



INTERNAL AUDIT AND INVESTIGATIONS GROUP

# UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

## INTERNAL AUDIT REPORT

1 JUNE 2016

<b>PROJECT NAME:</b>	<b>SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT AFGHANISTAN (SCRTEP)</b>
<b>PROJECT NUMBER:</b>	<b>00075434</b>
<b>COUNTRY:</b>	<b>AFGHANISTAN</b>
<b>AUDITOR:</b>	<b>MOORE STEPHENS LLP</b>
<b>PERIOD SUBJECT TO AUDIT:</b>	<b>22 DECEMBER 2014 TO 21 DECEMBER 2015</b>

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## Acronyms and abbreviations

IAASB	International Audit and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IPSAS	International Public Sector Accounting Standards
OH	Operational Hub
PC	Project Centre
PSC	Project Steering Committee
RO	Regional Office
SCRTP	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 9 to 17 April 2016, 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 (SCRTEP) (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 5,586,785.34 during the period from 22 December 2014 to 21 December 2015. 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 IAASB 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.

[UNOPS Internal Audit and Investigations Group](#)

[Internal audit report](#)

[Second Customs Reform and Trade Facilitation Project, Afghanistan](#)

[22 December 2014 to 21 December 2015](#)

**Table 1: Summary results of the financial audit**

Project title		Period	Project no.
Second Customs Reform and Trade Facilitation (SCRTFP)		22 December 2014 to 21 December 2015	00075434
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
5,586,785.34	Unqualified	223,522.26	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	Satisfactory	
<b>Overall rating of internal control</b>	<b>Satisfactory</b>	

### Key issues and recommendations

The one finding, ranked of medium priority, was caused by factors beyond the control of UNOPS.

Further details of the finding 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	-
<b>Total</b>				-



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1 June 2016

### Detailed assessment

#	Observation	Recommendation	Management comment and action plan	Responsible manager / due date / priority
<b>Functional area: Project management</b>				
1	<p><b>Title</b></p> <p>Inadequate project oversight by the Project Steering Committee (PSC)</p> <p><b>Comparison criteria</b></p> <p>Section 2.2.1 of the Financial Management Manual (FMM): The role &amp; responsibilities of PSC includes the following:</p> <ul style="list-style-type: none"> <li>- The PSC shall provide general oversight of the project.</li> <li>- 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.</li> <li>- 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.</li> <li>- 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.</li> </ul>	<p>We recommend that meetings of the Project Steering 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.</p> <p>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>The meetings of the Project Steering Committee (PSC) are not held frequently due to its complexion of having high level individuals despite the best efforts on the part of the project. The Committee, however did meet during the FY 1394 (22 Dec 2014- 21 Dec 2015) just at the beginning of the FY 1394, i.e. on 22 Dec 2014. Besides reviewing the progress of the project, the Committee also approved the project work plan and budget for 2015 and also discussed various issues and risks faced by the project. Minutes of the PSC meeting held on 22 Dec 2014 were prepared as was an agenda. Difficulty faced in holding frequent meetings of the PSC due to high level composition was also</p>	<p><b>Responsible manager:</b></p> <p>Project manager</p> <p><b>Due date:</b></p> <p>June 2016</p> <p><b>Priority:</b></p> <p>Medium</p>

<p>- 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.</p> <p><b>Facts / observation</b></p> <p>We noted that the PSC did not meet during the period under audit review, although it did meet subsequently, in February 2016. The last prior meeting of the PSC was on 23 December 2013, so there were over two years between PSC meetings.</p> <p>We recognize that the Project Team Leader had given several reminders and followed up with the PSC but, notwithstanding these actions, the PSC had not met during the audit period.</p> <p>Such large gaps between the PSC meetings mean that the PSC could not be providing effective oversight of the project.</p> <p><b>Impact</b></p> <p>Lack of operational and strategic governance of the development of the project.</p> <p><b>Cause</b></p> <p>Other: Factors beyond the control of UNOPS.</p> <p>Due to the members of the committee consisting of high level individuals from different bodies it is difficult to arrange regular meetings.</p>		<p>acknowledged by the donor (World Bank) in the project paper prepared for additional financing of the project in May 2015, where it suggested (Para 70) setting up of a Technical Committee under DG Customs for assisting PSC in the project oversight.</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
<b>Satisfactory</b>	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.
<b>Partially Satisfactory</b>	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.
<b>Unsatisfactory</b>	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
<b>High</b>	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).
<b>Medium</b>	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
<b>Low</b>	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