



DESK REVIEW

OF

UNDP AFGHANISTAN

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

Report No. 1310
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Report on the desk review of UNDP Afghanistan's oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a desk review from 24 March to 24 April 2014 of UNDP Afghanistan's (the Office) oversight of the Monitoring Agent of the Law and Order Trust Fund for Afghanistan (LOTFA or the Project), which is being implemented by the Government (the Ministry of Interior or herein referred to as the "Government Implementing Partner"). In this context, "oversight" refers to the Office's management and supervision of the Monitoring Agent of the Project. The objectives of the desk review were to follow up on concerns that were communicated to OAI regarding the Project's activities with a view to do the following:

- (a) determine whether the concerns on the payments for salaries and other benefits of the police force charged to the Project have already been identified and reported by the Monitoring Agent;
- (b) determine whether the Office has taken appropriate and prompt action on the findings and recommendations raised in the reports submitted by the Monitoring Agent;
- (c) determine whether the Office's oversight of the work performed by the Monitoring Agent has been adequate and has taken into account the recommendations raised in OAI's Management Letter of August 2013; and
- (d) assess, to the extent possible, whether the Monitoring Agent has fulfilled the requirements stipulated in its contract with UNDP.

The desk review covered the Office's oversight activities of the Monitoring Agent from 1 January 2013 to 16 March 2014. The Project recorded expenditures totalling \$524 million during 2013.

Given the scheduled presidential elections in the Country in April 2014, it was difficult to conduct an audit in the field. OAI therefore decided to conduct a desk review of the Office's management and supervision of the Monitoring Agent. The desk review was conducted remotely from OAI's Regional Audit Centre for Asia and the Pacific, based in Kuala Lumpur, Malaysia. OAI was in contact with management and personnel of the Office and the Monitoring Agent via conference calls and emails. Also, OAI reviewed the records made available by the Office and was provided with the Monitoring Agent's reports from January 2013 to January 2014 and other information requested from them. During the review, OAI did not contact and did not review records maintained by the Government Implementing Partner or the members of the Project Steering Committee. Relevant excerpts of the draft report were sent to the Government Implementing Partner but no feedback was received. In addition, OAI did not access any of the accounting, payroll and human resource systems and databases of the Government Implementing Partner. To the extent possible, OAI independently identified documents to validate certain observations and information obtained through telephone interviews.

The desk review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall review rating

OAI assessed the oversight of the Office over the Monitoring Agent as **unsatisfactory**, which means, "Internal controls, governance and risk management processes were either not established or functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised."

This rating was mainly due to:

- (a) the ineffective governance structure of the Office's oversight of the Monitoring Agent;
- (b) an inadequate follow-up on the OAI Management Letter and the UNDP Management Review Team's recommendations;
- (c) a lack of critical controls when processing requests for advances from the Government Implementing Partner and their subsequent liquidation; and

- (d) not having presented the reports of the Monitoring Agent to the Project Steering Committee as stipulated in the Terms of Reference.

The rating also partly reflects that the risk management practices of the Office were not fully functioning, as the Office was unable to promptly act on reports of ineligible expenditures brought to its attention by the Monitoring Agent, which could have a negative impact on the reputation of UNDP.

Key recommendations: Total = 3, high priority = 3

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

Appropriate and timely actions not taken on the Monitoring Agent's reports

In its January 2013 report, the Monitoring Agent reported ineligible costs of \$5 million (or 1 percent out of a total payment of \$506 million) incurred by the Government Implementing Partner during 2012. At the time this report was being drafted, the Office could not provide detailed information on the follow-up action taken to address the issue. Similarly, in its January 2014 report, the Monitoring Agent reported ineligible costs totalling \$23.9 million during 2013 (\$17.6 million for food procurement and food allowances and \$6.3 million for payroll related costs). In their response to the draft report, the Office informed OAI that subsequently, of the \$23.9 million, \$10.8 million had been cleared as eligible expenditures, \$2.8 million had been confirmed as ineligible and deducted from subsequent advances to the Government, and \$10.3 million (or 2 percent of the total payment of \$506 million) remained to be resolved. There were also delays in follow-up from the Office partly because the reports from the Monitoring Agent were delayed. Delays in the finalization of the Monitoring Agent's reports gave rise to delays in follow-up actions by the Office. These delays were mainly caused by the Office taking an average of two months to provide its comments on the draft reports submitted by the Monitoring Agent, and the absence of a contract with the Monitoring Agent for 3.5 months (June-September 2013).

Recommendation 1: Take appropriate and prompt actions on the Monitoring Agent's findings and recommendations by: (a) establishing a deadline for the Office in resolving the ineligible costs being raised in the Monitoring Agent's reports; (b) resolving the remaining ineligible expenditure (\$10.3 million from 2013 and \$5 million from 2012) and recovering funds, as applicable; and (c) including in the Monitoring Agent's contract a timeline for submitting reports and for the provision of management comments.

Inadequate management and supervision of the work of the Monitoring Agent

The Monitoring Agent's work was not adequately supervised and its performance not closely monitored because the Office: (a) had not articulated the specific roles and responsibilities of the concerned Office units, and entrusted the oversight responsibility to a national officer in 2013 who did a limited verification on the work of the Monitoring Agent without any supervisory authority; (b) had not ensured that the Monitoring Agent effectively performed the work required, and that payments of fees made were proportionately adjusted to the actual levels of services delivered as described in the Terms of Reference; (c) had not addressed deficiencies in the Monitoring Agent's Terms of Reference; (d) had not fully implemented the recommendations of OAI's Management Letter from 2013 and the Management Review Team from 2012; and (e) had not submitted the reports of the Monitoring Agent to the Project Steering Committee, as required.

Recommendation 2: Strengthen the supervision of the work and monitoring of

the performance of the Monitoring Agent by: (a) ensuring that respective roles and responsibilities are clearly understood and discharged by all concerned Units of the Office; (b) reviewing and responding appropriately on monitoring plans and reports, providing guidance on any scope limitations and taking actions on appropriate payment modalities for actual work done, and recover as appropriate, any excess payments made arising from the incomplete coverage of all 35 provinces and discontinuation of training and review of food expenditures; (c) addressing the shortcomings of the Terms of Reference by clearly defining the responsibilities and the expected outputs of the Monitoring Agent as well as establishing criteria for assessing the efficient and effective delivery of services; (d) immediately acting on the recommendations of the OAI Management Letter and the Management Review Team; and (e) submitting the Monitoring Agent's reports to the Project Steering Committee through the Technical Working Group.

Inadequate supporting documentation for cash advances

The Office processed the written requests and liquidation of cash advances from the Government Implementing Partner with some supporting documents, including financial reports and completed Funding Authorization and Certificate of Expenditure forms. However, the required bank statements and itemized cost estimates supporting the cash advance requests as required by UNDP's 'Programme and Operations Policies and Procedures' were missing.

Recommendation 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 forms are adequately supported with proper documentation, including bank statements.


Management comments and action plan

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

Before the issuance of the report, OAI shared a draft with the Monitoring Agent and the comments received in return were included in the report, as appropriate. Similarly, relevant excerpts of the draft report were also shared with a representative of the Government Implementing Partner.

OAI further action

The cases of ineligible expenditure have been shared with the Investigations Section, OAI, for further assessment and appropriate follow-up action.



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