



INTERNAL AUDIT DIVISION

REPORT 2014/041

Audit of United Nations High
Commissioner for Refugees operations
in Afghanistan

Overall results relating to the effective management of UNHCR operations in Afghanistan were initially assessed as unsatisfactory. Implementation of three critical and three important recommendations remains in progress.

FINAL OVERALL RATING: UNSATISFACTORY

30 May 2014

Assignment No. AR2013/141/03

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AUDIT REPORT

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) operations in Afghanistan (hereafter referred to as ‘the Representation’).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. Since it opened in 1988, the Representation facilitated the return of 4.6 million refugees from the neighbouring countries and assisted 1.5 million internally displaced persons, returnees, and persons in refugee like situations. It was headed by a Representative and supported by 303 staff members, and had a nine per cent vacancy rate as at 31 December 2012. The Representation office was located in Kabul and was responsible for the overall direction of the country operations. As at 31 December 2012, it had five sub-offices in Kabul, Jalalabad, Kandahar, Herat and Mazar-e-Sherif, and two field offices in Bamyan and Gardez.
4. The Representation had expenditures of \$82 million in 2011 and \$87 million in 2012. It worked with 68 partners in 2011 and 87 in 2012 who were allocated budgets of \$23 million in 2011 and \$32 million in 2012. As at 31 December 2012, the Representation had 321 items of property, plant and equipment (PPE) valued at \$15 million; and 2,402 items of serially tracked items (STI) valued at \$3 million.
5. Comments provided by UNHCR Representation in Afghanistan are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Representation governance, risk management and control processes in providing reasonable assurance regarding **the effective management of UNHCR operations in Afghanistan**.
7. This audit was included in the 2013 risk based annual work plan due to the risks related to significant expenditures in Afghanistan, operational complexity, and the geographical spread of the operations.
8. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Project management** - controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of the Representation’s project activities.

(b) **Regulatory framework** - controls that provide reasonable assurance that financial, project, procurement and asset management policies and procedures are adequate and effective.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from May to July 2013. The audit covered the period from 1 January 2011 to 30 April 2013.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. Tests of controls included review of policies and procedures, analysis of data available from the Managing Systems, Resources and People system (MSRP), and field visits to Kabul, Jalalabad, Herat and Mazar-e-Sherif for verification of project activities. The audit did not cover aspects related to staff safety and security as this risk area merits its own specific audit which is planned to be carried out in 2015.

III. AUDIT RESULTS

12. The Representation's governance, risk management and control processes examined were assessed as **unsatisfactory** in providing reasonable assurance regarding the **effective management of UNHCR operations in Afghanistan**. OIOS made eight recommendations to address issues identified in the audit.

13. Project management was assessed as unsatisfactory as the Representation had not made arrangements for timely and diligent financial and performance monitoring of key implementing partners. The Representation failed to detect numerous irregularities involving incorrect payments and poor management of the travel budget. Project expenditures for 2012 in the amount of \$188,000 were not properly supported and did not qualify as legitimate charge on the budget. The Representation also failed to adequately monitor an implementing partner that had not provided critical deliverables in a timely manner, despite expenditures of \$3.1 million. OIOS assessed that value for money had not been obtained in the agreement with the partner. UNHCR needed to ensure that the quality of external audit reports on implementing partners is in accordance with the terms of reference.

14. The regulatory framework was assessed as partially satisfactory since improvements to controls were needed to ensure consistent compliance with rules on planning, the procurement process and ensuring timely approvals from the relevant committees on contracts.

15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of three critical and three important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in Afghanistan	(a) Project management	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: UNSATISFACTORY					

A. Project management

Significant improvements were required in the arrangements for financial verification of implementing partners

16. OIOS reviewed 20 financial verification reports (five reports at each sub-office at Kabul, Mazar-e-Sharif, Jalalabad and Herat) for 2011 and 2012. OIOS observed that UNHCR offices did not: prepare an annual monitoring and reporting schedule/plan in agreement with each implementing partner; prepare agreed and signed minutes for each verification visit indicating the scope of field visits, extent of monitoring, and accounting checks conducted; review and act upon reports of verification teams; ensure that implementing partners took timely remedial actions to rectify shortcomings identified by project control teams; and carry out project financial verifications with the involvement of UNHCR administration and finance staff. The quality and standard of verification reports also varied widely across the operation, with the reports at the main country office in Kabul and sub-office Kabul being the most deficient. While the verification reports were provided, the findings were not supported by working papers. For example, although the Project Control Units stated that financial verification teams checked 100 per cent of vouchers, this statement could not be verified due to the absence of working papers. Lastly, the failure to involve administration and finance staff indicated that accounting aspects did not receive the required attention. This was inconsistent with the UNHCR requirement for such verifications to be accomplished through teamwork.

17. OIOS also reviewed the accounting systems and financial transactions at six implementing partners and observed serious control weaknesses in one implementing partner. These weaknesses were related to: improper cash payments; commingling of implementing partner staff member and UNHCR funds; unsupported travel expenditures; significant budget overruns; payments of questionable travel claims; irregular and unsupported incentive payments; an inadequately supported rental payment; duplicate payments based on questionable supporting documents; and irregular refunds. In the sample of transactions that it reviewed for 2012, OIOS estimated the overpayments from UNHCR to be approximately \$188,000. OIOS also observed that UNHCR had not detected these weaknesses through its financial verifications.

18. The failure to conduct systematic and in-depth financial verifications of implementing partners was caused by the lack of appropriate local standard operating procedures, coupled with a shortage of properly trained project control staff.

(1) The UNHCR Representation in Afghanistan should assign sufficient numbers of trained
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staff with appropriate skill sets to ensure that financial verification of partners is done in compliance with UNHCR rules. Arrangements for project control should also be strengthened through the adoption of appropriate local standard operating procedures.

The Representation accepted recommendation 1 and stated that it confirmed that the Senior Project Control Officer assigned to the Project Control Unit had taken up his position; sub-office staff were trained in project control activities; and standard operating procedures were in place to strengthen project control arrangements. Recommendation 1 remains open pending: recruitment of two additional project control support positions; and completion of the planned training on financial verification in May 2014 for UNHCR staff and partners at Sub-Office Jalalabad.

(2) The UNHCR Representation in Afghanistan should: (i) review the 2011, 2012 and 2013 expenditures reported by the implementing partner mentioned in paragraph 16 to assess if the expenditures were properly supported and to recover any identified overpayments; and (ii) implement an action plan to ensure that the partner disburses UNHCR funds only for purposes stipulated in the agreement and submits accurate financial reports to UNHCR.

The Representation accepted recommendation 2 and stated that an initial review established that an amount of \$117,351 was recoverable. A more detailed review of 2011-2013 transactions was ongoing to assess if partner's expenditures were properly supported and that recovery would be initiated for any identified overpayments. Implementation of an action plan to ensure accurate reporting in accordance with the partner project agreement was also ongoing. Recommendation 2 remains open pending completion of the on-going verification of 2011, 2012 and 2013 transactions and receipt of the results of the implementation of action plan to ensure accurate reporting.

Performance monitoring of the implementing partners needed to be improved

19. Performance monitoring of implementing partners was essential to ensure that partners executed projects according to partnership agreements. OIOS reviewed 10 performance reports at the offices in Kabul and Mazar-e-Sharif and observed that: (a) the offices reviewed had not prepared required annual monitoring plans in consultation and agreement with implementing partners; and (b) that project implementation progress had not been monitored, resulting in failure to detect sub-optimal delivery. For example:

- a) Given the fragile security context and difficulties in accessing remote areas, the Representation outsourced monitoring tasks to an implementing partner in areas where UNHCR staff could not access. However, the agreement with the partner lacked clauses for quality control, coordination and reporting arrangements, making it ineffective.
- b) At the time of the audit in May-June 2013, the deteriorating security situation resulted in the inability of UNHCR staff to travel to large areas in the country where UNHCR projects were being implemented.
- c) One implementing partner spent 34 to 58 per cent more than the approved budget for travel in 2011 and 2012 and this remained undetected although the excess over agreed budget was \$97,811.
- d) Another implementing partner did not deliver the agreed outputs for a project costing \$3.1 million, but this was not detected during performance monitoring.

- e) A pickle factory near the Jalalabad sub-office, which was constructed by an implementing partner, had not been operational since its construction in 2011. This was due to an incorrect needs assessment, poor planning, and ineffective monitoring. UNHCR did not derive value for money from this project and potential beneficiaries were deprived of employment opportunities. During OIOS's site visit, it became evident that the factory building and machinery on which \$75,780 had been invested had not been used for the intended purpose. Since UNHCR did not undertake regular monitoring, these shortcomings were not corrected in a timely manner.

20. These weaknesses remained unaddressed due to the absence of a monitoring plan; lack of procedures; and ineffective supervision by UNHCR staff.

(3) The UNHCR Representation in Afghanistan should improve supervisory oversight and implement appropriate procedures to ensure that implementing partner activities are periodically reviewed and monitored on the basis of an annual monitoring plan to obtain assurance that agreed project deliverables are provided by partners.

The Representation accepted recommendation 3 and stated that a number of measures had been taken to improve performance monitoring. These include: increased supervisory oversight by the Senior Project Control Officer based on clear terms of reference; and adoption of standard operating procedures. Recommendation 3 remains open pending receipt of annual project monitoring plan to ensure that agreed deliverables were provided.

UNHCR did not adequately monitor progress of a project assigned to an implementing partner that had failed to fully deliver on its project commitments

21. In 2012, the Representation concluded an exchange of letters and a sub-agreement titled, "Baseline survey, monitoring, evaluation and impact analysis of reintegration interventions" with an implementing partner with a budget allocation of \$3.1 million. Under the sub-project, the partner was required to undertake an assessment of UNHCR interventions in 22 high return areas. The agreed strategy was that the partner would conduct baseline as well as impact surveys for each UNHCR intervention. The partner was also required to monitor UNHCR activities in the 22 high return areas and submit a final report at the close of project on 31 December 2012. In addition a water quality analysis was also to be conducted.

22. The following shortcomings were identified in the delivery and execution of the project:

- a) The baseline survey was not completed by the target date of 31 August 2012 and was eventually completed and submitted to UNHCR only in January 2013. The required confidence level of 95 per cent was not achieved as the partner failed to correctly estimate the scope of work.
- b) A follow-up survey was envisaged one year after the baseline survey to assess the impact of reintegration measures. However, the sub-agreement was later amended to remove the requirement for the follow-up survey, although the related budget was not reduced. Elimination of the follow-up survey reduced the sub-project to a baseline survey, which by itself was of little value to UNHCR.
- c) During the project period, the Representation asked the partner to cease monitoring and reporting on UNHCR's activities in the 22 designated sites, one of the tasks assigned to the partner in the partner agreement.

- d) The final project report, which was a deliverable under the project and was due before the closure of the project on 31 December 2012, was eventually submitted in May 2013, under a new agreement entered into in 2013.
- e) The overhead support costs for the partner were incorrectly computed at \$282,379 whereas the correct amount was \$196,589. This mistake resulted in an overpayment of \$85,790. In addition, the partner was paid management fees totalling \$201,548. This amount, coupled with the overhead costs, meant that the partner was paid \$483,927 or about 16 per cent of the total budget as support costs, which was in excess of the permitted 7 per cent.

23. The partner could not deliver and achieve the sub-project objectives because: (a) staff employed by the partner did not perform assigned functions; (b) due to poor project planning, both UNHCR and the partner did not accurately assess the extent and complexity of the work that needed to be undertaken; and (c) the UNHCR monitoring team failed to properly review project progress, changes in project deliverables, objectives, and required reductions in scope of work and budget. In summary, although the project scope was substantially curtailed, the budget allocations were not reduced and the partner was paid the entire amount for partial delivery. Given the history of this case, it was questionable whether UNHCR derived value for money from its project investment of \$3.1 million.

(4) The UNHCR Representation in Afghanistan, in conjunction with the Bureau for Asia and the Pacific, should: (i) undertake a review of the project implemented by the partner to ascertain the extent to which project objectives were achieved and whether value for money was obtained; and (ii) review payments made to the partner, in the context of the deliverables actually provided, and recover any payments that are considered to be excessive.

The Representation accepted recommendation 4 and stated that it had adopted and implemented performance monitoring from July 2013 to record project partner visits, meetings and physical monitoring, reporting progress, changes and protection gaps emerging and to be addressed. Whilst all agreed project deliverables were not provided, UNHCR was of the view that the project made available valuable insight into the socio-economic conditions of returning refugees and helped a lot in guiding protection and programme interventions. On the issue of overheads, UNHCR stated that in their assessment a sum of \$291,075 had been overpaid to the partner for which recovery was initiated. Recommendation 4 remains open pending recovery of overpaid support costs of \$291,075 from the partner.

UNHCR needed to ensure that external auditors complied with implementing partner audit certification guidelines

24. UNHCR rules require the scope of an external audit of an implementing partner to include an audit report and a management letter. The management letter should include: an evaluation of the Implementing Partner's compliance with the Terms and Conditions of the Agreement between UNHCR and the Implementing Partner; an assessment of the internal controls and financial management arrangements over cash, asset, procurement management; a review of accounting records; and recommendations to address the deficiencies noted during the audit. The rules also specify that the work carried out by the external auditors should include the testing of transactions where procurement and other high-value expenditures have been incurred. The results of the testing should be reflected in the Internal Control Assessment Checklist. UNHCR offices are responsible for ensuring that audit reports received from the external auditors comply with the agreed terms of reference and that the quality of reports is reviewed prior to making payment.

25. A review of 20 audit reports submitted by the external auditors for 2011 and 2012 to assess the quality of external audit certification, showed that they were deficient in the following respects:

- a) None of the 20 management letters contained the auditors' assessment on compliance with the terms of the partnership agreement.
- b) The external auditors did not detect issues identified by OIOS which showed that for one partner expenditures reviewed were not adequately supported. This indicated that they had not complied with the terms of reference (TORs) that required them to test procurement and other transactions and to reflect the results of the testing in their audit reports.
- c) Although the external audits in some cases identified inadequate controls over cash and bank management, this was not properly reflected in their overall opinion.
- d) UNHCR staff did not adequately monitor and supervise the work of the external auditors and did not undertake a quality assessment review of the audit reports.

26. UNHCR did not ensure that the external auditors performed their work in compliance with UNHCR rules and that payments to the auditors were regulated accordingly. This increased the risk of inaccurate partner expenditures being uploaded in MSRP and remaining undetected.

(5) The UNHCR Representation in Afghanistan should implement measures for ensuring that: (i) external auditors comply with their approved terms of reference; and (ii) the quality of audit reports and management letters is reviewed prior to the making of final payments to concerned audit firms.

The Representation accepted recommendation 5 and stated that it had implemented measures to ensure that external auditors complied with the approved terms of reference; and reviewed the quality of audit reports and management letters submitted by the external auditors before making final payments of audit fees. Recommendation 5 remains open pending receipt of results of the quality review of reports of external auditors.

Action was taken to implement the Technical Monitoring Form for shelter projects

27. UNHCR shelter guidelines required the use of a Technical Monitoring Form to monitor the physical progress and technical integrity of shelters. The guidelines also specified that this form was to be prepared and signed by key project stakeholders and UNHCR. The Representation did not adequately monitor shelter activities nor systematically use the Technical Monitoring Form to establish the physical progress and quality of the shelters. The inconsistent use of the Technical Monitoring Form was due to inadequate supervision by UNHCR staff.

(6) The UNHCR Representation in Afghanistan should strengthen supervisory controls to ensure the systematic use of the Technical Monitoring Form for shelter projects.

The Representation accepted recommendation 6 and stated that it had systematically used the Technical Monitoring Form. Based on the action taken by the Representation, recommendation 6 has been closed.

B. Regulatory framework

The Representation needed to ensure that procurement was undertaken consistently in compliance with UNHCR rules

28. UNHCR rules require that any procurement over \$20,000 is submitted for review and approval to the Local Committee on Contracts (LCC). Vendors should be instructed to send bids in sealed envelopes to the designated address. The receiver of the bids should mark sealed envelopes with ‘not to be opened before (closing date/time)’, the tender reference and title. Rules also require the technical evaluation of valid offers by a technical evaluation committee against the criteria specified in the tender documentation. The requestor can authorise payment only after the goods and services have been certified for quality and conformity.

29. OIOS reviewed 30 procurement cases with an aggregate value of \$9.6 million, which represented 18 per cent of the total value of the purchase orders issued by the Representation during the audit period, and observed the following instances of noncompliance with UNHCR procurement rules:

- a) Vendors did not submit bids in required sealed envelopes.
- b) The Secretary to the LCC did not mark bid envelopes with the required message of “not to be opened before (closing date/time)”, the tender reference and title of the bids.
- c) The Representation did not conduct required technical evaluations in five cases having an aggregate value of \$60,325.
- d) One individual technically evaluated three construction cases, with an aggregate cost of \$286,992, although this responsibility is vested with the evaluation committee.
- e) In 13 cases aggregating to \$6.34 million, the Representation did not obtain a certificate of quality or conformity to the specifications given in the purchase order before payment.
- f) Fourteen submissions to the LCC were brief and did not contain the complete background or the justification for selecting a vendor.
- g) Sub-Office Jalalabad awarded a contract for the construction of a classroom, guard room and kitchen in the Computer Training Access centre in Saracha for \$41,986 without competitive bidding and without the involvement of the supply chain staff in the sub-office. No submissions for approval were made to the Local Committee on Contracts in the sub-office or the Representation.
- h) A \$18,000 contract for the construction of one room and a toilet in the sub-office Jalalabad, (which were leased premises) and three rooms in the UNHCR guesthouse was awarded, without following a proper competitive tendering process, to the landlord and his son who were owners of the leased UNHCR office premises.

30. The impact of these shortcomings was that UNHCR lacked assurance that value for money was consistently obtained. This happened because of lack of training and insufficient supervision by professional staff.

(7) The UNHCR Representation in Afghanistan should: (i) enhance supervision and oversight

on procurement matters to consistently ensure transparent and competitive bidding; (ii) ensure that appropriate financial and technical evaluations are conducted in accordance with standard operating procedures; and, (iii) enhance staff capacity in procurement through training.

The Representation accepted recommendation 7 and stated that it had taken action to enhance oversight on procurement process; adopted standard operating procedures on procurement; and improved staff capacity through training. The Supply Unit would implement a detailed mission plan to support sub-offices by providing on-site guidance and training in procurement, warehousing and asset management. Recommendation 7 remains open pending receipt of evidence on completion of the on-site guidance and training on procurement, warehousing and asset management in May 2014.

Action was taken to improve compliance with procedures on warehousing management

31. UNHCR rules require: appropriate arrangements for ensuring that warehouse stock is in a secure location; adequate fire safety arrangements; systematic stacking and storage; and the timely disposal of stock that is no longer required.

32. As at 31 May 2013, the inventories of the Representation were valued at \$12.1 million and were kept in five different UNHCR warehouses, which were managed by an international partner under an agreement with UNHCR. OIOS's review of warehouses at Kabul, Jalalabad and Herat revealed the following problems:

- a) There was no monitoring logbook at the Representation warehouse at Kabul, showing the date and time of opening and closing the warehouses and the names and signatures of staff that opened the doors.
- b) Fire safety arrangements in the warehouses were not adequate. For example, expiry dates of fire extinguishers were not indicated hence it could not be established if the fire extinguishers could be used in case of fire.
- c) Warehouse space planning and stacking needed enhancement. For instance in the sub-office Jalalabad warehouse, items of the same kind and relating to the same purchase order were stored in different locations of the warehouse due to a lack of space. In the Kabul warehouse, gas cookers were improperly stacked putting warehouse staff in danger; the roof of the storage room used for storing 19,959 blankets was leaking; and 19,579 plastic tarpaulins were stored in an adjacent warehouse with a roof that leaked.
- d) In the sub-office Jalalabad, 52,657 different items of excess materials valued at \$502,515 (which included construction materials such as glass windows, bricks, hinges, metal window and door frames, and steel beams) for shelter projects were held in stock awaiting distribution or disposal. This was due to lack of adequate stock planning and resulted in the maintenance of unnecessary inventory.
- e) In addition, due to lack of proper planning, the following non-food items were over-stocked (Table 2):

Table 2: Overstocked items

Item description	Stock level quantity as at 31 December 2012	Standard quantity per family	Standard quantity per 2012 planned 60,000 families	Quantity over stocked
Plastic sheets ¹	134,726	1	60,000	74,726
Blankets ²	60,539	6	48,000	12,539
Kitchen sets ²	17,715	1	8,000	9,715

1 – Representation-wide

2 – Sub-Office Jalalabad

33. These shortcomings were due to inadequate monitoring and supervision by UNHCR of the partner-managed warehouses, and exposed the Representation to risk of misappropriation and other types of losses.

(8) The UNHCR Representation in Afghanistan should prepare an action plan to strengthen oversight and supervision of partner managed warehouses by: (i) improving the physical security of the warehouses and arrangements for fire-fighting; (ii) improving lay-out planning and stacking; and (iii) preparing an action plan for the disposal of surplus materials in the warehouse.

The Representation accepted recommendation 8 and stated that it had taken action for periodic monitoring of warehouse inventory value; improved the physical security of warehouse and logbook maintenance; developed layout plans for inventory stacking and warehouse space; maintained adequate stock; prepared disposal plan for excess shelter materials; reviewed stock shortage in Herat warehouse. Based on the action taken by the Representation, recommendation 8 has been closed.

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the Management and staff of the UNHCR Representation in Afghanistan for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Afghanistan should assign sufficient numbers of trained staff with appropriate skill sets to ensure that financial verification of partners is done in compliance with UNHCR rules. Arrangements for project control should also be strengthened through the adoption of appropriate local standard operating procedures.	Critical	O	Recruitment of two additional project control support positions; and completion of the planned training on financial verification for UNHCR staff and partners at Sub-Office Jalalabad and Jalalabad.	September 2014
2	The UNHCR Representation in Afghanistan should: (i) review the 2011, 2012 and 2013 expenditures reported by the implementing partner mentioned in paragraph 16 to assess if the expenditures were properly supported and to recover any identified overpayments; and (ii) implement an action plan to ensure that the partner disburses UNHCR funds only for purposes stipulated in the agreement and submits accurate financial reports to UNHCR.	Important	O	Completion of the on-going verification of 2011, 2012 and 2013 transactions and receipt of the results of the implementation of action plan to ensure accurate reporting.	September 2014
3	The UNHCR Representation in Afghanistan should improve supervisory oversight and implement appropriate procedures to ensure that implementing partner activities are periodically reviewed and monitored on the basis of an annual monitoring plan to obtain assurance that agreed project deliverables are provided by partners.	Critical	O	Receipt of annual project monitoring plan to ensure that agreed deliverables were provided.	September 2014
4	The UNHCR Representation in Afghanistan, in conjunction with the Bureau for Asia and the Pacific, should: (i) undertake a review of the	Critical	O	Recovery of overpaid support costs of \$291,075 from the partner.	September 2014

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by the UNHCR Representation in Afghanistan in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	project implemented by the partner to ascertain the extent to which project objectives were achieved and whether value for money was obtained; and (ii) review payments made to the partner, in the context of the deliverables actually provided, and recover any payments that are considered to be excessive.				
5	The UNHCR Representation in Afghanistan should implement measures for ensuring that: (i) external auditors comply with their approved terms of reference; and (ii) the quality of audit reports and management letters is reviewed prior to the making of final payments to concerned audit firms.	Important	O	Receipt of results of the quality review of reports of external auditors.	September 2014
6	The UNHCR Representation in Afghanistan should strengthen supervisory controls to ensure the systematic use of the Technical Monitoring Form for shelter projects.	Important	C	Action taken	Implemented
7	The UNHCR Representation in Afghanistan should: (i) enhance supervision and oversight on procurement matters to consistently ensure transparent and competitive bidding; (ii) ensure that appropriate financial and technical evaluations are conducted in accordance with standard operating procedures; and, (iii) enhance staff capacity in procurement through training.	Important	O	Completion of the on-site guidance and training in May 2014 on procurement, warehousing and asset management	September 2014
8	The UNHCR Representation in Afghanistan should prepare an action plan to strengthen oversight and supervision of partner managed warehouses by: (i) improving the physical security of the warehouses and arrangements for fire-fighting; (ii) improving lay-out planning and stacking; and (iii) preparing an action plan for the disposal of surplus materials in the warehouse.	Important	C	Action taken	Implemented

APPENDIX I

Management Response

Management Response

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	The UNHCR Representation in Afghanistan should assign sufficient numbers of trained staff with appropriate skill sets to ensure that financial verification of partners is done in compliance with UNHCR rules. Arrangements for project control should also be strengthened through the adoption of appropriate local standard operating procedures.	Critical	Yes	Project Control Unit, Programme Unit and Assistant Representative (Operations)	(a) January 2014	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) Confirmed that staff assigned to the Project Control Unit have taken up their positions:</p> <p>i. A Senior Project Control Officer was appointed in November 2013 and took up position as from 1 January 2014. The incumbent works with the Assistant Project Control Officer (National Officer) at Country Office Kabul. Recruitment of two more project control support positions (one position currently in progress and the other position will be transferred from Sub-office Mazar on 1 July 2014 to join the said unit).</p> <p>ii. The Project Control Unit at the Country Office reports to the Assistant Representative (Operations) together with the Programme, Supply and External Relations Unit to ensure all units coordinate, consult and are complementary. Minutes of Ops</p>

⁵ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

⁶ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
					<p>(b) 09 – 10 December 2013.</p> <p>09 – 10 March 2014</p> <p>30 April 2014</p> <p>07 May 2014</p>	<p>weekly meeting).</p> <p>iii. An Organogram of the Operations Section was developed as a result of a post-operational review 2014.</p> <p>iv. The position of project control officer in Jalalabad starting from 01 January 2015 is approved under the Capacity Building Initiative.</p> <p>(b) Staff in the Sub-Offices have been trained in project control activities:</p> <p>i. Presentation to Head of Sub-Offices defining the Project Control Role and clarified Terms of References.</p> <p>ii. The Project Control Unit conducted a mission to Jalalabad for training partner staff and UNHCR related programme colleagues (in late 2013), and will continue in 2014 specifically addressing OIOS and external audit recommendations. The Project Control team conducted on the job training through joint financial verification with Sub-Offices Programme staff members.</p> <p>iii. 1. A Programme/Project Control Meeting took place from 09 – 10 December 2013 for all UNHCR programme staff country wide, it was held in Kabul. 2. A further Programme/Project Control Meeting</p>

Management Response

Audit of United Nations High Commissioner for Refugees operations in Afghanistan

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
					<p>14 May 2014</p> <p>(c) January 2014</p>	<p>was held from 09 – 10 March 2014 for all UNHCR programme staff country wide held in Kabul. 3. Training also took place for partners' and UNHCR related staff in SO Mazar on 30 Apr 2014. 4. Training for partners' and UNHCR related staff is planned for SO Kandahar on 07 May 2014. Training for partners' and UNHCR related staff is also planned for SO Jalalabad on 14 May 2014.</p> <p>iv. The Project Control 2014 mission plan, shared with SO.</p> <p>v. Workshops held: Information disseminated and progress followed up.</p> <p>(c) Project control arrangements were strengthened through the adoption standard operating procedures for financial verification :</p> <p>i. Project Control finalized financial verification standard operating procedures and distributed them accordingly.</p> <p>ii. Sub-offices are currently using a standardized report format (revised in December 2013) based on global UNHCR DRAFT Verification tool</p>

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						<p>kit.</p> <p>iii. Multi-functional teams were assigned to verification visits from July 2013 onwards, with the importance reiterated with Project Control now leading verification visits from December 2013 in Kabul Country Office.</p>
2	<p>The UNHCR Representation in Afghanistan should: (in) review the 2011, 2012 and 2013 expenditures reported by the implementing partner mentioned in paragraph 16 to assess if the expenditures were properly supported and to recover any identified overpayments; and (ii) implement an action plan to ensure that the partner disburses UNHCR funds only for purposes stipulated in the agreement and submits accurate financial reports to UNHCR.</p>	Important	Accepted	Programme Unit, Project Control Unit And Assistant Representative (Operations)	(a) December 2013	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) A comprehensive review of the 2011, 2012 and 2013 transactions to assess if the expenditures were properly supported and recovery of identified overpayments:</p> <p>i. A review was made that established an amount of US\$ 117,351 as an initial recoverable amount related to rental of office premises for USD 50,000, official missions for USD 47,351, and incentives for staff of USD 20,000 . A Note Verbal was sent through the Permanent Mission in Geneva in November 2013 requesting the recovery of that amount for which a receivable account was created. Verification is still on-going with regard to both 2011 and 2012 transactions. Should any other amounts be found to be recoverable, UNHCR will request the</p>

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					(b) February 2014	<p>reimbursement from the implementer accordingly.</p> <p>ii. The partner was granted liquidation period extension that ended 31 March 2014, therefore extension of financial report.</p> <p>iii. UNHCR Afghanistan contracted an internationally recognized auditor to perform the partner audit of 2013 accounts.</p> <p>(b) Implementation of an action plan to ensure that the partner reported accurately on UNHCR expenditures in accordance with the implementing partner agreement</p> <p>i. Implementing partner and UNHCR Working Group members endorsed early January 2014.</p> <p>ii. UNHCR and the partner agreed upon collective strategic objectives for 2014.).</p> <p>iii. 2014 drafted centralized Project Partnership Agreement including detailed sub regional individual budget line items, detailed objectives, output and performance indicators.</p> <p>iv. Verification visits shall be led by</p>

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						<p>Project Control, in line with the financial installment plan, drafted as part of the Project Partnership Agreement.</p> <p>v. For the 2014 Project, joint mission plans with the partner and UNHCR, on the Department activities has been discussed. Despite various efforts made so far (as of 01 May 2014), the partner has not agreed to sign the Project Partnership Agreement for 2014.</p>
3	<p>The UNHCR Representation in Afghanistan should improve supervisory oversight and implement appropriate procedures to ensure that implementing partner activities are periodically reviewed and monitored on the basis of an annual monitoring plan to obtain assurance that agreed project deliverables are provided by partners.</p>	Critical	Accepted	Programme Unit, Project Control Unit	August to December 2013	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) UNHCR Rules followed:</p> <p>i. Partnership Selection and Retention based on UNHCR IOM/FOM052/2013 fully complied with, including detailed procedures on the selection/retention process.</p> <p>ii. UNHCR Afghanistan has issued a number of documents to improve our internal controls as follows:</p> <p>Annexes: Implementing Partnership Management Committee composition memos at Sub Office and Country Office,</p>

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						<p>Partners log record, Financial Verification Standard Operating Procedures, Procurement Standard Operating Procedures, Asset Management Standard Operating Procedures, Warehouse Management Standard Operating Procedures, Result-based Management 2014 and 2015 matrix</p> <p>(b) Supervisory Oversight:</p> <p>i. Senior Project Control Officer with clear Terms of References, Country Office Units' Division of Labor set and shared with Sub Offices which indicate the accountability, work plans from Country Office Units to support all Sub-Offices in monitoring, and partners' performance monitoring.</p> <p>(c) Implementation of appropriate procedures for the performance monitoring:</p> <p>i. Implementation of Project Partnership Agreement 2014 and annexes including Project Monitoring Plan, Performance Monitoring format, Sub-Office Results-Based Management 2014 and 2015 Plan (including impact indicators, adopted</p>

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						<p>in 01 January 2014 in order to support enhanced partnership approach (Official launch as of 01 April 2014).</p> <p>- Supporting mission to the Sub Offices by Project Control and Programme team, set up Joint mission with the partner on its departments activities.</p> <p>ii. Multi-functional teams were assigned to verification visits from July 2013, with the importance reiterated with Project Control now leading verification visits from December 2013 in Country Office Kabul.</p>
4	<p>The UNHCR Representation in Afghanistan, in conjunction with the Bureau for Asia and the Pacific, should: (i) undertake a review of the project implemented by the partner to ascertain the extent to which project objectives were achieved and whether value for money was obtained; and (ii) review payments made to the partner, in the context of the deliverables actually provided, and recover any payments that are considered to be excessive.</p>	Critical	Accepted	Protection Unit (project review), Project Control Unit (project closure)	July 2013	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) Periodic monitoring developed with partners as part of Project Partnership Agreement, and modalities strengthened:</p> <p>i. Performance Monitoring Report adopted and implemented by Sub-Offices from July 2013 to record project partner visits, meetings and physical monitoring, reporting progress, changes and protection gaps emerging and to be addressed.</p> <p>ii. Enhanced Project Partnership Agreement annexes adopted as of</p>

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						<p>January 2014, implemented through consultative central and sub-regional workshop with partners, including results-based management framework objectives, output and performance indicators.</p> <p>iii. Draft Monitoring tool kit piloted by Sub-Offices, including the Project Monitoring Plan.</p> <p>iv. Pickle factory in the Eastern Region: Sub-Office Jalalabad has taken appropriate measures in regards to conducting needs assessment and carrying out proper/comprehensive feasibility studies before the commencement of any project/intervention by UNHCR. The Pickle factory budget is significantly lower than initially reviewed.</p> <p>(b) Undertake a review of the partner:</p> <p>i. A joint desk review was conducted, in line with the project Sub Agreements for 2012 and 2013, resulting in a note for the file agreed upon by both parties after being agreed in a meeting in November 2013 .</p> <p>ii. The Programme Unit undertook an independent analysis of the partner</p>

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						<p>outcomes for both 2012 and 2013, against the agreed objectives. Both these reviews resulted in the following agreed achievements:</p> <p>aaa) The survey tools covered a comprehensive assortment of socio-economic and welfare indicators ranging from shelter and sanitation and access to basic services, to employment, education, and security .</p> <p>bbb) The changes in the 2012 amendment to the agreement replaced the impact follow-up survey with new goals and objectives, in line with initial findings and trends analysis (i.e. National, Regional and Community level profiling, including Geographic Information System mapping of project interventions, demographics, migration patterns and trends analysis, all publically available), information that were not initially planned, nor requested .</p> <p>iii. Finally a website front-face and online interactive database back-end, which constituted the basis for the 2013 partnership continuation, including a Geographic Information System interface, which was handed over to UNHCR in May 2013. In 2013, the partner continued through self-funding in the months of April</p>

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						<p>and May, in order to complete all agreed objectives.</p> <p>(c) Undertake partner payments:</p> <p>A verification was conducted for Implementing Partner Financial Reporting for 2013 while making a follow-up on the issues raised with regard to 2012 overheads charged.. The overheads were examined and the related report/recommendations made together with comments on their 2013 financial reporting . A recommendation has been made that the partner considers the revision of the submitted financial reporting for 2012 so as to correct the reported overheads and arrange to refund an amount of US\$ 291,075.66, based on the review made through the verification and/or follow-up exercise.</p>
5	The UNHCR Representation in Afghanistan should implement measures for ensuring that: (a) external auditors comply with their approved terms of reference; and (b) the quality of audit reports and management letters is reviewed prior to the making of final payments to concerned audit firms.	Important	Yes	Project Control Unit and Supply Unit	(a) February 2014	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) Implementation of measures to ensure that external auditors complied with their approved terms of reference</p> <p>i. A comprehensive review of audit companies took place, and the</p>

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					(b) End May 2014	<p>selection process was adhered to.</p> <p>ii. Issued Terms of Reference included a clear management letter sample which should be developed and submitted by the audit firm along the audit reports.</p> <p>iii. Internal control assessment checklist was also attached to the Terms of Reference to be filled and submitted by the auditors for each partner audited.</p> <p>(b) Confirmation that the quality of audit reports and management letters is reviewed prior to making final payments to the audit firm:</p> <p>i. Prior the signature of the contract, a clause was added, which conditions the final payment to a comprehensive quality review of the submitted audit reports and management letters.</p> <p>ii. Due to the security measures taken before and during the elections in April 2014, non-essential staff members and partners were relocated outside Afghanistan, and extension of the deadline to submit External Auditor's reports was granted. The results of the external audit will be sent at the end of May.</p>

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6	The UNHCR Representation in Afghanistan should strengthen supervisory controls to ensure the systematic use of the Technical Monitoring Form for shelter projects.	Important	Yes	Programme Unit, Head of Sub Offices	April 2014	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) Technical Monitoring Form is systematically used in monitoring shelter project:</p> <p>i. An online database application for shelter programme was launched , including Geographic Information System component, for detailed monthly tracking of shelter programme planning, number of shelter units, times lines, and benefitting families (i.e. Geographic Information System location, population planning group, budget and progress). Technical Monitoring Form is intended to be used for 2014 Shelter Programme. The selected partners for 2014 Shelter Project have undergone a workshop on the use of the Technical Monitoring Form.</p> <p>ii. The 2013 shelter reports were shared by Sub-Offices, (i.e. Sub-Office Jalalabad and Field-Office Gardiz) with Country Office Kabul .</p> <p>(b) Systematic use of the Technical Monitoring Form, Final Verification Report, and post construction monitoring:</p> <p>i. The revised technical monthly</p>

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						<p>monitoring form is systematically used through described methodology . Revised National Shelter Guidelines were adopted and shared with Sub Offices which is in line with Shelter Cluster member’s feedback . This process is led by UNHCR as Shelter Cluster Lead.</p> <p>ii. A revised technical and protection-based monitoring format and a quantitative performance monitoring ‘Partner Weekly Report’ submitted by partners to Sub-Offices on weekly basis.</p> <p>(c) Reconciliation by the Supply Chain Unit of shelter materials:</p> <p>i. Direct procurement modalities were endorsed by the Representative February 2014, and implemented immediately.</p> <p>ii. Supply Standard Operating Procedures on warehouse management are implemented, including a monthly warehouse check list and report (Recommendation 7 and 8).</p>
7	The UNHCR Representation in Afghanistan should: (i) enhance supervision and oversight on procurement matters to consistently ensure transparent and competitive bidding; (ii) ensure	Important	yes	Supply Unit, Project Control Unit,		The Representation has undertaken the following actions to address the recommendation.

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	<p>that appropriate financial and technical evaluations are conducted in accordance with standard operating procedures; and, (iii) enhance staff capacity in procurement through training.</p>				<p>(a) August 2013</p> <p>(b) March 2014</p>	<p>(a) Enhanced supervision:</p> <p>i. Programme and Supply Units jointly send bi-weekly updates to Sub-Offices in regards to logistics/annual procurement plan updates and pending transportation of supplies, ensuring communication with the Senior Management.</p> <p>ii. Quarterly Warehouse Stock Checks are implemented by through Partnership and are monitored by the UNHCR Supply Unit from January 2014. The first report is expected in May 2014.</p> <p>(b) Oversight on procurement processes:</p> <p>i. Procurement standard operating procedures were endorsed and distributed.</p> <p>ii. A review of shelter procurement modalities, in relation to risk management, led to 2014 direct procurement of all shelter materials.</p> <p>iii. A monthly procurement monitoring report system was introduced in March 2014, which aims at reviewing the purchase orders issued by the Sub-Offices and ensuring that necessary approvals</p>

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					<p>(c) March 2014</p> <p>(d) 06-28 May 2014</p>	<p>were obtained from the relevant committees (Local Committee on Contracts or Headquarters Committee on Contracts).</p> <p>iv. The Local Committee on Contracts of the Country Office and Sub-Offices have being chaired and managed according to the guidelines. Their members are provided with training and shared the relevant documents and guidelines in this regard.</p> <p>v. Financial Disclosures of the procurement focal points and 2013 Local Committee on Contracts' members have been completed. The process is on-going for the new composition of the 2014 committee.</p> <p>(c) Adoption of standard operating procurement procedures:</p> <p>The standard operating procedures have been issued and are being implemented by the Supply staff throughout the country.</p> <p>(d) Improvement of staff capacity through training:</p> <p>i. The Supply Unit has a detailed mission plan (from 6 to 28 May 2014) to support Sub Offices by providing</p>

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						<p>on site guidance and training in procurement, warehousing and asset management.</p> <p>ii. The standardization of contracts is in progress. (From January 2014 all offices in Afghanistan are using the standard contracts approved by the Legal Affairs Section and posted on the intranet).</p>
8	The UNHCR Representation in Afghanistan should prepare an action plan to strengthen oversight and supervision of partner managed warehouses by: (i) improving the physical security of the warehouses and arrangements for fire-fighting; (ii) improving lay-out planning and stacking; and (iii) preparing an action plan for the disposal of surplus materials in the warehouse.	Important	Yes	Supply Unit and Programme Unit (Core Relief Items plan)	(a) September 2013	<p>The Representation has undertaken the following actions to address the recommendation.</p> <p>(a) Periodic monitoring of warehouse inventory value:</p> <p>i. A log book system for opening and closing of the warehouses was implemented as of September 2013 .</p> <p>ii. Quarterly Physical Verification of Stocks are being undertaken to ensure 100% accuracy rate vs. the MSRP stock reports.</p> <p>iii. All Sub-offices have been requested to submit copies of bin cards on a weekly basis, which are checked against the MSRP generated stock reports countrywide to ensure stock accuracy and timely remedy of any problems/discrepancies. Instructions are complied with.</p>

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					<p>(d) 16 January 2014</p> <p>(e)September 2013</p> <p>(f) March 2014</p>	<p>have been re-arranged considering stacking goods of the same purchase orders together.</p> <p>iii. Gas bottles remain empty while being stored at the warehouse.</p> <p>iv. The Kabul warehouse ceiling was fixed accordingly.</p> <p>(d) Maintaining adequate stock levels:</p> <p>Annual procurement plan is shared with Headquarters and reviewed on a monthly basis. Stock levels have been topped up through procurement of non-food items received in September/October 2013 followed by a 2nd round of procurement initiated in March 2014.</p> <p>(e) Preparing action plan for the disposal of excess shelter materials:</p> <p>The excess shelter materials were deducted from the procurement of shelter materials undertaken in September 2013, therefore no further excess materials.</p> <p>(f) Adequate planning of warehouse space:</p> <p>The stocks have been re-arranged in</p>

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					(g) October 2013	<p>line with the instructions contained in the standard operating procedures on warehouse management.</p> <p>(g) Reviewing shortages in stock at the Herat warehouse and inaccuracies in the value of donated stock:</p> <p>The stock level of Sub-Office Herat was topped up by the procurement of non-food items received in September/October 2013.</p>