UNOPS

INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

18 JUNE 2015

PROJECT NAME:	**SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT AFGHANISTAN (SCRTFP)**
PROJECT NUMBER:	**00075434**
COUNTRY:	**AFGHANISTAN**
AUDITOR:	**MOORE STEPHENS LLP**
PERIOD SUBJECT TO AUDIT:	**22 DECEMBER 2013 TO 21 DECEMBER 2014**

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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
SCRTFP	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 6 to 14 April 2015, 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 (SCRTFP) *(*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 9,034,610.62 during the period from 22 December 2013 to 21 December 2014. 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 satisfactory which means "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*"*. 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 (SCRTFP)		22 December 2013 to 21 December 2014	00075434
Financial statement		**Statement of non-expendable property**	
Amount USD	**Opinion**	**Amount USD**	**Opinion**
9,034,610.62	Unqualified	214,622.26	Unqualified

Table 2: Internal control rating summary for project

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

Key issues and recommendations

Of the three audit findings, one was noted to be caused by factors beyond the control of UNOPS. There are three recommendations, all of which are ranked of medium 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 (PSC)	Medium	-
2	General administration	Weakness in physical asset verifications	Medium	-
3	Procurement and supply chain	Inefficiencies in procurement process	Medium	-
			Total	**-**

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18 June 2015

Detailed assessment

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional area: Project management				
1	**Title** Inadequate project oversight by the Project Steering Committee (PSC) **Comparison criteria** Section 2.2.1 of the Financial Management Manual (FMM): The role & responsibilities of PSC includes the following: - The PSC shall provide general oversight of the project; - The Committee shall assess the progress of the project as per the activities and time line outlined in the work plan. Towards this purpose, the Committee will periodically review project implementation focusing on achieving results. - It shall assist Afghan Customs Department (ACD) in resolving issues that are hindering the project and the overall reforms progress which are not just with ACD's own Domain. - The Committee shall be responsible for the overall polices, strategic planning, fiduciary and financial oversight of the project. The Committee shall look into the coordination issues with Ministry of Finance and other Ministries or among different departments within the Ministry itself as the case may be and shall direct appropriate action to be taken.	We recommend that meetings of the Project Steering Committee and Budget Committee be held in accordance with the terms of the Financial Management Manual, 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. We recommend that on monthly preparation of the risks in the Highlights Report, the status of risks	The frequency of PSC & Budget Committee meetings has been mentioned in the Financial Management Manual, which was prepared subsequently as per the requirement of Financing Agreement and cannot override the latter. Besides, this document was issued with a limited purpose of financial management and oversight of cash flow. Mandate of Project Steering Committee is determined by its own composition order and terms of reference, which do not prescribe any frequency of meeting or review of risk log/highlight reports. The agenda of the PSC is shared with the members in advance as is evident from the mail attached. In fact, it	**Responsible manager:** NA **Due date:** NA **Priority:** Medium

	- In addition, it will review action plans, audit reports and the periodic project reports and will also be responsible for approval of budget proposal submitted to it by the Budget Committee. **Facts / observation** We noted that the Project Steering Committee met only once during the period under audit review; on the second day of financial year, 23 December 2013. No further meeting was held. Considering the above high level responsibilities of PSC, only one meeting during the period which is unlikely to be sufficient to provide adequate oversight to the project. **Impact** Lack of operational and strategic governance of the development of the project. **Cause** Other: Factors beyond the control of UNOPS. Due to the members of the committees consisting of high level individuals from different bodies it is difficult to arrange regular meetings.	and changes should be reflected in the Risk Log so that it is continuously maintained. 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.	was prepared in prior consultation with the key stakeholders, i.e. Afghan Customs Department and the World Bank as can be seen from the attached mails. Risk Matrix and Risk Management Plan were part of this approved agenda. As explained to the Audit team during field audit, Risk Register is now an online tool, which is continuously reviewed and updated. It is a part of Project Assurance Review carried out by the UNOPS AFOH (headed by the Country Director) on quarterly basis. Based on this review, any risk of high impact and probability is escalated to the country director's level and owned by it for mitigation measures. Being an online tool now, risk register is accessible to the AFOH's PMO and is monitored closely. Recognizing the constraints of PSC, the new Project Paper (for the proposed extension of the project) lays	

			down a meeting frequency of once a year for the Project Steering Committee. It also proposes to set up a Technical Committee for technical oversight of the project on behalf of PSC. In view of the above, this audit observation may be dropped from the Audit Report.	

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: General Administration				
2	**Title** Weakness in physical asset verifications **Comparison criteria** Section 5.2.4.1 of Financial Management Manual states that: "A regular physical checking of the fixed assets and the special Project Assets should be carried 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". **Facts / observation** The physical verification carried out in August 2014 addressed only those assets purchased from 22 December 2013, i.e. the start of the financial year, rather than of all assets purchased since the inception of the project. In addition we noted that though a physical verification sheet was signed by all persons, as required by the above provision of the FMM, no formal outcome document was prepared which would demonstrate the objectives, process and analysis of the count results. **Impact**	The project management should ensure that all non-expendable property purchased with project funds and / or belonging to the project is subject to adequate annual verification procedures.	The Audit recommendation is noted. However, it may be submitted that the most of the assets purchased during the year and ascribed to the project are already handed over to the client and record of this transfer is fully maintained by the project. Besides, these assets were all accounted in the field verification done by the audit team. Once these assets are taken over by the client, their management cannot be in the project's mandate. Client follows its own procedures to manage its assets. In view of the above, this observation may be dropped from the Audit Report.	**Responsible manager:** Project manager **Due date:** December 2015 **Priority:** Medium

	Failure to monitor non-expendable property with sufficiently regular and thorough oversight increased the risk that they are misused or mislaid. **Cause** Lack of or inadequate guidance or supervision at the RO/OC/PC level			

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
Functional Area: Procurement				
3	**Title** Inefficiencies in procurement process **Comparison criteria** UNOPS Procurement Manual **Facts / observation** The project launched a request for the supply of 18 LaserJet printers. The procurement was carried out in three rounds. In the first round, RFQ No. IDA.SCRTFP/NS/G/2013/54 was announced on ACCI, ARDS and UNOPS websites and received 10 bids. However all bids were declined as they were not compliant with the RFQ. In the second round, RFQ No. IDA.SCRTFP/NS/G/2013/59 was announced and only three bids were received. Again all three were declined as they did not comply with the RFQ requirements. Most suppliers were rejected either due to their delivery period being longer than UNOPS intended or that they were not the authorized dealers. In the third round, RFQ No. IDA.SCRTFP/NS/G/2013/64 was announced and it received only one bid, but it was found to be compliant. The supplier was an authorised dealer, and was therefore awarded the contract.	Project management should assess the relative cost – benefit analysis of price against the timeframe of delivery. When the more immediate delivery date is considered of paramount importance, this should be actively followed up with the chosen supplier and any late penalties applicable should be enforced to the maximum extent possible.	It may be clarified that once the bid criteria, including the delivery time are set out in the bidding document, they can't be changed during the evaluation process. In the instant case; since in the first two rounds of the bidding exercise, there was no compliant bid, it was advertised for the 3rd time. In the 3rd round, the project found only one compliant offer, which fulfilled all the requirements of the bid. Accordingly, the evaluation was finalized on 18-Nov-2013 and the evaluation team recommended the only compliant bid for award. Since the project had received only one quote, it was required to obtain the World Bank No Objection for the contract award as per the WB Procurement guidelines.	**Responsible manager:** Procurement focal point **Due date:** Immediate – ongoing **Priority:** Medium

	During the second round one supplier offered the lowest bid amounting to USD 38,932 but was rejected as it quoted a delivery period of five weeks against the two weeks required in the RFQ. Eventually the contract was awarded to a supplier on 18 November 2013 through the bid evaluation report. However, UNOPS issued the first PO (Purchase Order) to the supplier on 21 December 2013 i.e. with a delay of more than 30 days from the award of contract. The supplier, however, failed to deliver the printers in the agreed time and therefore a second PO was issued on 3 February 2014. The printers were actually delivered on 25 February 2014, and the supplier was issued with a penalty for the delay. However, that penalty was charged for 34 rather than 51 days. Despite rejecting several bidders on the basis of delivery period the contract eventually was awarded to the chosen supplier at a much higher cost of USD 54,432 as compared with the most cost-effective bid. **Impact** The project incurred greater expenditure in procuring goods without securing the originally envisaged delivery date. Had the approach to delivery timeframes been more flexible, greater cost efficiencies could have been achieved without necessarily a significant delay. **Cause** Lack of or inadequate guidance or supervision at the RO/OC/PC level		Further, since the estimated amount for this procurement activity was below the threshold for formal method of solicitation, shopping method was followed. However, as the compliant bid amount was higher than the shopping method threshold, it required review of UNOPS LCPC (Local Contracts and Property Committee) for this exception. All these processes took some time. Subsequently, the PO was raised in the ATLAS system on 21-Dec-2013 and after the online approval, the PO was finally issued (with the signature of UNOPS AFOH Director) on 05-Jan-2014. This was acknowledged by the supplier on 06-Jan-2014. Based on the offered delivery period of 2 weeks, the supplier should have delivered the goods by 20-Jan-2014. However, the delivery was made on 25-Feb-2014, i.e. after 36 days of delay. But, of these 36	

			days, 8 days were taken on getting the customs exemption Certificate as supplier furnished shipping documents on 29-Jan-14 and Exemption Certificate was made available on the 5-Feb-14. This being the responsibility of UNOPS, this delay can't be ascribed to the supplier. The supplier was charged a penalty for delay in supply. Unfortunately, due to error in calculation, the penalty charged was only for 26 days instead of 28 days. The difference of two days delay penalty is being recovered from the supplier.	

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. *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.*

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