



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

25 August 2017

PROJECT NAME:	HERAT BYPASS CONSTRUCTION PROJECT
AWARD NUMBER:	86863
COUNTRY:	ISLAMIC REPUBLIC OF AFGHANISTAN
AUDITOR:	MOORE STEPHENS LLP
PERIOD SUBJECT TO AUDIT:	10 DECEMBER 2013 TO 30 JUNE 2016

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Acronyms and abbreviations

IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
OH	Operational Hub
PC	Project Centre
RO	Regional Office
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
USD	United States Dollars

Executive summary

The engagement context

From 23 January to 1 February 2017, 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 the project ‘Herat Bypass Construction Project’ (“the project”) (Atlas award ID 86863), which is implemented and managed by the UNOPS Operational Hub in the Islamic Republic of Afghanistan. The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to USD 4,423,836 during the period from 10 December 2013 to 30 June 2016.

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.
Herat Bypass Construction Project (Atlas award ID 86863)		10 December 2013 – 30 June 2016	86863
Financial statement		Statement of non-expendable property	
Amount USD	Opinion	Amount USD	Opinion
4,423,836	Unqualified	-	-

Table 2: Internal control rating summary for project

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

Key issues and recommendations

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 (US\$)
1	Project Management	The Management Service Agreement (MSA) does not reflect the most up to date expectations of the project.	Medium	-

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US\$)
2	Finance	Expenses overstated	Medium	13,649
3	Finance	Interest income for the periods 2014 and 2015 not included in financial statement.	Medium	Unquantified
Total				13,649

Signed:



Mark Henderson
Partner
Moore Stephens LLP

25 August 2017

Detailed assessment

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
Functional Area: Project Management				
1	<p>Title The Management Service Agreement (MSA) does not reflect the most up to date expectations of the project.</p> <p>Amount Not applicable</p> <p>Comparison criteria The Management Service Agreement should incorporate the most up to date terms and conditions for the project agreed between Government of Afghanistan, Government of Italy and UNOPS.</p> <p>Facts / observation In 2015 funds were received by UNOPS in relation to the construction of a bridge over Herirud river, which is on the Herat Bypass Road. The construction of this bridge was not included in the scope of the Management Service Agreement dated 10 December 2013. However these funds have been included as income for the Herat Bypass project for 2015 as the parties intended the construction of this bridge to be part of the scope.</p>	<p>It is recommended that the Management Service Agreement is updated to include the Herirud bridge construction portion.</p>	<p>During the period under audit, Harirud Bridge was still considered as just one work package of Herat Bypass project 86863. On 10 July 2017, UNOPS received confirmation from the Director of IDC in Kabul that AICS Headquarters has finally decided to sign an agreement for the Harirud Bridge as a separate project.</p> <p>As soon as the project agreement is finalized and signed, appropriate re-allocation of the income and transfer of expenditure incurred (ie geo-technical survey) will be undertaken.</p>	<p>Responsible manager: Acting Program Manager</p> <p>Due date: 30 September 2017</p> <p>Priority: Medium</p>

#	Observation	Recommendation (number and content of recommendation)	Management comment and Action Plan	Responsible Manager / Due Date / Priority
	<p>Nonetheless, the Management Service Agreement has not been updated to reflect this to date.</p> <p>Impact</p> <p>The income reflected in the financial statements is not in accordance with the terms of the signed Management Service Agreement.</p> <p>Cause</p> <p>Other: Factors beyond the control of UNOPS.</p>			

Functional Area: Finance						
2	<p>Title Expenses overstated</p> <p>Amount USD 13,649</p> <p>Comparison criteria Regulation 23.02 of Organisational Directive No 3 states: UNOPS Executive Director shall establish accounting policies to ensure that the financial statements provide information that is:</p> <p>(a) Relevant to the decision-making needs of users; and (b) Reliable in that they:</p> <p>(i) Represent faithfully the financial performance and financial position of UNOPS; (ii) Reflect the economic substance of events and transactions, and not merely the legal form; (iii) Are neutral, that is, free from bias; (iv) Are prudent; and (v) Are complete in all material respects.</p> <p>Facts / observation The following costs were booked twice in the financial records</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Cost of asset</td> <td style="width: 30%; text-align: right;">USD 7,397</td> </tr> </table>	Cost of asset	USD 7,397	<p>The project team should ensure that the same costs are not entered more than once into the financial records.</p> <p>Reconciliation procedures between expenditure reported and cash outlays should also be performed so that such errors can be identified.</p>	<p>These double entries were caused by system error. As per [the] email exchanges with system support, when the requests for payment were raised in the system, the system picked the POs' accounts codes (75415, 72410) instead of the Request for the Payment account code for accrued expenses (23205). This issue was shared with the AFOH finance and system support and corrective action was undertaken following the advice from system support and IPAS Finance.</p> <p>However, we do acknowledge that more timely corrective actions could have been undertaken in 2016. Hence, the Project Support Officer will be tasked to undertake monthly oversight and analysis of the expenditures posted in the project accounts in oU to ensure that timely corrective action is undertaken, if any is required.</p>	<p>Responsible manager: Acting Program Manager</p> <p>Due date: 31 December 2017</p> <p>Priority: Medium</p>
Cost of asset	USD 7,397					

Tax deduction at source	USD 6,252			
Total	USD 13,649	<p>We noted that this amount was adjusted in one UNOPS in February 2017.</p> <p>Impact</p> <p>The expense reported in the financial statement is overstated by USD 13,649.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p>		

Functional Area: Finance			
3	<p>Title</p> <p>Interest income for the periods 2014 and 2015 not included in financial statement.</p> <p>Amount</p> <p>Undetermined</p> <p>Comparison criteria</p> <p>Clause 4.5 of the Management Service Agreement between UNOPS and the Ministry of Public Works states that 'any interest accrued on the cash balances of Funds received by UNOPS under this Agreement shall be used by UNOPS at the Client's request, in consultation with the Donor.'</p> <p>Facts / observation</p> <p>The interest earned on cash balance of funds held during the periods 2014 and 2015 have not been allocated to the project and are therefore omitted from the financial statements.</p> <p>Impact</p> <p>Interest income is understated.</p> <p>Cause</p> <p>Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.</p>	<p>It is recommended that all interest income earned on the cash balance of funds is recorded and reported completely and accurately.</p>	<p>The issue was discussed with IPAS Finance and Finance Group in UNOPS HQ. FG confirmed that an adjustment will be made in 2017 to reflect the interest due to the project.</p> <p>Responsible manager:</p> <p>Finance Group in HQ</p> <p>Due date:</p> <p>31 December 2017</p> <p>Priority:</p> <p>Medium</p>

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.

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), and
- Information and communications technology.