

**UNOPS Internal Audit and  
Investigation Group (IAIG)  
Copenhagen**

**Second Customs Reform and Trade  
Facilitation Project (SCRTEP)**

**Project No. 00075434**

**Internal Audit Report  
For the period from 28 December  
2010 to 21 March 2012**

**United Nations Office for Project Services**

**Second Customs Reform and Trade Facilitation Project (SCRTEP)**

Project No. 00075434  
Period Covered: 28 December 2010 to 21 March 2012  
Date of Report: 07 February 2013

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# 1. Executive Summary

## 1.1 Background

On behalf of the UNOPS Internal Audit and Investigations Group (IAIG), KPMG Afghanistan Limited conducted a limited scope audit of Second Customs Reform and Trade Facilitation Project ('The Project') (SCRTEFP) bearing Project ID number 00075434 in October 2012. The audit was carried out with the assistance of the audit firm, KPMG Afghanistan Limited.

The purpose of the audit was to assess the extent to which operational processes have been effected to provide reasonable assurance with regard to the following areas: efficient and economic use of resources; reliability of operational and financial reporting and compliance of activities and transactions with applicable regulations, rules and procedures.

The audit also included in its scope the following aspects of the Project:

- Assess the key operational processes and management practices relating to Programme/ Project management portfolio and other related services provided;
- Review selected procurement cases to check compliance with established rules;
- Assess the adequacy of the financial operations and controls (including administrative budget management) and of the personnel administrative functions (recruitment, performance appraisal and training);
- Compliance of system of contracts for procurement of goods and services;
- Asset/property management;
- Cash management;
- Staffing and management of human resources; and
- Review any other issues that may emerge during the audit, including specific issues which UNOPS contemplates could be considered as part of the audit.

The audit reviewed the transactions for the period from 28 December 2010 until 21 March 2012.

## 1.2 Overall Assessment

In our opinion, based on the weighted rating of the individual areas, the overall level of internal control with respect to the Second Customs Reform and Trade Facilitation Project's operations is considered to be **Satisfactory**<sup>1</sup>. It should be noted, however, that we consider the level of internal control in a) Financial Operations, Controls and Cash/Fund Management and b) Contracting for Procurement of Goods and Services and c) Asset/ Property Management, ICT and General Issues; areas to be **Partially Satisfactory**. The weighted score is assessed by Audit as **8**.

The specific ratings for the main areas covered by the audit are as follows:

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<sup>1</sup> "Unsatisfactory" is rated when the weighted score is from 1.00 to 3.99, "Partially Satisfactory" from 4.00 to 7.99 and "Satisfactory" from 8.00 to 10.00

<b>EFFECTIVENESS OF INTERNAL CONTROL</b>				
<b>Audit area</b>	<b>Allocation of risk identified (weight)</b>	<b>Score</b>	<b>Weighted Score<sup>2</sup></b>	<b>Rating</b>
Programme/ Project Management	20%	8.6	1.72	Satisfactory
Financial Operations, Controls and Cash/Fund Management	20%	7.6	1.52	Partially Satisfactory
Contracting for Procurement of Goods and Services	20%	7.4	1.48	Partially Satisfactory
Staffing and Management of Human Resources	20%	9.0	1.8	Satisfactory
Asset/Property Management, ICT and General Issues	20%	7.4	1.48	Partially Satisfactory
<b>Overall Level of Internal Control</b>	<b>100%</b>		<b>8</b>	<b>Satisfactory</b>

Management should consider this rating within the context that the Project management team should attempt to strengthen its management practices in the following areas:

- Financial Operations, Controls and Cash/Fund Management;
- Contracting for Procurement of Goods and Services; and
- Asset/ Property Management, ICT and General Issues.

### **1.3 Audit Highlights**

The report contains 8 recommendations, of which 4 are considered High priority, 3 are considered Medium priority, and 1 considered Low priority, as per definitions available in Annex 1. These recommendations are summarized above and detailed throughout this report and in Annex 2.

### **1.4 Appreciation**

We observed that UNOPS Second Customs Reform and Trade Facilitation Project management is keen towards taking appropriate measures towards the observations as discussed on 20 October 2012 and subsequent communications. We also wish to place on record our thanks and appreciation to the Project management for the warm cooperation extended to us. [REDACTED]

<sup>2</sup> This individual weighted scored was based on multiplication between individual score and the weighted score based on level of risk of each section to overall risk

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## **II. Audit Objectives, Scope and Operational Overview**

### **2.1 Audit Objectives and Scope**

The audit of the Project was carried out during October 2012, with the field audit carried out from 27 September to 15 October 2012 at UNOPS Afghanistan Operation Center, Second Customs Reform and Trade Facilitation Project at UN Compound Jalalabad Road in Kabul, Afghanistan with visits to ACD and field offices at Jalalabad.

The overall objectives and scope of the audit are shown below.

#### **2.1.1 Audit Objectives**

The overall objective of the audit is to assess the management of the Project operations with the view of obtaining reasonable assurance towards the achievement of the Project objectives. The areas of focus include:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable legislation.

The purpose of the audit was to provide reasonable assurance that:

- a) Client/donor contributions and Project expenditure are properly accounted for;
- b) Project expenditure were incurred in accordance with the provisions of UNOPS service under the legal agreement and are supported by adequate documentation;
- c) The related financial statements prepared by UNOPS for the period under review present a fair view of the operations.

#### **2.1.2 Audit scope:**

During the audit, relevant samples of documents and transactions for the period covered by the audit were reviewed. Discussions were held with Project staff and personnel at UNOPS AGOC, and in the field throughout the audit.

### **2.2 Standards**

The audit has been conducted as per the International Standards on Auditing issued by IAASB.

### **2.3 Operational Overview**

A Financing Agreement; (Grant no. H568-AF) dated 28 June 2010 was signed between World Bank (WB) through International Development Association (IDA) and Government of Islamic Republic of Afghanistan (GOIRA) for implementation of Second Customs Reform and Trade Facilitation Project (SCRTEP) for an aggregated

amount of SDR 33.3 million (Special Drawings Rights) equivalent to US\$ 50.48 million.

In lieu of the Financing Agreement; Afghan Customs Department (ACD) entered into a Management Service Agreement (MSA) with UNOPS AGOC on 28 October 2010 that shall act as implementing partner of the Second Customs Reform and Trade Facilitation Project and carry out activities as detailed therein. The Project was aimed to take initiatives in reforming and modernization of Afghan Customs thereby facilitating improvements in customs governance environment in-line with the Governance Accountability Action Plan (GAAP) for the Afghan Customs. The Project was build on and considered as phase II of the World Bank's existing Emergency Customs Modernization and Trade Facilitation Project (ECMTFP).

The Project has the five major components including:

- a. Countrywide computerization of Customs Clearance Operations;
- b. Installation of Executive Information System for customs allowing real time monitoring of operations;
- c. Development of possible options for cross border Customs-to-Customs (C2C) cooperation;
- d. Provision of selected customs infrastructure to enable modernized operations; and
- e. Technical assistance to support the development of an adequate regulatory, administrative and institutional framework for customs.

The Project has an implementation period of 48 months with a total available budget of US\$ 47,575,032 including UNOPS facilities and Administrative/Management support fee for a total ceiling amount of US\$ 3,598,453. The Project total funding of US\$ 50.48 million has been adjusted for the bridge finance of US\$ 2,852,722 made during the period from January 2010 to December 2011 that was advanced through Ministry of Finance (MOF) Government of Afghanistan in a designated bank account no. 27352 at Da Afghanistan Bank (DAB). Details of the budget forecasts and expenditure incurred during the reporting period are provided below:

Description	Activity-wise Budget- up to 21 March 2012						Actual Expenditure
	1	2	5	6	7	Total	
	Amount (US\$)						
Personnel Costs	313,013	175,280	278,992	-	887,743	1,655,028	671,928
Subcontract Services	-	1,595,000	-	3,612,563	409,211	5,616,774	5,632,798
Equipments	-	228,472	1,155,777	-	119,280	1,503,529	407,255
Operations Costs	-	154,098	125,165	-	51,214	330,477	770,709
Facilities & Administration (F&A)	943,43	205,886	131,370	-	127,569	559,168	195,306
<b>Total</b>	<b>407,356</b>	<b>2,358,736</b>	<b>1,691,304</b>	<b>3,612,563</b>	<b>1,595,017</b>	<b>9,664,976</b>	<b>7,677,995</b>

(Source: Budget Delivery Forecast up to March 2012 and Statement of Receipt & Disbursements)

## 2.4 Office Management

The management of the Project comprised of the following key personnel across various agencies involved in the execution and implementation of the Project:





**Acknowledgement**

IAIG extends its appreciation to the management and staff members of Second Customs Reform and Trade Facilitation Project, Afghan Customs Department (ACD) and UNOPS AGOC for their cooperation extended to the audit team during the audit.

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### III. Detailed Assessment

The details of the audit findings are contained in the subsequent **Audit Subject A to F** of this report.

**Observation No:** A-1  
**Audit area:** Overall Project Management  
**Issue title:** *Lack of relevant information to ensure compliance with provisions of Financing Agreement and Management Service Agreement (MSA)*

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#### Criteria

Schedule 2 to the Financing Agreement (FA) dated 28 June 2010 provides guidelines for Project execution and implementation arrangements and expressly requires establishment of Budget Committee which is also required to be set up as per Appendix I, Clause 38 of the Management Service Agreement (MSA) dated 28 December 2010.

#### Condition

We were not provided with appropriate documentary evidences to ensure that SCRTFP Project has complied with the following provisions of the Financing Agreement (FA) dated 28 June 2010 signed between Government of Islamic Republic of Afghanistan (GOIRA) and International Development Association (IDA):

Clause No.	Required Provisions
Schedule 2. Section I-A(1b)	Establishment of Budget Committee
Schedule 2. Section II-B(2)	Submission of unaudited interim & audited annual financial reports

In addition, Project Steering Committee (PSC) is also required to be formulated as per Clause 1-A (1a) of the Schedule 2 of the FA and Clause 7, Section D of Appendix 1 (Description of the services) to the MSA. We have been provided with a letter signed by Minister of Finance dated 15 September 2010 as evidence for constitution of the PSC, however, no minutes of PSC meetings were available to ensure that PSC has conducted regular meetings and decisions undertaken by the PSC were properly addressed.

#### Causes

**Compliance & Guidance:** This indicates failure to comply with provisions contained in the FA and MSA besides inadequate supervision by the Project for complying with terms and conditions of the Agreements.

#### Impact or risk

This might lead the Project to the risk that key decisions might not be taken by competent authority and reviewed at appropriate level particularly in cases where no evidence of financial reports are maintained. Moreover non establishment of Budget Committee and minutes of PSC not available leads to significant deviation from Project planned inputs.

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## **Recommendation**

We recommend that the Project management should abide by all provisions of the Financing Agreement, Management Service Agreement and all guidelines for Project implementation including establishment of the relevant committees and facilitating stakeholders in holding regular meetings whereas minutes of PSC meetings including decisions taken therein should properly be documented and adequately filed. We also recommend that all financial reports should timely be submitted to the concerned stakeholders and evidence of these should be maintained for reference purposes.

## **Priority**

Medium

## **Management comments**

*The evidence for establishment of Budget Committee has been submitted to the auditors. As far as unaudited interim and audited annual financial reports concern, the unaudited interim financial reports have also been submitted to the auditors however the audited annual financial report has been attached which is from 1<sup>st</sup> Jan 2011 to 31<sup>st</sup> Dec 2011. We have asked the HQ for the first quarter of 2012 and will submit it to you up on receiving the same.*

*The PSC is headed by Finance Minister and request has been made to his office for holding the meeting, however the same has not been possible due to his busy schedule. It is expected to take place sometime in the near future. Minutes of early meeting already been shared with auditors on 20th Oct 2012.*

*The Budget Committee has already been constituted on 15th September 2010. The composition of the budget committee is contained in ACD order set in committee which has already shared with auditors.*

## **IAIG further comments**

We still recommend that necessary steps to be initiated by Project management to ensure that all terms and conditions of the Financing Agreement (FA) are adequately adhered to particularly:

1. As required by FA, the Budget Committee (BC) should be established no later than 30 June 2010 however it has been formulated through an establishment note dated 15 September 2010. Furthermore FA also requires BC being chaired by Director General of ACD and has enlisted a number of its key responsibilities whereas the establishment note dated 15 September 2010 has also identified provisions envisaged on Budget Committee. We remained unable to ascertain whether these provisions have adequately been addressed, due to non availability of supporting information. Some of the key provisions for BC are detailed below:
  - The Budget Committee shall also coordinate on quarterly budget reviews to ensure adequate budget discipline and control.
  - The Committee will be responsible for ensuring that Project expenditures for each fiscal year are captured in the Government Development budget of that fiscal year.
  - The Budget Committee shall be responsible for initiating, coordinating, obtaining and summarizing all information and data during the budget process.

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- The Committee will also be responsible for ensuring that each stage of the budget process is completed in accordance with the budget timetable.
  - The Committee would finalize its TOR and by laws in its first meeting.
  - Secretary of the BC will inter-alia be responsible for following tasks:
    - Issuing of detailed instructions for the preparation of each year's budgets.
    - Ensuring that the time set for the preparation is strictly followed by other line executives.
    - Ensuring that the procedures and formats for the preparation of budgets are carefully followed.
    - Consolidating and providing accounting assistance to other members of the Project team
2. Evidence for submission of the unaudited interim and audited annual financial reports is maintained.
  3. Initiating steps for conducting Project Steering Committee meetings and drafting minutes of PSC duly signed by the Chair.

**Status of Recommendation**

Open

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**Observation No:** B-1  
**Audit area:** Financial Operations, Controls and Cash/Fund Management  
**Issue title:** Lack of supporting documents and not charging F&A as agreed

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**Criteria**

Clauses 16 and 36 of Sections D and E respectively, of Appendix 1 (Description of the services), to the MSA requires that UNOPS through SCRTFP Project shall be responsible for contract and financial management of the Project including maintenance of all relevant books of records for the expenditures charged to the Project.

**Condition**

- 1 We were not provided with supporting documentation for the following expenditure selected during our audit for verification:

Budget account	Budget account description	Amount (US\$)
61300	Salary & post adjustment cost-IP staff	36,342
74500	Miscellaneous expenses	21,281
65100	After service insurance	2,588
<b>Total</b>		<b>60,211</b>

- 2 In addition, as per Clause GC 6.1(a) and GC 6.3(e) of the MSA, which expressly require that the total ceiling for UNOPS management support cost i.e. Facilities and Administration (F&A) shall be US\$ 3,598,453 during the entire Project life and shall be paid on actual expenditure based on the percentage that shall be 9.5% of the eligible expenditures. This percentage comprised of 2.5% as allocable charges to be charged by UNOPS AGOC and 7% as F&A by UNOPS HQ. We observed the following discrepancies in allocable and F&A costs charged by UNOPS AGOC to SCRTFP Project:

- Charging of allocable and Facilities & Administration costs have not been adequately charged as agreed in the Management Service Agreement. UNOPS used pre determined amounts to be charged to the Project as allocable and F&A during 2011 without charging these as per defined percentages of the eligible costs. Differences noted are as follows:

Discretion	To be charged As Per MSA	Total Actually Charged to Project	Difference-Under/(Over) Charged
<b>2011</b>	<b>Amount US\$</b>		
Allocable Costs @ 2.5%	69,335	40,267	29,068
F&A Costs @ 7%	192,668	195,306	(2,638)
<b>Sub Total</b>	<b>262,003</b>	<b>235,573</b>	<b>26,430</b>
<b>2012</b>			
Allocable Costs @ 2.5%	26,013	27,716	(1,703)
F&A Costs @ 7%	72,836	-	72,836
<b>Sub Total</b>	<b>98,849</b>	<b>27,716</b>	<b>71,133</b>
<b>Total</b>	<b>360,852</b>	<b>263,289</b>	<b>97,563</b>

- F&A has also been charged over allocable costs in Activity 1, “Operational Support to Project” during 2011 consequently expenditure has been overstated by an amount of US\$ 2,638.

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- No F&A has been charged for the period from 01 January 2012 to 21 March 2012 as a result the expenditure are understated by an amount of US\$ 72,836, as detailed above.

### **Causes**

**Compliance & Guidance:** This shows failure to comply with provisions contained in the MSA and also lack of adequate supervision by UNOPS and SCRTFP Project management in maintaining adequate supporting documentation and charging facilities and administration costs at different percentages as agreed in MSA.

### **Impact or risk**

Due to lack of supporting documentation; costs charged to the Project cannot be reviewed and verified to ensure that these costs have been incurred in accordance with the provisions of the activity inputs under the relevant Project agreements and are in accordance with the financial rules and regulations and other applicable rules.

### **Recommendation**

We recommend that UNOPS and SCRTFP Project should comply with all provisions contained in the Financing Agreement, Management Service Agreement and relevant terms and conditions associated with the implementation of the Project including maintenance of adequate and intact records, using appropriate basis for charging costs to the Project.

### **Priority**

High

### **Management comments**

1. *As per Project MSA (GC, Clause 6.3e) the total management cost is 9.5% per expenditure incurred. UNOPS charged this amount in the fashion that 7% (F&A) goes to UNOPS HQ and 2.5% (Direct Support Charges) goes to UNOPS AGOC. The expenditures mentioned in the above observation US\$ 60,211 belongs to AGOC direct charges. AGOC is only supposed to give Chart of Account (CoA) to these expenditures that required by HQ. These expenditures done through GLJE based on percentage apportioned to each item fed in the system.*
2. *In the initial budget proposal AGOC had put direct cost budget for AGOC management. However the World Bank insisted to have a percentage instead. And to be in line with UNOPS pricing Policy, the 2.5% represented Direct Project costs which have to bear the 7% F&A. As such, in 2011 AGOC was charging F&A as direct cost agreed by HQ. AGOC had calculated the management cost equal to 2.5% of the total Management Cost 9.5% agreed in the MSA- GC 6.1(a), (UNOPS Management Support ceiling fee of USD 3,598,453) and had forecasted this amount as per their requirement. Therefore, there is a difference in actual allocable charges as direct cost and the one that should have been based on actual expenditures. However, this practice was revised in early 2012 and the entire 9.5% F&A and HQ charges the entire 9.5%. AGOC will receive their portion afterward through posting a GLJE.*

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*As stated in the above response to observation one UNOPS is charging the F&A by the entire percentage now in 2012 to comply with MSA, for 2011 same principle will be followed with the help of a correction measure to reverse the US\$ 40,267 back to the Project and charge 9.5% to all activities and then AGOC will receive the 2.5%. All these exercises will be done through a GLJE.*

*Due to the revised practice of charging F&A and the fact that UNOPS charges the F&A quarterly after quarterly accounts closure some of the F&A were not included in the Solar year calendar reports produced for the audit.*

**IAIG further comments**

We still recommend that necessary steps to be initiated by Project management to ensure that:

- Adequate and viable supporting documents should be kept for all costs charged as allocable through GLJE; and
- Necessary adjustments required in charging accurate amounts of F&A and allocable charges should appropriately be made.

**Status of Recommendation**

Open

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**Observation No:** B-2  
**Audit area:** Financial Operations, Controls and Cash/Fund Management  
**Issue title:** *Charging prior period cost to Project and delayed payment to staff*

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**Criteria**

Costs charged to the Statement of Receipts and Disbursements shall be the costs incurred and paid within the reporting period.

**Condition**

The Management Service Agreement (MSA) was signed between Afghan Customs Departments (ACD) and UNOPS on 28 December 2010 for implementation of Second Customs Reform and Trade Facilitation Project (SCRTEP), Project no. 75434; however, ACD staff costs were charged to the Project for the period, which related to the period prior to signing of the MSA and those costs related to Emergency Customs Modernization & Trade Facilitation Project (ECMTEP-II) Project no. 74437. As per responses from Project management, these payments were processed and charged to SCRTEP Project as both these Projects are part of Phase II of Emergency Customs Modernization whereas the payment was delayed due to getting a No Objection Letter (NOL) from the World Bank for charging such cost to 75434 which was received after closure of the prior Project 74437. Details of such costs are as follows:

Voucher No.	Position	Salary for period	Amount (US\$)
00571401	ACD Director	August 2010 to December 2010	████████

We also observed that payments to Afghan Customs Department (ACD) and Automated System for Customs Data (ASYCUDA) staffs were delayed for substantial period of time. Instances are as follows:

S. No.	Voucher No.	Staff Name	Position	Salary for the Period	Amount (US\$)	Payment Date
1	00571401	████████	ACD Staff	Aug 2010 to June 2011	████████	13 July 11
2	00592804	████████		April to August 2011	████████	05 Sept 11
3	00592800	████████	ASYCUDA Staff	April to August 2011	████████	05 Sept 11
4	00592826	████████		April to August 2011	████████	05 Sept 11
5	00592820	████████		April to August 2011	████████	05 Sept 11
6	00593086	████████		April to August 2011	████████	06 Sept 11
7	00592801	████████		April to August 2011	████████	05 Sept 11
8	00592810	████████		April to August 2011	████████	05 Sept 11

We further observed that these payroll/allowance payments were net of withholding taxes whereas no amounts of the withheld taxes appear in the statement of receipts and disbursements. In addition, no details were provided to us to ensure that the withheld taxes were accordingly deposited with the tax authorities as tax challans were missing.

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## Causes

**Compliance & Guidance:** This shows failure on part of SCRTFP Project management in reviewing and processing ACD staff payroll costs besides not adequately charging all such costs to the relevant Project and to the period to which these are related.

## Impact or risk

Charging costs to Project that are not budgeted for therein shows inadequate resource management and might lead to overlapping and or duplication of costs. This also embarks significant doubts over charging of expenses that are related to Project activities only. In addition, late payment of counterpart staff payroll costs might accumulate to substantial amount of long outstanding payables leading to dissatisfaction of such staffs. Furthermore, not depositing of withheld tax from payments may result in additional taxes/penalties from the tax authorities.

## Recommendation

We recommend that the SCRTFP Project should formulate a systematic budgeting mechanism in forecasting expenditures in various cost centers between two Projects of phase II of the Emergency Customs Modernization & Trade Facilitation Project i.e. Project nos. 75434 and 74437 to avoid overlapping and or duplication of costs. We also recommend that all counterpart staffs' payrolls should be processed in a timely manner and payments should be made swiftly to avoid large outstanding claims. We further recommend that tax withheld from payments should be deposited with the tax authorities on timely basis.

## Priority

Medium

## Management comments

*As far as payment of salary of ACD Director is concerned, it was paid on 13 July 2011 due to late receipt of World Bank No Objection Letter (NOL) and processing of his contract by ACD. By then, funds under Project ID 00074437 were not available for utilization. It was an advance fund loaned by GOIRA for 2<sup>nd</sup> phase of Project pending availability of WB funds.*

*It may be noted again that payment of Project allowance to ASYCUDA and ACD staff was delayed due to late receipt of NOL from WB and processing of contracts/allowance by ACD thereafter. There was no delay in payment once their claim sheets were received. It may be noted that as soon as the claim sheets of the said officers were received the payment made which is on July 2011, hence no delay by the Project.*

*As far as payment of withholding tax is concerned, the issue was under discussion with ACD whether it should be paid by the ACD or UNOPS as the tax deduction was to be calculated on aggregate of salary and allowances. Since the salary details were not available with UNOPS, ACD was requested to deduct taxes. The issue was resolved only in April 2012 after which UNOPS started deducting the tax and has been depositing it with the tax authorities.*

## IAIG further comments

Project management agrees to the observation reported and, therefore, the recommendation is kept intact for Project management's attention in making necessary adjustments towards

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withholding taxes on salaries/ allowances of ACD and ASYCUDA staff and in charging all costs only to the periods to which these relate.

**Status of Recommendation**

Open

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**Observation No:** B-3  
**Audit area:** Financial Operations, Controls and Cash/Fund Management  
**Issue title:** Costs not charged to relevant/ appropriate account codes

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**Criteria**

UNOPS approved Chart of Accounts (COA) available for SCRTFP Project identifying account codes and detailed description to be used for charging costs to the relevant accounts.

**Condition**

We observed instances where expenses were not charged to appropriate account codes. Details are as follows:

S No.	Voucher No.	Description	Account Charged		Correct Account		Amount (US\$)
			No.	Description	No.	Description	
1	665855	Salary of Procurement Specialist	72135	Service Contracts-Communication Service	71205	International Consultants	
2	611357						
3	603796						
4	594844						
5	665855	Transportation charges from Kabul to Kandahar	72215	Transportation Equipment	73115	Moving Expenses	11,800

**Causes**

**Compliance & Guidance:** This exhibits not following proper account codes from UNOPS COA for charging costs to appropriate account codes besides it also shows lack of proper review, monitoring and supervision of payment vouchers by SCRTFP Project and UNOPS AGOC in processing and charging costs into the system.

**Impact or risk**

Costs charged to inappropriate account codes may lead to inadequate analysis of the costs as compared to the approved budgets thereby places doubts over the financial information for its accuracy.

**Recommendation**

We recommend that all payment should thoroughly be reviewed by relevant staff of SCRTFP Project and adequately cross checked by UNOPS AGOC Finance Unit before being entered into the system for its final closure.

**Priority**

Low

**Management comments**

*The payments have been charged due to oversight and will be corrected through a GLJE to reverse every expenditure to its particular account code.*

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*Kindly note that the payment of US\$ 11,800 was not paid under suggested account code (moving expense) as by then this account code was listed under the main head (overhead) and subhead (rental/maintenance of premises) which is now modified to moving expense under transportation services, hence by that time the selected account code was found appropriate one. However, as mentioned earlier the point has been noted down and corrective steps will be taken for modification.*

**IAIG further comments**

Project management has agreed to the recommendation.

**Status of Recommendation**

Open

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**Observation No:** C-1  
**Audit area:** Contracting for Procurement of Goods and Services  
**Issue title:** *Inadequate flow of Procurement Process*

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**Criteria**

Chapter 5, Article 5.1.3.1&2 of the Financial Management Manual (FMM), developed as per Schedule 2, Section I-B (1a) of the Financing Agreement requires that, “whenever a contract is made or an IPC is certified, a budget is committed in the system against the vendor ID in UNOPS ATLAS system. Project Support Officer creates a purchase order for the total amount of payments expected to be made against any contract for works.”

**Condition**

- We observed that the process of issuance of Purchase Orders (POs) was not followed as a control to ensure that funds were committed through raising PO in the system when goods and or services were ordered. It was noted that POs were raised upon receipt of supplier’s invoices, which was contradictory to UNOPS Policies and Procedures. Instances are as follows:

Purchase Order		Supplier			Voucher		Amount (US\$)
No.	Date	Name	Invoice No.	Date	No.	Date	
292486	19 Dec 11		AFG-161-2	15 Dec 11	640219	20 Dec 11	26,563
285264	14 Nov 11		AFG-152-6	13 Nov 11	640792	21 Dec 11	34,693

- We also observed that a number of items of office furniture including tables, chairs and shelves were procured through Field Purchase Order No. FPO-019-2011-00075434 dated 24 August 2011. At the time of bid evaluation, Istanbul Furniture quoted the least price of US\$ 9,060 on Price & Delivery Form dated 03 August 2011; however, the PO (no. 273919) was raised for this purchase for US\$ 9,905 and the payment was made accordingly through voucher no. 602423. There was an evident extra payment of US\$ 845. On discussion with Project management dated 20 October 2012, SCRTFP Project management initiated communication with the supplier for refund of US\$ 845.
- We further noted that SCRTFP Procurement Unit raised Field Purchase Order (FPO) for procurement of goods and services upon completion of the bid evaluation process. It was noted that significant numbers of FPOs were raised with different Project number i.e. 74437; however, paid from this Project. Details of the instances are as follows:

FPO No.	PO No.	Project No.	Description	Quantity	Amount (US\$)
015/2011/00074437	264733	74437	Cannon Photocopier Machine	1	5,816
016/2011/00074437	272830	74437	Laptops Computer Vostro 3550	5	4,580
			Laptop Computer Vostro 3450	10	9,100
032/2011/00075434	287277	74437	Epson Projectors and screens	4	9,640
031/2011/00075434	285256	74437	Cannon Photocopier Machine	2	22,200

- We also observed that Performance Security, as required under provision of the contracts signed with the construction companies, were not available with the supporting documents. Details are as follows:

Contract No.	Vendor	Purpose	Total Contract	Performance Security
			Value (US\$)	
SCRTFP/IDA/NCB/2	[REDACTED]	Truck Parking Jalalabad	748,000	74,800
SCRTFP/IDA/W/N CB/3	[REDACTED]	2 Warehouses Jalalabad	887,990	88,799

### Causes

**Compliance, Guidance & Human Error:** The observations noted above resulted due to failure in complying with the prescribed rules, regulations and provisions contained in the Financial Management Manual. These observations also indicate inadequate and or lack of supervision by relevant Project personnel whereas extra payments made shows error on part of the staff processing such payments including UNOPS AGOC Finance Unit.

### Impact or risk

These observations exhibit non compliance with standard provisions of applicable rules and regulation and embark significant risk including:

- Where commitments are not entered into the system upon signing of the contract for provisions of works/services and or procurement of goods, budget cannot be used as an effective monitory tool and Project might face short of funds thereby leading to affect activity inputs as planned and forecasted.
- Extra and non refundable payments might be made to vendors.
- Payments might be made for POs raised and processed for other Projects leading to inadequate reporting besides charging of irrelevant costs to the Project.
- Lack of review and monitoring of contractual obligations and POs prior to making payments to vendors might lead to inadequate performance of contracts by contractors as a result no remedial actions might be taken particularly in cases where no performance securities are obtained.

### Recommendation

We recommend that SCRTFP Project should adhere to all standard procurement provisions and comply with applicable rules, regulations terms and conditions of the FMM and ensure contractual obligations by the vendors thereby taking necessary steps to improve procurement process flow and in-line issuance of Purchase Orders as required.

The Project management relevant staff including Procurement Specialist and Project Support Office (PSO) should review all contracts awarded during the reporting period and make necessary steps in recovering extra payments from vendors and obtain all securities, as agreed therein. Furthermore SCRTFP Project PSO should coordinate with UNOPS AGOC Finance Unit and closely monitor all payments while processing supplier invoices and recording costs towards relevant POs to ensure that relevant Project codes are used and payments are made upon certification of works/services rendered and receipt and inspection carried out for provisions of goods by suppliers.

### Priority

High

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## **Management comments**

*UNOPS has always been in compliance with finance and procurement rules and regulation. In 2011, there was the concept of FPO (Field Purchase Order) in place besides the presence of a PO (Purchase Order) and the fund was committed through this FPO. Therefore even a PO raised after an invoice received the fund equal to the service or goods had already been committed. In 2012 this practice of raising FPO was discontinued by the Project and only raising of PO was put in practice.*

*As mentioned in the above response regarding rising of a PO after receiving an invoice was a practice till 2011 and no longer feasible in 2012. The extra amount US\$ 845 paid to the supplier (Istanbul Furniture) has been recovered since.*

*The payments of some goods with the contract number of Project with Atlas ID 74437 was an oversight by procurement as the two Projects were overlapping each other, there was a confusion merely with the Project Atlas ID and not the Project name. It may be mentioned that the payment was correctly made from the Project ID 00075434 and hence there was no financial irregularity.*

*The performance security regarding contracts of Jalalabad Truck parking and Warehouses were received from contractors as per provision of contracts and accordingly the 10% performance security had been deducted from the payments (payments certificate attached) so no extra payment has been made. However, the performance security was not attached with the documents that will be taken in to consideration in future.*

## **IAIG further comments**

Project management has agreed to the observation and therefore should initiate steps in curtailing the issuance of FPO and raising PO upon receipt of supplier invoices. All contracts and POs should be raised for relevant Project ID and reconciling supplier invoice with PO and initial quoted amounts.

## **Status of Recommendation**

Open

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<b>Observation No:</b>	<b>C-2</b>
<b>Audit area:</b>	<b>Contracting for Procurement of Goods and Services</b>
<b>Issue title:</b>	<b><i>Discrepancies in Procurement of Contractual Services</i></b>

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### **Criteria**

As per the requirements of the Emergency Project Paper on Project Grant relating to the Project, the procurements for the Project will be administrated in accordance with the World Bank guidelines. Government of Afghanistan developed Procurement Law with the assistance of World Bank in 2005 which was revised in November 2009. As per Project paper all the procurement activities within the threshold of US\$ 100,000 to US\$ 5 million shall be carried out through National Competitive Bidding (NCB) process. A set of agreed procedures for NCB is detailed in Project paper which includes following activities;

- Standard bidding documents approved by the Association/World bank should be used.
- Invitation to bids shall be advertised in at least one widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twenty eight days prior to the deadline for the submission of bids.
- Bids shall not be invited on the basis of percentage premium or discount over estimated cost.
- Bidding documents shall be made available, in mail or in person, to all who are willing to pay the required fee.
- Foreign bidders shall not be precluded from bidding.
- Qualification criteria shall be stated in the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance.
- Bidders may deliver bids at their option, either in person or by courier service or by mail.
- All bidders shall provide bid security on bid security declaration form as indicated in the bidding documents. A bidder's bid security or the declaration form shall apply only to a specified bid.
- Bid shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of the bids.
- Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within specified period, agreed with Association/World Bank.
- Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- Split award or lottery in award of contracts shall not be carried out.
- Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary.
- Extension of bid validity shall not be allowed without the prior concurrence of Association.
- Negotiations shall not be allowed with the lowest evaluated or any other bidders.
- Re-bidding shall not be carried out without the Association's prior concurrence; and
- All contractors or suppliers shall provide performance security as indicated in the contract documents.

### **Condition**

We observed a number of discrepancies in procurement process and contract management during our review of the six major construction contracts awarded during the reporting period.

Details of the observations noted together with the specific provisions/ requirements, in these selected contracts, are provided below:

<b>Provisions/ Requirements</b>	<b>Observation Noted</b>	<b>SCRTFP Responses</b>	<b>IAIG further Comments</b>
<b>Contract Number: SCRTFP/IDA/W/NCB/2 with Mashal Construction Company for Construction of Truck Parking at Jalalabad.</b>			
As per the requirement of project paper, the bid analysis shall be carried out between 21 to 35 working days following NCB and ICB procedures respectively, for finalizing the bids/proposals in timely manner.	Bids were received on 16 June 2011, whereas the bid analysis was completed on 31 July 2011. Bid analysis was not completed within 35 days following the NCB procedures.	<i>Since bidders delayed to submit their historical documents such as annual work details, prime contract details, liquid asset details and equipment details, evaluation committee was unable to take decision about the lowest quoted responsible bidder.</i>	Management agrees to the observation reported.
As per the requirements of clause 13 of Agreement entered with contractor; "The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and deductibles stated in the SCC for the following events which are due to the Contractor's risks: - loss of or damage to the works, plant & material; - loss of or damage to equipment; - loss of or damage to property (except the works, plant, materials, and equipment) in connection with the contract; and - Personal injury or death."	We noted that the requirements of contracts regarding procuring insurance coverage were not complied.	<i>Since insurance facilities are not available in Afghanistan, SCRTFP do not demand to submit the copy of the insurance.</i>	Management agrees to the observation reported.
<b>Contract Number: SCRTFP/IDA/W/NCB/4 with Zahid Safi Construction Company for Construction of two warehouses at Khost</b>			
As per the requirements of clause 13 of Agreement entered with contractor; "The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and	We noted that the requirements of contracts regarding procuring insurance coverage were not complied.	<i>Since insurance facilities are not available in Afghanistan, SCRTFP do not demand to submit the copy of the insurance.</i>	Management agrees to the observation reported.

Provisions/ Requirements	Observation Noted	SCRTRFP Responses	IAIG further Comments
<p>deductibles stated in the SCC for the following events which are due to the Contractor's risks:</p> <ul style="list-style-type: none"> <li>- loss of or damage to the works, plant&amp; material;</li> <li>- loss of or damage to equipment;</li> <li>- loss of or damage to property (except the works, plant, materials, and equipment) in connection with the contract; and</li> <li>- Personal injury or death."</li> </ul>			
<p><b>Contract Number: SCRTRFP/IDA/W/NCB/3 with Barakai Construction Company for Construction of two warehouses at Jalalabad</b></p>			
<p>As per the requirement of project paper, the bid analysis should be carried out between 21 to 35 working days following NCB and ICB procedures respectively, for finalizing the bids/proposals in timely manner.</p>	<p>Bids were received and opened on 20 June 2011, whereas, bid analysis was finalized on 21 August 2011. Bid analysis was not completed within 35 days following NCB procedures.</p>	<p><i>Since bidders delayed to submit their historical documents such as annual work details, prime contract details, liquid asset details and equipment details, evaluation committee was unable to take decision about the lowest quoted responsible bidder</i></p>	<p>Management agrees to the observation reported.</p>
<p>As per the requirements of clause 13 of Agreement entered with contractor; "The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and deductibles stated in the SCC for the following events which are due to the Contractor's risks:</p> <ul style="list-style-type: none"> <li>- loss of or damage to the works, plant &amp; material;</li> <li>- loss of or damage to equipment;</li> <li>- loss of or damage to property (except the works, plant, materials, and Equipment) in connection with the contract; and</li> <li>- Personal injury or death."</li> </ul>	<p>We noted that the requirements of contracts regarding procuring insurance coverage were not complied.</p>	<p><i>Since insurance Facilities are not available in Afghanistan, SCRTRFP do not demand to submit the copy of the insurance policy.</i></p>	<p>Management agrees to the observation reported.</p>

Provisions/ Requirements	Observation Noted	SCRTFP Responses	IAIG further Comments
<b>Contract Number: SCRTFP/IDA/W/NCB/5 with Zahid Safi Construction Company for Construction of office complex at Khost</b>			
As per the requirement of project paper, the bid analysis should be carried out between 21 to 35 working days following NCB and ICB procedures respectively, for finalizing the bids/proposals in timely manner.	Bids were received and opened on 15 August 2011 whereas bid analysis was finalized on 01 October 2011. Bid analysis was not completed within 35 days following NCB procedures.	<i>Since bidders delayed to submit their historical documents such as annual work details, prime contract details, liquid asset details and equipment details, evaluation committee was unable to take decision about the lowest quoted responsible bidder</i>	Management agrees to the observation reported.
As per the requirements of clause 13 of Agreement entered with contractor; "The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and deductibles stated in the SCC for the following events which are due to the Contractor's risks: - loss of or damage to the works, plant & material; - Loss of or damage to equipment; - Loss of or damage to property (except the works, plant, materials, and equipment) in connection with the contract; and - Personal injury or death."	We noted that the requirements of contracts regarding procuring insurance coverage were not complied.	<i>Since insurance facilities are not available in Afghanistan, SCRTFP do not demand to submit the copy of the insurance copy.</i>	Management agrees to the observation reported.
<b>Contract Number: SCRTFP/IDA/W/NCB/6 with Mashriq Engineering Construction Company for Construction of Truck Parking at Khost</b>			
As per the requirements of project paper, Contract shall be awarded to the lowest bidders within the initial period of bid validity.	As per BER [REDACTED] which submitted bid of [REDACTED] was rejected on the ground that it did not meet the requirement of liquid assets, minimum required volume of annual works and single prime contractor experience. However, on the scrutiny of bid documents provided by the bidder, we noted that all	<i>Since it is Truck Parking, Similar Truck Parking or Asphalt road can be considered as similar construction. According to the bidder's response, the evaluation committee realized that the bidder is not having similar experience. Gravel Road or Land leveling cannot be considered as similar experience. Further,</i>	The email attachment provided does not show response of bidder whereas per supporting documents available which confirms that [REDACTED] met liquid asset requirement of [REDACTED]. Management could

<b>Provisions/ Requirements</b>	<b>Observation Noted</b>	<b>SCRTFP Responses</b>	<b>IAIG further Comments</b>
	conditions were met by the bidders.	<i>according to the bidder submitted bank statement bidder is not having adequate working capital in bank on the date of bid opening. The bidder's response is submitted for reference.</i>	not provide sufficient justification for rejection of [REDACTED] bid.
As per the requirements of clause 13 of Agreement entered with contractor; "The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and deductibles stated in the SCC for the following events which are due to the Contractor's risks:  - loss of or damage to the works, plant & material; - loss of or damage to equipment; - loss of or damage to property (except the works, plant, materials, and equipment) in connection with the contract; and - Personal injury or death."	We noted that the requirements of contracts regarding procuring insurance coverage were not complied.	<i>Since insurance facilities are not available in Afghanistan, SCRTFP do not demand to submit the copy of the insurance copy.</i>	Management agrees to the observation reported.
<b>Contract Number: IFB/00074437/RH/10/05/01/W with APWO Construction and Production of Construction Material Company for Construction of boundary wall at Khost</b>			
As per SBD bidder's eligibility criteria, the bidder is required to submit;  - Information regarding any litigations, current or during past 5 years	We noted that this criterion was not considered during the Bid evaluation of bidders. Furthermore we noted that the bidder had not provided any information relating to litigation claims, adequacy of working capital and financial standing.	<i>a. AISA registration is submitted. b. Bidders were requested to submit the ongoing construction activities to measure their litigation. The liability was deducted from annual turnover to measure the bid capacity of the bidders and the details are in bid evaluation report and already submitted to Audit.</i>	Copy of email correspondence is still not provided. It was agreed by Procurement Specialist to provide the details for one remaining contract which was not available during discussion
As per the requirements of Procurement Law of	We noted that this provision of the	<i>The detail of the selected bidder was published in</i>	No evidence available in support

Provisions/ Requirements	Observation Noted	SCRTEP Responses	IAIG further Comments
Afghanistan “After the decision of the award authority, the entity shall publish the procurement proceedings, request for proposals (proceedings), the contract award with the winner, his name, address, and the contract value in the mass media and internet for public notice”.	Afghanistan Procurement Law was not complied.	<i>Afghan Customs Department Notice Board.</i>	of management claim.
As per the requirements of clause 13 of Agreement entered with contractor;  “The Contractor shall provide, in the joint names of the Employer and the Contractor, insurance cover from the Start Date to the end of the Defects Liability Period, in the amounts and deductibles stated in the SCC for the following events which are due to the Contractor’s risks:  - loss of or damage to the works, plant & material; - loss of or damage to equipment; - loss of or damage to property (except the works, plant, materials, and equipment) in connection with the contract; and - Personal injury or death.”	We noted that the requirements of contracts regarding procuring insurance coverage were not complied.	<i>Since insurance facilities are not available in Afghanistan, SCRTEP do not demand to submit the copy of the insurance copy.</i>	Management agrees to the observation reported.
As per current practice followed by project, the Bid evaluation report is signed by member of bid evaluation committee including procurement specialist UNOPS, National Engineer SCRTEP UNOPS and Director Planning and Reform ACD.	We noted that the bid evaluation report relating to the captioned Project was not signed by Director Planning and Reform ACD.	<i>Yes. This bid was advertised by Emergency Customs Project in the year of 2010. That time, Director Planning was not a part of the evaluation committee. The Admin Office of Emergency Customs Project was the third member of the evaluation committee.</i>	Management agrees to the observation reported.

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## Causes

**Compliance, Guidance & Human Error:** The discrepancies noted above resulted due to failure to comply with the prescribed rules and procedures agreed in the Project paper and contract documents besides inadequate and or lack of supervision by supervisors whereas non availability of substantial vital documents in the relevant procurement files is caused due to lack of adequate accountability on part of staff associated with such tasks.

## Impact or risk

Such discrepancies in the procurement cycle and lack of information in relevant procurement files may expose the Project to the following risks;

- Affects the transparency of the procurement process.
- Contracts already executed by bidders cannot be verified in the absence of supporting documents with the bidding documents.
- Contracts may be awarded to bidders who do not actually meet the qualification criteria.
- Contracts may be awarded to bidders who do not possess ability to carry out the contracts.
- Legal or state actions in case of non-compliances with the provisions of Standard Bidding Document requirements and Afghanistan Procurement Law.
- Contracts may be awarded to ones near and dears.
- Direct financial losses to the project where insurance policies are not procured.

## Recommendation

We recommend that:

- SCRTFP Project should establish and exercise strong review and monitoring control mechanism in procurement process for contractual services.
- SCRTFP Project Procurement Unit should closely monitor all provisions contained in the contract documents and make necessary communications with the vendors and made these accountable to address all contractual obligations.
- All procurement documents should be kept intact in relevant files. Project national staff should be provided adequate trainings over Procurement concerns and filing requirements.
- Moreover, provisions contained in applicable policies for insurance should be fulfilled and or revised to meet UNOPS and filed limitations with the approval/ knowledge of WB and documentary evidence should be placed.
- Waiver should be obtained in advance from WB where deviation from any requirement of standard policies and procedures is foreseen by UNOPS.

## Priority

High

## Management comments

*Management comments towards specific discrepancies noted above have been incorporated in respective places on the table*

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**IAIG further comments**

Management has agreed to a number of instances in terms of delay and lack of documentation as a result the recommendations has been kept for Project management to improve its compliance mechanism for all provisions as per applicable requirements over procurements besides it should also enhance the process of maintaining adequate documentation for all procurements.

**Status of Recommendation**

Open

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<b>Observation No:</b>	<b>D-1</b>
<b>Audit area:</b>	<b>Staffing and Management of Human Resources</b>
<b>Issue title:</b>	<i>No exhaustive list of ACD and ASYCUDA staff available receiving pay and allowances from Project resources</i>

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### **Criteria**

SCRTEP Project shall maintain all relevant records including counterpart approved staff listing receiving allowances from Project resources and are appropriately budgeted. Chapter 5, Article 5.1 of the Financial Management Manual, developed as per Schedule 2, Section I-B (1a) of the Financing Agreement requires that, “UNOPS will keep track of expenditure periodically as well as ensure that the work plan, action plan, procurement plan, staffing plan and other budgetary items plan at headquarter and Project sites/regions are updated in order to keep the Project budget current.”

### **Condition**

We were provided with staff listing of ACD and ASYCUDA receiving payroll and/or allowances from Project resources; however, we were unable to ascertain the following:

- The mechanism for approving the total number of staff positions to be paid payroll/ allowances from Project resources and appointment of new staffs during the reporting period.
- The range of allowances for the counterpart staffs and the level of competencies required.
- The role and responsibilities of counterpart staffs being part of SCRTEP Project in the absence of an approved and specific Terms of Reference and job description for such positions.

### **Causes**

**Guidelines:** This exhibits lack of adequate staff planning including designated staff positions, total number of counterpart staff and the period of allowances to be paid from Project resources.

### **Impact or risk**

This might lead the Project to the risk of budget shortfalls as the total number of staff months for counterpart staff payroll / allowances cannot be ascertained. Moreover as the counterpart staff listing was submitted subsequent to our field work therefore no review of their personal files was carried out that might lead to limited review of their performance in discharging their duties to be in-line with the Project mandate and scope of the services.

### **Recommendation**

We recommend that SCRTEP Project should plan all staff positions, total number of staffs and their payroll/ allowances scales in coordination with relevant counterparts’ management. Moreover, the Project management should review all approved staffing levels and ensure compliance with budgeted positions for charging approved staff costs to the Project.

### **Priority**

Medium

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**Management comments**

*There is a proper attendance and payroll system in place in the Project which is being monitored very closely by the Project HR. The ACD positions (such as ICU Manager and officers, CRMU Manager and officers, Task Coordinators and etc.) that we are currently recruiting are already part of and their salary levels were already clarified with client (ACD) and World Bank NOL was obtained for the same. So for as ACD & ASYCUDA allowances are concerned there is a provision for its budget in the MSA and the number of staff is suggested by ACD as per their requirement.*

*The range of allowance receivers were agreed upon thorough an Allowance policy that was also reviewed and approved by the World Bank, the level of competencies was identified through specific deliverables mentioned in individual's TOR.*

*These positions are in the MSA and we do have proper TORs in place for all the positions.*

**IAIG further comments**

The recommendations is kept for Project management to maintain adequate documentation of all counterpart staff including names, number of positions, allowance, pay scales and changes made thereto.

**Status of Recommendation**

Open

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**Observation No:** E-1  
**Audit area:** Asset/ Property Management, ICT and General Issues  
**Issue title:** *Deficiencies in Project Inventory Listing and non compliance with standard Inventory Management Procedures/ Provisions*

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**Criteria**

Project Management shall keep all documentation and record in respect of inventory of non-expendable property items as per UNOPS policies and procedures. Chapter 5, Article 5.2.4 of the Financial Management Manual, provides details regarding UNOPS responsibilities in accounting for, management and monitoring of assets.

**Condition**

We observed a number of discrepancies during our review of the Project asset and inventory management controls as detailed below:

- UNOPS policy for tagging of non-expendable property was not followed and all items of property lacked UNOPS-SCRTEP Project emblems.
- No physical verification of the items in custody of the Project, provided to ACD (Head Office & Regional Offices) and ASYCUDA (Head Office & Regional Offices) had been carried out during the reporting period, whereas equipments including laptops were lying idle however new purchases of laptops are made.
- There was lack of staffing at the Project and it was observed that staffs were delegated with significant duties simultaneously to look after procurement, logistics, security and asset/property management and keeping track of all inventory items with handover documentation leading to overlap of duties and or misappropriation of assets due to insufficient staffing levels.
- Specific non-compliances to the provisions regarding asset management contained in Chapter 5, Article 5.2.4.1 of the Financial Management Manual are provided below:

<b>Provision Requirements</b>	<b>Discrepancies Noted</b>
Each fixed asset will be given a unique code. A fixed assets register will be maintained electronically for all assets procured or constructed using the Project fund and will show information in the prescribed format.	No such coding system has been followed. The prescribed format has recently been adopted however its applicability should be improved.
Other non-qualifying expenditures of a capital nature shall be treated as small tools (special Project assets), and a memorandum record of such assets shall be kept. Attributable costs to be capitalized along with the initial cost of fixed assets shall be in accordance with applicable accounting standards.	This has not been followed. As noted in procurement observation C-1 above, an evident extra payment of US\$ 845 reveals the fact that POs are not properly monitored.
A regular physical checking of the fixed assets and the special Project assets should be carried out at least once each year by a committee appointed by UNOPS and ACD. It is recommended that the committee will be chaired by Project Director and will comprise of CTA/ TL, PSO/Finance Specialist, Procurement Specialist and UNOPS Logistics Officer from its central logistics organization.	No evidence available to ensure that such Committee was formulated and that the physical checking exercise was carried out as required.
UNOPS through its central logistics organization conducts a bi-annual inventory of all Project assets. Key activities and deliverables of the bi-annual	No evidence available to ensure that a bi-annual inventory of all Project assets has been conducted and the Project asset

Provision Requirements	Discrepancies Noted
inventory are: 1. Updated fixed assets register. 2. Updated assets procurement documents filling: Requisition, Purchase Order, Customs/Import Documents, Assets Hand-over Form, RIR, Lost and Damage (L/D) Report and Security Report for L/D Asset. 3. Assets disposal request to UNOPS head quarters contracts and procurement committee (HQCPC) for surplus, lost or damaged assets. The HQCPC is led by UNOPS Chief Procurement Officer and comprised of Legal Officer and HQ Procurement Specialists.	record accordingly updated for the prescribed information and documentation whereas no loss and damage assets have been eliminated from the inventory listing.
A list of fixed assets generated from the fixed assets register will be submitted with the IFR and Annual Financial Statements.	Compliance to this provision was not ensured due to lack of adequate supporting information.

### Causes

**Compliance & Guidance:** This exhibits non compliance with relevant UNOPS procedures and not following provisions contained in Financial Management Manual besides lack of or weak internal controls over inventory management due to limited and or no supervision by relevant authority.

### Impact or risk

Failure to comply with relevant procedures and provisions of Financial Management Manual and implementing sufficient controls could lead to exposure of commodities and equipment to the following threats:

- Misappropriation of Project inventory items.
- Damage or loss of equipment not noticeable by logistics unit.
- Loss of equipment in staff custody when he/she leaves the job.
- Idle commodities and equipment might lose their condition due to wear and tear.
- Excessive equipment might be procured, whereas same items might be available in store.

### Recommendation

We recommend that steps should be initiated by Project management towards improvement of inventory management mechanism and all necessary follow actions should be taken to ensure that Project inventory listing give a fair view of the items procured from Project resources. Specific recommendations might include:

- All requirements of UNOPS inventory management procedures and provisions identified in the Financial Management Manual should be complied with. A systematic and effective inventory management plan should be prepared by SCRTFP Project in coordination with counterparts.
- A detailed assessment of commodities and equipment should be made through physical verification of all inventory items procured through Project resources including items in custody of counterparts and a comprehensive inventory listing should be prepared duly signed by Project and relevant counterpart authority.

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- We also recommend that Project logistics unit should adequately be staffed with sufficient number of competent personnel and proper capacity building should be carried out. Moreover controls should be designed for regular monitoring and review of inventory items. The inventory listing should be updated for all items verifiable through their location and custodial responsibilities.

### **Priority**

High

### **Management comments**

1. *Project has taken the audit observation in to consideration and will follow the policy in the future.*
2. *According to MSA, when ACD or ASYCUDA requests for procurement of an assets, the Project purchases the requested items and hand them over to the requesting agency after compete inspection for quality, function and proper condition. Upon handing over the items a receiving and inspection report is prepared and duly signed by requesting agency which is kept in the record of the Project. When the assets are distributed then as per MSA chapter 3 (Obligation of the UN Agency), clause.3.8, they become the property to the Requesting Agency and the Project no longer follows any verification. We do not do extra or unnecessary procurement, however sometimes some of the items stay longer with us before we hand transfer them and transporting them to the provinces,*
3. *The Project has already recruited additional staff for procurement work and Logistics Associate looks after Project's logistics work including assets management and security. In addition, there is an Administrative Officer who is supervising this work.*

*Management responses towards instances of non compliances with Financial Management Manual are as follows:*

- *Project has taken the audit observation in to consideration and is trying to improve the asset management system.*
- *As earlier responded the Project has recovered the amount and the exercise of raising a PO after receiving an invoice is no longer existed in the procurement and financial practices.*
- *The verification for fixed assets relating to Project staff has been done from time to time. So far as the verification of inventories handed over to ACD concerns once they are distributed to them the Project is no longer supposed to conduct any verification as per MSA Chapter 3, clause 3.8 they become their properties. However, the recommendation suggested by auditors regarding establishment of a committee has been taken in to consideration for future implementation.*
- *The bi-annual inventory of Project assets has been carried out by UNOPS through provision of assets list requested from the Project. The request of inventory list requested by UNOPS and submission by Projects falls beyond the reporting period of loss and damage report of asset (hard disk) that is why it was not eliminated by then from the list.*
- *The Project has noted down the point raised by audits and will take it in to consideration for future implementation.*

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**IAIG further comments**

Project management has agreed to number of observations reported above and therefore the recommendations noted above stand valid as a result it should take all necessary measures to address these issues.

**Status of Recommendation**

Open

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<b>Observation No:</b>	<b>F-1</b>
<b>Audit area:</b>	<b>Other Observations- without Audit Recommendations</b>
<b>Issue title:</b>	<b><i>Adequacy of Project Management and supporting information</i></b>

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### **Criteria**

Project management shall be carried out appropriately including activities planned to be carried out timely and strong mechanism with result oriented approach shall be adopted within Project validity period besides keep adequate audit trail of all agreements and contracts entered into during Project life cycle.

### **Condition**

We noted the following observations to be reported to management of SCRTFP Project without audit recommendations:

- The initial Emergency Customs Modernization (ECM) Project which initiated during June 2004 and was funded by World Bank through IDA whereas SCRTFP Project is considered as continuation and Phase II of the prior ECM Project. We observed that four Project IDs have been created in ATLAS since 2004 for ECM that are running simultaneously leading to the following significant issues:
  - Certain Projects are operationally closed but their financial closure has not been brought into effect since longer periods after expiry of their life spans.
  - Project final results and intended outcomes cannot be established for unclosed Projects and establishment of lessons learnt to be addressed in future, is not formulated.
  - Ascertaining adequacy of charging only legitimate costs among these Projects is questionable and there exist fair chances of costs being overlapped among these Projects.
  - Inter Agency Letter of Agreements (IALAs) have been signed by UNOPS with other UN Agencies including UNCTAD and UNIDO during tenure of these Projects and payments to such agencies are charged through various amendments and no viable justification could be made.
  - Contracts awarded for construction works in one Project are charged to subsequent Project with mere reason that these activities have been streamlined which shows lack inadequate budgeting mechanism.
- An Inter Agency Letter of Agreements (IALA) has been signed between UNOPS and United Nations Conference on Trade and Development UNCTAD on 28 September 2011 for implementation of ASYCUDA across Afghanistan (Rollout and Enhancement) for an aggregated amount of US\$ 8,799,898 to be paid in three installments. The first payment shall be made as advance for an amount of US\$ 3,606,639 initially upon signing of the IALA. The advance was accordingly made on 29 September 2011. We observed that UNOPS has not obtained details and supporting documentation for the cost incurred by UNCTAD and charged towards such advances.

### **Causes**

**Compliance & Guidance:** This indicates UNOPS AGOC and SCRTFP Project limited review to comply with provisions contained in UNOPS Financial Rules & Regulations and IALA

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terms & conditions. This also exhibits lack of adequate supervision by AGOC in closing Projects at their expiry within the tentative closure dates

**Impact or risk**

This might lead charging irrelevant costs simultaneously to various Projects and or duplication/ overlapping of activity input during a specific period of time as the activities closely are related. In addition, cost charged to Project in lieu of advances towards IALA without adequate and certified supporting documentation might lead to deviation from approved budget lines.

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## ANNEX 1

### Definitions of Standard Audit Ratings, Priorities, Causes and Functional Areas for Management Report

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

#### A. Standard Audit Ratings for overall performance of internal control system

The harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1 January 2010 is based on the following principles:

There are three categories: (a) satisfactory, (b) partially satisfactory, and (c) unsatisfactory. The elements of the rating system will take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives. The definitions of the ratings are, as follows:

<b><u>Standard Rating</u></b>	<b><u>Definition</u></b>
<i>Satisfactory</i>	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited party.
<i>Partially Satisfactory</i>	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
<i>Unsatisfactory</i>	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the overall objectives of the audited entity could be seriously compromised.

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## **B. Rating for priorities of audit recommendations, possible causes and functional areas**

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of priorities are used:

<b><u>Rating</u></b>	<b><u>Definition</u></b>
<i>High</i>	Action that is considered imperative to ensure that UNOPS is not exposed to high risk (i.e. failure to take action could result in major consequences and issues).
<i>Medium</i>	Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
<i>Low</i>	Action that is considered desirable and should result in enhanced control or better value for money.

The following categories of possible causes are used:

### **Categories of possible causes**

<i>Compliance</i>	Failure to comply with prescribed UNOPS regulations, rules and procedures.
<i>Guidelines</i>	Absence of written procedures to guide staff in the performance of their functions
<i>Guidance</i>	Inadequate or lack of supervision by supervisors
<i>Human error</i>	Mistakes committed by staff entrusted to perform assigned functions
<i>Resources</i>	Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function

The following categories of functional areas are used:

### **Categories of functional areas**

- General Policy
- Project/Programme Activities
- Finance
- Human Resources
- Procurement
- Information Technology
- General Administration

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## **ANNEX 2**

**Summary of Audit Recommendations – PLEASE SEE ATTACHED**