



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

MANAGEMENT LETTER

2015

PROJECT NAME:	RURAL ACCESS IMPROVEMENTS PROJECT PHASE – III (“RAIP III”)
PROJECT NUMBER:	00084840
COUNTRY:	AFGHANISTAN
AUDITOR:	KPMG
PERIOD:	1 APRIL 2013 TO 31 DECEMBER 2014

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1. Executive Summary

1.1 Background

From 1 April 2013 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 III until 31 December 2014 (Atlas project ID 00084840), 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 III for the interim period from 01 April 2013 to 31 December 2014 was USD 16,112,168. 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 interim period of 01 April 2013 to until 31 Dec 2014 (Phase III).

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 III 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 April 2010 to 31 Dec 2014	00084840	16,112,167.73	Unqualified	148,860.00	Unqualified	Satisfactory

1.4 Audit Highlights

The audit resulted in 1 recommendation of medium priority. 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 April 2013 to 31 December 2014 in accordance with the International Standards on Auditing; and
- Statements 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.

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 December 2007 with the expected completion date of 31 December 2009. Although major construction activities relating to the Project were completed by the end of December 2009,

work on defect liability lasted beyond December 2009. Therefore, the Project closure date was extended up to 31 December 2010.

After successful implementation of RAIP I, the Government of Sweden through Swedish International Development Corporation (SIDA) agreed to implement phase II of Rural access Improvement Project in Sar-e-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.

After successful implementation of RAIP II, the Government of Sweden through Swedish International Development Corporation (SIDA) agreed to implement phase III of Rural access Improvement Project in four Northern provinces of Afghanistan.

The overall objective of the Project is to contribute to reduction of poverty in rural areas, bridge disparities between urban and rural areas and support the Government of Afghanistan’s efforts towards equitable growth.

Project purposes are to:

- Increase and sustain accessibility to social services and market centres in the project area;
- Develop road construction and maintenance capacity; and
- Create employment opportunities in the targeted provinces of northern Afghanistan.

The Project started in April 2013 with the expected completion date of 30 June 2017.

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

The budgeted contribution from Sweden are one hundred ninety nine million Swedish Kronor (SEK 199,000,000) out of this contribution SEK 1,000,000 will be utilized by SIDA for technical support and evaluation. During audit period from April 2013 to 31 December 2014 interest of USD 61,970 were earned on deposits.

As per the grant agreement all accounts and statements shall be expresses 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		
71205	Salaries and Wages	1,000,294
Activity – 2		

Budget Code	Description	Budget (USD)
73216	Capital Works	9,074,726
73216	Recurrent Works	347,403
73216	Emergency and Works	455,932
73216	Road Maintenance Management System	67,296
72605	RISF	1,727,657
72605	Gender	341,944
72605	Capacity Building	715,511
		12,730,469
Activity -3		
71620	Travel	81,918
Activity -4		
72300	Vehicle and Equipment	147,093
Activity -5		
72500	Furniture and Supplies	6,163
Activity -6		
73100	Premises Rentals and Operation	217,823
Activity -7		
72400	IT and Maintenance	38,104
Activity -8		
72120	Security System Services	317,935
Activity -9		
74500	Miscellaneous	156,597
	Subtotal (Activity 1 to 9)	14,696,396
Activity - 10		
	UNOPS LMDC i.e. 3%	364,529
		364,529
	Subtotal (Activity 1 to 10)	15,060,925
	UN System Allocable 0.73% on (1-10) Centrally Managed Direct Costs (CMDC)	72,391
	F&A 7% (1-10 plus Allocable Charges)	998,766
		1,071,157
	Grand Total	16,132,082

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

Description	Amount (USD)
Income	
Receipts from SIDA up to 31 December 2014	20,688,113
Interest earned up to 31 December 2014	61,970
Total	20,750,083
Expenditures reported up to 31 December 2014	(16,112,168)
Project advances as at 31 December 2014	(757)
Open purchase orders as at 31 December 2014	(2,416,080)
Project fund balance	2,221,078

Acknowledgement

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

III. Detailed Assessment

The details of the audit findings are given below:

Observation No: B-1
Audit area: Financial operations and controls
Issue title: Expenditure charged to incorrect activity

Criteria

As per requirements of clause 5 of the RAIP-III grant agreement, “A detailed budget of UNOPS expenditures is found in the project proposal, Annexure 6”. Detailed nature and description of each activity are given in annexure 6 to the grant agreement.

Condition

We observed the following listed expenditures charged to incorrect activity:

Date	Voucher No.	Activity	Account code	Description	Amount (USD)	Correct activity
29-Apr-14	00986203	Activity 6	72505	Allowance payments to participant of the capacity building training in different villages of Mazar-e-Sharif province i.e. Jawzjan, Faryar etc. In the month of January 2014, i.e. 600 Afs/ head.	6,209	Activity 2
11-Jun-14	01004140	Activity 6	72505	Allowance payments to participant of the capacity building training in different villages of Mazar-e-Sharif province i.e. Jawzjan, Faryar etc. In the months of June - July 2014, i.e. 600 Afs/ head.	6,146	Activity 2
7-Jul-14	01017051	Activity 6	72505	Allowance payments to participant of the capacity building training in different villages of Mazar-e-Sharif province i.e. Jawzjan, Faryar etc. In the month of May - June 2014, i.e. 600 Afs/ head.	6,099	Activity 2
6-Mar-14	00962678	Activity 2	73105	Premises rental payment to Mr. Najibullah (Land lord) for the six month (Jan - Jun 2014) USD 3000/ month in advance for rental building in chowki Zabiullah Mazar-e-Sharif	18,000	Activity 6
21-Dec-13	00935831	Activity 2	73410	Paid for the repairing and purchasing small parts for the office cars i.e. tyres for land cruiser 265-70-R16, Disc and clutch for Hilux, hand brake blok kit for land cruiser and cleaning fuel filter etc.	3,140	Activity 4

Causes

Compliance & Guidance: This indicates failure to comply with the provisions of agreed budget lines.

Impact or risk

Activity-wise expenditures were not presented correctly.

Priority

Medium

Recommendation

Management should ensure charging of expenditures to correct activity.

Management comments

Expenditures were mistakenly charged to wrong activity codes. During the preparation of the Project Delivery Report (PDR) for reporting, it was considered in the correct activity as mentioned above. A manual adjustment was done for the incorrect activity codes and account codes for the correct reporting. The expenses in the reports are correct.

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:

<u>Rating</u>	<u>Definition</u>
<i>High</i>	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).
<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 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

<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; 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 - III

ATLAS ID No. 00084840)

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
B-1	Management should ensure the charging of expenditures to correct activity.	<i>Expenditures were mistakenly charged to wrong activity codes. During the preparation of the Project Delivery Report (PDR) for reporting, it was considered in the correct activity as mentioned above. A manual adjustment was done for the incorrect activity codes and account codes for the correct reporting. The expenses in the reports are correct.</i>	Medium	Compliance & Guidance	Financial operations and controls		PM	4 th Quarter of 2015	In process