

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP AFGHANISTAN

NATIONAL STATE GOVERNANCE PROJECT
(Directly Implemented Project No. 58936)

Report No. 1252

Issue Date: 12 February 2014

**Report on the audit of UNDP Afghanistan
National State Governance Project (Project No. 58936)
Executive Summary**

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 the National State Governance Project, Project No. 58936 (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.

| Project Expenditure | | | Project Assets | | |
|------------------------|-----------|---------------------|------------------------|-----------|---------------------|
| Amount (in \$ '000) | Opinion | NFI (in \$ '000) | Amount (in \$ '000) | Opinion | NFI (in \$ '000) |
| 962 | Qualified | 201 | 20 | Qualified | 10 |

NFI = Net Financial Impact

The audit firm qualified its opinion on the Project's Statement of Expenditure due to the following:

- expenditure pertaining to transportation was overstated by \$40,161 due to double recording of the same transaction in 2012. The error was only reversed in 2013;
- expenditure amounting to \$22,230 which was recognized in 2012 instead of 2013 when the services were received;
- expenditure of \$138,494, which should have been recognized in 2011, was recorded in 2012; and
- depreciation charge of \$406 which was not recorded in the Statement of Expenditure for assets acquired in 2012.

The audit firm qualified its opinion on the Statement of Assets due to the understatement of the depreciation costs by \$406 and the auditors were not able to verify assets amounting to \$9,744 due to security restrictions.

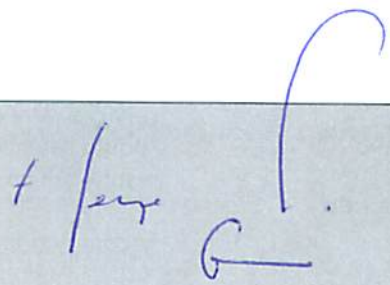
Key recommendations: Total = 6, high priority = 5

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) | <p><u>Transportation equipment expense.</u> The transportation equipment amounting to \$40,161 was received in 2012 and recorded twice. The correction was made on 1 January 2013, which resulted in an overstatement of expenditure in 2012.</p> <p><u>Recommendation:</u> Recognize expenditure in the proper accounting period.</p> |
| (Issue 2) | <p><u>Expenditure recognized but not incurred in 2012.</u> Voucher ID 0011995 amounting to \$22,230 was processed on 12 December 2012; however, the services were only rendered in October 2013. According to IPSAS, the expense should have been realized in 2013 when the services were rendered. This resulted in an overstatement of expenditure in 2012.</p> <p><u>Recommendation:</u> Recognize expenditure in the proper accounting period.</p> |
| (Issue 3) | <p><u>Expenditure incurred in 2011 but recorded in 2012.</u> The expenditure totalling \$138,494 relating to shipment charges, consultant fees, assets procured, custom clearance charges, and service cost recoveries, which was incurred in 2011, was recorded in 2012. The expenditure should have been recorded in 2011, as per the UN accounting policy which was applicable prior to 2012 where expenditure was recognized when the purchase order was raised.</p> <p><u>Recommendation:</u> Recognize expenditure in the proper accounting period.</p> |
| (Issue 4) | <p><u>Non-compliance with International Public Sector Accounting Standards.</u> The Project's Statement of Fixed Assets 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.</p> <p><u>Recommendation:</u> 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 Fixed Assets.</p> |
| Fixed assets (Issue 5) | <p><u>Non-verification of fixed assets.</u> The existence of fixed assets valued at \$9,744 could not be verified due to security constraints and the unavailability of the custodian.</p> <p><u>Recommendation:</u> Make fixed assets available during the physical verification. Assets not under the control of the Office should be transferred to the Government and not appear in the Statement of Assets.</p> |

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.

A handwritten signature in blue ink is located above the printed name. The signature is stylized and appears to read 'H. Ostveiten'.

Helge S. Ostveiten
Director
Office of Audit and Investigations