



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

15 December 2020

HERAT BYPASS ROAD CONSTRUCTION PROJECT - HBRCP:	HERAT BYPASS ROAD CONSTRUCTION PROJECT
PROJECT NUMBER:	86863
COUNTRY:	AFGHANISTAN
AUDITOR:	BDO LLP
PERIOD SUBJECT TO AUDIT:	1 JULY 2016 TO 31 MARCH 2020

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Acronyms and abbreviations

IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
PC	Project Centre
RO	Regional Office
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

From 28 September until 9 October 2020, the Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through BDO LLP (“the audit firm”), conducted an audit of the project ‘Herat Bypass Road Construction Project - HBRCP’ (“the project”) (oneUNOPS project ID 86863), which is implemented and managed by UNOPS 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 US\$ 24,755,888¹ during the period from 1 July 2016 to 31 March 2020.

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).

¹ The total expenditure for the period 10 December 2013 to 30 June 2016 was US\$ 4,423,836, and the total expenditure for the project from 10 December 2013 to 31 March 2020 is US\$ 29,179,724, leaving US\$ 24,755,888 as the amount in scope for this audit from the period 1 July 2016 to 31 March 2020.

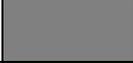
Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as satisfactory (effective), which means, “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”. 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 Road Construction Project		1 July 2016 to 31 March 2020	86863
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
24,755,888	Unmodified	-	Not applicable

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Partially satisfactory (some improvement needed)	
Procurement and supply chain	Not applicable ²	
Human resources	Satisfactory	
General administration	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

The audit raised one issue. There is one recommendation, ranked medium priority, meaning “Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).”

² As per the project agreement, procurement for the project was performed by the Ministry of Public Works of the Islamic Republic of Afghanistan.

Below is the audit finding, further details of which can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating	Financial impact (US\$)
1	Finance	Over-accrual of indirect costs	Medium	2,459
Total				2,459

Management's comments

The Head of Office of UNOPS Afghanistan accepted the recommendation.

Signed:



Robert Waters
Partner
BDO LLP

15 December 2020

Operational overview

The Government of the Islamic Republic of Afghanistan (GIROA) identified the need for the construction of a bypass road outside Herat city centre in order to improve the flow of city traffic and to create an alternative transport route, particularly for heavy trucks. The bypass road would also help optimize the traffic flow within the section of HW1 (Ring Road) passing through Herat city and leading to the borders with Iran and Turkmenistan.

The Italian Government made available to the Ministry of Public Works- Islamic Republic of Afghanistan two grants – respectively approved in 2011 and 2012 worth a EUR 24.6 million, for the Herat Bypass Road Construction Project, whereby the Ministry of Finance was the implementing agency, and the Ministry of Public Works MoPW the executing agency. The United Nations Office for Project Services (UNOPS), through the agreement signed with the MoPW on 10 December 2013, had a dual role: managing funds on behalf of the MoPW and implementing supervision services and quality assurance of works on site.

- The prefeasibility study was carried out in January 2012 while the detailed survey and design was completed in July 2013 under the direct administration and supervision of UNOPS Transport Sector Portfolio (TSP).
- On the basis of a detailed study, it was decided to divide the road into two lots: Lot #1 from Km 0+000 to Km 20+400; Lot #2 from Km 20+400 to Km 45+408.
- The construction contract for Lot #1 was signed between the MoPW and [REDACTED] on 25 August 2015. The construction works were completed on 13 June 2017 and the Defect Notification Period (DNP) was satisfactorily completed. The final take-over certificate was issued by UNOPS to the contractor on 24 October 2018.
- The Construction contract for Lot #2 works was signed between the MoPW and [REDACTED] on 27 September 2016. The construction works were completed on 7 November 2018 and the Defects Notification Period (DNP) was satisfactorily completed on 06 November 2019. The final take-over certificate was issued by UNOPS to the contractor on 20 November 2019.
- Both grants were completely disbursed from the Donor to the Ministry of Finance- Afghanistan. The Ministry of Finance (MoF) as per the agreement Signed between Ministry of Transport MoPW and United Nations Office for Project Services (UNOPS) transferred the Funds amounting to EUR 24.6 Million to UNOPS account in four tranches as per the agreement.

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

Detailed assessment

1.	Title:		Lack of evidence for review of bank reconciliations
Functional area:		Finance	
Comparison criteria:		Article 4.2 for the Management Service Agreement states that ‘the total cost of implementing the Services is equal to € 24,600,000 (twenty four million six hundred Euro, only) (hereinafter referred to as the “Funds”), which includes an estimated 7% UNOPS management fee for non-works activities and 2.5% for works (pass-through= of € 735,515 (seven hundred thirty five thousand five hundred and fifteen Euro, only) as detailed in the Budget, attached hereto as Annex II”.	
Priority:		Medium	
Cause:		Guidance	Inadequate oversight by Headquarters
Responsible manager:		Finance manager	
Due date:		31 December 2020	
Financial impact:		2,459	
Facts / observation:		We noted that the UNOPS management fee has been incorrectly calculated for expenditure incurred in 2017, resulting in an excess of management fee incurred to the project of US\$ 2,459.	
Impact:		Management fees are incorrectly allocated to the Project which results in an excess of expenditure charged to the Project.	
Recommendation:		The project team should ensure that the reversals between different Projects also relate to management fees charged to projects-	
Management reply and action plan:		We are taking necessary steps to remove these charges from the project.	

Annex I - Definitions

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:

- (a) satisfactory (effective),
- (b) partially satisfactory (some improvement needed),
- (c) partially satisfactory (major improvement needed), and
- (c) unsatisfactory (ineffective).

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 (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.
Partially satisfactory (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.
Partially satisfactory (major improvement needed)	The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
Unsatisfactory (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.

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.