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20 June 2005

TO: Mr. Antonio Maria Costa, Executive Director
United Nations Office on Drugs and Crime

FROM: Egbert C. Kaltenbach, Director
Internal Audit Division II
Office of Internal Oversight Services

SUBJECT: **Audit of UNODC Country Office, Afghanistan (AE2005/366/01)**

1. I am pleased to submit the final Report on the audit of the United Nations Office on Drugs and Crime Country Office, Afghanistan, which was conducted in January and February 2005 in Kabul by Mr. Berner Matthee and Mr. Diomedes Tinana.
2. A draft of the report was shared with the Director, Division for Operations on 22 April 2005, whose comments, which were received on 31 May 2005, are reflected in this final report.
3. I am pleased to note that all of the audit recommendations contained in the final Audit Report have been accepted and that UNODC Country Office Afghanistan has initiated their implementation. The table in paragraph 56 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 1, 4 and 6, which OIOS considers to be of critical importance. Please note that based on General Assembly resolution A/RES/59/272, any Member State may request that the final Audit Report be made available in its final version.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 30 November 2005. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.
5. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey and return it to me under confidential cover.
6. Thank you for your cooperation.

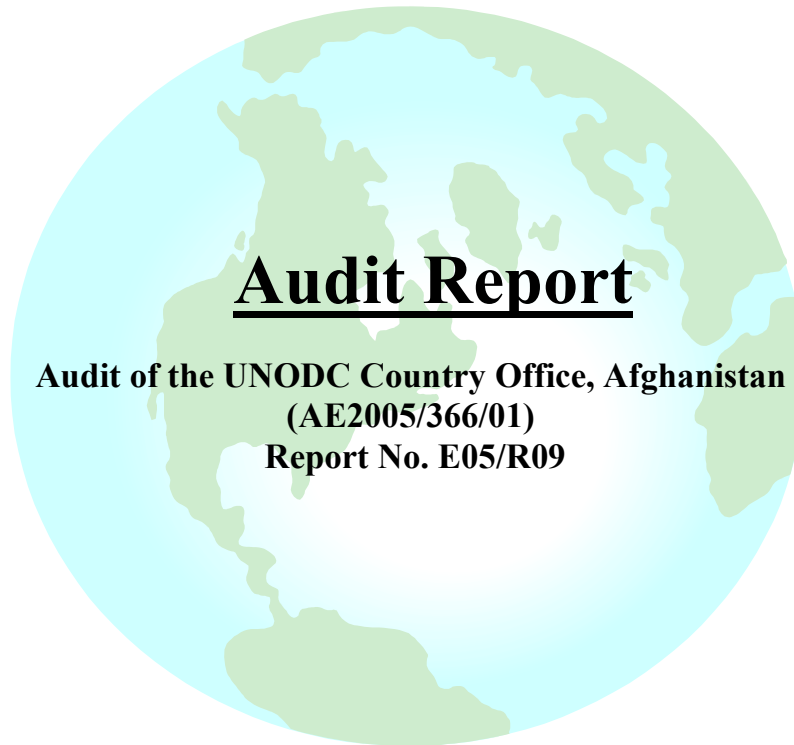
Attachment: Client Satisfaction Survey

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**United Nations
Office of Internal Oversight Services
Internal Audit Division II**



- **Report date: 20 June 2005**
- **Auditors: Berner Matthee
Diomedes Tinana**



Office of Internal Oversight Services
Internal Audit Division II

AUDIT OF THE UNODC COUNTRY OFFICE, AFGHANISTAN
(AE2005/366/01)

EXECUTIVE SUMMARY

In January and February 2005, OIOS conducted an audit of the United Nations Office on Drugs and Crime Country Office, Afghanistan (COAFG). The audit covered activities with a total expenditure of \$9.8 million in 2003 and 2004. OIOS' overall assessment is that the project financial and technical management and financial management at COAFG needed improvement.

The COAFG Representative requested the Auditors to provide concrete recommendations in the draft audit report and therefore, the report included more detailed recommendations than usual. *UNODC accepted all the recommendations and is in the process of implementing them.*

Project management

Programme formulation

- There are inherent difficulties in the formulation of programme and projects in Afghanistan. UNODC is not the lead agency in important areas of work and the country programme is donor driven which continued to have an impact on programme portfolio formulation. COAFG lacked information on the activities of other parties, such that it could not readily assess the effectiveness of the programme portfolio. *COAFG commented that they had enhanced the implementation of project AFG/G71 that would provide a monitoring mechanism on what other parties are doing.*
- A Strategic Programme Framework had not been developed. *The Representative informed OIOS that the Framework was being developed.*

Staffing

- The need for a Programme Manager, to guide and supervise Project Coordinators, was evident. As of December 2004, the Representative and Deputy Representative were the only regular UNODC staff in COAFG that managed eleven drug control and three criminal justice reform projects with a total budget of some \$25 million. *COAFG agreed in principle to engage a Programme Manager and an Administrative and Finance Officer, but their engagements are subject to the availability of funds.* OIOS underlines that the cost to engage them is immaterial compared to the total amount spent in the operation in Afghanistan. Financial accountability over these funds needs to be strengthened.

Project planning and implementation

- Weak financial planning resulted in slow implementation of planned activities in some projects, whereas in other projects, activities that could have been performed were not planned, mainly because of lack of regular review of project activities and financial implementation. *COAFG stated that they had started to share financial information with the Project Managers to provide them the opportunity to verify charges against their projects and to enable them to develop and adjust their project plans based on the actual financial position of the projects.*

Project records and expenditures

- Record keeping in projects was not standardised and it was difficult to relate expenditures incurred with the technical implementation. The recorded financial implementation rate was not reliable as administrative and general office expenditures were charged to projects. In the absence of a charge-out policy or standard allocation of the charges to the projects, financial information was distorted. *COAFG replied that a charge-out policy had since been developed and an electronic system had been set up to enable easy access to information from a centralised database. The process of standardising files in accordance with HQs recent instructions on Project Document Format and Field Office Quarterly reports had been started.*
- Operational advances were given to project staff without a system in place to track outstanding advances. In project AFG/F98, advances of some \$150,000 given during a period of six months were cleared in one voucher. UNODC should request UNDP to record the advances against the staff members who receive the advances and clear the advances as and when the clearance vouchers are presented.

Project procurement

- UNOPS procured non-expendable equipment totalling \$3 million and immediately transferred them to government counterparts without any procedure or arrangement to ensure that assets are used for the intended purposes. *COAFG agreed to include a "right of use" clause in future projects that would allow projects to monitor the use of the assets until their formal transfer to the government counterparts, preferably at the end of a project.*

Administration

- The lack of basic systems, procedures and internal controls in financial administration weakened accountability. UNDP issued cheques of substantial amounts to staff members in COAFG's Finance Section and not in the name of creditors/payees. *COAFG had changed this practice and now issues cheques in the name of creditors wherever possible.*
- There was no evidence that proper selection of consultants was made. COAFG did not complete performance evaluation of some consultants. A consultant who was a former intern, did not complete the final report but was paid \$10,000. Another consultant was paid \$39,500 for a "Strategic Programme Framework" that had not been completed. *As OIOS recommended, COAFG improved the selection process of consultants through competitive bidding and obtained the required reports.*

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1 - 4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6 – 8
IV. AUDIT FINDINGS AND RECOMMENDATIONS	9 – 55
A. Project formulation and staffing	9 – 15
B. Project planning and implementation	16 – 28
C. Project financial management	29 – 33
D. Project records	34 – 35
E. Procurement in projects	36 – 40
F. Administration and Finance	41 – 55
V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS	56
VI. ACKNOWLEDGEMENT	57

I. INTRODUCTION

1. From 30 January to 16 February 2005, OIOS conducted an audit of the United Nations Office on Drugs and Crime Country Office, Afghanistan (COAFG). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. Based on the 2004 opium survey, the area under opium poppy cultivation in Afghanistan increased from about 80,000 hectares in 2003 to a record level of 131,000 hectares in 2004. Afghanistan provides about seventy per cent of the global illicit opium production. The objective of the COAFG programme is to contribute in the long-term to a sustainable reduction and eventual elimination of illicit drug production, trafficking and drug abuse in the country. Its criminal justice reform, projects focused on capacity building of the Penitentiary and Juvenile justice systems.
3. No oversight review was previously conducted either by OIOS or the Board of Auditors.
4. The findings and recommendations contained in this report have been discussed during the Exit Conference held on 16 February 2005 with the Representative. A draft of this Audit Report was shared with the Director, Division for Operations, UNODC, on 22 April 2005, whose comments which were received in May 2005, have been reflected in the report in italics. *UNODC has accepted all of the recommendations made in the draft report and progressed well to implement them.*

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to:
 - Determine whether projects are properly formulated, planned, implemented and evaluated and whether project resources are used effectively and economically.
 - Determine the effectiveness of internal controls to ensure reliable recording and reporting of transactions, safeguarding the assets and compliance with relevant UN, UNODC and UNDP regulations and rules.
 - Evaluate the system for reimbursement of costs for services locally provided by UNDP COAFG.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered 2003 and 2004 expenditures totaling \$9.8 million incurred in the following drug control and criminal justice reform programme projects:

Drug Programme

- AFG/F55: Drug Demand Reduction in Refugee camps in Baluchistan, Pakistan with expenditures totalling \$125,000 in 2003 and \$73,000 in 2004 (Allocation of \$203,000).
- AFG/F98: Monitoring of Opium Production with expenditures totalling \$544,000 in 2003 and \$947,000 in 2004 (Allocation of \$1.7 million).
- AFG/G24: Capacity Building for Drug Control with expenditures totalling \$1.08 million in 2003 and \$ 600,000 in 2004 (Allocation of \$1.9 million).
- AFG/G26: Drug Demand Reduction with expenditures totalling \$258,000 in 2003 and \$78,000 in 2004 (Allocation of \$366,000).
- AFG/G38: Strengthening of Counter Narcotics Law Enforcement Capacities with expenditures totalling \$249,000 in 2003 and \$1.7 million in 2004 (Allocation of \$3.2 million).
- AFG/G71: Coordination Mechanism for assistance Programmes with expenditures totalling \$6,400 in 2003 and \$22,000 in 2004 (Allocation of \$139,000).
- AFG/H09: Capacity building for Demand Reduction with expenditures totalling \$232,000 in 2003 and \$283,000 in 2004 (Allocation of \$660,000).
- AFG/H10: Drug Law Enforcement with expenditures totalling \$86,000 in 2003 and \$937,000 in 2004 (Allocation of \$1.4 million).
- AFG/H56: Alternative livelihood in Badakhshan with expenditures totalling \$464,000 in 2004 (Allocation of \$890,000).

Criminal Justice Reform Programme

- AFG/R40: Reform of the Juvenile Justice System with expenditures totalling \$190,000 in 2004 (Allocation of \$500,000).
- AFG/R41: Reform of the Penitentiary System with expenditures totalling \$260,000 in 2003 and \$500,000 in 2004 (Allocation of \$1.1 million).
- AFG/R42: Criminal law and Criminal Justice Capacity Building with expenditures totalling \$10,000 in 2003 and \$740,000 in 2004 (Allocation of \$1 million).

7. Furthermore, administrative expenditures of some \$380,000 incurred in 2003 and 2004 and the general administration at COAFG were also audited.

8. OIOS reviewed project documents and other records related to operational and financial management, held discussions with COAFG staff and assessed the adequacy of internal control systems.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Project formulation and staffing

Programme formulation

9. The programme portfolio covered three thematic areas, that of Counter Narcotics Enforcement; Prevention, Treatment and Rehabilitation; and Sustainable Livelihood. Justice reform projects focused on Reform and capacity building of the Penitentiary and Juvenile justice systems.

10. It is not known to what extent the programme portfolio of COAFG adequately addresses the drug problem in Afghanistan. There has been no external evaluation of the programme, but the Chief of the Partnership in Development Branch of the Division for Operations carried out a Management Review of COAFG in August 2004. According to his report - “the Afghan drug control and counter narcotics objective is not addressed in a comprehensive and coordinated approach – to the contrary, related activities are implemented in a fragmented approach”. The report also showed non-implementation of key activities in the Afghan National Drug Control Strategy.

11. The programme was donor driven and UNODC is not the lead agency in Counter Narcotics which made it difficult to develop a coordinated project portfolio without substantive information on what the other role players and donors are doing, especially in the area of alternative livelihoods. Under project AFG/G71 started in 2003, COAFG developed a database for this purpose but had made little progress. At the date of the audit, the database was yet to be piloted. *COAFG was aware of this fact and enhanced the implementation of the project at the end of 2004.*

12. An important development was the establishment of the Counter Narcotics Ministry (CNM) towards the end of 2004. Its implementation plan for 2005 to tackle the cultivation, production and trafficking of drugs that was still to be considered in UNODC’s project portfolio. *COAFG commented that they were in the process of developing a strategic programme framework for the operation that might result in a revised programme portfolio. Lack of data in important areas of work, especially in Counter Narcotics and Justice Reform still persisted and certain donor requirements continued to have an impact on the programme portfolio. All of these complexities would be taken into account in formulating the strategic programme framework.*

Need for a Project Manager

13. The Representative and Deputy Representative were the only regular UNODC staff in COAFG that managed eleven drug control and three criminal justice reform projects as of December 2004 with a total budget of \$25 million, a rather large portfolio to manage without a Programme Manager. Project Coordinators were engaged under UNOPS contracts, but they had no prior UNODC experience and had limited knowledge of UNODC’s policies, practices and procedures. Also, the high turnover in project staff resulted in lack of continuity in some projects. Overall, the required level of supervision could not be provided and the need for a Programme Manager was evident.

Recommendation:

- UNODC Division for Operations should consider engaging a Programme Manager to manage the rather large programme portfolio in Afghanistan with a total budget of \$25 million, to strengthen the overall project management, provide guidance to other project staff and enhance compliance to UNODC’s policies, practices and procedures. (Rec. 01).

14. *UNODC accepted the recommendation and stated that the UNODC Division for Operations supports the allocation of an additional post at the P3 level to COAFG so that programme management and in particular financial monitoring can be improved in accordance with the other recommendations contained in OIOS’ draft report. UNODC*

further said that this is also in line with the recommendation made by the Chief of the Partnership in Development Branch' mission report of August 2004, which was reinforced by the Chief, Fund Budget Unit of the Financial Resources Management Service after a mission conducted in March 2005. This would be subject to the availability of post/resources.

15. OIOS understands that the appointment of a Programme Manager is subject to the availability of funding. However, considering the importance of sound project management in a large operation, such as Afghanistan, and considering the limited cost in relation to the programme funds at stake, OIOS views the recommendation as critical. The recommendation can only be closed once the Programme Manager is engaged.

B. Project planning and implementation

16. Project documents were completed, but some project documents were outdated in respect of activities to be carried out. Their timing, financial requirements and the cost element of workplans did not tie in with the project budgets mainly because of weak planning and monitoring. Inadequate financial planning led to slow project implementation or failure to carry out activities that could have been performed within the available resources. Certain projects did not achieve its objectives due to lack of staff.

17. In *Counter Narcotics*, it was evident from discussions with project staff in projects AFG/G24, AFG/G38 and H10, that capacity at the drug coordinating body, the Counter Narcotics Department (now CNM) and the drug law enforcement arm, the Counter Narcotics Police (CNP) remained weak. COAFG was not the lead agency in this thematic area and it was not known how the activities were coordinated with the other role players to achieve the overall objective of providing capacity in counter narcotics. To provide a coordination mechanism and avoid gaps and duplication, under project AFG/G71 started in 2003, COAFG developed a database of activities of various players. However, there had been little progress, mainly due to lack of staff. Although the project budget provided for two staff it was not until late 2004 that staff were hired. Moreover, a consultant engaged at an earlier stage, did not work on the project, but the cost of his consultancy for two months and travel charges to Kabul were charged to the project. *COAFG commented that they had already enhanced the implementation of AFG/G71.*

18. Projects focused on material assistance and training. UNOPS procured non-expendable equipment costing \$3 million for counter narcotics projects of which the ownership was transferred to the government counterparts upon receipt. The completeness of the hand over agreements could not be confirmed and the extent to which the equipment was utilized could not be determined. Assistance provided by other role players was also not known. As to training, it was limited to courses for drivers and computer and language training although COAFG averred that *other role players also provided training*. In project AFG/G38, COAFG entered into construction contracts to renovate premises for the Investigation Unit of CNP at a cost of \$99,000. However, construction work that started in April 2004 at four of the seven premises was still to be completed. In Kabul, some 50 per cent of the construction costs incurred was only for the construction of a parking area. *COAFG was following up on the construction work.*

19. In the thematic area of *Sustainable Livelihood*, the "Aga Khan Foundation" (Foundation) was engaged under project AFG/H56 to support alternative livelihood development activities in Badakhshan up to the end of 2004, but its implementation was not

properly monitored and expenditures were not verified. Of the \$815,000 total budget, disbursements of \$464,000 or only 57 per cent was reported at the end of 2004. Although the agreement provides for an audit that still remained to be arranged, COAFG should properly monitor the financial and technical implementation of the project, even though the installments are directly paid from UNODC Headquarters in Vienna. The project included a budget for monitoring by UNODC, but it was used for overhead costs and not for monitoring.

20. To improve project monitoring OIOS recommended a monitoring plan that includes the verification of expenditures. *COAFG maintains regular contacts with the Foundation especially in view of the developments in Badakhshan province and the attack against the Foundation, which led to the temporary closure of their office. These will affect the implementation of project activities. A meeting was held in March 2005, between the Foundation and the UNODC Chief, Fund Budget Unit, to finalize the 2004 year-end financial report for project AFG/H56. A monitoring plan to review and assess the implementation status of the project activities was developed and shared with the foundation. The plan was shared with OIOS. The first mission planned in May 2005 was cancelled due to riots and unrest in the province.* Under the circumstances, OIOS finds the monitoring plan to be adequate to consider this recommendation as implemented.

21. OIOS also recommended that the foundation should arrange an external audit of the project as per the agreement. *COAFG stated that during the meeting with the Foundation in March 2005, the UNODC Chief, Fund Budget Unit requested the Foundation to submit an audit report. In May 2005, the Foundation submitted an external audit report on the consolidated accounts of the Foundation's operations in Kabul. As indicated in the monitoring plan, a full project audit is planned upon completion of the project activities. A final terminal evaluation report is also planned for August 2005.* OIOS finds these arrangements as adequate.

22. Under *Prevention and Rehabilitation*, COAFG project AFG/H09 started in June 2003 for a period of two years, aimed to mainstream drug demand reduction activities of role players. However, the implementation rate was only 36 per cent, based on a total expenditure of \$515,000 of the total project budget of \$1.4 million. Demand Reduction Teams were established in 2004 to provide a demand reduction programme in provincial centers and COAFG had continued with the assistance, but the activities to be carried out had not been clearly planned and/or budgeted. With an original allocation for 2005 of \$155,000, it was estimated that \$670,000 or 48 per cent of the original project budget, should be spent at the end of the implementation period, foreseen to be in September 2005.

23. Furthermore, the project document was outdated and future budgetary requirements, apart from the initial \$155,000 allocation for 2005, was still to be determined and documented. Project resources were not utilised to the maximum extent possible, although some fruitless expenditures were incurred. For example, in 2003, the project spent \$35,000 on demand reduction resource materials, but more than half of the items had not been distributed. Also, greater consideration could have been given to engage NGOs in this thematic area. There are numerous NGOs in Afghanistan, but the project only engaged two NGOs for the total amount of \$13,000 in 2004.

Recommendation:

- UNODC, Country Office, Afghanistan should review the

project document of project AFG/H09 to increase activity, then revise the project budget accordingly and prepare workplans that tie in with the budget (Rec. 02).

24. UNODC accepted the recommendation and stated that project AFG/H09 would be reviewed to reflect the latest developments on drug demand reduction in the country. A Project Coordinator had been engaged in the project and his inputs would be reflected in the review. Thereafter, the project revision and the related budget revision would be submitted to HQs for PPC approval. OIOS will record the recommendation as implemented upon receipt of the revised and approved project document, budget and workplans.

25. OIOS also recommended increasing the engagement of NGO's. UNODC replied that, "increasing the involvement of NGO's is in line with the ongoing AFG/H09 activities to develop the DRAT teams at provincial level. More NGOs will be engaged in project implementation, especially in the extension of UNODC's Drug Demand Reduction activities to other provinces. As of May 2005, three NGOs were recruited in Kabul, one in Mazar-e-Sharif and one in Herat. The engagements of two more NGOs are planned for Jalalabad in June 2005 and one each in Badaghshan and Kandahar in July 2005." OIOS considers COAFG's actions to increase the engagement of NGOs as adequate.

26. Project F98's "Opium Survey 2004" achieved its objectives and OIOS found the project to be well managed with the exception of one case of non-compliance to UNDP rules. COAFG engaged the European Space Imaging (EUSI) at a cost of \$287,000 in 2004 without the approval of the Advisory Committee on Procurement as required under UNDP procurement rules. COAFG received its first invoice from EUSI in April 2004, but the 'retroactive' waiver not to engage in bidding was only granted by the Committee in August 2004. OIOS requested COAFG to comply with UNDP's procurement rules and ensure that approvals or bid waivers are obtained prior to entering into any commitment.

Recommendation:

- UNODC, Country Office, Afghanistan should not allow Project Managers to conduct procurement or place orders without approval from COAFG's management (Representative or her designated officer) (Rec. 03).

27. UNODC accepted the recommendation. *The case required a waiver for the exemption of bidding but, initially, did not comply with UNDP procurement procedures. The Project Manager started to place orders for satellite imageries on 23 March 2004 without consulting the Country Office management and the Finance Section and without submitting the waiver request to UNDP. The Project Manager received the first invoice, dated April 2004. The Finance Section did not process the invoice and informed the Project Manager to comply with UNDP procurement rules. A retroactive case for approval of the waiver was submitted to UNDP in June 2004 and was approved on 20 August 2004 by the UNDP New York Advisory Committee on Procurement.*

28. Although this may be an isolated case, OIOS views this as an example of the risk attached to allowing project staff to conduct procurement without a system in place to ensure that proper procurement procedures are followed; i.e. obtaining of the necessary approvals. Considering the risks attached to this weakness in the procurement function, COAFG should make it a policy not to allow Project Managers to conduct procurement or place orders

without the prior approval of COAFG's management. OIOS will record the recommendation as implemented when it receives a copy of the policy that will require the approval of the Representative or her designated officer for the placement of orders.

C. Project financial management

29. The main shortcoming at COAFG was the lack of financial management during project implementation. Project Coordinators did not monitor the financial implementation of their projects. The Finance Section was responsible for recording transactions, maintaining the ProFI system and monitoring financial implementation, but the information was not adequately shared with the projects. Project Coordinators could therefore not properly plan their activities and could not provide adequate explanations for the charges to their projects. Therefore, OIOS recommended that the COAFG Finance Section provide details of expenditures to the respective Project Coordinators.

30. *COAFG stated that since April 2005, monthly expenditure reports are submitted to Project Coordinators. These reports highlight the funding status, funding allocation and expenditures incurred and include the immediate steps to be taken under each project. Copies were provided to OIOS and the recommendation has been implemented.*

31. The COAFG Finance Section allocated overhead and administrative costs to projects without clearance from projects, and there was no allocation policy in place according to which overhead and administrative expenditures should be charged to the projects. Charges included salaries of administrative staff, rental costs and general office expenses that were substantial for some projects, but there was little correlation between the cost incurred and the project charged. The charges also differed from period to period. This distorted financial information and therefore, the financial implementation rate achieved in the projects was not a reliable indicator to determine whether projects made adequate progress to achieve objectives. OIOS recommended that COAFG establish a charge-out policy. *COAFG replied that the UNODC Chief, Fund Budget Unit had determined a cost-sharing policy for administrative expenditures and overhead costs that was shared with Project Coordinators.*

32. Furthermore, operational and travel advances were directly charged to projects without a system in place to track the advances that would ensure clearance and that the same project and budget line was debited or credited with the amount paid or due. For instance, advances of some \$150,000 were given to two staff members during the "Opium Survey 2004", within the period of January to September 2004, to cover costs of the survey. The total amount was only cleared in November 2004 and although many categories of expenditures were included in this charge, it was merely charged to the travel budget line.

Recommendation:

- UNODC, Country Office, Afghanistan should request UNDP to record advances against the name of the staff member of UNODC and charge the respective projects as and when the clearance vouchers are received and processed (Rec. 04).

33. *UNODC agreed with the recommendation. COAFG stated that in October 2004 they started to monitor advances through centralised spreadsheets. The maintenance of the spreadsheets and electronic monitoring were introduced following the repeated late settlement of advances under project AFG/F98. Samples of reminders sent to staff members*

to clear advances were provided to OIOS, but not a copy of the spreadsheet indicating the advances. Also, considering the large amounts and number of advances, the spreadsheet as a stand-alone recording system for advances is not adequate to ensure the completeness and accuracy of recording the advances and neither to completely and adequately track and clear advances. This can only be achieved if the system is linked or made a part of the accounting system. Therefore, UNDP should record the advances to staff members and clear them as OIOS had recommended. COAFG should still keep the spreadsheet system to continue following up on the settlement status of the advances. OIOS will record the recommendation as implemented when it receives a copy of the request to UNDP to record advances against the name of the staff member of UNODC and to charge the respective projects only as and when the clearance vouchers are received and processed.

D. Project records

34. Projects lacked a proper filing system and, in general, the projects did not maintain project records in a standardized manner, especially in respect of procurement, construction and renovation costs and payments to implementing agencies. Payment vouchers were available, but without project records of needs assessments, deliveries, progress reports, financial and narrative reports, it was difficult to verify that payments were made for actual deliveries and performance.

35. UNODC accepted OIOS' recommendation to introduce a proper filing system and standardise the contents of the files. *An electronic filing system was set-up in April 2005 to enable the sharing of information and to enable easy access to information from a centralized database, but COAFG is still in the process of standardising files in accordance with HQs instructions on Field Office Quarterly Reports (December 2004) and on Project Document Format (April 2005).* OIOS considers the introduction of the electronic filing system as adequate progress to regard the recommendation as implemented, and encourages COAFG to comply with the HQs instructions as early as possible.

E. Procurement in projects

36. UNOPS procured non-expendable equipment totaling more than \$3 million for COAFG. Proper procurement procedures were followed by UNOPS, but the transfers from UNOPS to UNODC and then to government counterparts were not properly recorded. In the absence of proper procurement files and the "handing over" certificates at COAFG, OIOS could not confirm the completeness of the transfers.

37. OIOS recommended that COAFG introduce procurement registers for projects and ensure that "handing over" certificates are filed in a manner that the completeness of transfers to government counterparts can be confirmed. *COAFG introduced a standardized electronic procurement register, including a standardized format/text for hand-over forms to Government authorities.* Sample copies of the electronic registration and handover forms were submitted to OIOS.

38. Non-expendable equipment were handed over immediately upon receipt, such that UNODC no longer had ownership and therefore did not monitor if government counterparts in fact use them for the purposes intended. This practice should be reviewed and instead,

COAFG should consider the use of a “right of use agreement” that would strengthen accountability over the use of the non-expendable equipment. In the case of the latter agreement, UNODC would keep ownership of the non-expendable equipment and its project staff would then be able to monitor their use and periodically verify their existence, including proper maintenance thereof. The eventual transfer to the government counterparts is still possible, but preferably at the end of a project.

Recommendation:

- UNODC, Country Office, Afghanistan should, prior to future purchases, consider revising the project documents to include a “right of use” clause, that would strengthen accountability over the use of non-expendable equipment by government counterparts. The project staff should then periodically monitor their use and verify their condition (Rec. 05).

39. *COAFG accepted the recommendation, “with the proviso that no changes should be made on currently ongoing projects where the agreed conditions have to be followed. Any future projects for Afghanistan will include the “right of use” clause whenever the Government can agree. Relevant procurement files and inventory will be maintained by COAFG. This clause will also determine the hand-over arrangement at the end of the project and the hand-over will follow the proper procedures.”*

40. OIOS is of the opinion that, considering the fact that projects are for multiple years, the arrangements regarding non-expendable equipment purchases with the government counterparts should be applied for future purchases even for current projects. However, where the government counterparts were already informed of the equipment ordered, the agreed upon arrangements should be followed. But for future purchases in the current projects, the project documents need to be changed to include the “right of use” clause and the hand-over arrangements. OIOS will record the recommendation as implemented when it receives samples of revised project documents to evidence the “right of use” clause over the use of non-expendable equipment by government counterparts.

F. Administration and Finance

Financial administration

41. Until May 2004, UNODC submitted its payment requests with the vouchers as supporting documentation to UNDP for approval and payment. The practice was stopped and only the payment requests were forwarded to UNDP for payment, without them reviewing the vouchers or approving the payment. This weakened internal controls, but more importantly resulted in payments where the supporting documentations were not adequate to support the payments. Furthermore, the fact that Project Coordinators were not involved in the financial management of their projects had an effect on the overall financial accountability of COAFG.

42. There was a lack of basic systems and internal controls to ensure compliance with UNODC rules and procedures that hampered accountability. The names of the Project Controllers were entered in the column on the payment vouchers “cleared by”, although they did not clear many of the charges, circumventing this important internal control feature.

43. COAFG should not have taken over the approving responsibility until its Finance Section staff were fully competent in preparing and reviewing vouchers, acquired the necessary knowledge of UNODC and UNDP policies and procedures, and were acquainted with the ProFI accounting system. There were numerous reversals of previous charges, either because of incorrect allocations or administrative costs that were previously charged. Contributing to the problem was the fact that the administrative budget (project 112) was inadequate to cover overhead and administrative costs that should have been charged to projects.

Recommendation:

- UNODC, Country Office, Afghanistan should consider to either engage an Administrative and Finance Officer or avail of the services of UNDP's Finance Unit to introduce and/or strengthen accounting and related internal control procedures, i.e. clearance, review, approval and recording procedures to enhance the overall accountability in respect of transactions incurred (Rec. 06).

44. *COAFG accepted the recommendation to engage an Administrative and Finance Officer subject to the availability of funds for such a position. OIOS reiterates its position. The cost to engage an Administrative and Finance Officer is immaterial compared to the total amount spent in the operation in Afghanistan is considered. Financial accountability over these funds needs to be strengthened. In the interim, COAFG should request UNDP's Finance Unit to introduce procedures that will strengthen the overall accountability at COAFG.*

45. UNDP issued cheques in the name of staff members in the Finance Section and not in the name of the creditors/payee. In most cases, since the recipients then signed randomly on the payment voucher, it was difficult to substantiate if the cash was actually paid to the creditor. COAFG accepted OIOS' recommendation that COAFG issue cheques in the name of the creditor and not in the name of staff members. *Since October 2004, cheques are only issued in the name of staff members, for subsequent release of funds to beneficiaries, when direct payments to creditors are not possible due to distance and difficulties to travel around the country (e.g. payment of monthly salary to national surveyors assigned in provinces under AFG/F98 and AFG/I38 projects).*

46. OIOS understands that there will be cases in which the cheques have to be issued to and cashed by staff members. In such cases, the transaction should be recorded as an advance to the staff member and only cleared upon the receipt of evidence of payment to the creditor. Preferably, two staff members should carry out the payment.

Recommendations:

- UNODC, Country Office, Afghanistan should request UNDP to record transactions as advances to UNODC staff members and clear it only upon receipt of evidence of payment to the creditors, when issuing cheques in the name of staff members. Two staff members should preferably carry out the payment (Rec. 07).

47. OIOS will consider this recommendation as implemented upon receipt of a copy of the

request to UNDP to record payments to UNODC staff members as advances and clear it only upon receipt of evidence of payment to the creditors.

48. Payments included numerous advances that were given to staff members, such as in the case of “Opium Survey 2004”, although COAFG had an operational fund. Other advances included an advance of \$28,000 on 27 January 2004 for costs to be incurred by a mission from Vienna, which only took place within the period 29 May to 6 June 2004. The advance was only cleared on 31 July 2004 with operational cost totaling \$23,000 that did not relate to the mission. Although UNDP charged \$8 per issuance of a cheque and therefore issued only one payment voucher for multiple transactions thus reducing total charges, accountability was sacrificed. OIOS suggested that a better solution would have been to increase the level of the operational fund, which was \$5,000. *COAFG replied that the operational fund was increased from \$5,000 to \$8,000 in February 2005.*

Travel

49. A travel file was not maintained and travel authorizations were not used. Instead, travellers travelled on the basis of travel requests. Travel advances were in some cases not provided to staff and if provided, were not obligated. There were also delays in the processing of travel claims, up to four months, and from the results of the claims audited, the completeness of supporting documentation that support the claims, were in a number of cases incomplete.

50. UNODC introduced a new “Mission Travel” application to automate the procedures for planning and authorizing mission travel. To solve the problem of obligating DSA advances and the clearance of travel claims, the Finance Section should introduce an obligating system to provide for the financial element of the travel.

Recommendation:

- UNODC, Country Office, Afghanistan should introduce the obligating system, to account for the financial element of travel; i.e. advances and settlement of travel claims, as per the Field Office Management Ledger instruction dated 11 May 2005 (Rec. 08).

51. *UNODC accepted the recommendation and stated that a new application was added to the Field Office Management Ledger in May 2005.* OIOS will regard the recommendation as implemented when the application is installed and operational.

Special Service Agreements

52. COAFG engaged consultants under Special Service Agreements as per UNDP Staff Rules. However, in certain agreements, it was not evident that a proper selection process was followed. Our assessment was based on the lack of the required documentation, such as curriculum vitae, advertisements, personnel action authorizations and justification for remuneration rates. At completion of consultancies, some consultants did not complete final reports and COAFG did not complete evaluation and performance reports.

53. Furthermore, there were discrepancies in remunerations rates. An Intern/Research Officer was engaged for the period 15 February to 30 April 2004 and paid a stipend of \$750

per month. After completion, the Officer was contracted as a consultant for the period 1 May to 31 August 2004 at the rate of \$2,500 per month. A final report was not issued at the end of the consultancy that cost a total of \$10,000. In another case, the remuneration fee was raised from \$350 to \$500 per day for the last 79 days of the consultancy. The total cost of the consultancy was \$39,500 for a “Strategic Programme Framework” (dated 18 August 2002) that was not issued.

54. *COAFG recognized that adherence to UNDP Staff Rules was not complete in the cases mentioned. Therefore, a review of the recruitment procedures for consultants was carried out and since December 2004, engagements are based on a competitive approach. Also, the submission of the final report and acceptance by the UNODC Representative is required prior to the release of the last installment of the consultancy fee.*

55. OIOS takes note of the recent COAFG’s actions to ensure that the recruitment of consultants is carried out in a transparent manner and comply with UNDP’s Staff Rules. OIOS will, however, discuss measures to improve the recruitment process of consultants at UNODC Field Offices in general with UNODC’s Division for Operations.

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

56. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Rec. no.	Action/document required to close the recommendation
1*	Information on the progress made to engage a Programme Manager to manage the rather large programme portfolio in Afghanistan.
2	Revised project document of project AFG/H09 should be submitted, with its revised project budget and workplans.
3	A revised policy that requires the approval of the Representative or her designated officer for placement of orders.
4*	Request to UNDP to record advances against the name of the staff member of UNODC and to charge the respective projects only as and when the clearance vouchers are received and processed.
5	Samples of revised project documents to evidence the “right of use” clause over the use of non-expendable equipment by government counterparts.
6*	Information on the progress made to engage an Administrative and Finance Officer and to request to UNDP’s Finance Unit to introduce and/or strengthen accounting and related internal control procedures, i.e. clearance, review, approval and recording procedures to enhance the overall accountability in respect of transactions incurred.
7	Request to UNDP to record payments to UNODC staff members as advances and clear it only upon receipt of evidence of payment to the creditors.
8	Confirmation from UNODC, Country Office, Afghanistan that the obligating system, to account for the financial element of travel, as per the Field Office Management Ledger instruction dated 11 May 2005, has been installed and is operational.

* Critical recommendations

VI. ACKNOWLEDGEMENT

57. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNODC in Afghanistan.

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