



**AUDIT**

**OF**

**DONOR RELATIONS**

**IN**

**UNDP AFGHANISTAN**

**Report No. 1137**  
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## Report on the audit of Donor Relations in UNDP Afghanistan Executive Summary

From 28 January to 11 February 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of Donor Relations of the UNDP Country Office in Afghanistan (the Office). The audit covered Office activities during the period from 1 January to 31 December 2012. The Office recorded a total of \$626 million as income received in 2012 from 19 donors. During the period reviewed, the Office recorded programme and management expenditures totalling \$653 million.<sup>1</sup> In 2012, OAI and the United Nations Board of Auditors had conducted audits that covered other activities of the Office.

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 Office as **partially satisfactory**, which means “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” This rating was mainly due to concerns within the areas of governance, donor reporting and the management of donor residual funds balances. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>1. Donor relations governance</b>				
1.1 Partnership and resource mobilization	Partially Satisfactory			
1.2 Donor communications	Satisfactory			
<b>2. Management of donor contribution agreements</b>				
<b>3. Donor reporting</b>				

### Key issues and recommendations

The audit raised five issues and resulted in four recommendations, of which three (75 percent) 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.”

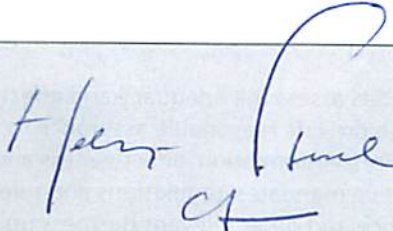
<sup>1</sup> Source: Executive snapshot as of 26 June 2013

The high priority recommendations are as follows:

- Donor relations governance (Issue 1) Deadline for restructuring of donor relations function not established. Two prior reviews - the Strategic Programme Review (October 2011) and the External Relations Review (February 2012), identified structural and other changes that needed to be implemented. The new management team reported in 2012 that it implemented a number of recommendations and initiated steps to address the issues identified. However, a deadline for completing the restructuring had not been established. OAI recommends that the Office establish a 2013 annual work plan for donor relations, which will include a time frame for completing the restructuring of the donor relations function and the remaining tasks, such as finalizing the Framework for Strategic Partnerships and the Resource Mobilization Strategy, as well as the recruitment of related staff members.
- Management of donor contribution agreements (Issue 4) Donor residual balances not cleared in a timely manner. Although the Office had refunded some unutilized donor funds, 26 projects (involving 19 donors) with residual balances exceeding \$15 million were not financially closed in a timely manner. The main reasons for this delay were the absence of relevant documents, the lack of regular follow-up by the Office with the relevant donors, and the inability to identify certain donors. OAI recommends that the Office ensure that: (a) residual balances are cleared as soon as possible by following up with the relevant donors and seeking advice from the Office of Financial Resources Management on how to address cases in which the donor cannot be identified; and (b) that relevant documents relating to projects, such as agreements and project documents, are properly maintained.
- Donor reporting (Issue 5) Weaknesses in the timeliness and quality of donor reporting. There were delays in submitting quarterly and annual donor reports. Furthermore, the quality of the reports needed to be improved. Some reports were not aligned with the results expected and some reports did not accurately reflect the project financial situation. This was primarily a result of weak staff capacity at the project level tasked with reporting. OAI recommends that the Office ensure that the donor reporting process meet UNDP and donor requirements through: (a) clarifying roles and responsibilities for reporting, both at the project and programme levels to ensure substantive value is added to the process; (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; (c) strengthening the monitoring, evaluation and project and programme oversight functions to ensure accurate and relevant information is available to ensure timely and meaningful reporting; and (d) ensuring the substance and clarity of information provided to donors meets expectations.

**Management comments and action plan**

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



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