UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

AFGHANISTAN SUB-NATIONAL GOVERNANCE PROGRAMME
(Directly Implemented Project No. 00051486)

Report No. 905
Issue Date: 21 August 2012
Report on the audit UNDP Afghanistan - Afghanistan Sub-National Governance Programme (Project ID 00051486)

Executive Summary

From 8 to 24 August 2011 and from 14 December 2011 to 2 January 2012 the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through KPMG Afghanistan Limited (the audit firm), conducted an audit of Afghanistan Sub-National Governance Programme (Project ID 00051486) (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). The audit firm was under the general supervision by OAI in conformance with the International Standards for the Professional Practice of Internal Auditing.

The Project reported expenditure totalling $12.6 million during the period from 1 January to 31 December 2010. The following major donors contributed to the Project: Norway, UNDP, the Netherlands, European Union, Canadian International Development Agency, Swiss Agency for Development and Cooperation, and Italy.

Audit scope and objectives

The audit firm conducted a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly, in all material aspects, the results of the Project’s operations, as well as assess compliance with UNDP regulations, rules, policies and procedures, and donor agreements. The audit covered the review of the Project’s Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2010 and Statement of Assets as of 31 December 2010. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, project management, human resources management, financial and cash management, procurement, asset management, information systems and general administration.

Follow-up on prior audit: The audit also verified the implementation status of recommendations in the previous audit report on this Project issued in June 2011 (Report no. 768). Four of seven recommendations were noted to be fully implemented.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as unsatisfactory, which means “Internal controls, governance and risk management processes, as applicable to the Project were either not established or not functioning well. The issues identified were such that the achievement of the overall objectives of the Project could be seriously compromised.” This rating was mainly due to key project management posts that remained vacant for most of 2010 and inadequate controls over certification of counterpart staff costs and assets.

The details of the audit results are presented in Figures 1 and 2.

Figure 1: Summary results of the financial audit

<table>
<thead>
<tr>
<th>Project Expenditure</th>
<th>Project Assets</th>
<th>Cash</th>
<th>Overall rating on financial statement-related internal controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (in $’000)</td>
<td>Opinion</td>
<td>NFI (in $’000)</td>
<td>Amount (in $’000)</td>
</tr>
<tr>
<td>12,622</td>
<td>Qualified</td>
<td>626</td>
<td>2,376</td>
</tr>
</tbody>
</table>

*No separate bank account was held by the Project

The audit firm qualified its opinion on project expenditure due to lack of adequate controls over certification of the Project’s counterpart staff costs.
The audit firm issued a disclaimer on project assets due to absence of documents of assets procured directly by the Project’s counterparts and of assets transferred by Afghanistan Sub-National Governance Programme to the counterparts.

Figure 2: Internal controls and systems audit ratings summary

<table>
<thead>
<tr>
<th>Audit Areas</th>
<th>Not Assessed/Not Applicable</th>
<th>Unsatisfactory</th>
<th>Partially Satisfactory</th>
<th>Satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Organization and staffing</td>
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<tr>
<td>2. Project management</td>
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<td>3. Human resources management</td>
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<td>4. Financial and cash management</td>
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<td>5. Procurement</td>
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<td>6. Asset Management</td>
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<tr>
<td>7. Information systems</td>
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<tr>
<td>8. General administration</td>
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</tbody>
</table>

Key issues and recommendations

The audit raised 12 issues. There are 12 recommendations, of which six (50 percent) were ranked high (critical) priority meaning, “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 and may affect the organization at the global level.”

Among the high priority issues noted in the audit firm’s report, the most significant ones are presented below:

**Organization and Staffing (Issue 1)**
Key project management staff posts remained vacant for most of 2010 impacting project activities. OAI recommends that the Office ensure key management staff are recruited on a timely basis.

**Project Management (Issue 2)**
The audit firm noted control weaknesses related to late submission of annual progress report, non-compliance with the Letter of Agreement signed between UNDP and Independent Directorate of Local Governance, and lack of relevant information to review the progress of project activities. OAI recommends that the Office adhere to the provisions in the Letter of Agreement, ensure adequate planning of project activities and prepare comprehensive report of the progress of project activities.

**Finance (Issue 8)**
There were inadequate controls over certification of counterpart staff costs. Specifically, there were no defined guidelines for staff levels, salary grades were not established and timesheets were not submitted with requests for reimbursement of payrolls. OAI recommends that the Office conduct regular monitoring of counterpart costs and require certification from the project manager of the staff costs.

**Asset Management (Issue 11)**
There were inadequate controls over assets. The auditors were neither provided with list of assets procured directly by the counterparts nor the list of assets transferred by Afghanistan Sub-National Governance Programme to the counterparts. Hence the auditors could not assess the controls over the assets. OAI recommends that the Office ensure that the Project enhance controls over the assets with the counterparts.
Management's comments

The Country Director has accepted all recommendations and is in the process of implementing them.

Egbert C. Kaltenbach  
Director  
Office of Audit and Investigations