



AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

FINANCIAL MANAGEMENT

Report No. 1233

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Report on the Audit of Financial Management in UNDP Afghanistan Executive Summary

From 8 to 19 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of financial management in the UNDP Country Office in Afghanistan (the Office). The audit covered the finance operations during the period from 1 January 2012 to 31 August 2013. During the period reviewed, the Office processed payment vouchers totalling \$1.1 billion. The last audit of the Office, which included financial management, was conducted by the United Nations Board of Auditors in November 2012. OAI conducted an audit of the Office in August 2008.

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's financial management 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 due to weaknesses in management of bank reconciliation, cash management, disbursement functions, and processing of general ledger journal entries. Ratings per sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Cash, banking and investment				
2. Financial closure of development projects and trust funds				
3. Financial management and execution modalities				
4. Financial operations management				
5. Revenue and expense management				
6. Resource planning and funding				

Key issues and recommendations

The audit raised 6 issues and resulted in 7 recommendations, of which 5 (71 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."

The high priority recommendations are as follows:

Cash, banking and investment (Issue 1) Serious lapses in bank reconciliations. The Office's five bank accounts were not reconciled as of 9 September 2013 and three of these had not been reconciled since 2004. OAI recommends that the Office further strengthen its bank reconciliation process by: (a) maintaining adequate documentation for verifying unreconciled amounts and evidence of supervisory oversight; and (b) instituting accountability of the staff members involved in the reconciliation process by reflecting their performance in the Performance Management Development assessment.

OAI also recommends that the Office develop an action plan with milestones to ensure that long outstanding unreconciled amounts are resolved in a cost effective manner.

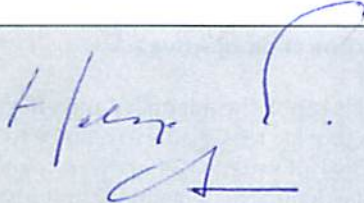
(Issue 2) Inadequate cash management. During the period from 2004 to 2013, more than 1,000 cash advances to projects amounting to \$37.8 million were incorrectly recorded as expenses. Further, the Office did not establish a mechanism to ensure proper monitoring of these advances. As a result, OAI noted delays in liquidating these advances. OAI recommends that the Office enhance its oversight and monitoring of project cash advances by: (a) establishing stricter controls for the timely liquidation of advances, such as deducting them from the staff salaries or entitlements when not settled within the required timeframe and/or not issuing new advances until the previous advances are cleared; and (b) using the bank facilities to make direct payments to vendors and workshop/training participants to limit the use of project cash advances.

Revenue and expense management (Issue 5) Control weaknesses in disbursements. Disbursing officers did not review the details of the supporting documents relating to payment vouchers before approving the payment in Atlas. OAI recommends that the Office ensure compliance with the Programme and Operations Policies and Procedures by: (a) ensuring that the disbursing officers review the details of the payment voucher supporting documents prior to finalizing the payment in Atlas; and (b) limiting the number of personnel preparing letters to the bank and using only one template for the letter.

(Issue 6) Inadequate controls in processing general ledger journal entries. The Head of the Financial Resources Management Unit approved journal entries exceeding his delegated authority. Further, there were inadequate supporting documents to validate the appropriateness of some journal entries. OAI recommends that the Office ensure that: (a) approving managers only approve general ledger journal entries within their authorized delegation of authority; (b) journal entries are only processed if adequate supporting documents are attached; and (c) there is proper coordination between the Office and Project Manager before processing general ledger journal entries.

Management comments and action plan

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



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