INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

30 January 2017

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 2015 TO 28 NOVEMBER 2016
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Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAIG</td>
<td>Internal Audit and Investigations Group</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
</tr>
<tr>
<td>PC</td>
<td>Project Centre</td>
</tr>
<tr>
<td>RO</td>
<td>Regional Office</td>
</tr>
<tr>
<td>SCRTFP</td>
<td>Second Customs Reform and Trade Facilitation Project</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>UNOPS</td>
<td>United Nations Office for Project Services</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
</tr>
</tbody>
</table>
Executive summary

The engagement context

From 25 September to 20 October 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 (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 3,061,496 during the period from 22 December 2015 to 28 November 2016. 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

<table>
<thead>
<tr>
<th>Project title</th>
<th>Period</th>
<th>Project no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Customs Reform and Trade Facilitation (SCRTFP)</td>
<td>22 December 2015 to 28 November 2016</td>
<td>00075434</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial statement</th>
<th>Statement of non-expendable property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount USD</td>
<td>Opinion</td>
</tr>
<tr>
<td>3,061,496</td>
<td>Unqualified</td>
</tr>
<tr>
<td>-</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Table 2: Internal control rating summary for project

<table>
<thead>
<tr>
<th>Functional area</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project management</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Finance</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Procurement and supply chain</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Human resources</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>General administration</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall rating of internal control</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

Key issues and recommendations

There are no audit findings to report.

Mark Henderson
Partner
Moore Stephens LLP
150 Aldersgate Street
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30 January 2017
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:

<table>
<thead>
<tr>
<th>Standard Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>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.</td>
</tr>
<tr>
<td>Partially Satisfactory</td>
<td>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.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>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.</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>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).</td>
</tr>
<tr>
<td>Medium</td>
<td>Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).</td>
</tr>
<tr>
<td>Low</td>
<td>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.</td>
</tr>
</tbody>
</table>
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