

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP AFGHANISTAN

Local Governance Project
(Project No. 90448)

Report No. 1745
Issue Date: 23 December 2016

Report on the Audit of UNDP Afghanistan Local Governance Project (Project No. 90448) Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 13 to 24 November 2016, conducted an audit of the Local Governance Project (Project No. 90448) (the Project), which is implemented by the UNDP Country Office in Afghanistan (the Office). 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, and planning);
- (b) programme activities (programme management, partnerships and resource mobilization, project management); and
- (c) operations (human resources, finance, procurement, general administration and assets).

The audit covered the activities of the Project from 1 October 2015 to 11 November 2016. The Project recorded project expenditures of approximately \$6.5 million during this period. This was the first audit of the Project. An audit of its predecessor project, the Afghanistan Sub-National Governance Programme (ASGP) (Project No. 58922), was conducted in August 2014 and was rated as “unsatisfactory” (OAI Audit Report No. 1408 issued on 28 January 2015). Given that follow-up audit of ASGP was not possible as that project closed in July 2015, OAI agreed with the Office’s management that the successor project would be audited.

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 **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 weaknesses in project management and assets management.

Key recommendations: Total = 8, high priority = 2

| Objectives | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Achievement of the organization’s strategic objectives | 1 | Medium |
| Reliability and integrity of financial and operational information | 6 | Medium |
| Effectiveness and efficiency of operations | 7 | Medium |
| Safeguarding of assets | 8 | High |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 3, 4, 5 | Medium |
| | 2 | High |

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

Project assurance mechanisms not fully implemented
(Issue 2)

The Office had established an assurance monitoring plan. However, it was not fully implemented, as explained below:

- Programmatic monitoring and field visits were not regularly conducted as stipulated in the assurance plan. The Office had planned to engage an audit firm to undertake this monitoring. However, as at November 2016, the audit firm was not yet contracted.
- Periodic on-site reviews (spot checks) of the implementing partner's financial transactions were not conducted though required to be undertaken three times per year.
- Procurement status reporting based on the procurement plan was also not undertaken.

The OAI audit of the predecessor project ASGP (OAI audit report no. 1408) had also identified weaknesses in monitoring project activities (issue 4).

Recommendation: The Office should enhance controls over project assurance by: (a) hiring the audit firm at the earliest to undertake monitoring at the provinces and municipalities; and (b) undertaking regular monitoring and spot checks as per the project assurance plan at the central and provincial levels.

Costs for use and transfer of project vehicles not recovered
(Issue 8)

The Office had 19 vehicles with a purchase value of \$2.9 million. The following was noted with regard to non-compliance with UNDP cost-recovery policies and procedures:

- Seven vehicles with a purchase (or acquisition) value of \$0.9 million were located at Regional Offices and used by the regional teams from other projects and the Office as part of pooled resources. However, their cost had not been recovered.
- The ownership of nine armored vehicles with a total net book value of \$0.4 million was transferred to the Office in August 2016, with zero cost. There was no written justification found for the zero cost transfer.

Recommendation: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on cost recovery relating to the use and transfer of project vehicles. This should include:

- (a) recovering the associated costs of using the seven vehicles until August 2016 and considering transferring the ownership of the remaining four vehicles in the regions to the Office; and
- (b) reimbursing the Project for the net book value of the nine vehicles as appropriate.

Management comments and action plan

The Resident Representative accepted all eight 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.

A handwritten signature in blue ink, appearing to read 'Antoine Khoury', is positioned above the printed name and title.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations