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OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

Afghanistan Sub-national Governance Programme (Project No. 58922)

Report No. 1408

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

The UNDP Office of Audit and Investigations (OAI), from 18 August to 2 September 2014, conducted an audit of Afghanistan Sub-national Governance Programme (Project No. 58922) (the Project), which is directly implemented and managed by UNDP Afghanistan (the Office). The Project has some parts that are nationally implemented and managed by responsible parties (namely, the Independent Directorate for Local Governance [IDLG], provincial governors' offices and municipalities). 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) organization and staffing (project organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
(b) programme activities (programme management, partnerships and resource mobilization, project management); and
(c) operations (human resources, finance, general administration, asset management).

The audit covered the activities of the Project from 1 January 2013 to 31 July 2014, except for information and communication technology and procurement, as these areas were covered by OAI through functional audits of the Office. The project expenditures during the period audited amounted to $27.2 million ($21 million in 2013 and $6.2 million in the first half of 2014).

There were two previous OAI audits of the Project, which both resulted in unsatisfactory ratings. The first was a combined financial and internal control systems audit and covered the period from 1 January to 31 December 2010 (Report No. 905, dated 21 August 2012). The second was an assessment of the adequacy and effectiveness of the governance, risk management and control processes and covered the period from 1 January 2011 to 31 March 2012 (Report No. 1062, dated 19 July 2013). The nationally implemented part of the Project was audited by an external audit firm in 2014 and covered the period from 1 January to 31 December 2013. Further, an independent and final evaluation of the Project was conducted by an independent evaluation team contracted by the Office in early 2014, which reported on several weaknesses on governance and management structures, achievement of outputs, and lack of pathways to change (Final Evaluation Report, 12 June 2014).

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

Overall 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 (in this case, the Project) could be seriously compromised." This rating was mainly due to weaknesses in project governance and project management.

Key recommendations: Total = **12**, high priority = **8**

The 12 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1, 2); (b) reliability and integrity of financial and operational information (Recommendation 10); (c) effectiveness and efficiency of operations (Recommendations 3, 4, 5, 6, 7, 9, 12); (d) safeguarding of assets

(Recommendation 11); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 8).

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:

Ineffective project governance (Issue 1)	The three main stakeholders (the Project Management Unit, the Office, and IDLG) did not have good working relationships and did not set the appropriate "tone at the top" in the governance of the Project. There was no agreement on how to discharge their respective responsibilities, no common understanding on how the Project should have been implemented and how resources were to be allocated. In addition, decisions were either delayed or not made at all. There was a lack of communication and adequate consultation, which lead to issues remaining unresolved. This resulted in a lack of trust among the three main stakeholders in their abilities to lead and deliver expected results, which had impacted the Project negatively, leading to slow progress and waste of resources. <u>Recommendation</u>: Enhance governance of the Project by bringing together all parties concerned to resolve issues, developing written and clear guidelines on respective roles, responsibilities and accountabilities, and requesting the intervention of higher level decision makers in UNDP and in the Government, if necessary.
No strategies, definite plans or decisions on Project's future (Issue 2)	The Project was scheduled to end in 2014 and yet, at the time of the audit, there was no finalized exit strategy, no agreement as to whether the Project was going to be extended or was going to transition to another phase, and there was no comprehensive and written resource mobilization strategy. <u>Recommendation</u>: Take immediate action to ascertain the future of the Project in 2015 by finalizing and obtaining agreement by all concerned parties on the draft exit strategy and have the Project Board decide immediately whether to extend to Phase II or transition to another phase in 2015, and take the necessary measures, as called for. *[NOTE: On 29 October 2014, the Project Board approved a six-month extension of the Project until 20 June 2015.]*
High percentage of Project's funds spent for management and administrative costs (Issue 3)	The Project's management and administrative costs of 47 percent ($9.8 million of the total expenditure of $21 million during 2013) was high. This was mainly due to a complex structure set up for managing the Project (large contingent of staff at the Project Management Unit in Kabul and in seven Regional Offices, each headed by an international professional staff member), high costs incurred for common services, incorrect basis of cost recovery for support services and travel of some UNDP staff. <u>Recommendation</u>: Undertake an extensive cost analysis and cost reduction exercise by: (a) reviewing the existing project management structure and instituting one that should reflect its technical advisory and capacity-building role and have it approved by the Project Board; and (b) implementing cost saving-measures by exploring opportunities for outsourcing common and

support services, minimizing non-essential travel, as well as entrusting additional responsibilities to Regional Offices where applicable.

Ad hoc monitoring of Project and inadequate reporting on progress (Issue 4)

The Office, Project Management Unit, and the Regional Offices each conducted monitoring activities, but these were done on an ad hoc basis, were not coordinated, and were not linked to the monitoring and evaluation plans. Relevant reports made no reference to project indicators and targets to be monitored. Progress of the Project was difficult to assess because of missing or unclear indicators as well the absence of the Project's contributions to the overall country programme outcome in the 2013 Annual Report.

Recommendation: Improve project monitoring by: (a) preparing a monitoring plan with the relevant elements to be monitored; (b) revising the monitoring report template to include indicators; (c) documenting follow-up actions to address challenges and issues identified; (d) updating project risks to indicate current status and mitigating actions taken; (e) establishing a robust reporting process; and (f) ensuring that results of monitoring activities are brought to the attention of the relevant decision makers.

Weaknesses in project planning, implementation and oversight (Issue 5)

Preparation and approval by the Project Board of the 2013 and 2014 Annual Work Plans were delayed, Annual Work Plans of the Project and of the Regional Offices were not directly linked, some project components were not implemented, and Project Board oversight and documentation of its proceedings were inadequate.

Recommendation: Improve project planning, implementation and oversight by ensuring that: (a) work plans are prepared and approved before commencement of the year of implementation; (b) Project Board meetings are planned and conducted regularly; (c) issues are escalated to the appropriate decision makers for immediate resolution; and (d) substantive changes affecting the project outputs are discussed and endorsed by both the Local Project Appraisal Committee and the Project Board.

Project baselines, indicators and targets not well defined (Issue 6)

The following weaknesses were noted: (a) similar targets were repeated in the Annual Work Plans for 2013 and 2014 and some output indicators were not specific; (b) baselines were provided as percentages without an indication of the actual numbers needed for accurate monitoring; (c) and a number of indicators were activity-related rather than output-related.

Recommendation: Formulate a complete and well-designed instrument for monitoring and assessing the progress of projects by: (a) identifying indicators that are specific, measurable, attainable, relevant and time-bound; (b) determining and setting baselines for measuring change; and (c) explicitly stating targets of desired levels of change to be achieved.

Ineffective use of Letter of Agreement (Issue 7)

As in previous audits, provisions of the Letter of Agreement (LOA) were not fully complied with, such as the inadequate capacity development of staff at the provincial governors' offices, municipalities and the IDLG, and the non-involvement of the Project Management Unit in the recruitment of staff and in authorizing salary increases.

	Recommendation: Ensure effectiveness of the Letter of Agreement by: (a) reviewing its use by the responsible parties; (b) revising the standard operating procedures; and (c) developing clear rules of engagement among the IDLG, the Project Management Unit and the Office to ensure that their roles and responsibilities in the management of the Agreement are well-understood.
Inadequate oversight of bank accounts and poor management of cash advances (Issue 10)	The bank accounts of responsible parties had not been closed. Adequate controls on cash advances were not in place as some of these were long outstanding, some project funds were used for non-project related expenses, expenditures were not well documented and the standard operating procedures for Letters of Agreement were updated. The granting of cash advances to IDLG was inappropriate because of these inadequate controls and the availability of banking facilities in Kabul where the IDLG is based. Recommendation: Strengthen the oversight of bank accounts and enhance the management of cash advances and expenditures by: (a) working closely with responsible parties to close the remaining active bank accounts; (b) reviewing the process of granting cash advances to the IDLG; (c) requiring that all expenditures be supported with adequate and appropriate documents; and (d) updating the standard operating procedures to reflect the direct payments being made to provincial governors' offices and municipalities.

Implementation status of previous OAI audit recommendations: Report No. 1062, 19 July 2013.
Total recommendations: 7
Implementation status: 71%

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.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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