AUDIT

OF

UNDP COUNTRY OFFICE

IN

AFGHANISTAN

Report No. 2084

Issue Date: 12 February 2020
Report on the Audit of UNDP Afghanistan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Afghanistan (the Office) from 24 November to 8 December 2019. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
(b) programme (quality assurance process, programme/project design and implementation, knowledge management);
(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2018 to 30 September 2019. The Office recorded programme and management expenses of approximately $857 million. The last audit of the Office was conducted by OAI in 2017.

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

**Overall audit rating**

OAI assessed the Office as **partially satisfactory / major improvement needed**, which means “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area”. This rating was mainly due to weaknesses in: the Office governance structure; donor relations; declining programme funds and in the procurement of individual contractors.

**Key recommendations**: Total = 7 high priority = 4

The 7 recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
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<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1, 2,</td>
<td>High</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>4</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>7</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>3,6,</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Medium</td>
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</tbody>
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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:
Weaknesses in organizational structure (Issue 1)

In 2016, the Office underwent a structural review process, resulting in the establishment of various units for programme and financial oversight.

The Programme Strategy and Results Unit focused on compliance, quality assurance and corporate reporting. While the Integrated Results Team, embedded within the Finance Unit, was responsible for all other programme support functions.

A review of the roles and responsibilities of these units highlighted structural gaps in accountabilities and responsibilities across the Office organizational structure including management of programme, finance, programme budget allocation and donor relations.

The audit team noted a lack of clarity in the roles and responsibilities, and gaps in coordination between the Integrated Results Team and Programme Strategy and Results Unit. This contributed to deficiencies in monitoring of the Office’s income and revenue, budget commitments, and timely information on the status of programme performance and delivery.

Furthermore, Senior management did not establish appropriate oversight mechanisms to support decision-making.

Recommendation
(a) undertaking a review of the terms of reference of both the Programme Strategy and Results Unit, Programmes and Finance Unit and establishing clear roles, responsibilities and accountabilities to ensure coherence and coordination across the Office.
(b) setting up regular senior management meetings with both programme and operations staff to coordinate and monitor Office activities.

Weaknesses in donor relations (Issue 2)

Donor balances totaling $43 million resulting from financially closed projects had not been cleared or refunded to donors, with some dating back to 2004.

Six donor reports for one project were submitted three years late, while the 2019 quarterly reports are yet to be submitted to 13 donors of the same project. The quarterly reports were due 40 days after the end of each quarter. The first and second quarterly reports for another project were submitted late, while no quarterly reports for 2019 have been submitted to donors for four additional projects reviewed.

Recommendation
Addressing the long outstanding donor fund balance, ensuring donor transfers are processed within the stipulated timeframe, manage donor relations and reporting requirements.
Declining programme funds (Issue 3)

The Office’s current funding pipeline in Atlas reflected category A ‘hard’ pipeline of S115 million, Category B ‘Soft’ pipeline of S127 million, and Category C ‘project concepts’ totaling S511 million. All the Category A pipelines were to be allocated from the newly set up Law and Order Trust Fund for Afghanistan (LOTFA). There was no process in place for the management and regular review of the Office’s resource mobilization efforts, including development of pipeline projects.

A funding analysis undertaken by the office in early 2019 indicated that overall non-core resources had declined by 51 percent from S758 million to S373 million between 2014 to 2018, while the non-core contribution not including (Law and Order Trust Fund for Afghanistan) LOTFA declined by 42 percent in the same period from S184 million to S107 million. Law and Order Trust Fund for Afghanistan (LOTFA) contributions for the same period also declined by 46 percent, indicating a sharp decline in the overall resourcetisation of the Office.

**Recommendation**

Aligning programme pipelines with the focus areas within the upcoming country programme, develop a comprehensive, evidence-based resource mobilization and partnership strategy and enhance resource mobilization efforts.

Improper procurement of Individual Contractors (Issue 6)

In a sample of 25 cases reviewed, there were 20 cases of direct contracting (80 percent) amounting S1.2 million that did not meet the conditions stated in Programme and Operations Policies and Procedures (POPP) relating to the absence of a competitive marketplace or existence of a genuine exigency.

The Office was not able to make an adequate case in the notes to files regarding the justification for using direct contracting and failed to demonstrate that there was a genuine exigency. In most instances it appeared that the Office had failed to plan the procurement in advance and hence resorted to direct contracting to expedite the process.

**Recommendation**

The Office should enhance the management of Individual Contractors by ensuring a proper planning process and include adequate evidence to justify direct contracting.

**Implementation status of previous OAI audit recommendations:** Report No. 1897, 28 December 2017.

Total recommendations: 6
Implemented: 6

**Management comments and action plan**

The Resident Representative accepted all of the 7 recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.
Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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