



INTERNAL AUDIT AND INVESTIGATIONS GROUP

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

MANAGEMENT LETTER

2015

PROJECT NAME:	RURAL ACCESS IMPROVEMENTS PROJECT PHASE – II (“RAIP II”)
PROJECT NUMBER:	00072225
COUNTRY:	AFGHANISTAN
AUDITOR:	KPMG
PERIOD:	1 FEBRUARY 2010 TO 31 DECEMBER 2014

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1. Executive Summary

1.1 Background

From 1 February 2010 to 31 December 2014 the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS) through KPMG Afghanistan Limited (“audit firm”) conducted an audit of “Rural Access Improvement Project (RAIP) Phase II until 31 December 2014 (Atlas project ID 00072225), which is implemented and managed by the UNOPS Operational Hub in Afghanistan (AFOH). The audit firm was under the general supervision by IAIG and followed the International Standards for the Professional Practice of Internal Auditing.

The Project reported that the expenditure for RAIP II for the interim period from 01 February 2010 to 31 December 2014 was USD 26,508,926. The funds were made available by the Swedish International Development Cooperation Agency (“SIDA”).

1.2 Audit scope and objectives

The audit firm conducted a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly, in all material aspects, the results of the Project’s operations, as well as assess compliance with UNOPS regulations, rules, policies and procedures and donor agreements. The audit covered the review of the Project’s Statement of Expenditure for the above mentioned periods and Statement of Non-Expendable Property. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: project management, finance, human resources management, procurement and supply chain, and general administration (including asset management).

The audit also included in its scope the following activities:

- 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 works, goods and services;
- Cash management;
- Asset/property management;
- Staffing and management of human resources;
- 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 period of 01 February 2010 to until 31 Dec 2014 (Phase II).

1.3 Overall Assessment

In our opinion, based on the weighted rating of the individual areas, the overall level of internal control with respect to the Rural Access Improvement Project Phase II Projects’ operations is considered to be Satisfactory.

Table 1: Summary results of the financial audit

Period	Project no.	Project Expenditures		Project Assets		Overall rating on internal control
		Amount (USD)	Opinion	Amount (USD)	Opinion	
1 Feb 2010 to 31 Dec 2014	00072225	26,508,925.97	Unqualified	328,628.00	Unqualified	Satisfactory

1.4 Audit Highlights

We have communicated recommendations with low priority to the Project management separately and have not included them in this report.

1.5 Good Practices observed:

We observed the good working environment of the UNOPS office and cooperation from UNOPS staff.

II. Audit Objectives, Scope and Operational Overview

2.1 Audit Objectives and Scope

The audit of the Project was carried out during June - July 2015, with the field audit carried out from 14 June to 10 July 2015 at the UNOPS – AFOH office in Kabul and RAIP office in Mazar-e-Sharif, Afghanistan.

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

2.1.1 Audit Objectives

The purpose of the audit was to express opinions on the:

- Project's financial statement for the period from 01 February 2010 to 31 December 2014 in accordance with the International Standards on Auditing; and
- Statement of non-expendable property as at 31 December 2014

The audit also included a review of specific internal control and compliance areas of the Project.

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 UNOPS staff and personnel at headquarters and in the field throughout the audit.

2.2 Standards

The audit has been conducted as per the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). The audit firm was under the general supervision by IAIG following the International Standards for the Professional Practice of Internal Auditing.

2.3 Operational Overview

The Ministry of Finance (MOF), Government of Islamic Republic of Afghanistan and the Swedish International Development Corporation (SIDA) agreed to implement the Project as part of the National Rural Access Program (NRAP). SIDA contracted UNOPS AFOH to implement the Project in consultation with the Ministry of Rural Rehabilitation and Development (MRRD) and provincial stakeholders. A Memorandum of Agreement (MOA) was signed between UNOPS and the Government of Sweden in December 2007 to implement the RAIP-I in the provinces of Sari Pul and Samangan, northern Afghanistan.

After successful implementation of RAIP I, the Government of Sweden through SIDA agreed to implement Phase II of Rural Access Improvement Project in Sari Pul and Samangan Provinces of Afghanistan.

The objective of the Project was to support enhanced livelihood by providing sustainable road infrastructure and targeted employment in Sari Pul and Samangan provinces of northern Afghanistan. The Project started in February 2010 with the

expected completion date of 31 July 2013. Although major construction activities relating to the Project were completed by the end of December 2013, work on defect liability lasted beyond December 2013. Therefore, the Project closure date was extended up to 31 December 2014.

The Project headquarter is located in Mazar-e-Sharif, capital city of Balkh province. The Project has site offices in Northern provinces.

As per the grant agreement all accounts and statements shall be expressed in USD. The value of contribution if made in a currency other than in USD shall be determined by the actual USD amounts credited by the bank in to the UNOPS bank account on the date of payment of each installment.

The budgeted cost was broken into the following cost items/activities:

Budget code	Description	Budget USD
Activity – 1		
72105	Rehabilitation of Road (RoR)	11,937,354
72105	Construction of bridges (CoB)	1,398,790
72105	Periodic Maintenance (PM)	255,031
72105	Routine Maintenance (RM)	348,840
72170	Snow clearing (SC)	675,472
72105	Road Maintenance Building (RMB)	143,841
72165	Socio-economic survey (SES)	83,694
72165	Gender Inclusion (GI)	118,137
72145	Capacity building (CB)	112,657
72170	Flood Repair Works (FRW)	655,589
72105	Sayyad Wash	-
72105	RISF	3,063,492
	Miscellaneous	99,487
		18,892,384
Activity – 2		
71200	International Professionals, SSA	1,961,317
71305	National Consultants	1,275,478
71305	Hazard Allowance Local Staff	393,353
74100	Management & Reporting Services	204,739
74500	Miscellaneous	27,986
		3,862,873
Activity – 3		
71605	Travel International	92,702
71620	Travel Local Staff	123,483
72100	Security System Services	399,127
72200	Equipment	313,518
72300	Fuel & Petroleum	189,885
72400	Communication & Audio Visual Equipment	138,065
72500	Supplies	73,445
72800	Information Technology Supplies	72,153
73100	Rental and maintenance- premises	212,252
73300	Rental and maintenance - IT equipment	4,673
73400	Rental and maintenance- other equipment	133,384
74200	Audio Visual & Print Prod Costs	5,085
74500	Miscellaneous	68,362
72120	Unarmed guards, cleaner & MOI	71,706
	Armed guards	69,233
		1,967,073
	TOTAL WORKS+NON-WORKS	24,722,330

Budget code	Description	Budget
		USD
	Contingencies	-
	Non-Staff Allocable Charges	19,724
	UN Agency Allocable Charges	79,359
	F & A	1,730,563
		1,829,646
		26,551,976

The details of receipts and expenditures for the period are under:

Description	Amount (USD)
Income	
Receipts from SIDA up to 31 December 2014	26,478,687
Interest earned up to 31 December 2014	57,869
Miscellaneous revenue	34,650
Total income	26,571,206
Expenditures reported up to 31 December 2014	(26,508,926)
Project fund balance	62,280

Acknowledgement

The audit team extends its appreciation to the management and staff members of RAIP - II and UNOPS Office in the Project for their full cooperation during the audit.

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:

<u>Standard Rating</u>	<u>Definition</u>
<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.

B. Rating 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:

Rating 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 that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).

Low Action is desirable and should result in enhanced control or better value for money.

Note: Low priority recommendations, if any, will be dealt with by the audit team directly with the management of the entity under review, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the report.

The following categories of possible causes are used:

Categories of possible causes

Compliance Failure to comply with prescribed UNOPS regulations, rules and procedures.

Guidelines Absence of written procedures to guide staff in the performance of their functions.

Guidance Inadequate or lack of supervision by supervisors.

Human error Mistakes committed by staff entrusted to perform assigned functions

Resources 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; and
- General Administration (which includes Asset Management)

ANNEX 2

Summary of Audit Recommendations

United Nations office for Project Services (UNOPS)

Project: Rural Access Improvements Project Phase - II

ATLAS ID No. 00072225

Management responses and status of recommendations on audit

Recommendation No.	Recommendation	Management reply	Priority	Cause	Area	Further comments of the Auditor	Responsible Manager	Expected completion date	Status
None									