



AUDIT

OF

UNDP AFGHANISTAN

AFGHANISTAN SUB-NATIONAL GOVERNANCE PROGRAMME
(Directly Implemented Project No. 58922)

Report No. 1062
Issue Date: 19 July 2013

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

From 29 June to 14 August 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the Afghanistan Sub-national Governance Programme (Project No. 58922) (the Project) which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). The audit covered the activities of the Project during the period from 1 January 2011 to 31 March 2012. During the period reviewed, the Project recorded programme and management expenditures totalling \$12 million. The following donors contributed to the Project: European Union, UNDP, United Kingdom, Switzerland, Italy and Australia.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

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 due to serious concerns regarding project and operations management. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Organization and staffing				
2. Project management				
3. Operations				
3.1 Human resources				Satisfactory
3.2 Financial and cash management				Unsatisfactory
3.3 Procurement				Not Assessed
3.4 Asset management				Unsatisfactory
3.5 Information systems				Satisfactory
3.6 General administration				Satisfactory
3.7 Follow-up on previous audits				Not Applicable

Key issues and recommendations

The audit raised eight issues and resulted in seven recommendations, all of which were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

Several of the high priority recommendations are presented below:

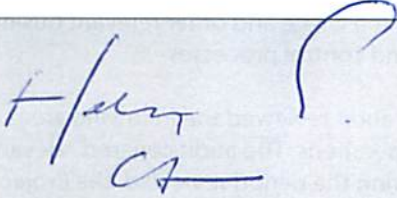
- Project management (Issue 2) Inadequate Project governance. Only one Project Board meeting was held during the audit period, although the Board was required to meet quarterly. Board approvals were thus not obtained for major programmatic decisions. Funding for planned activities was inadequate and key monitoring and evaluation functions were not implemented. A comprehensive exit strategy was lacking and progress reporting was unclear. OAI recommends that the Office comply with the Programme and Operations Policies and Procedures by strengthening its governance processes and by: (a) establishing a resource mobilization strategy which considers the changes in donors' focus and the in-country situation; (b) ensuring that progress reports include a comparison of actual progress against planned outputs and that the Annual Work Plans include clear and quantifiable benchmarks and targets; and (c) developing a comprehensive exit strategy to ensure sustainability of activities.
- (Issue 3) Poor management of Letters of Agreement. The Office did not comply with provisions of the Letters of Agreement signed with the government counterparts. For example, the Office did not conform with Letter of Agreement provisions regarding participation in personnel performance assessments, conducting capacity assessments prior to releasing advances to government counterparts and finalizing guidelines for the proper utilization of funds by counterparts. Furthermore, the standard operating procedures, which included guidelines for properly utilizing funds and the recruitment process, had not been finalized. OAI recommends that the Office improve the management of Letters of Agreement by: (a) identifying the deficiencies in the management arrangements, coordination and oversight mechanisms and in collaboration with project management, Independent Directorate of Local Governance (IDLG), Provincial Governor Offices and the municipalities, amend the Letters of Agreement as appropriate, to address the deficiencies and clarify roles and responsibilities, including the ownership and maintenance of bank accounts; (b) ensuring that the IDLG avoids cash transactions and makes payments by cheque only, and that formal receipts or other adequate supporting evidence are required from the vendors to confirm receipt of payments for goods and services delivered; and (c) finalizing the standard operating procedures to address areas such as the utilization of funds and recruitment, and conducting adequate monitoring and ensure strict compliance with them.
- (Issue 4) Weak oversight over compliance with Letter of Agreement. Even though the Project had paid \$3.7 million in salaries, it did not have accurate records of eligible personnel to be paid under the contracts with the government institution, nor had it established a standard salary scale or reviewed timesheets before authorizing salary payments to Project personnel. Some personnel inappropriately received salaries from both UNDP and the government. OAI recommends that the Office implement adequate controls to ensure compliance with the Letter of Agreement relating to the personnel recruited and contracted by the responsible party and the payment of their salaries by: (a) establishing an accurate list of personnel under contract with the government institution and eligible to be paid; (b) establishing a salary scale for such personnel; (c) conducting an independent review of monthly payrolls, timesheets, and activity reports; and (d) developing an action plan to identify those personnel who were inappropriately receiving salaries from two sources, halt such payments and recover amounts incorrectly paid.

Financial and cash
management
(Issue 6)

Significant weaknesses in managing Project advances. The Office released advances to Provincial Governor Offices totalling \$3.3 million, of which \$0.9 million remained outstanding as of July 2012. OAI recommends that the Office ensure compliance with the Programme and Operations Policies and Procedures on the use of cash advances by making arrangements with the Provincial Governor Offices and municipalities for the timely liquidation of outstanding advances.

Management comments and action plan

The Country Director accepted all recommendations and is in the process of implementing them.



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