

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP AFGHANISTAN

Law and Order Trust Fund for Afghanistan
(Project No. 61104, Output Nos. 77273, 77274, 77275, 78879, 81409 and 81410)

Report No. 1474

Issue Date: 21 August 2015

**Report on the Audit of UNDP Afghanistan
Law and Order Trust Fund for Afghanistan
(Project No. 61104, Output Nos. 77273, 77274, 77275, 78879, 81409 and 81410)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 31 May to 17 June 2015, through Grant Thornton CJSC (the audit firm), conducted an audit of Law and Order Trust Fund for Afghanistan (Project No. 61104), Output Nos. (77273, 77274, 77275, 78879, 81409 and 81410) (the Project), which is nationally implemented¹ with direct support services provided by the UNDP Country Office in Afghanistan (the Office). The scope of the audit covered the expenditure incurred by the Office as direct support services to the Project. The expenditure incurred by the Government were the subject of a separate audit exercise. The last audit of the directly implemented part of the Project's activities was conducted by OAI in 2014 and covered project expenditure from 1 January 2013 to 31 August 2014.

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 Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2014 and the accompanying Funds Utilization statement² as of 31 December 2014 as well as Statement of Assets as of 31 December 2014. "The audit did not include activities and expenses incurred or undertaken by the Government, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters), or where supporting documentation was not retained at the UNDP Country Office level. The audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

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
28,186	Qualified	452	2,355	Unqualified

* Expenditures recorded in the Combined Delivery Report were \$494.1 million. Excluded from the audit scope were transactions that relate to expenditures not processed or approved at the Office level (\$2.4 million), payments made through other United Nations agencies (\$3.5 million), and expenditures incurred by the Government (\$460 million). The expenditures incurred by the Government were subject to a separate audit conducted by external auditors that resulted in an unqualified opinion.

**NFI = Net Financial Impact

¹ The audit of nationally implemented projects, or NIM projects, is the responsibility of the respective UNDP Country Office. However, this NIM project was audited by OAI due to the extensive direct administrative support that the Country Office is providing to the Project.

² The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

The audit firm qualified its opinion due to General Management Support fees amounting to \$171,000 that were not charged to the Project and expenditures totaling \$281,000 incurred in 2013 but were charged to the Project in 2014. The net financial impact of the qualification is an overstatement of 2014 expenditure by \$110,000, equivalent to 0.4% of the audited expenditure.

Key recommendations: Total = 2, high priority = 2

The two recommendations aim to ensure the reliability and integrity of financial and operational information (Recommendations 1 & 2).

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. All high (critical) priority recommendations are presented below:

General Management Support fees not charged to the project (Issue 1)

General Management Support fees amounting to \$171,000 was not charged to the Project in 2014.

Recommendation: The Office should charge the General Management Support fees to the Project and conduct quarterly reconciliation in order to identify and correct errors.

Expenditures not recorded to the right accounting period (Issue 2)

The 2014 Combined Delivery Report included expenditures totaling \$281,000 which were incurred in 2013.

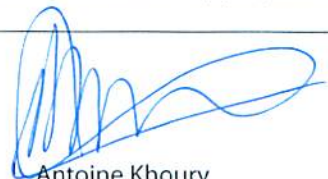
Recommendation: The Office should record expenditures to the correct accounting period.

The previous audit (Report No. 1417, issued on 24 March 2015), had 8 recommendations, and based on OAI's desk review, 5 were implemented while 3 were still in progress.

The pending recommendations pertain to delays in preparing project closure activities, unclear roles and responsibilities at Office and Project levels, weaknesses in Project management, weak management of procurement documents, protracted procurement process and weak ICT management.

Management comments and action plan

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



Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations