



AUDIT

OF

**AREA-BASED APPROACH TO DEVELOPMENT EMERGENCY INITIATIVES (ABADEI)
FOR LOCAL SOCIAL ECONOMY RECOVERY AND COMMUNITY RESILIENCE IN
AFGHANISTAN**

**(Directly Implemented Project No. 138844, Output Nos. 128801, 128862, 128864,
128867 and 129254)**

IN

UNDP AFGHANISTAN

Report No. 2657

Issue Date: 14 September 2023

Report on the Audit of Area-Based Approach to Development Emergency Initiatives (ABADEI) for Local Social Economy Recovery and Community Resilience in Afghanistan (Project No. 138844, Output Nos. 128801, 128862, 128864, 128867 and 129254) Implemented by UNDP Afghanistan Executive Summary

The UNDP Office of Audit and Investigations (OAI), through BDO LLP (the audit firm), from 16 May to 23 May 2023, conducted an audit of ‘Area-Based Approach to Development Emergency Initiatives (ABADEI) for Local Social Economy Recovery and Community Resilience in Afghanistan’ (Project No. 138844, Output No. 128801, 128862, 128864, 128867 and 129254) (the Project), which is directly implemented and managed by the UNDP Country Office in Afghanistan (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit in accordance with the International Standards of Auditing (ISA), the 700 series, 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 expenses for the period from 1 January to 31 December 2022 and the accompanying Funds Utilization statement¹ as of 31 December 2022 as well as Statement of Assets as of 31 December 2022. The audit did not include activities and expenses incurred or undertaken at the “responsible party” level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters). 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* of The Institute of Internal Auditors (The IIA).

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 Expenses*				Project Assets	
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)	Impact on CDR	Amount (in \$ '000)	Opinion
11,376	Qualified	344	Overstatement	523	Unmodified

*Expenses recorded in the Combined Delivery Report were \$76,617,069.70. Excluded from the audit scope were expenses processed and approved by other UNDP offices outside of the country (\$1,750,995.03). Also excluded were expenses incurred at the “responsible party” level (\$63,490,396.16). Thus, the audit covered expenditures directly incurred by the Office, amounting to \$11,375,678.51.

**NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenses due to the following: a) a cut-off error, b) lack of proof of payment, c) lack of adequate supporting documents, and d) non-compliance with procurement procedures. The resulting financial impact was a material overstatement of the financial statements in the amount of \$344,923.26, which represented 3 percent of the project expenditures directly incurred by the Office as of 31 December 2022.

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated 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.

Key recommendations: Total = **6**, high priority = **2**

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	2, 6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4	High
	1, 5	Medium

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:

Insufficient proof of payment
(Issue 3)

Proof of payment for two sampled expenses valued at \$85,500 was not provided during the audit to show that the suppliers were paid.

Recommendation: The Office should only claim expenditures with proof of payment or adequate evidence to show that the relevant expenses were incurred.


Incomplete supporting documents
(Issue 4)

Four transactions valued at \$210,118.10 were considered ineligible due to inadequate supporting documents during the audit.

Recommendation: The Office should ensure that all expenditure is recorded based on sufficient or adequate supporting documents.

Management comments and action plan

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



Chris Taylor
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