



AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

ENHANCING LEGAL AND ELECTORAL CAPACITY FOR TOMORROW PROJECT- PHASE II
(Project No. 63078)

Report No. 1459
Issue Date: 31 July 2015

**Report on the Audit of UNDP Afghanistan
Enhancing Legal and Electoral Capacity for Tomorrow - Phase II
(Project No. 63078)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI) conducted an audit of Enhancing Legal and Electoral Capacity for Tomorrow - Phase II (Project No. 63078) (the Project) from 14 to 23 April 2015. The Project was nationally implemented by the Independent Election Commission (IEC); however, many activities were directly implemented by UNDP Afghanistan (the Office). In response to the draft audit report, the Office informed OAI that a decision had been taken to close the project with effect from 31 July 2015. A new Project Document was being formulated and the new project was expected to be developed by the end of 2015. In the meantime, a Project Initiation Plan was being developed to cover the period from August to December 2015 to support the completion of the Project's closeout activities, to support the development of a new project, and to ensure a smooth transition.

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) governance and strategic management (organization and staffing, 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, procurement, asset management).

The audit covered the directly implemented part of the Project's activities from 1 January 2014 to 31 March 2015. The Project recorded expenditures totalling \$158 million (\$152 million in 2014 and \$6 million in the first quarter of 2015). The last audit (conducted by an audit firm on behalf of OAI) of the directly implemented part of the Project's activities was conducted in August 2014 (Report No. 1385, issued on 23 December 2014). The audit firm provided an unqualified opinion on the Statement of Expenditures and a qualified opinion on the Statement of Assets, as assets amounting to \$0.3 million were not being used by the Project. OAI also audited the internal controls of the directly implemented part of the Project in May 2013 (Report No. 1169, issued on 13 November 2013), which resulted in a "partially satisfactory" rating. The audit of the nationally implemented part of the Project's activities was conducted by an external audit firm covering the financial statements from 1 January to 31 December 2014. The audit resulted in an unqualified opinion.

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 could be seriously compromised." This rating was mainly due to weaknesses in organization and staffing, project management, and asset management.

Key recommendations: Total = 10, high priority = 4

The 10 recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 6 and 7); (b) effectiveness and efficiency of operations (Recommendations 1, 3, 5 and 8); (c) safeguarding of assets (Recommendation 10); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 4 and 9).

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:

<p>Failure to follow up on significant weaknesses in salary payments to IEC staff (Issue 1)</p>	<p>The Project had been making salary payments and top-up allowances to IEC staff since its inception. Salaries paid to IEC staff amounted to approximately \$12 million during 2014. In December 2014, the Project contracted an audit firm to undertake an independent verification of payroll payments made to IEC staff during 2014. The payroll verification report presented to the Office in March 2015 highlighted significant concerns. No independent confirmation could be obtained from the bank that salary payments had been made to individual bank accounts. There were also weaknesses in the time sheet system. Further, the recruitment files of some staff were not available and hence no assurance could be obtained on how they were recruited. Despite these weaknesses, the management of the Project had not taken adequate actions to address them as at the date of the audit fieldwork.</p>
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Recommendation 1: The Office should enhance controls over salary payments to IEC staff by: (a) developing a time-bound action plan to address all of the concerns and discrepancies highlighted in the payroll verification report; (b) withholding future salary payments including top-up allowances; and (c) identifying any amounts for the previous periods that may need to be recovered from the IEC, in case issues identified by the verification exercise cannot be resolved within a specific time-frame. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a project in 2016

<p>Inadequate controls over salary payments to IEC's polling staff (Issue 2)</p>	<p>The IEC had recruited temporary staff to assist in polling stations during the presidential elections in April and June 2014. The IEC paid approximately \$14 million in cash to these temporary polling staff. This approach involved high risks as the cash payments were being made at provincial and district levels in various parts of the Country. The Project explained that the cash payment method was adopted based on the assumption that some staff in remote areas may not have had bank accounts. However, as some polling staff were based in Kabul and in regions where banking facilities existed, salary payments could have been made through bank accounts to these staff. Given the risks involved, as well as the inadequate capacity of IEC (as also confirmed in the respective micro-assessment evaluation), the Project had not taken appropriate measures to mitigate the risk of cash payments. OAI had noted similar weaknesses in cash payments by IEC in Audit Report No. 1169. Due to the fact that the issue from the previous audit seems to be recurring, OAI is re-opening the previous recommendation.</p>
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Recommendation 2: The Office should establish measures to manage the high inherent risk of cash payments, including by ensuring that the Independent Election Commission avoids cash transactions and makes payments by cheque or direct transfers to payees' bank accounts. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.

Unclear project results and no assurance on achievement of results (Issue 4)

The Project's outputs, baselines, indicators and targets included in the 2014 Annual Work Plan were not articulated clearly, which impacted the assessment of progress towards agreed results. In many instances, the Project reported the completion of activities as results achieved, without linking the activity completion to the overall result. Further, some annual targets were not results-oriented. Outputs were not results-based and there was no assurance as to whether the results were achieved. As a result, the efficiency and effectiveness of capacity-building interventions could not be assessed.

Recommendation 3: The Office should enhance capacity-building interventions by: (a) articulating clear results to be achieved; (b) developing appropriate indicators that are specific and measurable; (c) identifying appropriate baselines as reference points; (d) ensuring the advisory and technical support provided is results-oriented and measurable; (e) and developing a comprehensive capacity-building strategy that consolidates the Project's support to enhance capacities. This recommendation is applicable to a new project in 2016.

Weaknesses in asset management (Issue 13)

The Project's assets amounted to \$9.7 million, out of which \$9.4 million corresponded to 71 vehicles. These vehicles were in excess of existing requirements; therefore, 24 vehicles (valued at \$2.7 million) were loaned to other projects and/or the Office. Although some vehicles had been loaned since 2009, the Project had not received any reimbursement for the use of the vehicles. The Project had retained 47 vehicles; however, these were being underutilized.

Recommendation 10: The Office should improve controls in asset management by: (a) transferring the 24 vehicles which are currently on loan back to the Project; (b) recovering the amount of \$2.7 million; and (c) undertaking a comprehensive review of the Project's needs to dispose of vehicles that are in excess of the requirements. While this recommendation is applicable to the Project that is closing on 31 July 2015, OAI will also follow up on the implementation of the recommendation, as applicable, to a new project in 2016.

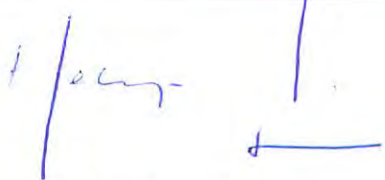
Implementation status of previous OAI audit recommendations:

- (i) Report No. 1385 (23 December 2014)
Total recommendations: 4
Implementation rate: 25%¹
- (ii) Report No. 1169 (13 November 2013)
Total recommendations: 7
Implementation rate: 100%

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 have been incorporated in the report, where appropriate, and have been summarized for the purposes of concise reporting.

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



Helge S. Osttveiten
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¹ This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented.