project management, sub-optimal delivery rates of projects, and weaknesses in the management of cash advances.

Key recommendations: Total = 6, high priority = 3

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1	High
	2	High
Compliance with legislative mandates, regulations and rules, policies and procedures	4	High
	3, 5, 6	Medium

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. The high (critical) priority recommendations are presented below:

Programme and project management weaknesses (Issue 1)	Weaknesses in programme and project management were noted, such as inadequate project monitoring, missing Letters of Agreement for Country Office support, and not obtaining prior approval from the Regional Bureau for directly implementing projects.
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Recommendation: The Office should revise its programme management standard operating procedures to include: (a) undertaking regular assurance monitoring activities and establishing a monitoring agreement with a third-party to areas where staff members are unable to access; (b) signing a Letter of Agreement with the Government for Country Office support; and (c) obtaining prior approval from the Regional Bureau for direct implementation of projects.

Sub-optimal delivery rates of projects (Issue 2)

Projects recorded expenditure rates well below the budget as at November 2017: Project No. 88841 with a budget of \$3.7 million had an expenditure rate of 38 percent; Project No. 94515 had expenditure of only 11 percent of its \$1.6 million budget while Project No. 95669 with a budget of \$7.6 million had expended only 12 percent. These projects were unlikely to substantially meet their objectives.

Recommendation: The Office should improve project implementation by ensuring: (a) close cooperation between operations and programme units is established for the efficient implementation of procurement and recruitment activities; (b) annual work plans are realistic and adjusted, as appropriate, to any emerging risks identified during the mid-year review that may impact implementation of activities; and (c) capacity of implementing partners is strengthened and alternative implementation modalities are identified for areas with limited access due to security challenges.

Weaknesses in management of project cash advances (Issue 4)

The following exceptions were noted in the review of project cash advances: (a) delays in liquidating advances; (b) 'cash custodian appointment forms' not signed; (c) project cash advances to service contract holders exceeded the authorized limit without Treasury approval; (d) project cash advances to fixed-term appointment staff without Treasury approval; (e) increase in the project cash advance threshold for fixed-term appointment staff and service contract holders without Treasury approval; and (f) lack of use of the Project Cash Advance (PCA) Status Monitor report.

Recommendation: The Office should enhance controls in managing project cash advances by: (a) enhancing efforts to ensure that project cash advances are cleared within 14 days after the last day of the project activities as required by the UNDP's Treasury, including requiring recipients to sign the 'cash custodian appointment forms'; (b) utilizing the PCA Status Monitor report and having it reviewed by a designated staff member to enhance management of cash advances; and (c) seeking prior approval from the UNDP's Treasury for advances over \$25,000 to fixed-term staff and for advances over \$1,000 to service contract holders.

Implementation status of previous OAI audit recommendations: Report No. 1745, 23 December 2016.

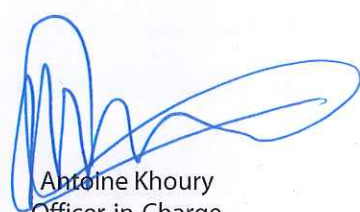
Total recommendations: 8
Implemented: 4
In progress: 3
Not implemented: 1

Report No. 1745 pertains to the audit of the project directly implemented by UNDP Afghanistan titled Local Governance Project (Project No. 90448). The recommendation where no action has been taken yet has a high (critical) priority and pertains to cost recovery for the use and subsequent transfer of project vehicles with a net book value of \$0.4 million as of August 2016.

Management comments and action plan

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A blue ink signature of Antoine Khoury is written over the text. The signature is stylized, with a large loop at the beginning and a long, sweeping tail.

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

I. About the Office

The Office, located in Kabul, Afghanistan (the Country) had 60 national staff (fixed-term appointments), 43 international staff (40 fixed-term appointments and 3 temporary appointments) and 254 service contract holders as at November 2017. Generally, the Office faced significant challenges, both internally and externally, as opportunities for sustainable development were made more difficult due to the security and political context and the socio-economic transition the Country was facing. Subsequent to a Management Consulting Team mission to the Office in May 2016, an office restructuring exercise had taken place and was completed in the first quarter of 2017.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. Management structures, roles and responsibilities, actions to address 2016 Global Staff Survey results together with delegation of authorities were established and operating effectively. No reportable audit issues noted.
- (b) Operations/Human resources management. Sample review of recruitment and separation cases, leave management, learning activities and staff performance assessments indicated that adequate controls had been established and were working effectively.
- (c) Operations/General administration. Review of the travel management, asset management and vehicles fleet management indicated that adequate controls had been established and no reportable audit issues were noted.
- (d) Operations/ICT. Review of software and hardware management as well as the Office's Disaster Recovery Plan indicated that adequate controls had been established.
- (e) Operations/Staff security and premises. The review of the Office's security plan, security risk assessment, warden system and security training plan did not identify any reportable issues.
- (f) United Nations Coordination and Leadership. Review of the activities undertaken by the Resident Coordinator's Office indicated that adequate controls had been established to manage and lead the United Nations coordination work in the Country.

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

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

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

High priority recommendations, arranged according to significance:

- (a) Revise programme management standard operating procedures (Recommendation 1).
- (b) Enhance controls in managing project cash advances (Recommendation 4).
- (c) Improve project implementation (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen controls on budget overrides (Recommendation 5).

- (b) Develop and implement standard operating procedures in procurement process (Recommendation 6).
- (c) Ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

1. Quality assurance process

Issue 1 Programme and project management weaknesses

According to the 'UNDP Programme and Operations Policies and Procedures' programme and project monitoring includes: 1) tracking performance through the collection of appropriate and credible data and other evidence; 2) analysing evidence to inform management in decision-making, improve effectiveness and efficiency, and adjust programming as necessary; and 3) reporting on performance and lessons learned to support accountability and to improve operations.

The audit selected 10 projects for a detailed review (Project Nos. 94291, 89620, 101479, 76056, 76820, 88841, 57359, 89136, 80438 and 90448), with total expenditures of \$94 million, representing 74 percent of the total programme expenditures from January 2016 to November 2017, excluding the \$783 million expenditures incurred by Project No. 89137, LOTFA Support to Payroll Management. The LOFTA Project was addressed in the UNDP DIM Audit Report No. 1847, 23 August 2017 and UNDP DIM Audit Report No. 1689, 14 July 2016.

The audit noted the following weaknesses in project management:

(i) Inadequate programme/project monitoring:

- The Office had maintained an Excel sheet for monitoring the output indicators at the programme level. According to the 2016 Results Oriented Annual Report, \$3.8 million had been spent on monitoring alone. However, the project assurance monitoring activities by the Office were minimal, including those projects with large field presence (e.g., Project No. 90448). Out of the 10 projects reviewed, 4 did not have any assurance monitoring undertaken by the Office even though 3 of these projects were implemented at the sub-national levels (Project Nos. 89620, 101479, and 90448).

While project-level field visits and back-to-office reports were provided for all projects, these were not necessarily linked to any of the progress indicators to be measured as part of the monitoring activities. While plans were underway to contract a third-party monitoring agent early in 2017, this was yet to be undertaken.

- There was little evidence that progress data submitted by the projects through the progress reports was verified/validated by the programme teams. The Office stated that staff security was a significant concern, and that staff were unable to travel to the field for project assurance monitoring visits.
- In the 2016 Results Oriented Annual Report, the Office had stated the lack of data and insecurity hampered its monitoring and reporting, and that it would include community based organizations and community development councils in data collection and monitoring. However, there was no evidence that this had been established.

(ii) Letter of Agreement for Country Office support not established:

In accordance with national implementation guidelines, the implementing partner assumes full responsibility for the related outputs. However, UNDP, at the request of the Government can implement activities on behalf of the Government. In this instance, a standard Letter of Agreement to support national implementation is signed by both parties, and clearly articulates the responsibilities for both parties.

Out of the 10 projects reviewed, 3 did not have Letters of Agreement for Country Office to support national implementation (Project Nos. 89620, 101479 and 88841). A review of the Office's standard operating procedures for programme management highlighted a gap in the workflow process for establishment of Letters of Agreement for Country Office support. The Office stated that the standard operating procedures would be revised to address this gap.

(iii) Post-facto approval from Regional Bureau for directly implemented projects:

Direct implementation (DIM) is the modality whereby UNDP takes on the role of implementing partner. With DIM, UNDP assumes overall management responsibility and accountability for project implementation. Regional Bureaux and Offices must make sure that approval is granted for direct implementation before the initiation of project/programme activities.

Out of the 10 projects reviewed, 2 were DIM projects. However, no prior approval was obtained from the Regional Bureau (Project Nos. 94291 and 80438) for the Office to directly implement these projects. The Office had submitted five post-facto requests for DIM approvals in November 2017 including the two projects identified above. The existing standard operating procedures for programme management did not include a process workflow for the DIM approval request. The Office stated that this would be rectified.

Weaknesses in project monitoring and inadequate quality assurance may prevent the Office from managing for mutually agreed results, and may impact future project interventions.

Priority	High (Critical)
Recommendation 1:	
The Office should revise its programme management standard operating procedures to include:	
<ul style="list-style-type: none"> (a) undertaking regular assurance monitoring activities and establishing a monitoring agreement with a third party to areas where staff members have no access; (b) signing a Letter of Agreement with the Government for Country Office support; and (c) obtaining prior approval from the Regional Bureau for direct implementation of projects. 	
Management action plan:	
The Office indicated that it has a comprehensive approach to monitoring and evaluation although certain elements could be better articulated. In this regard, the Office will do the following:	
<ul style="list-style-type: none"> • Revise the relevant programme standard operating procedures to (1) reflect comprehensive monitoring and evaluation plans as part of project documents and annual or multi-year work plans (as applicable), (2) add project document revision procedures, and (3) include procedures for Letters of Agreement and DIM approvals. 	

- Revise the pre-project appraisal checklist to include DIM approvals where applicable as requirement.

Estimated completion date: March 2018

Issue 2 Sub-optimal delivery rates of projects

The 'UNDP Programme and Operations Policies and Procedures' require projects to prepare annual work plans with detailed activities on what will be accomplished during the year, including the time frame, responsible party, source of funds and the budget.

In 2016, the Office had a programme budget of \$552 million and actual programme expenditures of \$491 million (89 percent). Of the total expenditures, \$430 million (87 percent) was incurred by Project No. 89137, LOTFA Support to Payroll Management. The audit team noted that the Office's remaining projects had sub-optimal expenditure rates.

Projects recorded expenditure rates well below the budget as at November 2017: Project No. 88841 with a budget of \$3.7 million had an expenditure rate of 38 percent; Project No. 94515 had expenditure of only 11 percent of its \$1.6 million budget while Project No. 95669 with a budget of \$7.6 million had expended only 12 percent. These projects were unlikely to substantially meet their objectives.

The contributing factors to the low expenditure rates included challenges in recruiting qualified project personnel, over ambitious annual work plans, security issues adversely affecting implementation of project activities, delays in receipt of donor contributions, and limited capacity of some implementing partners.

The Office risks not meeting its developmental objectives, which in turn may jeopardize its ability to mobilize adequate resources for implementing projects.

Priority	High (Critical)
Recommendation 2: The Office should improve project implementation by ensuring: <ul style="list-style-type: none"> (a) close cooperation between operations and programme units is established for the efficient implementation of procurement and recruitment activities; (b) annual work plans are realistic and adjusted, as appropriate, to any emerging risks identified during the mid-year review that may impact implementation of activities; and (c) capacity of implementing partners is strengthened and alternative implementation modalities are identified for areas with limited access due to security challenges. 	
Management action plan: The Office agreed with the recommendation and would be implementing the recommended actions. The Office further indicated that since 1 January 2018, use of a project implementation plan would be made mandatory, which would allow Office management to link results delivery with financial delivery. The Office would also send participants to attend the Regional Bureau's workshop on improving project delivery and introduce enhanced implementation delivery analysis sheets by projects.	

Estimated completion date: December 2018

Issue 3 Projects not closed within required time frame

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities have been planned. Further, projects should be financially closed within 12 months of operational closure.

The audit noted that 26 outputs linked to 14 ongoing projects had ended between December 2014 and June 2017 but were not operationally closed in Atlas (enterprise resource planning system of UNDP). Furthermore, 12 projects were operationally closed between January 2012 and August 2016 but they had not been financially closed in Atlas. Of these 12 operationally closed projects, 4 had cost-sharing balances totalling \$1.9 million. OAI had raised a similar issue in its Audit Report No. 1731 dated 23 Nov 2016 – Recommendation No. 1 remains outstanding after more than 12 months.

The Office stated that these projects were in various stages of closure, such as processing donor refunds, preparing the terminal reports, or clearing of advances.

The Office risks unauthorized charging of ineligible expenditures against these projects if they are not closed in a timely manner.

Priority	Medium (Important)
Recommendation 3:	
The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on project closure by settling all discrepancies noted within a stipulated time frame.	
Management action plan:	
The Office has made significant progress in the last 12 months in undertaking closures of projects. The Office will remain focused on closing all relevant projects in a timely manner.	
Estimated completion date: December 2018	

B. Operations

1. Finance

Issue 4 Weaknesses in management of project cash advances

A project cash advance, or PCA, is a one-time advance issued to a custodian for a specific one-time project activity. The 'UNDP Programme and Operations Policies and Procedures' require project cash advances to be cleared within seven days after the last day of the project activity. In the case of the Office, Treasury

exceptionally allowed 14 days after the last day of the project activities to clear these project cash advances. A project 'cash custodian appointment form' must be completed and signed by personnel receiving advances. Any single project cash advance should not exceed \$25,000 unless it is authorized by Treasury. A UNDP service contract holder is authorized to have a project cash advance up to \$1,000. If an office needs to give a project cash advance of more than \$1,000 to a service contract holder as the custodian, the head of office must send the request to the Treasurer for approval.

The Office provided 149 project cash advances amounting to \$1.6 million from 1 January 2016 to 31 August 2017. OAI reviewed a sample of 20 project cash advances (13 percent) of \$255,659 (16 percent) to personnel to carry out various project activities together with their corresponding clearances and noted the following exceptions:

- (a) There were delays in liquidating advances, ranging from 6 to 86 days, for 16 project cash advances (80 percent of the sample taken) totalling \$219,604 (86 percent of the sample taken).
- (b) During the period from January 2016 to August 2017, 37 fixed-term appointment staff and 12 service contract holders were entrusted with cash advances. In 20 project cash advances samples reviewed, 4 fixed-term appointment staff did not sign the 'cash custodian appointment form' to acknowledge that they were aware of their responsibilities of handling the cash entrusted to them.
- (c) In 17 project cash advances issued to service contract holders, 9 (53 percent) had received cash advances over the \$1,000 limit without Treasury approval.
- (d) In 132 project cash advances issued to fixed-term appointment staff, 7 had received cash advances over \$25,000 all of them without Treasury approval.
- (e) For Project No. 90448, the Office increased the cash advance threshold for fixed-term appointment staff from \$25,000 to \$50,000 and for service contract holders from \$1,000 to \$25,000 without Treasury approval.
- (f) The Office did not use the PCA Status Monitor to keep track of advances. The Finance Unit generated the Account Activity Analysis (AAA) report from Atlas and followed up regularly on the relevant outstanding project cash advances. This might not be completely effective in monitoring the project cash advances as the AAA report does not capture the project activity dates.

The above control weaknesses occurred mainly as a result of inadequate monitoring and oversight as well as not utilizing the prescribed monitoring tool in the 'UNDP Programme and Operations Policies and Procedures'. The Office explained the delays in liquidation were mostly due to the remoteness of project locations and extra time required to review and approve liquidations.

Inadequate controls in managing the project cash advances may result in financial losses to UNDP.

Priority	High (Critical)
Recommendation 4:	
The Office should enhance controls in managing project cash advances by:	
<ul style="list-style-type: none"> (a) enhancing efforts to ensure that project cash advances are cleared within 14 days after the last day of the project activities as required by UNDP's Treasury, including requiring recipients to sign the 'cash custodian appointment forms'; (b) utilizing the PCA Status Monitor report and having it reviewed by a designated staff member to enhance management of cash advances; and 	

- (c) seeking prior approval from the UNDP's Treasury for advances over \$25,000 to fixed-term staff and for advances over \$1,000 to service contract holders.

Management action plan:

The Office agreed with the recommendation and would address it in the context of clustering payments processing with the Global Shared Services Unit in January 2018. It is noted that submission within 14 days to the Global Shared Services Unit for settlement of project cash advances is a responsibility that rests with the Office.

Estimated completion date: January 2018

Issue 5 Weak controls in budget overrides

The 'UNDP Programme and Operations Policies and Procedures' include detailed guidelines on the various conditions applicable to budget overrides. The head of office is responsible for defining a budget override policy for the office according to risk management guidelines. Prior approval of the budget override policy must be sought from and provided by the Comptroller. This policy should outline the circumstances under which a budget override is acceptable and who is authorized to override the budget exception in Atlas as well as monitoring the usage of overrides.

The Office issued a budget override policy in 2014 to outline the circumstances for acceptable budget overrides and the staff authorized to override the budget exception. The policy requires that the programme unit prepare the budget override form for all budget override requests including the written justification, with the approval by the Senior Deputy Country Directors or the Country Director.

The Office processed 54 payment vouchers with budget overrides amounting to \$3.9 million between January 2016 and August 2017. Of these, OAI selected 26 (48 percent) payment vouchers amounting to \$3.8 million (97 percent) and noted the following exceptions:

- (a) 16 out of 26 cases (62 percent of the sample) had no documented justification for budget overrides and the required budget override form was not completed;
- (b) 14 out of 26 cases (54 percent of the sample) budget overrides in Atlas were carried by staff who did not have the required written delegation of authority; and
- (c) 2 out of 26 cases (8 percent of the sample) of budget overrides in Atlas were approved by the same staff member who submitted the claims.

The Office's 2014 budget override policy had not been updated to reflect the changes in senior management and there was no system in place to monitor the use of the budget override function in Atlas.

The Office explained that 19 budget overrides in 2017 were done due to the delay in receiving the second instalment of the extrabudgetary fund. Subsequent to the audit fieldwork, the Office provided a draft updated budget override policy to be approved and communicated to all staff.

Inadequate controls in budget overrides may create potential financial liabilities without available cash and could go beyond the authorized spending limits.

Priority	Medium (Important)
Recommendation 5:	
The Office should strengthen controls on budget overrides by updating, communicating and implementing the budget override policy and strengthening the monitoring of budget override activities.	
Management action plan:	
With the clustering of payment processes to Global Shared Services Unit and proposed changes in the provision of funding for DPC related costs (Prefunded DPC projects), this issue is expected to be significantly reduced in 2018. A revised budget override policy has been reissued clarifying who can process overrides and this will continue to remain in effect in 2018 as this authority will not be passed to the Global Shared Services Unit.	
In addition, the Office will undertake a quarterly review of overrides processed to be certified by the Chief Finance Officer.	
Estimated completion date: December 2017	

2. Procurement

Issue 6 Purchase orders created after receipt of goods or services

UNDP Financial Regulations and Rules (Regulation 20.3 and Rule 120.01) require that commitments be made to ensure that resources are available to cover anticipated claims. For procurement transactions, commitments are represented by approved purchase orders in the Atlas system. The 'UNDP Programme and Operations Policies and Procedures' require the raising of purchase orders for all transactions above \$2,500.

During the period under review, there were 55 instances (representing a value of \$4.02 million) where purchase orders were created after the receipt of goods or services from suppliers.

The Office explained that this was due to delayed submission of e-Requisitions in Atlas and requisition procurement plans in the Procurement Management and Planning Platform, which was being used as a procurement planning tool that assisted the Office in the procurement of goods and services.

The creation of purchase orders in Atlas after the receipt of goods or services increases the risk that funds necessary to satisfy anticipated claims will not be available in the relevant account.

Priority	Medium (Important)
Recommendation 6:	
The Office should develop and implement standard operating procedures in the procurement process to ensure:	
(a) the timely submission of e-Requisitions and requisition procurement plans; and	
(b) that a purchase order is raised in the Atlas system prior to the receipt of goods or services.	

Management action plan:

The Office agreed with this recommendation and appropriate action would be taken to ensure full implementation.

The relevant standard operating procedures already clearly state that contract should be signed and the purchase order issued before contract commencement for the procurement of goods and services. This issue will be further reviewed internally to identify any issues that may arise with regards to multi-year procurement activities and the issuance of appropriate purchase orders in Atlas on a timely basis.

Estimated completion date: April 2018

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.