PROJECT NAME: ENHANCING ENERGY SECURITY IN AFGHANISTAN THROUGH RENEWABLE ENERGY SOLUTIONS

PROJECT NUMBER: 11994-006

PERIOD COVERED: 01 April 2016 to 30 September 2017

COUNTRY: AFGHANISTAN

AUDITOR: KPMG TASEER HADI & Co.
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1. Executive Summary

1.1 Background

From 21 October 2017 to 03 November 2017 the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS) through KPMG Taseer Hadi & Co. Pakistan (“audit firm”) conducted an audit of “Enhancing Energy Security in Afghanistan through Renewable Energy Solution” (“the Project”) until 30 September 2017 (Project ID 11994-006), which is implemented and managed by the UNOPS Operational Hub in Afghanistan (AFOH). The audit firm was under the general supervision by IAIG.

The Project reported an expenditure for the interim period from 01 April 2016 to 30 September 2017 amounting to USD 4,639,380.82. The funds for the project were made available by the Government of Japan.

1.2 Audit scope and objectives

The audit firm conducted a financial audit to express an opinion on whether the financial statement presents fairly, in all material aspects, the results of the Project’s operations. The audit covered the review of the Project’s Interim Financial Report which includes income and expenditure for the period including project advances and commitments resulting in a fund balance as on 30 September 2017. 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, procurement, supply chain, general administration, and ICT system as part of the audit of financial report.

Audit focused on audit of financial statement of the Project. The audit also included in its scope the following aspects of the project:

- Assess the key operational processes and management practices relating to program/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.

In order to address the above, we performed audit procedures as agreed in the approved audit program.

The audit reviewed the transactions for period of 01 April 2016 to 30 September 2017.
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 “Enhancing Energy Security through Renewable Energy Solutions” operations is considered to be Satisfactory.

Table 1: Summary results of the financial audit

<table>
<thead>
<tr>
<th>Period</th>
<th>Project no.</th>
<th>Project Expenditures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01 April 2010 to 30 Sep 2017</td>
<td>11994-006</td>
<td>4,639,380.82</td>
<td>Unqualified</td>
</tr>
</tbody>
</table>

1.4 Audit Highlights

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

1.5 Good Practices observed:

Based on the audit procedures performed, we observed good working environment of UNOPS office and cooperation from the concerned staff.
2 Audit Objectives, Scope and Operational Overview

2.1 Audit Objectives and Scope

The audit of the Project was carried out during October - November 2017, with the field audit carried out from 21 October to 03 November 2017 at the UNOPS – AFOH office in Kabul, 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 2017 to 30 September 2017 in accordance with the International Standards on Auditing.

The audit also included a review of specific internal control/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 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 performed the audit under the general supervision of IAIG.

2.3 Operational Overview

The Ministry of Energy and Water (MEW), Government of Islamic Republic of Afghanistan and the Government of Japan agreed to implement the Project as part of assisting the Government of Afghanistan to overcome the energy crisis in the country. The Government of Japan contracted UNOPS AFOH to implement the Project in consultation with the Ministry of Energy and Water (MEW) and provincial stakeholders. A Memorandum of Agreement (MOA) was signed between UNOPS and the Government of Japan in February 2016 to implement the project in the provinces of Herat and Kabul, Afghanistan.

The Project consists of two major components as below:

- Installation of hybrid (solar/wind) power plant in Herat province of Afghanistan.
- Feasibility study of Macroyan Waste Water Treatment Plant expansion and Rehabilitation located in Kabul, Afghanistan so as to enter extract biogas.
The overall objective of the Project is to contribute to enhance the renewable energy solutions in Herat province of Afghanistan and support the Government of Afghanistan’s efforts towards producing renewable energy. The Project started in April 2016 with the expected completion date of 31 March 2017. As major construction activities relating to the Project were completed by the end of August 2017. Therefore, the Project closure date was extended up to 30 September 2017.

The Project headquarter is located in Kabul, Afghanistan. The Project has a site office in Herat.

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

<table>
<thead>
<tr>
<th>Budget Account Ref.</th>
<th>Description of Cost</th>
<th>Budget USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages and Travels</td>
<td>REN Specialist Engineer IICA 3 (Kabul/Herat)</td>
<td>180,000</td>
</tr>
<tr>
<td></td>
<td>On-site Monitoring Engineer IICA 5 (5 months, Herat)</td>
<td>14,499</td>
</tr>
<tr>
<td></td>
<td>Procurement and Logistics Associate IICA 6/2 (Kabul, Cost Shared 50%)</td>
<td>20,232</td>
</tr>
<tr>
<td></td>
<td>Program/Partnership Officer IICA 1 (Kabul, Cost Shared 50%)</td>
<td>48,000</td>
</tr>
<tr>
<td></td>
<td>Personnel related insurance premium and admin services</td>
<td>12,464</td>
</tr>
<tr>
<td></td>
<td>Local Travel and DSA</td>
<td>6,000</td>
</tr>
<tr>
<td></td>
<td>UNOPS REN expert on mission, Travel costs only</td>
<td>8,310</td>
</tr>
<tr>
<td></td>
<td></td>
<td>289,505</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>Herat REN hybrid solutions (solar and wind combined), 1 MW</td>
<td>3,537,045</td>
</tr>
<tr>
<td></td>
<td>Contingency (10%)</td>
<td>353,705</td>
</tr>
<tr>
<td></td>
<td>Waste to Energy/Bio-gas FS</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,090,750</td>
</tr>
<tr>
<td>Rental, Maintenance and Common Services</td>
<td>HMAC Cost-share Office Premises, inclusive of security, common costs and utilities</td>
<td>38,952</td>
</tr>
<tr>
<td></td>
<td>Office Rent Kabul (incl. utilities, common services, guards), 20 ft.</td>
<td>8,000</td>
</tr>
<tr>
<td></td>
<td>Vehicle rental costs-Herat, inclusive driver and fuel/maintenance</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Armorced Vehicle costs (AV) - cost share, Kabul and Herat</td>
<td>42,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td>94,202</td>
</tr>
<tr>
<td>Office Equipment, Communications and IT</td>
<td>Internet Connectivity Bandwidth</td>
<td>6,000</td>
</tr>
<tr>
<td></td>
<td>Email Subscription</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>Information Technology Equipment</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Software</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>Mobile Telephone Charges</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous (bank fees and stationaries etc)</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14,500</td>
</tr>
<tr>
<td>Security Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Escorts for travel</td>
<td>1,800</td>
</tr>
<tr>
<td></td>
<td>Fuel for escorts</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>Security Contingency</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7,010</td>
</tr>
<tr>
<td>Project Technical Oversight Cost</td>
<td>Project technical oversight and ERP costs (18 months included project closure and refund)</td>
<td>20,800</td>
</tr>
</tbody>
</table>

Total Budget: 4,090,750 USD
### DIRECT SUPPORT COSTS

<table>
<thead>
<tr>
<th>Budget Account Ref.</th>
<th>Description of Cost</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>6000</td>
<td>Project Audit</td>
<td>30,000</td>
</tr>
<tr>
<td>6000</td>
<td>AFOH Direct Support Costs (Note 1)</td>
<td>242,338</td>
</tr>
<tr>
<td></td>
<td><strong>Subtotal</strong></td>
<td><strong>4,789,105</strong></td>
</tr>
<tr>
<td></td>
<td>UNOPS Management Fee</td>
<td>210,894</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>5,000,000</strong></td>
</tr>
</tbody>
</table>

**Note:**

(1) Includes Project management assurance and oversights and transactions in procurement, HR, Finance, Logistics, and ICT support services by UNOPS Afghanistan Office.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Receipts from Government of Japan up to 30 September 2017</td>
<td>5,000,000.00</td>
</tr>
<tr>
<td>Interest earned up to 30 September 2017</td>
<td>52,752.50</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>5,052,752.50</strong></td>
</tr>
<tr>
<td>Expenditures reported up to 30 September 2017</td>
<td>(4,435,727.67)</td>
</tr>
<tr>
<td>Exchange gain/ (losses)</td>
<td>(278.25)</td>
</tr>
<tr>
<td>Management Fee</td>
<td>(203,374.90)</td>
</tr>
<tr>
<td>Project Advances</td>
<td>(1,024.29)</td>
</tr>
<tr>
<td>Commitments</td>
<td>(339,714.40)</td>
</tr>
<tr>
<td>Project fund balance</td>
<td>72,632.99</td>
</tr>
</tbody>
</table>

**Acknowledgement**

The audit team extends its appreciation to the management and staff members of REN project and UNOPS Office in the Project for their full cooperation during the audit.
3. Detailed Assessment

3.1 Project Management

The details of the audit findings are given below:

Observation No: A-1  
Audit area: Project Management  
Issue Title: The Hybrid Power Plant and Enhancement of Macroyan Waster Water Plant were not handed over to the Ministry of Energy and Power Afghanistan after the completion.

Criteria

The Hybrid Power Plant constructed at Herat province, and the enhancement made to the Macroyan Waste Water Plant at Kabul province of Afghanistan were required to be handed over to the Ministry of Energy and Water after the completion of works as per clause 9 of the agreement made with the Ministry of Energy and Water.

Condition

We have observed that the Hybrid Power Plant constructed at Herat province and enhancement made to the Macroyan Waste Water Plant at Kabul province of Afghanistan are not handed over to the Ministry of Energy and Water after the completion of works as per clause 9 of the agreement made with the Ministry of Energy and Water.

Causes

Compliance & Guidance: This indicates failure to comply with the terms of the agreement made with the Ministry of Energy and Water.

Impact or risk

The Ministry of Energy and Water Afghanistan may raise concerns upon the performance of UNOPS in delivering the project on a timely basis.

Priority

Medium

Recommendation

Management should ensure timely hand over of the Hybrid Power Plant Herat and enhancement made to the Macroyan Waste Water Plant to the Ministry of Energy and Power Afghanistan.

Management comments

The Macroyan Waste Water Plant feasibility study has been handed over to the government counter-part. The Hybrid Power plant is pending due to some defects, UNOPS has deployed a team. Working jointly with Contractor to resolve the issue and rectify the defects. Once it is completed the power plant will be handed over to the government in due course.
3.2 Finance

Observation No: B-1
Audit area: Finance
Issue Title: Expenditure charged was not included in the budget.

Criteria

Expenditure charged to the project should agree to the approved project budget (Project proposal – Annexure III).

Condition

We observed the following listed expenditures were not covered in the approved budget:

<table>
<thead>
<tr>
<th>Date</th>
<th>Voucher No.</th>
<th>Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-July-2017</td>
<td>600005790</td>
<td>Payment made to [redacted] for the design review of hybrid power plant and enhancement of Macroyan waste water plant was not included in the budget.</td>
<td>28,567</td>
</tr>
<tr>
<td>15-August-2017</td>
<td>2100007679</td>
<td>Payment made to [redacted] against his salary for the consultancy provided to the project was not included in the budget.</td>
<td>37,655</td>
</tr>
<tr>
<td>15-September-2017</td>
<td>2100007208</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2100007679</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Causes

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

Impact or risk

Expenditure charged was not allowed as per budget.

Priority

Medium

Recommendation

Management should ensure that only expenditure included in the budget should be charged to the project.

Management comments

The payment to [redacted] is inclusive of the total cost of hybrid plant. These costs are related to the design review. So it is part of the hybrid power plant cost Activity 2. Renewable Hybrid Power Plant project is the first of its kind in Afghanistan. These type of project are executed under the direct supervision of highly expert and experienced project manager. Initially [redacted] was not a part of the project team. Just for the assurance purpose [redacted] was sent from Head Quarters to help the project manager in delivering successful project. [redacted] became the part of the team as a consultant to ensure that the project activities are executed in the best possible ways, which would lead to the successful delivery of the project.
Observation No: B-2
Audit area: Finance
Issue Title: Interim Payment no. 3 and 4 made to Quattro Construction Company was not signed by the Admin and Finance Department.

Criteria

Every Interim Payment should be signed by the Admin and Finance Department before making payment to the supplier as per UNOPS Rules and Regulations.

Condition

We observed the following listed expenditures were not approved by the Administration and Finance Department before making payment to the supplier:

<table>
<thead>
<tr>
<th>Date</th>
<th>Voucher No.</th>
<th>Description</th>
<th>Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-Feb-2017</td>
<td>620120002</td>
<td>Payment made to [REDACTED] through Interim Payment no. 3 was not signed by the Admin and Finance Department.</td>
<td>113,7494</td>
</tr>
<tr>
<td>30-March-2017</td>
<td>620129240</td>
<td>Payment made to [REDACTED] through Interim Payment no. 4 was not signed by the Admin and Finance Department.</td>
<td>398,772</td>
</tr>
</tbody>
</table>

Causes

Compliance & Guidance: This indicates failure to comply with the rules and regulations of UNOPS.

Impact or risk

There may be some outstanding amount which should be deducted from the Interim Payment.

Priority

Medium

Recommendation

Management should ensure that each and every Interim Payment should be signed by the Finance and Admin Department before processing the payment.

Management comments

In those above mentioned months and interim payments, there was no project administration and finance officer. That is why it is not signed. Normally the payment approval is done by project Manager and disbursement is done by the Country Finance officer. All other supporting documents are complete and has been processed in accordance with financial regulations and rules.
Observation No: B-3
Audit area: Finance
Issue Title: Purchase Order raised for [REDACTED] was overstated as compared to the contract price.

Criteria

The Purchase Order amount should match with the amount mentioned in the contract made with the supplier.

Condition

We have observed the following Purchase Order amount does not match with the amount mentioned in the contract made with the supplier.

<table>
<thead>
<tr>
<th>Date</th>
<th>PO No.</th>
<th>Description</th>
<th>Overstated (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27-Nov-2016</td>
<td>3029678</td>
<td>Purchase order raised for [REDACTED] was overstated by USD 13,964. The total contract price is USD 3,694,562 but the PO was issued for USD 3,708,526.</td>
<td>13,964</td>
</tr>
</tbody>
</table>

Causes

*Compliance & Guidance:* This indicates failure to comply with the rules and regulations of UNOPS.

Impact or risk

The payment made to the supplier may exceed the contract price.

Priority

Medium

Recommendation

Management should ensure that the amount of every Purchase Order raised should agree with the amount of contract price.

Management comments

*It is overstated yet the total value of the contract has been disbursed to the contractor. It is overstated because of the 10% contingency amount awarded during the case submission for the head quarter’s approval.*
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

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

There are four categories: (a) satisfactory (effective), (b) partially satisfactory (some improvement needed), partially satisfactory (major improvement needed) and (c) unsatisfactory (ineffective).

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:

<table>
<thead>
<tr>
<th>Standard Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>(Effective): The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.</td>
</tr>
<tr>
<td>Partly Satisfactory</td>
<td>(Some improvement needed): The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.</td>
</tr>
<tr>
<td>Partly Satisfactory</td>
<td>(Major improvement needed): The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>(Ineffective): The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity.</td>
</tr>
</tbody>
</table>

B. Rating for priorities of audit recommendations

The audit recommendations are categorized according to priority, as a further guide to management in addressing the issues in a timely manner.
The following categories of **priorities** are used:

**Rating Definition**

**High**

Prompt action is required to ensure that UNOPS is not exposed to high risks. Failure to take action could result in major negative consequences for UNOPS.

**Medium**

Action is required to ensure that UNOPS is not exposed to risks. Failure to take action could result in negative consequences for UNOPS.

**Low**

Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.

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.

**Intentional**

Intentional overriding of internal controls.

**Others**

Factors beyond the control of UNOPS.

The following categories of **functional areas** are used:

**Categories of functional areas**

- Project Management;
- Finance;
- Human Resources;
- Procurement and Supply Chain;
- General Administration (which includes Asset Management); and
- Information and Communication Technology.
## ANNEX 2
### Summary of Audit Recommendations

**United Nations office for Project Services (UNOPS)**
**Project: Enhancing Energy Security through Renewable Energy Solutions**
**PROJECT ID No. 11994-006**
**Management responses and status of recommendations on audit**

<table>
<thead>
<tr>
<th>Recommendation No.</th>
<th>Recommendation</th>
<th>Management reply</th>
<th>Priority</th>
<th>Cause</th>
<th>Area</th>
<th>Further comments of the Auditor</th>
<th>Responsible Manager</th>
<th>Expected completion date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-1</td>
<td>The Hybrid Power Plant and Enhancement of Macroyan Water Water Plant were not handed over to the Ministry of Energy and Power Afghanistan after the completion.</td>
<td>Refer page No. 6 for management comments</td>
<td>Medium</td>
<td>Compliance &amp; Guidance</td>
<td>Project Management</td>
<td>Nil</td>
<td>-</td>
<td>-</td>
<td>In process</td>
</tr>
<tr>
<td>B-1</td>
<td>Expenditure charged to the project should agree to the approved project budget (Project proposal – Annexure III).</td>
<td>Refer page No. 7 for management comments</td>
<td>Medium</td>
<td>Compliance &amp; Guidance</td>
<td>Finance</td>
<td>Nil</td>
<td>-</td>
<td>-</td>
<td>In process</td>
</tr>
<tr>
<td>B-2</td>
<td>Every Interim Payment should be signed by the Admin and Finance Department before making payment to the supplier as per UNOPS Rules and Regulations.</td>
<td>Refer page No. 8 for management comments</td>
<td>Medium</td>
<td>Compliance &amp; Guidance</td>
<td>Finance</td>
<td>Nil</td>
<td>-</td>
<td>-</td>
<td>In process</td>
</tr>
<tr>
<td>B-3</td>
<td>The Purchase Order amount should match with the amount mentioned in the contract made with the supplier.</td>
<td>Refer page No. 10 for management comments</td>
<td>Medium</td>
<td>Compliance &amp; Guidance</td>
<td>Finance</td>
<td>Nil</td>
<td>-</td>
<td>-</td>
<td>In process</td>
</tr>
</tbody>
</table>