UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP AFGHANISTAN

MAKING BUDGET AND AID WORK
(Directly Implemented Project No. 47111)

Report No. 1250
Issue Date: 12 February 2014
The UNDP Office of Audit and Investigations (OAI), from 8 October 2013 to 15 January 2014, through Anjum Asim Shahid Rahman, member firm of Grant Thornton International Ltd (the audit firm), conducted an audit of Making Budget and Aid Work, Project No. 47111 (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office).

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project’s operations. The audit covered the Project’s Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2012 and Statement of Assets as of 31 December 2012.

The audit was conducted under the general supervision of OAI in conformance with the International Standards for the Professional Practice of Internal Auditing.

**Audit results**

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below.

<table>
<thead>
<tr>
<th>Project Expenditure</th>
<th>Project Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (in $’000)</td>
<td>Opinion</td>
</tr>
<tr>
<td>$5,100</td>
<td>Qualified</td>
</tr>
</tbody>
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NFI = Net Financial Impact

The audit firm qualified its opinion on the Project’s Statement of Expenditure due to:
- inadequate supporting documents for $86,000 charged to the Project as unrealized exchange rate loss;
- expenditure of $37,000 incurred in 2011 but charged to the Project in 2012; and
- depreciation charge for assets acquired in 2012 understated by $20,000.

The audit firm qualified its opinion on the Project’s Statement of Fixed Assets due to the understatement of the depreciation costs of the assets acquired in 2012.

**Key recommendations:** Total = 8, high priority = 3

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendations are presented below:

**Finance management (Issue 1)**

**Lack of adequate supporting document for unrealized exchange rate loss.** There was inadequate supporting evidence to verify the validity of unrealized exchange rate loss amounting to $86,000.

**Recommendation:** Charge to the Project only the expenditure that is properly supported by adequate documentation.
Finance management (Issue 2)

Expenditure pertaining to 2011 recorded in 2012. Purchase orders totalling $37,000 which were raised in 2011 were recognized as expenditure in 2012 when the goods and services were received. However, the expenditure should have been recognized at the time the purchase order was issued rather than at the point when actual services were received in accordance with the UN accounting policy which was applicable in 2011. Therefore, the Project's expenditure was overstated by $37,000.

Recommendation: Recognize expenditure in the respective accounting period.

Fixed assets (Issue 3)

Non-compliance with International Public Sector Accounting Standards. The Project’s Statement of Fixed Assets as of 31 December 2012 showed the value of assets at acquisition costs without any adjustment for depreciation charges for the year. This was not in compliance with the Standards requiring that assets should be depreciated over their useful life and disclosed in the financial statements.

Recommendation: Properly recognize in Atlas project assets acquired from 1 January 2012 onwards so that depreciation costs are determined and reflected in the Project's statement of assets.

Implementation status of previous OAI audit recommendations: Report No. 1103, 17 May 2013

Total recommendations: 5
Implementation status: 100%

Management comments and action plan

The Resident Representative accepted all the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

[Signature]
Helge S. Ostdveiten
Director
Office of Audit and Investigations