

**UNITED NATIONS OFFICE FOR PROJECT SERVICES
(UNOPS)****INTERNAL AUDIT REPORT****8 July 2025**

Project name:	Afghanistan Community Resilience and Livelihoods Project
Project number:	23455
Country:	Afghanistan
Auditor:	BDO LLP
Period subject to audit:	1 January to 31 December 2024

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Acronyms and abbreviations

ARTF	Afghanistan Reconstruction Trust Fund
CRL	Community Resilience and Livelihoods
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IDA	International Development Association
IESBA	International Ethics Standards Board for Accountants
IPSAS	International Public Standard Accounting System
ISA	International Standards on Auditing
UN	United Nations
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

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 'Afghanistan Community Resilience and Livelihoods Project' ("the project") (oneUNOPS project ID 23455), which is implemented and managed by the UNOPS Office in 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\$ 99,266,367.21 during the period from 1 January to 31 December 2024. The donor who contributed to the project is the World Bank, International Development Association (IDA), acting as the administrator of the Afghanistan Reconstruction Trust Fund (ARTF).

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 partially satisfactory (some improvement needed), which means, "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". 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.
Afghanistan Community Resilience and Livelihoods Project		1 January to 31 December 2024	23455
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
99,266,367.21	Qualified	52,973.56	Unmodified

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	Green
Finance	Partially satisfactory (major improvement needed)	Orange
Procurement and supply chain	Satisfactory	Green
Human resources	Satisfactory	Green
General administration	Satisfactory	Green
Information and Communications Technology	Satisfactory	Green
Overall rating of internal control	Partially satisfactory (some improvement needed)	Yellow

Key issues and recommendations

The internal audit report raised one recommendation, which is ranked as high priority.

Recommendations with a high priority mean that “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).”

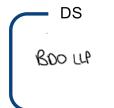
The table below summarizes the recommendations we have issued in relation to the functional areas concerned and provides a list of the audit findings, further details of which can be found in the section 'detailed assessment'.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US\$)
1	Finance	Cut-off errors	High	2,742,254.81
Total				2,742,254.81

Management's comments

The Programme Director accepted the recommendation.

Signed:



DS
BDO LLP

Partner
BDO LLP

8 July 2025

Operational overview

The political transition in Afghanistan in August 2021 led to severe negative impacts on local businesses, employment, and income. Overall, the economic crisis that followed the political transition negatively impacted the labour market and the number of people looking for employment increased in both rural and urban areas. The share of public sector employment decreased and the share of households reporting self-employment rose. The local private sector contracting capacity faces an existential threat as opportunities decline because of the sudden halt in development work. Up to 80 percent of economic activity in Afghanistan is estimated to be in the informal sector, which is heavily impacted by the liquidity crisis, drought conditions, COVID-19 crisis, and lack of access to basic services. Basic service delivery remains vitally needed during this time of crisis, with approximately 30-40 percent of rural populations still in need of clean water sources. Improved access to transport, roads, and electricity remains essential for economic productivity, jobs, and connecting remote communities to schools and health facilities. In addition, many communities that currently do have access to these essential services may lose access without the necessary maintenance and repair work. Afghan women and girls were already vulnerable prior to the August 2021 political crisis and now face new restrictions. Women are especially vulnerable as they face diminishing access to public spaces, education, restrictions on work and employment, harassment, death threats, and violence.

The Afghanistan Community Resilience and Livelihoods Project (CRLP) is a new initiative supported by the World Bank and Afghanistan Reconstruction Trust Fund (ARTF). The Project has a total budget of US\$ 265 million with the UNOPS as its Implementing Partner (IP). Actual ground-level Project support will be provided by six (6) non-governmental, not-for-profit organizations (or consortiums of the same) contracted as Facilitating Partners (FPs) for three Components, and through private sector infrastructure contractors for the urban component.

The CRL Project is executed by the United Nations Office for Project Services (UNOPS), implemented by Facilitating Partners (NGOs and private contractors), and financed by the World Bank/Afghanistan Reconstruction Trust Fund. Each party should only represent themselves and no other parties in interactions with communities or de facto authorities.

The Project Development Objective (PDO) is to provide short-term livelihood opportunities and deliver urgent basic services in rural and urban areas of Afghanistan. A total of 1 million households are expected to be direct beneficiaries of Components 1 to 3 while a total population of around 9 million are expected to benefit from the services of the infrastructure sub-projects financed under this Project. Key PDO-level indicators include:

- Number of beneficiary households receiving livelihoods support/cash-for-work
- Number of vulnerable households receiving social grants
- Number of female-headed households
- Number of people with improved access to basic services

Further, Afghanistan Community Resilience and Livelihoods Project (CRLP) funded by the World Bank's International Development Association (IDA) and the Afghanistan Resilience Trust Fund (ARTF) has been scaled up significantly in 2024. The Project originally had a budget of US\$ 265 million, but with additional financing of US\$ 154 million (comprising US\$ 84 million from IDA and US\$70 million from ARTF), the total budget now stands at US\$419 million.

Project Components

Component 1: Emergency Livelihoods Support and Services in Rural Areas:

This component will provide assistance in the form of cash-for-work and support for the rehabilitation of small-scale economically productive infrastructure.

Component 2: Emergency Livelihoods Support and Services in Urban Areas:

This component is expected to cover around 500 sub-projects across eight cities (namely Kabul, Herat, Mazar, Kandahar, Jalalabad, Kunduz, Bamyan and Khost Matun) which: (i) have witnessed a high influx of

internally displaced persons (IDPs); (ii) were part of Community Investment Project (CIP)/EZ-Kar projects; and (iii) are hubs of economic and private sector activity.

Component 3: Social Grants for Women and the Most Vulnerable in Rural and Urban Areas:

Experience in Afghanistan and other countries shows that not everyone is able to benefit from cash-for-work and LIW projects. For example, female heads of households, IDPs, people with disabilities, and vulnerable households lacking able-bodied members may have difficulty participating in such work projects. This component will provide social grants for food packages (in rural areas) and cash grants (in urban areas) to the most vulnerable households.

Component 4: Strengthening Community Institutions for Inclusive Service Delivery especially for Women:

Investing in CDCs and local communities is critical for long-term sustainability and building social resilience and cohesion. Underpinning the above-mentioned interventions, this component will provide assistance to build the capacity of CDCs and other local community institutions.

Component 5: Implementation Support:

This component will support the costs of UNOPS to manage and oversee the program, including technical support, training, monitoring, and reporting on results. This component will finance: (i) general management support and indirect costs and fees for the implementing partner; (ii) direct project management and supervision costs required to support the implementation of the project; (iii) project monitoring, evaluation, and coordination at the national and regional levels; (iv) project-tailored Management Information System (MIS) and Geospatial Information System to promote transparency and accountability; (vi) the establishment of a Grievance Redress Mechanism (GRM) and (vii) Environmental and Social Risk Management (ESRM).

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:	Cut-off issues			
	Functional area:	Finance			
	Comparison criteria: <p>Regulation 1.02 of UNOPS Rules and Regulations defines an accrual as the 'basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid)'. Regulation 23.04 states that 'All items of revenue and expense recognized annually should be included in the determination of the net surplus or deficit for the period. When items of revenue and expense within surplus or deficit from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explaining the performance of UNOPS for the financial period, the nature and amount of such items should be disclosed separately'. Regulation 23.08 states that 'the financial period, for the purposes of accounting for revenue earned and expenses incurred in respect of the UNOPS activities, shall consist of a single calendar year'. Rule 123.01 further states that 'The project period, for the purpose of incurring and accounting for expenses, costs and disbursements in respect of projects and reporting thereon, shall normally consist of a single calendar'.</p>				
	Priority: High				
	Cause: Guidance Lack of or inadequate guidance or supervision at the RO/OC/PC level				
	Responsible manager: Project Manager, Finance Manager				
	Due date: August 2025				
	Financial impact: US\$ 2,742,254.81				
	Facts / observation: <p>We noted that a significant amount of expenditure was allocated to the project for the period under review (i.e. January to December 2024), which had actually been incurred either prior or subsequent to this period.</p> <p>We identified 18 relevant vouchers, amounting to US\$ 2,688,485.11. These are presented in Annex II.</p> <p>Additionally, indirect costs were charged at 2% of this amount, amounting to US\$ 53,769.70, resulting in a total of US\$ 2,742,254.81 that was not incurred in the reporting period.</p>				
	Impact: The financial statements are materially mis-stated and in so doing undermine confidence in the financial reports.				
	Recommendation: The project team should ensure that expenditure is charged to the period in which it was incurred.				

Management reply:	<p>The Community Resilience and Livelihood Project is an ongoing project that commenced in May 2022 with an additional financing phase that commenced in mid-2024. It is recognised that the audit covers the calendar / UNOPS financial year from 1st January to 31st December 2024.</p> <p>UNOPS acknowledges that several expenses were inaccurately receipted in Q4 in 2024.</p> <p>Several transactions had been identified during the year-end closure / clean-up process which were corrected, whilst some transactions were not identified during this process because the invoices were received after the end of the clean-up period on 25 January.</p> <p>Once UNOPS became aware of this, a range of control measures were implemented, including modifications to workflows and roles and responsibilities to minimise similar occurrences going forward.</p> <p>During the year-end period in 2024-25, focus at the CRL project level was placed with a view to improved compliance with IPSAS requirements.</p> <p>The primary objective of the process was to review the ongoing works and services to ensure that revenue and expenses are recognised in the period in which they are earned or incurred, and based on learning from the previous year-end.</p> <p>Lessons were learnt from the above processes, and the project has now put in place actions to improve compliance in year-end cut-off procedures and to streamline the process. These actions have been undertaken during 2024/2025 year-end processes, through regular engagement and follow up with colleagues including through discussions and email. The same procedures will be applied going forward.</p> <ol style="list-style-type: none"> 1. The works and services delivered within the UNOPS financial year, are completed, certified, and receipted within the same financial year in which they occur. 2. For project activities that extend into the next financial year: <ol style="list-style-type: none"> a. During December, the Programme colleagues prepare a list of projects / activities anticipated to be in progress as at 31 December. b. The value of works and activities completed up to year-end are calculated and submitted to the respective Team Lead for verification and approval. c. The details are shared with the Finance Unit for review, and to check that the supporting documentation meets the receipting accounting requirements and criteria. d. Receipting is done before the close of the financial year to capture the relevant expenses in the appropriate period.
Action plan:	<p>From December 2025 onwards, to ensure more accurate financial reporting, in addition to the above points, the Finance Unit will review pro-rated expenses across all categories of expenditure from the previous year as a second layer of verification.</p> <p>The Finance team will continue to raise awareness on the importance of complying with IPSAS standards, with a particular focus towards the financial year-end through regular emails and refresher training sessions.</p>

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. IAIIG 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
- (d) 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.

Annex II – Cut-off error

Sr. no	Voucher no	Transaction date	Description	Amount US\$	Cut-off amount US\$	Comments
1	100306403	2/4/2024	Construction of Side ditch and leveling of Qazi Chawk's Main street from 0+000 to 0+553 Khalis Family in District-6 of Nangarhar City.	42,206.24	42,206.24	Invoice covers period 5 Nov to 16 Dec 2023
2	100309496	2/29/2024	Upgrading of Bakhtyaran streets with plum concrete surface (L=1125m) Gozar #04, District #18, Kabul City	66,674.22	66,674.22	Invoice covers period 27 Oct to 1 Jan 2023
3	100312029	4/23/2024	Reimbursable 3, 100%, Milestone 4 30%, Milestone 4 70%	219,232.89	160,665.20	Invoice covers period 8 Oct 2023 to 31 January 2024. Services from 8 Oct to 31 Dec 2023 are outside of the reporting period.
4	100305134	1/15/2024	8% of staff and fixed cost Milestone 4 a (i) - Completion of 30% of sub project implementation activities	203,241.12	203,241.12	Invoice covers period 1 Nov 2023 to 3 Jan 2024
5	100309234	3/14/2024	3rd and 4th (a) milestones of reimbursable costs , Training/workshops & stationary Cost, Bank/Hawala Charges, PPE Kit	117,140.87	117,140.87	Invoice covers period 1 Oct to 31 Dec 2023
6	100309052	3/12/2024	Coordination of Humanitarian Assistance Bank charges	647,472.69	598,856.77	Bank charges of US\$ 598,856.77 relate to 2023
7	100306616	2/6/2024	Construction of side ditches and leveling of Zadran Market main street Part-2 from 0+000 to 0+392 Akhundzada Family, Block 2 in District-6 of Nangarhar Province.	58,694.09	58,694.09	Invoice covers period 30 Sep to 23 Oct 2023
8	100306412	2/4/2024	Upgrading of Mullah Bozorg area streets with plum and dressed stone surface (L=1010M).Gozar #14, District #7, Kabul City. Contract Ref. No. 1009503	99,088.38	99,088.38	Invoice covers period 19 Nov 28 Dec 2023

Sr. no	Voucher no	Transaction date	Description	Amount US\$	Cut-off amount US\$	Comments
9	100306705	2/7/2024	Upgrading of Hassanzai Mena streets with the plum concrete surface (L=832m), Gozar #35, District #12, Kabul City	88,381.88	75,932.86	Invoice covers period 1 Nov 2023 to 10 Jan 2024. Works from 1 Nov to 31 Dec 2023 are outside of the reporting period.
10	100306179	1/31/2024	Construction of Rustam Abad Gravel Surface Road from Km 0+000 to Km 1+000, District #5, Mazar-e-Sharif City – Afghanistan.	69,338.28	69,338.28	Invoice covers period 14 Nov to 23 Dec 2023
11	100319199	7/31/2024	Reimbursable costs payment for Quarterly Report, Office Travel, Remobilization of CDC and Subcommittees.	175,804.02	175,804.02	Invoice covers period 1 Oct to 31 Dec 2023
12	100305789	1/25/2024	Provision of rental vehicles to the Urban Team from June 2024 till December 2024.	10,692.00	10,692.00	Invoice covers period 1 to 31 Dec 2023
13	100314172	5/23/2024	Actual Reimbursable costs payment for the period October 01 2023 to February 29 2024 for 100 % completion of the 4th Milestone; Travel, Printing, Equipment (Other cost), PPE cost.	231,787.72	140,290.09	Invoice covers period 1 Oct 2023 to 29 Feb 2024. Reimbursables from 1 Oct to 31 Dec 2023 are outside of the reporting period.
14	100307322	2/18/2024	Actual Reimbursable costs payment for the period April 01 2023 to Sep 30 2023 for 100 % completion of the 3rd Milestone and 70% completion of 4th Milestone; Travel, Printing, Equipment (Other cost), PPE cost.	165,013.65	165,013.65	Invoice covers period 1 April 30 Sep 2023
15	100307808	2/26/2024	100% completion of the 4th milestone based on the number of communities	288,676.00	144,338.00	Invoice covers period 1 Dec 2023 to 31 Jan 2024. Services from 1 to 31 Dec 2023 are outside of the reporting period.

Sr. no	Voucher no	Transaction date	Description	Amount US\$	Cut-off amount US\$	Comments
16	100307808	2/26/2024	70% completion of the 3rd milestone based on the number of communities	192,450.00	96,225.00	Invoice covers period 1 Dec 2023 to 31 Jan 2024. Services from 1 to 31 Dec 2023 are outside of the reporting period.
17	100310028	3/17/2024	ACTD Bank Charges	549,109.38	402,195.43	Bank charges of US\$ 402,195.43 relate to 2023
18	100331674	12/31/2024	Training planning and development services	167,629.50	62,088.89	Invoice covers period 1 Aug 2024 to Mar 2025. Services from 1 Jan to 31 Mar 2025 are outside of the reporting period.
Total US\$				3,392,632.93	2,688,485.11	
Indirect cost adjusted @ 2%				53,769.70		
Total financial impact US\$				2,742,254.81		