



INTERNAL AUDIT DIVISION

REPORT 2019/060

Audit of the International Trade
Centre's European Union-funded
projects in Afghanistan

Project implementation and coordination of
institutional practices on engagement with
country teams need to be strengthened

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Assignment No. AE2018/350/02

Audit of the International Trade Centre's European Union-funded projects in Afghanistan

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the International Trade Centre's (ITC) European Union-funded projects in Afghanistan. The objective of the audit was to assess the adequacy and effectiveness of internal controls in ensuring that the intended outcomes of the projects were achieved. The audit covered the period from August 2016 to December 2018 and included a review of the processes and mechanisms established by ITC to manage the Advancing Afghanistan Trade (AAT) project including coordination with the Ethical Lifestyle Initiative (ELI) project, other ITC projects and other United Nations agencies operating in Afghanistan.

The AAT project objectives were well defined and aligned to national priorities. Progress reporting and monitoring was adequate, and partnerships with external parties were properly established. However, project implementation and coordination of institutional practices on engagement with country teams needed to be strengthened.

OIOS made three recommendations. To address issues identified in the audit, ITC needed to:

- Ensure that consultants are selected in a competitive manner through open advertisement and/or issuance of expressions of interest to identify a pool of qualified candidates who can be deployed efficiently when opportunities arise;
- Strengthen coordination between the AAT and ELI projects by: (a) formalizing the division of substantive roles and responsibilities and coordination arrangements; (b) designating one or two senior managers to support and oversee the agreed division of responsibilities and coordination arrangements; and (c) ensuring that opportunities for coordinating administrative costs and functions are holistically assessed; and
- Develop a corporate strategy that outlines its approach, guidelines and framework for participating in the United Nations Country Team system to enhance the effective delivery of its projects at the country level.

ITC accepted the recommendations and has initiated action to implement them.

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Audit of the International Trade Centre's European Union-funded projects in Afghanistan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the International Trade Centre's European Union-funded projects in Afghanistan.

2. The International Trade Centre (ITC) is a technical cooperation agency jointly funded by the United Nations and the World Trade Organization (WTO) to stimulate exports by small and medium-sized enterprises in developing countries and countries with economies in transition. ITC also receives extra-budgetary funding from donors, some of which is earmarked for specific programmes and projects.

3. Afghanistan is a landlocked least developed country located in Southern Asia. The country has one of the largest displaced populations in the world. It is estimated that Afghan refugees comprise about 15 per cent of the global refugee population with over 2 million internally displaced. Afghanistan has a narrow export base with its main export items being carpets, rugs and food items such as dried fruits. The country's economy is recovering from decades of conflict and has seen significant growth since 2001. Afghanistan became a member of the WTO in July 2016.

4. ITC had two projects in Afghanistan both of which were funded by the European Union (EU). The first project, which is the main subject of this audit, was the project for Advancing Afghanistan Trade (hereafter referred to as "the AAT project") launched in November 2016 with a budget of €4.55 million over a three-year period ending July 2019. The project's key objective was to enhance Afghanistan's trade capacity and integration in regional and international commerce, with a long-term view of enhancing economic growth, job creation and overall poverty reduction. The project had three priority areas of intervention: (a) Development of a National Export Strategy; (b) Implementation of priority areas identified in the National Export Strategy; and (c) Trade Facilitation and Policy development.

5. The AAT project had made significant progress in achieving its objectives. The most significant achievement was the design and launch of the Afghanistan National Export Strategy in June 2018 which serves as a roadmap for developing Afghanistan's international trade competitiveness and outlines a series of policy and institutional reforms required to achieve this. ITC had started to implement some of the priority recommendations identified in the National Export Strategy. These included, among others, the design of the Afghanistan National Trade Policy for 2018-2022 which was endorsed by the Afghan Council of Ministers in October 2018 and was awaiting final approval and launch; and the assistance given to the country in drawing up and notifying WTO of the trade reform measures that it intends to abide with.

6. The AAT Project Coordination Team consisted of a P-4 Project Manager, a P-2 Project Advisor and an Administrative Assistant, all based at ITC headquarters in Geneva. The Project Coordination Team coordinates the work of a team of 16 technical experts drawn from the different ITC substantive divisions who were responsible for delivering different project outputs. A local project office, staffed by a Project Coordinator on ITC consultancy contract and an Administrative Associate on United Nations Development Programme (UNDP) service contract is maintained in Kabul, Afghanistan to coordinate day-to-day field operations. Overall project oversight is the responsibility of a Project Steering Committee comprising of representatives from ITC, the EU and the Afghanistan Ministry of Industry and Commerce.

7. The second project that was being implemented by ITC in Afghanistan was the Ethical Lifestyle Initiative (ELI) project. This project was initiated in December 2017, about one year after the official launch of the AAT project. The ELI project had an initial budget of €1,587 million, which was subsequently

increased to €8.879 million to be spent over a three-year implementation period ending December 2020. The ELI project aims to facilitate the successful integration of about 6,000 documented and undocumented returnees, internally displaced people, potential migrants, farmers and artisans through creation of employment and self-employment opportunities in Afghanistan's food and fashion sectors.

8. Comments provided by ITC are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of internal controls in ensuring that the intended outcomes of the projects were achieved.

10. This audit was included in the 2018 risk-based work plan of OIOS due to the risk that potential weaknesses in planning and managing the EU-funded projects in Afghanistan could result in non-achievement of their intended outcomes.

11. OIOS conducted this audit from December 2018 to March 2019. The audit covered the period from August 2016 to December 2018 and reviewed the processes and mechanisms established by ITC to manage the AAT project. Specifically, the audit reviewed the achievement of the following performance expectations: (a) development and articulation of the desired outputs and outcomes; (b) production of project plans to achieve the expected outputs and outcomes, and adapting these plans as necessary during project implementation; (c) effective project implementation; (d) reporting the results and outcomes to stakeholders accurately and in a timely manner; and (e) effective coordination and collaboration with the ELI project, other ITC projects and other United Nations agencies operating in Afghanistan.

12. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing.

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

III. AUDIT RESULTS

A. Project planning

Project objectives, outputs and outcomes were well defined and aligned to national priorities

14. The AAT project was designed to help the country realize the priorities outlined in the Afghanistan National Peace and Development Framework and the Afghan National Priority Programme that was developed to operationalize the Development Framework. One of the key priorities of the Development Framework is the promotion of the country's private sector development. In designing the project, ITC conducted multiple consultative needs assessment workshops with stakeholders from the national, public and private sectors as well as international development partners through which it identified the priority areas of intervention. To drive project delivery, ITC structured the project into seven key outputs and developed about 32 sub-outputs and series of tasks, activities and performance indicators. The project is aligned to ITC's strategic plan and Sustainable Development Goal (SDG) 17.11 dealing with increasing exports from least developed countries and SDG 9.7 which deals with the need to ensure a conducive policy environment for industrial diversification. The project's deliverables are also designed to create economic empowerment opportunities for women and the youth. Based on the above, OIOS concluded that the project

objectives were clearly defined and aligned to ITC's corporate objectives as well as Afghanistan's national priorities.

Project plans were prepared and aligned with expected outputs and outcomes

15. Effective project planning helps to provide a clear roadmap for delivering planned outcomes and benefits thereby increasing likelihood of project success. The AAT project had developed a project document which amongst others outlined the project governance and implementation arrangements needed to ensure the achievement of project objectives. The project document also included a results chain, log frame matrix, and a work plan that collectively showed the linkages between the project's desired objectives, outputs, outcomes and planned activities and provided the basis for performance monitoring. The work plan showed the tasks and activities planned and the planned implementation timeliness. In addition, a risk management plan that outlined the risks relating to each output and measures to mitigate the risks was included as an annex to the project document. The project was reviewed and approved by the Project Appraisal Committee and the Senior Management Committee for quality, feasibility and effectiveness and review comments raised were addressed. OIOS concluded that the project was properly planned to achieve the expected outputs and outcomes.

B. Project implementation and monitoring

Progress reporting and monitoring was frequent and adequately reviewed

16. The AAT project had established adequate arrangements for ongoing reporting and monitoring of progress made in achieving expected outputs and outcomes. Annual narrative and financial performance reports, including the work plans and budgets forecasts, were prepared in a timely manner and reviewed by the Project Steering Committee, the Afghanistan Ministry of Industry and Commerce and the EU. A quarterly snapshot progress report providing a summary of results achieved in each output area was also submitted to the Project Steering Committee and key stakeholders. Review of the progress reports and minutes of meetings of the Project Steering Committee showed that the reports were comprehensive and were taken seriously resulting in suggestions for improvement, support and guidance. The AAT project budgets were also periodically reviewed and where necessary changes were made to align the budgets to the chosen implementation strategy. The changes in budget were reviewed and approved by senior management to ensure they were adequately explained and supported and were also approved by the EU. At the time of the audit, the AAT project was undergoing an independent mid-term evaluation commissioned by the EU. The results of the evaluation would be used to inform the planning and design of the proposed second phase of the project.

Partnerships with external parties were properly established

17. Being a non-resident agency with no local country office or presence in Afghanistan, ITC had established a Memorandum of Understanding (MoU) with UNDP for provision of administrative services provided at the country level, which entailed the provision of a broad range of financial, administrative, procurement and logistical support services required to meet the project's programming needs in Afghanistan. ITC was satisfied with the efficiency, timeliness and effectiveness of the administrative support services provided by the UNDP office in Afghanistan. ITC also entered into mutual collaborative agreements with local partners and regional service providers who had wider local presence and expertise to augment effectiveness in project delivery. As of January 2019, the AAT project had three agreements worth \$337,000 with partners who were entrusted with the implementation of specific project activities. OIOS determined that the engagement process for the partners was transparent and competitive which provided assurance that best value for money was achieved. Capacity assessments were also performed to

evaluate the partner's ability to effectively deliver the agreed results and effective oversight mechanisms were in place to monitor their performance and ensure funds were used as intended.

Action was being taken to strengthen risk management

18. According to the risk management plan included in the project document the two main high risk areas were security risks and risks related to lack of buy in from regional actors. The quarterly and annual performance reports included a section that described difficulties and challenges encountered during project implementation. Challenges relating to security were addressed in this section of the performance reports which was evidence that security risks were being considered on a regular basis. The AAT project also complied with the security risk management measures prescribed by the Department of Safety and Security (DSS). The project office had developed additional practical safety and security guidelines for staff to follow while on field missions.

19. However, the performance reports mainly addressed the challenges experienced during project implementation. It was not evident that the security risks were being formally monitored in a forward-looking manner to anticipate potential impact of security issues on planned outputs and project operations. For example, the risk management plan was not updated to discuss the risks and response plans relating to the April 2019 Afghan presidential elections which could have potentially adversely disrupted project implementation. The performance reports did not address the other high and moderate risks that had been identified in the risk management plan. It was also not clear the extent to which the project intended to monitor the risks formally or as part of day to day project management and whether all the risks initially identified were still considered relevant.

20. To help ensure that risks that could hinder effective and efficient project implementation are continuously monitored and managed, the risk management plan should be regularly updated (at least annually) and the frequency and modalities for monitoring the risks clearly determined. The deficiencies in risk management are systemic since similar deficiencies have been identified in prior audits. As recommended in the OIOS audit of ITC projects funded by the Netherlands Trust Fund (Report 2018/098), ITC needs to issue guidance on its risk management methodology and train staff on its use to help ensure risk management is done effectively. At the time of the audit, ITC had rolled out a training initiative on risk assessment targeting project managers. As there was an ongoing effort to address the recommendation and train staff in risk management, OIOS did not make a recommendation on this issue.

Need to advertise consultancies to access a wider pool of qualified candidates

21. The AAT project had established adequate arrangements for managing and assessing the performance of project staff and consultants to help ensure their productivity was optimized. For each consultancy, the criteria and rationale for selection was developed and terms of reference were prepared specifying the planned deliverables and scope of work. The ITC Human Resources Management Service checked that the terms of reference were aligned with work plans and priorities, and that consultants did not duplicate existing staff functions. Further, the AAT project had established a system to monitor and track the performance of project staff and consultants in delivering the agreed deliverables. Staff and consultants' performance appraisals were also done annually as required.

22. However, consultants were not always recruited in a competitive manner. OIOS' review of a sample of 13 out of 21 consultants engaged by the project showed that competitive selection was done in only 4 of the 13 cases sampled. Some of the difficulties faced in undertaking competitive selection included the pressures to quickly fill vacancies and the unique security challenges in Afghanistan which made it difficult to attract suitable candidates willing to work in the country. There was however no evidence that efforts had been made to widely publicize open vacancies to encourage a wider participation of interested

candidates as recommended in the ITC guidelines for recruitment of consultants. The AAT project needs to institute proactive recruitment strategies, such as the use of expressions of interest and/or rosters of pre-qualified candidates who can be called upon at short notice to fill vacancies.

(1) ITC should enhance the effectiveness of the Advancing Afghanistan Trade project by ensuring that consultants are selected in a competitive manner through open advertisement and/or issuance of expressions of interest to identify a pool of qualified candidates who can be deployed efficiently when opportunities arise.

ITC accepted recommendation 1. Recommendation 1 remains open pending receipt of evidence that action has been taken to advertise or issue expressions of interest to identify a pool of qualified candidates who can be deployed efficiently for consultancy opportunities that may arise in the AAT project in the foreseeable future.

C. Coordination arrangements

Need to strengthen coordination between ITC projects implemented in Afghanistan

23. There was evidence of project level collaborative initiatives, of which the AAT project played a substantive role. These included a “EU self-help group”, comprising of the AAT project manager and managers of other ITC’s EU funded projects which was formed with the goal of facilitating the sharing of knowledge and best practices across ITC’s portfolio of EU funded projects and another working group on good practices. There was also evidence of practical collaboration between the AAT project and other EU funded projects implemented by ITC as demonstrated by study tours and country exchange visits organized for beneficiaries from Afghanistan and Sri Lanka. These coordination efforts helped ensure that the AAT project shared knowledge and best practices with other projects to enhance effectiveness of project implementation.

24. The need to coordinate the AAT and ELI projects was recognized in project documents. Substantively both projects targeted their interventions in the same sector (the saffron sector), pointing to potentially overlapping mandates especially as regards to the targeted beneficiaries. Saffron was identified as one of the priority areas for intervention by the AAT project and specific plans, including a pilot project targeting start-ups were included in the project’s work plan. The ELI project was also designed to create income opportunities in the saffron sector for beneficiaries. Further, both projects targeted all or part of their activities in the same geographical areas of Kabul and Herat in Afghanistan and therefore their day to day intervention may require them to engage with the same groups of stakeholders in the saffron sector, Ministry of Industry and Commerce and national industry associations. It was therefore essential for the two projects to establish adequate coordination arrangements to optimize synergy and minimize the risk of duplication, inefficiencies and inconsistencies.

25. ITC management indicated that the AAT and EFI projects had unique and separate roles to play within the Afghan saffron sector and value chain. They however acknowledged the risks posed by the overlap in scope and indicated that action had been taken to mitigate these risks. Specifically, internal collaborative meetings had been held and proposals for clarifying the scope and the roles and responsibilities of the two projects had been developed and shared with the EU. While acknowledging the positive measures initiated to promote coordination, OIOS noted that the division of substantive roles and responsibilities and approach for intervention in the areas of commonality had not been formally agreed on and approved. There were also no mechanisms developed to resolve disagreements/differing viewpoints between the two projects which occasionally occurred and had potential to impair efficiencies in project delivery. Such mechanisms were necessary because the two projects were under separate substantive

divisions. ITC needs to designate one or two senior managers/directors to support and oversee that the coordination arrangements were working effectively.

26. On administrative and staffing issues, besides being implemented in the same country both projects had separate administrative structures for supporting their field operations. In 2019, the ELI project opened an office in Kabul next to the AAT project office. The AAT project staff indicated that the AAT office space was too small for the two projects to share and there was also limited capacity to share administrative staff because the AAT project staff were fully occupied. It was however not evident that the administrative needs for the two projects were looked at holistically to ensure that opportunities for synergy were adequately explored and addressed. This needs to be done to minimise the risk of duplicative administrative costs and efforts and to help ensure that the projects take advantage of any cost sharing opportunities and other potential benefits of having more personnel such as having back up arrangements in case of staff absences.

(2) ITC should strengthen coordination between the Advancing Afghanistan Trade and Ethical Lifestyle Initiative projects by: (a) formalizing the division of substantive roles and responsibilities and coordination arrangements; (b) designating one or two senior managers to support and oversee the agreed division of responsibilities and coordination arrangements; and (c) ensuring that opportunities for coordinating administrative costs and functions are holistically assessed.

ITC accepted recommendation 2. Recommendation 2 remains open pending receipt of evidence that the division of roles and responsibilities between the AAT and ELI project have been formalized and opportunities for coordinating the administrative costs and functions for the two projects have been holistically assessed.

Need to develop a corporate strategy for engagement in the United Nations Country Teams system

27. The United Nations Country Team (UNCT) forms part of the United Nations Development Assistance Framework (UNDAF) for collaboration of United Nations systems at country level. It reinforces the principle of “Delivering-As-One” which allows United Nations entities to plan and work in a coherent and coordinated approach in achieving national development goals and priorities. As of February 2019, ITC was not listed as one of the United Nations agencies participating in the Afghanistan UNDAF and UNCT system. Participation in the UNCT would provide ITC with a platform for ensuring its mandate and contributions to the Afghanistan development priorities are coordinated with that of other agencies and reflected in UNDAF. This would help to enhance synergies with interventions done by other actors and could enhance the effectiveness and impact of ITC projects in the country.

28. Over the past year and a half, the AAT project made repeated attempts to communicate with the Afghan Resident Coordinator Office seeking recognition and inclusion of ITC interventions in the Afghan UNCT but it was not successful. A formal application, signed by the Deputy Executive Director, was made in 2019 and its outcome was being awaited at the time of the audit. While acknowledging the efforts made by the AAT project to participate in the UNCT in Afghanistan, OIOS notes that these efforts were largely individual project driven initiatives rather than stemming from a corporate approach. Given that ITC is increasingly implementing projects in countries such as Afghanistan, it needs to develop a corporate approach to engaging with the UNCT by outlining its vision, strategy and protocols for its participation in the UNCT. In view of the ongoing reforms of the UNCT system, it is an opportune time for ITC to explore ways to improve the arrangements for its participation in the UNCT.

(3) ITC should develop a corporate strategy that outlines its approach, guidelines and framework for participating in the United Nations Country Team system to enhance the effective delivery of its projects at the country level.

ITC accepted recommendation 3. Recommendation 3 remains open pending receipt of evidence that ITC has developed a corporate strategy for participating in the UNCT system.

IV. ACKNOWLEDGEMENT

29. OIOS wishes to express its appreciation to the management and staff of ITC for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the International Trade Centre's European Union-funded projects in Afghanistan

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1.	ITC should enhance the effectiveness of the Advancing Afghanistan Trade project by ensuring that consultants are selected in a competitive manner through open advertisement and/or issuance of expressions of interest to identify a pool of qualified candidates who can be deployed efficiently when opportunities arise.	Important	O	Receipt of evidence that action has been taken to advertise or issue expressions of interest to identify a pool of qualified candidates who can be deployed efficiently for consultancy opportunities that may arise in the AAT project in the foreseeable future.	30 September 2019
2.	ITC should strengthen coordination between the Advancing Afghanistan Trade and Ethical Lifestyle Initiative projects by: (a) formalizing the division of substantive roles and responsibilities and coordination arrangements; (b) designating one or two senior managers to support and oversee the agreed division of responsibilities and coordination arrangements; and (c) ensuring that opportunities for coordinating administrative costs and functions are holistically assessed.	Important	O	Receipt of evidence that the division of roles and responsibilities between the AAT and ELI project have been formalized and opportunities for coordinating the administrative costs and functions for the two projects have been holistically assessed.	31 March 2020
3	ITC should develop a corporate strategy that outlines its approach, guidelines and framework for participating in the United Nations Country Team system to enhance the effective delivery of its projects at the country level.	Important	O	Receipt of evidence that ITC has developed a corporate strategy for participating in the UNCT system.	31 December 2019

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by ITC in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the International Trade Centre's European Union-funded projects in Afghanistan

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ITC should enhance the effectiveness of the Advancing Afghanistan Trade project by ensuring that consultants are selected in a competitive manner through open advertisement and/or issuance of expressions of interest to identify a pool of qualified candidates who can be deployed efficiently when opportunities arise.	Important	Yes	DMD responsible, Director/DMD	Q3 2019	Limited in country candidate pool
2	ITC should strengthen the coordination between the Advancing Afghanistan Trade and Ethical Lifestyle Initiative projects by: (a) formalizing the division of substantive roles and responsibilities and coordination arrangements; (b) designating one or two senior managers to support and oversee the agreed division of responsibilities and coordination arrangements; and (c) ensuring that opportunities for coordinating administrative costs and functions are holistically assessed.	Important	Yes	Director DMD/DCP/DPS in collaboration with Donor requirements	Q1 2020	
3	ITC should develop a corporate strategy that outlines its approach, guidelines and framework for participating in the United Nations Country Team system to enhance the effective delivery of its projects at the country level.	Important	Yes	Director DCP	Q4 2019	

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.