



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

3 JUNE 2014

PROJECT NAME:	SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT AFGHANISTAN (SCRTEP)
PROJECT NUMBER:	00075434
COUNTRY:	AFGHANISTAN
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	21 DECEMBER 2012 TO 21 DECEMBER 2013

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Acronyms and abbreviations

IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
PC	Project Centre
RO	Regional Office
SCRTPF	Second Customs Reform and Trade Facilitation Project
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 15 to 26 March 2014, 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 (SCRTP) (Project ID 00075434) (“the project”), which is implemented and managed by the UNOPS Operational Hub in Afghanistan. The audit firm was under the general supervision of IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounted to USD 15,989,969 during the period from 21 December 2012 to 21 December 2013. The following donor contributed to the project: World Bank (IDA).

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.

Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IASSB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).

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 which means “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”. The details of the audit results are presented in Tables 1 and 2.

Table 1: Summary results of the financial audit

Project title		Period	Project no.
Second Customs Reform and Trade Facilitation (SCRTEP)		21 December 2012 to 21 December 2013	00075434
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
15,989,969	Unqualified	422,966	Unqualified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

Of the two audit findings, neither were noted to be caused by factors beyond the control of UNOPS. There are two recommendations, only one of which is ranked of high priority.

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (USD)
1	Project management	Inadequate project oversight by the Project Steering Committee	High	-
2	General administration	Non-compliance with the provisions regarding asset management contained in the Financial Management Manual	Medium	-
Total				-



INTERNAL AUDIT AND INVESTIGATIONS GROUP

A handwritten signature in blue ink, appearing to read "Mark Henderson".

Mark Henderson
Partner

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

3 June 2014

Detailed assessment

#	Observation	Recommendation	Management comment 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,</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 (FMM) requires the Project Steering Committee to have scheduled quarterly meetings and, in addition, ad hoc meetings when required.</p> <p>Section 5.4.9.4 of the project FMM identifies management of risk as one of the important parts of the Project Steering Committee's and Project Manager's job.</p> <p>The FMM includes the following as part of the project risk management process:</p> <p>1) Risk Log: Identified risks are not kept separate (e.g. business, project, Stage Plan). They are all entered in one Risk Log which is always</p>	<p>We recommend that meetings of the Project Steering Committee and Budget Committee be held in accordance with the terms of the Financing Agreement, namely that they are conducted at least quarterly and additionally if and when required. The Project Manager or appropriate project staff member should establish a clear meeting agenda in advance of this meeting which is circulated with relevant documents in sufficient time to allow meeting attendees to prepare for the meeting.</p> <p>We recommend that on monthly preparation of the risks in the Highlights Report, the status of risks</p>	<p>Financing Agreement does not prescribe any frequency schedule for the meetings of Project Steering Committee or Budget Committee. The schedules are mentioned in the FM Manual. But, considering that the PSC is headed by the Finance Minister and the Secretary of the committee is Director General, it is not within the mandate of project to schedule these meetings. Agenda of the PSC is discussed with the client and donor before its finalization as may be seen from the exchange of emails mentioned below. For instance, between diverse dates from 13 June 2013 up to 23 December 2013 over seven emails with attachments of draft proposed agenda and</p>	<p>Responsible manager: Shahid Meezan</p> <p>Due date: 30-June-2014</p> <p>Priority: High</p>

<p>reviewed in its entirety.</p> <p>2) The risks analysed and evaluated for impact activities plans are then drawn up for monitoring, controlling and mitigating the risks. These should be included in the Highlights Report.</p> <p>3) The reports are discussed and agreed upon. The minutes for the agreed upon measures are submitted to the PSC.</p> <p>4) The PSC approved the risk mitigating measures put forward in part or in its entirety.</p> <p>5) Risk management is continuous process and communication and feedback is essential for the whole life of the project.</p> <p>Facts / observation</p> <p>We noted that the Project Steering Committee met once during the period under audit review, on 29 December 2012, and not quarterly as per the FMM. A further meeting was held on 23 December 2013, i.e. two days after the period under review. (The minutes of this meeting were not signed off and finalised at the time of the audit fieldwork commencement).</p> <p>There was no evidence of financial oversight by the Project Steering Committee. The PSC was presented with a 2014 Budget Committee approved budget and work plan but minutes stated these were not discussed in detail as these had already been reviewed and approved at Budget Committee level.</p> <p>In addition, there was no evidence of the PSC reviewing the procurement plan, Procurement Monitoring Reports or a detailed situational analysis. The procurement process was not reviewed to ensure a fair and transparent process had been operating.</p> <p>The Risk Log had not been updated since February 2013 despite monthly Highlights Reports between March and November 2013 identifying changes in risks. There are a number of entries in February</p>	<p>and changes should be reflected in the Risk Log so that it is continuously maintained.</p> <p>We recommend also that the review of the Risk Log and Highlights Reports are performed by the Project Steering Committee. Evidence of this review should be retained.</p>	<p>'Action taken Report on the decisions of the last meeting (29 December 2012) of the Project Steering Committee' initiated by project TL/CTA were shared with ACD, WB and UNOPS in preparation for PSC meeting in accordance with FMM. We have provided the PSC planning and draft agenda circulation as described with our comments. As far as project's Risk Register is concerned, the same is reviewed regularly and shared with UNOPS AFOH Programme Office. We have submitted emails along with our comments. The PSC finally met on 23 December 2013. The project will endeavour to observe the requirements of FMM on PSC project governance schedules and Risk Log and Highlights Report shall be shared with PSC in good time and evidence of such reviews records retained within the current financial year.</p>	
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<p>2013 which are marked under action as 'Engineering Coordinator to take action' without any follow up throughout the remainder of the year under audit review.</p> <p>The Risk Log is therefore not being maintained as a continuous log. There is no evidence of the regular review of the Monthly Highlights Report prepared by the Project Manager, no minutes of discussions/agreement of action and no evidence of such minutes/reports being submitted to the PSC through the meeting Agenda or the minutes.</p> <p>Impact</p> <p>Lack of operational and strategic governance of the development of the project.</p> <p>Cause</p> <p>Due to the members of the committees consisting of high level individuals from different bodies it provide difficult to arrange regular meetings.</p>			
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#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority				
Functional Area: General Administration								
2	<p>Title</p> <p>Non-compliance with the provisions regarding asset management contained in the project's 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"> <thead> <tr> <th>Provisions of FMM</th> <th>Observations noted</th> </tr> </thead> <tbody> <tr> <td>UNOPS, through its Central Logistics Organisation, conducts a bi-annual inventory of all project assets.</td> <td>We noted that only one count (March 2013) was carried out by the UNOPS Central Logistics Organisation during the period under review. Bi-annual count was not carried out.</td> </tr> </tbody> </table> <p>Impact</p> <p>Failure to comply with the provisions regarding asset management of the FMM leads to exposure to the following threats:</p> <ul style="list-style-type: none"> Misappropriation of project assets; 	Provisions of FMM	Observations noted	UNOPS, through its Central Logistics Organisation, conducts a bi-annual inventory of all project assets.	We noted that only one count (March 2013) was carried out by the UNOPS Central Logistics Organisation during the period under review. Bi-annual count was not carried out.	<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 mis-reporting of assets.</p> <p>Specifically a bi-annual count of inventory should be conducted by the UNOPS Central Logistics Organisation.</p>	<p>The Central Logistics of UNOPS AFOH has been requested to carry out bi-annual inventory of project assets.</p>	<p>Responsible manager: Ahmad Javed Nawabi</p> <p>Due date: 30-April-2014</p> <p>Priority: Medium</p>
Provisions of FMM	Observations noted							
UNOPS, through its Central Logistics Organisation, conducts a bi-annual inventory of all project assets.	We noted that only one count (March 2013) was carried out by the UNOPS Central Logistics Organisation during the period under review. Bi-annual count was not carried out.							

	<ul style="list-style-type: none">• Damage or loss of assets; and• 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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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