UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT
OF
FINANCIAL MANAGEMENT AND OVERSIGHT UNIT
IN
UNDP COUNTRY OFFICE IN AFGHANISTAN

Report No. 1731
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Report on the Audit of Financial Management and Oversight Unit in UNDP Afghanistan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the Financial Management and Oversight Unit of UNDP Afghanistan (the Office) from 25 September to 5 October 2016. 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 organizational structure (organizational structure of the Financial Management and Oversight Unit, delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting).
(b) Management of bank accounts.
(c) Management of project closure.
(d) Management of advances granted to national implementing partners.
(e) Cash management (including project cash advances).
(f) Management of cost recovery.
(g) Government Contributions to Local Office Cost receivables.
(h) Financial operations, revenue and expense management.

The audit covered the activities of the Financial Management and Oversight Unit from 1 January 2015 to 31 August 2016. The Office recorded programme and management expenditures of approximately $985 million during the audit period. The last audit of the Financial Management and Oversight Unit was conducted by OAI in 2013. OAI had also conducted audits of projects implemented by the Office and the Security Unit during 2015 and 2016.

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

Overall audit rating

OAI assessed the Financial Management and Oversight Unit of 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 delays in recovering costs for services provided, delays in closing projects, lack of project cash advance reports, Government Contributions to Local Office Costs not fully collected, and inadequate supporting documentation regarding General Ledger Journal Entries and Accounts Payable Journal Vouchers.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 5, medium priority), and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 2 and 4, medium priority, and Recommendation 3, high priority).
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. The high (critical) priority recommendation is presented below:

Delays in recovering costs from other United Nations agencies and development projects (Issue 3) The Office had been providing support services, such as finance, procurement, human resources, and travel administration to development projects and other United Nations agencies. However, the Office had delayed the recovery of costs incurred for providing these support services. For example, costs of services rendered from December 2014 to May 2015 were recovered in October 2015. Further, costs for January to September 2016 had not been recovered as the Office was in the process of billing these at the time of the audit fieldwork.

Recommendation: The Office should enhance its cost recovery for support services rendered to development projects and United Nations agencies by: (a) immediately recovering all costs for support services rendered from January to September 2016; and (b) establishing procedures for the recovery of costs for services rendered at regular intervals.

Total recommendations: 7
Implemented: 7

Management comments and action plan

The Country Director 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.