

**UNITED NATIONS OFFICE FOR PROJECT SERVICES
(UNOPS)**

INTERNAL AUDIT REPORT

31 JULY 2013

PROJECT NAME:	SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT (SCRTFP)
PROJECT NUMBER:	00075434
COUNTRY:	AFGHANISTAN
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	21 MARCH 2012 TO 20 DECEMBER 2012

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1. EXECUTIVE SUMMARY

1.1. THE ENGAGEMENT CONTEXT

From 28 April to 12 May 2013 and from 6 July to 8 July 2013, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through Moore Stephens LLP (“the audit firm”), conducted an audit of Second Customs Reform and Trade Facilitation (Project ID 00075434), (“the project”), which is implemented and managed by the UNOPS Operations Centre in Afghanistan. The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to US\$ 10,687,940 during the period from 21 March to 20 December 2012. The following donor contributed to the project: World Bank (IDA).

1.2. AUDIT OBJECTIVES

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

- 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 was incurred in accordance with the contribution agreement, and is supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the audit firm provided an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the project’s objectives.

1.3. AUDIT SCOPE

- To conduct the audit in accordance with the International Standard on Auditing issued by International Auditing & Assurance Standards Board (IAASB) and UNOPS internal audit practices;
- To certify the financial statements of the project as per IPSAS;
- To review the budget and expenditure process and ascertain if the expenditures were in line with the objectives and activities set out in the project document.

1.4. AUDIT RATING

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the Project as **partially satisfactory**. The details of the audit results are presented in Tables 1 and 2.

1.4.1. Table 1: Summary results of the financial audit

Project Title		Period	Project no.
Second Customs Reform and Trade Facilitation (SCRTEP)		21 March 2012 – 20 December 2012	000075434
Financial Statement		Statement of Non-Expendable Property	
Amount US\$	Opinion	Amount US\$	Opinion
10,687,940	Unqualified	299,475	Unqualified

1.4.2. Table 2: Internal controls ratings summary for project

Rating Summary by Functional Area		
Functional Area	Rating	
Project management	Partially satisfactory	
Finance	Partially satisfactory	
Procurement and supply chain	Partially satisfactory	
Human resources	Satisfactory	
General administration	Partially satisfactory	
Overall rating of internal control	Partially satisfactory	

Key issue/s and recommendation/s

Among the five audit findings, none were noted to be caused by factors beyond the control of UNOPS. One finding (20%), listed below, was ranked high priority.

No.	Functional Area	Audit Finding Title	Priority Rating (High / Medium)
1	Project management	Inadequate project oversight by the Project Steering Committee and Budget Committee	High

Below is a list of the audit findings, full details of which can be found in section 2.

No.	Functional Area	Audit Finding Title	Priority Rating (High / Medium)	Financial Impact (US\$)
1	Project management	Inadequate project oversight by the Project Steering Committee and Budget Committee	High	-
2	Procurement and supply chain	Payments made to sub-contractor for work which was not in the terms of contractual agreements	Medium	42,400
3	Procurement and supply chain	Retention of performance security was not made from the bills of a subcontractor	Medium	-
4	General administration	Non-compliance with the provisions regarding asset management contained in the Financial Management Manual	Medium	-
5	General administration	Inadequate record keeping and filing of documents	Medium	-
Total				42,200

2. DETAILED ASSESSMENT

No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project management				
1.	<p>Title</p> <p>Inadequate project oversight by the Project Steering Committee and Budget Committee.</p> <p>Comparison Criteria</p> <p>Schedule 2 to the Financing Agreement (FA) dated 28 June 2010 provides guidelines for project execution and implementation arrangements and requires establishment of a Budget Committee (also appendix 1, clause 38 of the MSA dated 28 December 2010) and of a Steering Committee (appendix 1, clause 7, section D of the MSA dated 28 December 2010).</p> <p>Section 2.2 of the project Financial Management Manual requires the Project Steering Committee to have scheduled quarterly meetings and, in addition, ad hoc meetings when required.</p> <p>Facts / Observation</p> <p>We noted that the Budget Committee held a meeting on 16 December 2012 but with this exception none took place.</p> <p>Impact</p> <p>Lack of operational and strategic governance of the development of the project.</p>	<p>IAIG/3205/01</p> <p>We would recommend that meetings of the Project Steering Committee and Budget Committee be more regular and structured: scheduling quarterly meetings at the beginning of the fiscal year and setting an institutional agenda , formalizing the preparation of the meetings (who sets the agenda, circulation of relevant information prior to meetings so that Committee members can prepare ahead of meeting , reporting format and timing, minutes of meetings, etc.). Regarding the budget committee, we would recommend that evidence of the budget control decisions taken during these meetings be formalized .</p>	<p>The PSC is headed by the Finance Minister and needs to be attended by the World Bank Task Team Leader (based in Pakistan), it is outside the project control to fix these meetings. Our requests to DG Customs dated 31st July with reminder of 1 August 2012 and Minister's Secretary dated 22 October 2012 for getting the meetings fixed are attached (Exhibit I & II) together with mail dated 11 July 2012 proposing the draft agenda for the meeting (Exhibit III)</p> <p>Further, find attached mails dated 28 March 2013 proposing fresh agenda for the meeting to DG (Exhibit IV). Subsequently, mails dated 13-20th June 2013 further requesting PSC meeting from management may be referred (Exhibit V)</p> <p>During the period under review there was one Budget Committee Meeting. However, the Committee met as many as four times during the current</p>	<p>Responsible Manager:</p> <p>Team Leader & CTA, SCRTFP</p> <p>Due Date:</p> <p>31 December 2013</p> <p>Priority:</p> <p>High</p>

	<p>Cause</p> <p>Due to the members of the committees consisting of high level individuals from different bodies it proved difficult to arrange regular meetings. As noted in the management comments, this was to some extent outside the control of the project management.</p>		<p>financial year. These were held on 29th December 2012, 29th May, 5th June and 15th July 2013.</p>	
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No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Procurement and supply chain				
2.	<p>Title</p> <p>Payment made to sub-contractor for work which was not in the terms of the contractual agreement.</p> <p>Amount</p> <p>US\$42,400</p> <p>Comparison Criteria</p> <p>Chapter 5, Article 4.1.5.2.1 of the project Financial Management Manual.</p> <p>The project Financial Management Manual states that:</p> <p>“The contracts and procurement unit of UNOPS is responsible for measurement and certification of works executed by sub-contractors under various construction contracts”.</p> <p>Subcontractors raise their progress bills as per the terms of their contractual agreement. Bills of quantity (BOQs) are issued to UNOPS for the work executed. The UNOPS engineering department verify the BOQs and prepare a Payment Measurement Sheet.</p> <p>Facts / Observation</p> <p>We identified that an amount of AFN 2.2 million (US\$42,400) was paid to a local construction company for the supply of three office shipping containers which was not in agreement with the BOQ and was not actually delivered. Both the Certificate of Payment and Payment Measurement Sheet were approved and authorised by the designated project staff.</p> <p>Details of the payment are as follows:</p>	<p>IAIG/3205/02</p> <p>We recommend that all payment requests relating to construction work should thoroughly be verified by the relevant engineering staff of UNOPS and cross checked by UNOPS finance staff before being processed for payment.</p>	<p>This overpaid amount in question was adjusted from the 3rd invoice payment made to the contractor vide Voucher ID 00858676 attached (Exhibit VII). May also see therein Measurement Sheet line item numbers 37 and 38 prepared by Engineering Unit that is supported by Payment Certificate No 03.</p>	<p>Responsible Manager:</p> <p>Due Date:</p> <p>The specific case has been addressed, per the management comments.</p> <p>Priority:</p> <p>Medium</p>

S.No	Voucher No.	Account Code	Descriptions	Amount paid (US\$)
1.	00785603	73216	Construction of Truck Parking at Kandahar (SCRTEP/IDA/W/NCB/11)	163,209
<p>Impact</p> <p>Overstatement of project expenditure.</p> <p>Cause</p> <p>Guidance: inadequate oversight or lack of supervision by supervisors.</p>				

No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority												
Functional Area: Procurement and supply chain																
3.	<p>Title</p> <p>Retention of performance security was not made from the bills of a sub-contractor.</p> <p>Comparison Criteria</p> <p>Article GCC 52.1 of General Condition of Contracts and Special Conditions of Contract.</p> <p>“Option -1: The contractor shall provide performance security in the form of an unconditional bank guarantee for the minimum amount equivalent to 10% of the Contract Price”.</p> <p>“Option – 2: Instead of a bank guarantee, the contractor shall submit a letter authorizing the employer IP to retain the amount specified above from the first payment and if the first payment is not adequate then from the subsequent payments”.</p> <p>Facts / Observation</p> <p>As per Option – 2, above the contractor submitted a letter in respect of the below contract.</p> <table border="1" data-bbox="353 1114 1189 1305"> <thead> <tr> <th data-bbox="353 1114 663 1177">Contract Detail</th> <th data-bbox="663 1114 846 1177">Contractor Name</th> <th data-bbox="846 1114 994 1177">Total Contract</th> <th data-bbox="994 1114 1189 1177">Performance Security</th> </tr> <tr> <td colspan="4" data-bbox="353 1177 1189 1209" style="text-align: center;">Value (US\$)</td> </tr> </thead> <tbody> <tr> <td data-bbox="353 1209 663 1305">Construction of Truck Parking at Kandahar (SCRTP/IDA/W/NCB/11)</td> <td data-bbox="663 1209 846 1305">Local construction company.</td> <td data-bbox="846 1209 994 1305">1,543,942</td> <td data-bbox="994 1209 1189 1305">154,394</td> </tr> </tbody> </table> <p>We identified that no retentions were made as per Article GCC 52.1 of Special Contract Conditions for performance security from the first two</p>	Contract Detail	Contractor Name	Total Contract	Performance Security	Value (US\$)				Construction of Truck Parking at Kandahar (SCRTP/IDA/W/NCB/11)	Local construction company.	1,543,942	154,394	<p>IAIG/3205/03</p> <p>We recommend that where a contract provides for retentions, that these are always retained from the first payment to the contractor.</p>	<p>The Performance Security amounting to AFN 7,989,900 (\$154,394 equivalent) that is 10% of the contract amount has been already retained from the 3rd Payment made to the contractor on 23 June 2013 as per Voucher ID 00858676 attached Payment Certificate No 03 refers (Exhibit VII).</p> <p>Currently, in case of all contractors who fall under Option– 2, Performance Security is deducted when they submit invoices and duly approved Measurement Sheets for payment.</p> <p>The project has recently recruited a Procurement Specialist to further strengthen the unit in contract procurement management.</p>	<p>Responsible Manager:</p> <p>Due Date:</p> <p>Addressed, in the particular case, per management comments.</p> <p>Priority:</p> <p>Medium</p>
Contract Detail	Contractor Name	Total Contract	Performance Security													
Value (US\$)																
Construction of Truck Parking at Kandahar (SCRTP/IDA/W/NCB/11)	Local construction company.	1,543,942	154,394													

payments to the contractor in respect of the above contract:

S.No	Voucher No.	Contractor Name	Descriptions	Amount paid (US\$)
1.	00785603	Local construction company	Construction of Truck Parking in Kandahar (SCRTEP/IDA/W/NCB/11)	163,209
2.	00785625	Local construction company	Construction of Truck Parking in Kandahar (SCRTEP/IDA/W/NCB/11)	170,790

Impact

Exposure to increased risk of inadequate performance by contractors if performance securities are not obtained at the earliest opportunity, i.e. from the first payment.

Cause

Guidance: Lack of or inadequate guidance or supervision .

No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority								
Functional Area: General administration												
4.	<p>Title</p> <p>Non-compliance with the provisions regarding asset management contained in the project Financial Management Manual.</p> <p>Comparison Criteria</p> <p>Chapter 5, Article 5.2.4.1, of the project Financial Management Manual (FMM).</p> <p>Facts / Observation</p> <table border="1" data-bbox="324 743 1299 1342"> <thead> <tr> <th data-bbox="324 743 972 783">Provisions of FMM</th> <th data-bbox="972 743 1299 783">Observations Noted</th> </tr> </thead> <tbody> <tr> <td data-bbox="324 783 972 906">Each fixed asset will be given a unique code. A fixed asset register will be maintained for all assets procured or constructed using the project fund and will show information described in diagram-J.</td> <td data-bbox="972 783 1299 906">No unique codes given to assets.</td> </tr> <tr> <td data-bbox="324 906 972 1185">A regular physical checking of fixed assets and the special project assets should be carried out at least once each year by a committee appointed by UNOPS and Afghan Custom Department "ACD". It is recommended that the committee will be chaired by the Project Director and will comprise of CTA/TL, PSO/Finance Specialist, Procurement Specialist and UNOPS logistic Officer from central logistics organization.</td> <td data-bbox="972 906 1299 1185">No such committee was appointed during the period under review. However, we have been informed that recently in June UNOPS and ACD has formed this committee.</td> </tr> <tr> <td data-bbox="324 1185 972 1342">UNOPS through its central logistics organization conducts a bi-annual inventory of all project assets.</td> <td data-bbox="972 1185 1299 1342">No bi-annual count was carried out by UNOPS central logistics organization during the period under review.</td> </tr> </tbody> </table>	Provisions of FMM	Observations Noted	Each fixed asset will be given a unique code. A fixed asset register will be maintained for all assets procured or constructed using the project fund and will show information described in diagram-J.	No unique codes given to assets.	A regular physical checking of fixed assets and the special project assets should be carried out at least once each year by a committee appointed by UNOPS and Afghan Custom Department "ACD". It is recommended that the committee will be chaired by the Project Director and will comprise of CTA/TL, PSO/Finance Specialist, Procurement Specialist and UNOPS logistic Officer from central logistics organization.	No such committee was appointed during the period under review. However, we have been informed that recently in June UNOPS and ACD has formed this committee.	UNOPS through its central logistics organization conducts a bi-annual inventory of all project assets.	No bi-annual count was carried out by UNOPS central logistics organization during the period under review.	<p>IAIG/3205/04</p> <p>We recommend that UNOPS should comply with all of the specific provisions of the Financial Management Manual regarding asset management in order to reduce the risk of misappropriation, loss or damage, or miss-reporting of assets.</p>	<p>Unique codes are provided to the tags on the assets per attached pictures (Exhibit VIII).</p> <p>Order of setting up the Project Assets Verification Committee on 23 June 2013 is attached as Exhibit IX.</p> <p>The Central Logistics of AGOC carried out this bi-annual count in March 2013.</p>	<p>Responsible Manager:</p> <p>Due Date:</p> <p>The observation is partially addressed, per the management comments.</p> <p>Priority:</p> <p>Medium</p>
Provisions of FMM	Observations Noted											
Each fixed asset will be given a unique code. A fixed asset register will be maintained for all assets procured or constructed using the project fund and will show information described in diagram-J.	No unique codes given to assets.											
A regular physical checking of fixed assets and the special project assets should be carried out at least once each year by a committee appointed by UNOPS and Afghan Custom Department "ACD". It is recommended that the committee will be chaired by the Project Director and will comprise of CTA/TL, PSO/Finance Specialist, Procurement Specialist and UNOPS logistic Officer from central logistics organization.	No such committee was appointed during the period under review. However, we have been informed that recently in June UNOPS and ACD has formed this committee.											
UNOPS through its central logistics organization conducts a bi-annual inventory of all project assets.	No bi-annual count was carried out by UNOPS central logistics organization during the period under review.											

	<p>Impact</p> <p>Failure to comply with provisions regarding asset management of FMM lead to exposure to the following threats:</p> <ul style="list-style-type: none"> - Misappropriation of project assets - Damage or loss of assets - Misreporting of project assets <p>Cause</p> <p>Guidance: inadequate or lack of supervision by supervisors. Resources: insufficient resources (funds, skill, staff) to carry out an activity or function</p>			
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No.	Observation	Recommendation	Management Comments and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: General administration				
5.	<p>Title</p> <p>Inadequate record keeping and filing of documents.</p> <p>Comparison Criteria</p> <p>Article 3.4(a), Section 3 - Obligation of the UN Agency of the Management Services Agreement (MSA).</p> <p>The MSA states that:</p> <p>“The UNOPS shall keep accurate and systematic accounts and records in respect of services hereunder, in accordance with Financial Regulations and Rules in such form and detail as will clearly identify all relevant charged and costs”.</p> <p>Facts / Observation</p> <p>We observed that the filing relating to the procurement of construction work was incomplete. During our first visit to UNOPS we were unable to obtain key supporting documents such as bank guarantee letters and pre-qualifying bid documents (although these were subsequently sent to us by email).</p> <p>The following are contracts for which we did not find a bank guarantee/letter from contractor to retain amount of guarantee from first payment.</p> <ul style="list-style-type: none"> i. SCRTEFP/IDA/W/NCB/9 (Construction of Truck Parking at Kabul ICD) ii. SCRTEFP/IDA/W/NCB/11 (Construction of Truck Parking at Kandahar Customs) iii. SCRTEFP/IDA/W/NCB/12 (Construction of Truck Parking at Nimroz Customs ICD) iv. SCRTEFP/IDA/W/NCB/13 (Construction of Truck Parking at Aqena ICD) v. SCRTEFP/IDA/W/NCB/14 (Construction of Link Road for Jalalabad Custom Clearance Depot to Torkham Jalalabad Road) 	<p>IAIG/3205/05</p> <p>We recommend that UNOPS should establish improved monitoring and control mechanisms to ensure all procurement documents should be maintained in the relevant files. Project staff should be provided adequate training over filing requirements.</p>	<p>Project has embarked on uploading contract documents on the share drive and has improved its filing system. Further steps have been initiated to procure lockable filing cabinets to keep the important project documents safe and secure.</p> <p>The project has also recruited a Procurement Assistant to buttress our efforts in this regard.</p> <p>Procurement Specialist will be providing training to the project staff on maintenance of files and documents, et al.</p>	<p>Responsible Manager:</p> <p>Procurement Specialist, SCRTEFP</p> <p>Due Date:</p> <p>31 December 2013</p> <p>Priority:</p> <p>Medium</p>

	<p>The following are contracts for which we did not find supporting documents (financial position, work experience, capacity Assessment etc.) for the successful contractor:</p> <ul style="list-style-type: none"> i. SCRTEFP/IDAW/NCB/9 (Construction of Truck Parking at Kabul ICD) ii. SCRTEFP/IDAW/NCB/11 (Construction of Truck Parking at Kandahar Customs) iii. SCRTEFP/IDAW/NCB/14 (Construction of Link Road for Jalalabad Custom Clearance Depot to Torkham Jalalabad Road) <p>Impact</p> <p>Lack of supporting documents in procurement files exposes the project management to the following risks:</p> <ul style="list-style-type: none"> - Incomplete evidence to demonstrate fairness and transparency of the procurement process - Incomplete evidence to demonstrate compliance with the project's contractual obligations in financial management. - Exposure to legal action by stakeholders in the procurement process. <p>Cause</p> <p>Guidance: inadequate or lack of supervision by supervisors. Resources: inadequate training.</p>			
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ANNEX I - DEFINITIONS

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 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:

Standard Rating	Definition
Satisfactory	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.
Partially Satisfactory	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.
Unsatisfactory	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.

CATEGORIES FOR PRIORITIES OF AUDIT RECOMMENDATIONS

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:

Categories	Definition
High	Prompt action is considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
Low	Action is considered desirable and should result in enhanced control or better value for money. <i>Note: Low priority recommendations, if any, are dealt with by the audit firm directly with UNOPS management either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the report.</i>

POSSIBLE CAUSES

The following categories of **possible causes** are used:

- **Guidelines:** absence of written procedures to guide staff in performing their functions;
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate RO/OC/PC policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors;
 - Lack of or inadequate guidance or supervision at the RO/OC/PC level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skill, staff) to carry out an activity or function;
 - Lack of or insufficient resources (financial, human, or technical resources)
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions;

- **Intentional:** intentional overriding of internal controls;
- **Other:** Factors beyond the control of UNOPS.

LIST OF FUNCTIONAL AREAS

The following categories of **functional areas** are used:

- Project management
- Finance
- Human resources
- Procurement and supply chain
- General administration (which includes asset management)
- Information and communications technology