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OIOS AUDIT OF UNHCR OPERATIONS IN AFGHANISTAN

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Office of Internal Oversight Services
UNHCR Audit Service

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EXECUTIVE SUMMARY

Between July 2003 and June 2004, OIOS through its Resident Audit team has conducted a series of audits and reviews of the UNHCR Operations in Afghanistan, with a total expenditure of US\$ 125 million in 2002 and US\$ 81 million in 2003. The audit covered activities with a total expenditure of US\$ 101.5 million in 2002 and 2003. Audit Observations were issued directly to the Offices concerned, on which comments were received. *The Offices accepted most of the recommendations made and are in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Afghanistan as above average. Overall, it was well run, and although weaknesses in the application of internal controls at implementing partners were identified and performance monitoring should further improve, the weaknesses concerned were not sufficiently critical to compromise the overall system of internal control.

Programme Management

- In Afghanistan's undocumented and cash economy, the use of money traders and authenticity of supporting documentation still poses a major financial risk to UNHCR.
- UNHCR offices should direct capacity building initiatives to improve the quality of project records at implementing partners.
- Accountability at the Ministry of Repatriation (MoRR) Offices remains weak. Funding of material and cash assistances with this partner should be limited to the maximum extent possible.
- ICMC left Afghanistan and the project records for the 2003 sub-projects totalling US\$ 1.9 million are no longer available locally.
- Performance monitoring should improve and matched with financial monitoring. OIOS, however, recognised the constraints presented by the security situation and the limited capacity at Programme Sections. A large Shelter Programme, in which more than 90,000 beneficiaries were assisted, and many income-generation projects had to be monitored with limited staff capacity.
- OIOS questions the feasibility of a number of income-generation projects, in which substantial UNHCR funds were invested: The direct costs invested in the peanut factory in

Zhare Dasht, a revolving project, totalled more than US\$ 600,000 without any oil being sold. Also, wool totalling US\$ 500,000 were purchased for wool spinning activities in the Kandahar province, but the spin wool could not be sold. The making of doors and windows as cash for work activities in Kabul, was not economical.

- A revolving seed production scheme in Eastern Afghanistan totalling US\$ 385,000 was not properly monitored by UNHCR or ISRA.
- Cost elements in proposals submitted by implementing partners, especially in the “Water” and “Income-generation” Sectors, were not properly benchmarked prior to entering into Sub-agreements.

Supply Management

- Significant improvements were noted in procurement at OCM, Kabul, in particular through the use of frame agreements. Procurement of shelter materials was successfully limited in the sub-project budgets of implementing partners and at Sub-Offices. Shelter materials and NFIs were also economically transported by GTZ and warehouses were well managed.
- Some implementing partners paid high rates to transport shelter materials to beneficiaries.
- OCM, Kabul did well in 2003 to update AssetTrak data, but physical verifications of some 4,000 assets under its custody or that of its implementing partners are still outstanding.

Security and Safety

- UNHCR staff movements are restricted in most districts within the Southern, South-Eastern and Eastern regions. The deteriorating security situation affects performance monitoring.

Administration

- In the areas of administration and finance, the UNHCR Offices in Afghanistan generally complied with UNHCR’s regulations, rules, policies and procedures and controls were operating effectively during the period under review.
- OCM, Kabul did not properly supervise and operate the Medical Insurance Plan (MIP).

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I. INTRODUCTION

1. Between July 2003 and May 2004, the OIOS Resident Audit team based in Islamabad, Pakistan conducted a second cycle of audits of the UNHCR Afghan Operation. The audits were conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of 28 of its implementing partners and the activities of the UNHCR Office of the Chief of Mission (OCM) in Kabul and its Sub-Offices (SO) in Jalalabad, Mazar-i-Sharif, Kandahar, Kabul, Herat and Gardez.

2. The first cycle of audits and reviews of the UNHCR Afghan operation was conducted between April 2002 and June 2003. The audits focused on 2002 projects covering expenditure of US\$ 87.6 million at various stages of implementation. In its 2003 audit report, OIOS had assessed the UNHCR operation in Afghanistan as average. It was adequately run but key controls were lacking at partners and in particular in the procurement functions and financial systems. UNHCR's procurement procedures also needed to be improved and considerable work was still required to track and record assets.

3. Since the beginning of the 2002, over 3 million Afghans returned to Afghanistan. Whereas 2002 was marked as the year of massive repatriation, the main focus in 2003 was on re-integration activities, such as shelter, water and income generation.

4. More than 90,000 beneficiaries received shelter assistance and 6,000 water points, 8,000 baths and 22,000 latrines completed in the Afghan operation in 2002 and 2003. Under income generation, activities focused on small-scale irrigation projects, rehabilitation of access roads, canal and karez cleaning and micro income generation and cash for work activities. The latter included poultry in the North, tailoring and carpentry in the East, peanut oil and wool spinning for IDPs in the South, vocational training for woman in the West and welding workshops in the Central region.

5. Seven Audit Observations detailing the audit findings and recommendations were issued directly to the Heads of Office. The replies received are reflected, as appropriate in this report. *OCM and its Sub-Offices have accepted and implemented most of the audit recommendations.*

II. AUDIT OBJECTIVES

6. The main objectives of the audits were to evaluate the adequacy and effectiveness of controls to ensure:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and,
- Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

7. The audits focused on 2002 and 2003 programme activities under projects 02/SB/AFG/RP/330, 02/SB/AFG/RP/331, 02/SB/AFG/RP/332, 03/SB/AFG/RP/331, 03/SB/AFG/RP/333, 03/SB/AFG/RP/334, 03/SB/AFG/RP/335 and 03/SB/AFG/RP/336 with expenditure of US\$ 64 million.

8. The partners reviewed and the expenditures incurred at the time of OIOS's audits are as follows:

2002

- InterSOS – expenditure of US\$ 2.1 million,
- Islamic Relief Agency (ISRA) – expenditure of US\$ 766,000,
- International Rescue Committee (IRC) – expenditure of US\$ 525,000,
- Cooperazione e Sviluppo (CESVI) – expenditure of US\$ 839,000,
- Solidarites – expenditure of US\$ 254,000,
- Humanitarian Assistance Europe Foundation (FOCUS) – expenditure of US\$ 412,000,
- Samaritan's Purse International Relief (SPIR) – expenditure of US\$ 402,000,
- GUARDIANS – expenditure of US\$1 million,
- Voluntary Association for Rehabilitation of Afghanistan (VARA) – expenditure of US\$ 983,000,
- Organization for Humanitarian Assistance (OHA) – expenditure of US\$ 649,000,
- Southern Western Afghanistan & Balochistan Association for Coordination (SWABAC) – expenditure of US\$ 96,000,
- Central Asia Development Group (CADG) – expenditure of US\$ 654,000,
- International Catholic Migration Commission (ICMC) – expenditure of US\$ 203,000,
- Bureau for Rural Rehabilitation and Afghan Reconstruction Development Unit (BRR/ARDU) – expenditure of US\$ 811,000,
- Ministry of Repatriation (MoRR) – expenditure of US\$ 900,000.
- Agence d'Aide a la Cooperation Technique et au Developpement (ACTED) – expenditure of US\$ 2.4 million

2003

- GUARDIANS – expenditure of US\$ 474,000,
- Voluntary Association for Rehabilitation of Afghanistan (VARA) – expenditure of US\$ 274,000,
- Organization for Humanitarian Assistance (OHA) – expenditure of US\$ 431,000,
- Southern Western Afghanistan & Balochistan Association for Coordination (SWABAC) – expenditure of US\$ 96,000,
- Central Asia Development Group (CADG) – expenditure of US\$ 789,000,
- InterSOS – expenditure of US\$ 655,000,
- International Catholic Migration Commission (ICMC) – expenditure of US\$ 444,000,
- Independent Humanitarian Services Association (IHSAN) – expenditure of US\$ 187,000,
- Bureau for Rural Rehabilitation and Afghan Reconstruction Development Unit (BRR/ARDU) – expenditure of US\$ 604,000,
- Country Development Unit (CDU) – expenditure of US\$ 121,000,
- Sina Association Rehabilitation Services (SARS) – expenditure of US\$ 347,000,

- Coordination of Humanitarian Assistance (CHA) – expenditure of US\$ 274,000,
- Hewad Reconstruction Services (HRS) – expenditure of US\$ 370,000,
- Ansari Rehabilitation Association for Afghanistan (ARAA) – expenditure of US\$ 1 million,
- Sherzad Reconstruction Organization (SRO) – expenditure of US\$ 748,000,
- International Rescue Committee (IRC) – expenditure of 1 million,
- Malteser Hilfsdienst (MHD) – expenditure of US\$ 933,000,
- CARE International (CARE) - expenditure of US\$ 1.4 million,
- GTZ International Services (GTZ) – expenditure of US\$ 4.3 million,
- Ministry of Repatriation (MoRR) – expenditure of US\$ 250,000,
- Agence d’Aide a la Cooperation Technique et au Developpement (ACTED) – expenditure of US\$ 173,000,
- Danish Committee for Aid to Afghan Refugees (DACAAR) – expenditure of US\$ 1.3 million.

9. OIOS also reviewed activities directly implemented by UNHCR with expenditure totalling US\$ 11 million.

10. The audit reviewed the administration of OCM, Kabul and its SOs in Jalalabad, Mazar-i-Sharif, Kandahar, Kabul, Herat and Gardez with administrative budgets totalling US\$ 22.5 million for 2002 (US\$ 9.5 million was disbursed since OIOS’ previous audits conducted during 2002) and US\$ 21.7 million for 2003 (US\$ 17 million was disbursed at the time of OIOS’ various audits) and assets with an acquisition value of US\$ 18 million and a current value of US\$ 10 million. The number of staff working for the UNHCR Operation in Afghanistan was 870 in 2003. This included staff on regular posts, National Professional Officers and United Nations Volunteers.

11. The auditors also reviewed the activities of the government implementing partner MoRR to assist with the capacity building initiatives that included an assessment of the functional areas at selected offices responsible for the implementation of sub-projects.

12. External audit firms were engaged to audit the 2002 sub-projects and most of the audit certificates of partners reviewed by OIOS included qualified audit opinions. The qualifications were scope limitations that prevented the external auditors to obtain adequate audit evidence in an undocumented and cash economy. At the date of OIOS’ audits, most of the Independent External auditors submitted external audit certificates and management letters to UNHCR and the partners. *UNHCR was awaiting comments from the partners on the issues raised in management letters.*

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

(a) UNHCR funds with Money Traders

13. Local partners continue keeping their instalments received from UNHCR with money traders who are persons and not legal entities and in most cases unknown to UNHCR. There

are no audit trails of transactions and traders are not accountable for UNHCR funds in their custody. In the absence of an adequate banking system in Afghanistan, UNHCR and the partners accepted the associated risks as a given. There are developments and improvements in the banking system and OIOS is of the opinion that partners should be encouraged to make use of the “Afghanistan Bank” or other commercial banks, such as “Standard Chartered Bank”.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan and its Sub-Offices should request local implementing partners to consider opening bank accounts with banks in Afghanistan (Rec. 01).

(b) Capacity building and engagement of partners

14. Due to UNHCR Afghanistan’s continued capacity building initiatives, the financial accounting and reporting of most local partners improved. UNHCR engaged more than one hundred partners and in most regions, SOs were restricted to partners that operated within specific areas and engaged as many partners as possible to ensure that programme targets are met.

15. Notwithstanding the efforts of UNHCR, some partners continued with rudimentary accounting systems and did not improve their internal controls. The Afghan programme is reducing and Sub-Offices are now in a better position to select partners on more concrete information, past experiences and findings of external and internal auditors. From 2005, the selection of partners should include an assessment of partners’ financial systems, procedures and internal controls prior to engagement.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan and its Sub-Offices should assess partner’s financial systems, procedures and internal controls prior to entering into Sub-Agreements in 2005 (Rec. 02).

(c) Authenticity of supporting documentation

16. OIOS found instances where partners submitted questionable quotations for contracts, supplies and vehicle rentals, of which some had notable financial implications to UNHCR. SRO entered into two contracts with a company to drill a hundred and seven wells in the Herat province at the cost of US\$ 126,000 through quotations. The quotations were US\$ 35, US\$ 38 and US\$ 40 per meter of drilling. For both exercises, the same vendors quoted the same prices, with the unsuccessful vendors quoting the same for gravelling, blaking and apron. These quotations were further questionable as SRO paid 40 per cent more per meter than what the other partners in the province did. The additional cost to UNHCR was estimated at US\$ 50,000.

17. Vehicle rent by partners was a positive alternative to the high cost if UNHCR provided the vehicles, but there is a risk that partners or their staff could rent from related parties. In the absence of registration or other documentation that provide proof of ownership, it is impossible to ascertain the regularity of the transactions, but OIOS noted

substantial differences in rates. InterSOS paid US\$ 1,500 per month, double the US\$ 750 paid by ICMC. According to ICMC, a driver's salary is US\$ 250 and running costs US\$ 300. In the case of InterSOS it leaves a profit margin of US\$ 950, which is more than double the amount provided for as a salary to a national Programme Manager under UNHCR sub-projects.

18. In a generally undocumented and cash economy, it is understandably difficult for SOs to ascertain the adequacy of supporting evidence to substantiate the validity of transactions, especially contracts in areas where contractors are limited. *SOs undertook to benchmark costs when assessing proposals to act as ceiling amounts in an effort to reduce the risk of being over-charged.* Such benchmarking of prices, to act as ceiling amounts in sub-project budgets could substantially reduce financial implications to UNHCR.

(d) Record keeping in projects

19. OIOS found the lack of project records as the main weakness at partners, especially in the "Water and Sanitation" and "Income-Generation" Sectors. Most partners did not record actual data of wells, baths, latrines and income generation activities, such as road works, karezes and constructions. Without actual data on projects, UNHCR cannot ascertain as to whether partners completed projects in accordance with plans or proposals and/or compare the cost with a "Bill of Quantities" to determine if UNHCR obtained value for money.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan and its Sub-Offices should focus its capacity building initiatives at partners on record keeping in projects, especially the recording of actual data in income generation projects (Rec. 03).

(e) Staff costs in sub-projects

20. Partners keep records of payments to staff, but do not maintain consolidated payroll data. Neither do they submit the required schedules to UNHCR that indicate the staff members involved in the sub-projects and the remuneration paid to each of the staff members that ties up with staff costs reported in their financial reports. Some partners have many staff members in UNHCR sub-projects, but did not submit staff lists to UNHCR and do not have consolidated data on numbers, positions and remuneration paid and therefore, the expenditures charged to UNHCR cannot be related to the provisions in sub-project budgets.

21. OIOS noted discrepancies in the staff costs charged to UNHCR sub-projects that indicate a need for consolidated information from partners. IRC charged a UNHCR sub-project with remuneration to staff members that were not engaged in the sub-project and CARE charged staff costs to UNHCR on a shared cost basis that was not in accordance with the sub-project budget. Thus far, UNHCR, Afghanistan's efforts to obtain the schedules from partners were not successful.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan and its Sub-Offices should request all partners to submit a list

of staff engaged in future sub-projects that should be attached to Sub-agreements and submit schedules with their final 2004 financial SPMRs that indicate, per staff member, the amount of salaries and other entitlements paid. The total amount of staff costs as per the schedule should tie-up with the amount reported in the financial SPMRs (Rec. 04).

(f) OIOS' audit of MoRR

22. In an effort to assist the capacity building initiatives, OIOS reviewed financial and administrative areas at selected MoRR offices responsible for implementation. The financial management of the transport component that accounted for more than 60 per cent of the total sub-projects was well managed by SO, Herat and commended by OIOS.

23. Notwithstanding UNHCR's initiatives to strengthen accountability, MoRR offices made limited progress in record keeping, including financial, the offices lacked internal controls and asset management remained weak. Cash instalments from UNHCR were kept at private houses or at locations unknown to UNHCR. In Kabul, the MoRR office could not present supporting documents for most of the selected expenditures of its 2003 sub-project with reported expenditures at the date of the audit totalling US\$ 123,000. There was, in general, a lack of internal controls to ensure that transactions are properly authorised, recorded and reported. Also and although purchases were limited, MoRR offices did not follow basic procurement procedures that resulted in uneconomical purchases.

24. Furthermore, MoRR's office in Herat entered into a construction contract for a new office of US\$ 48,000 without informing UNHCR and exhausting the sub-project budget provision of US\$ 20,000 for rehabilitation work at the existing office. The office in Farah also started the construction of new office premises with an estimated cost of US\$ 30,000. OIOS noted limited construction work, but the US\$ 5,000 was utilised that UNHCR provided for rehabilitation work at their existing office. The management of both offices could not indicate how MoRR will fund the remainder of the construction work, but there was an expectation that UNHCR will fund the constructions.

25. *SO, Herat duly followed-up on each finding that OIOS reported and was in the process to take corrective steps, especially by increasing financial monitoring. OCM, Kabul is in the process to engage an external firm to provide training in financial management and record keeping.* OIOS supports this initiative, but remain of the opinion that an improvement in record keeping and the strengthening of internal controls is not enough to ensure accountability over UNHCR funds. OCM, Kabul should match sub-project budget provisions with up-front agreed activities and increase financial monitoring. The sub-project budget for 2003 was US\$ 250,000 against which MoRR only reported expenditures of US\$ 123,000 by May 2004, whereas OCM, Kabul paid US\$ 172,000 in instalments.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan should limit provisions in MoRR sub-project budgets to provide only for up-front agreed activities and increase financial monitoring to enhance accountability over UNHCR funds (Rec. 05).

(g) Review of partners' completed activities for 2002

26. From July to October 2003, OIOS reviewed twenty-one 2002 sub-projects with expenditures totalling US\$ 13 million that were implemented by 16 partners. With the exception of ICMC, GUARDIANS and VARA, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with Sub-agreements.

27. ICMC's records were unorganised and the supporting documentation not properly filed for a sub-project with reported expenditures of US\$ 200,000. *SO, Kandahar informed OIOS that ICMC re-organised its records and that the reported expenditures were verified by its Programme Section.* GUARDIANS and VARA could not present supporting documentation for reported expenditures totalling US\$ 220,000 and US\$ 179,000 respectively. *The supporting documentation was eventually submitted to SO, Kandahar that found it adequate.*

(h) Review of partners' completed activities for 2003

28. IRC implemented sub-projects in three regions, i.e. Gardez, Jalalabad and Mazar-i-Sharif. The Kabul Office performed the accounting function and prepared the financial reports. OIOS found the general ledger and final Sub-Project Monitoring Report of at least one location, Gardez, inaccurate and incomplete. There were miss-allocations, unauthorised charges and distortions in the recording of transactions. The discrepancies were of such an extent that OIOS suggested the re-submission of the final Sub-Project Monitoring Report.

29. Two locations, i.e. Gardez and Jalalabad, included "Agency Operational Support" costs totalling US\$ 700,000 that represents 38 per cent of the total sub-project budgets. According to IRC's funding structure at the date of the audit, UNHCR's sub-projects accounted for 25 per cent of the total funding of IRC, substantially less than 38 per cent. UNHCR Sub-Offices negotiated the sub-project budgets separately and each provided for overhead costs with a related risk of double funding IRC's overhead costs.

30. Also, and as "Umbrella NGO", IRC charged UNHCR with additional overhead costs for co-ordinating partners. In the "Shelter" Sector for example, IRC paid an administrative fee of US\$ 40 per shelter to the partners and charged the costs to UNHCR. *OCM, Kabul will co-ordinate the negotiations of sub-project budgets between SOs and IRC to avoid double funding of IRC's overhead costs.*

31. ICMC left Afghanistan in early 2004. For the 2003 sub-project ICMC reported expenditures totalling US\$ 1.9 million to UNHCR. However, project records are no longer available in Afghanistan for verification. Given the amount involved, UNHCR should arrange for an external audit of these sub-projects.

Recommendation:

- The UNHCR Bureau for CASWANAME, in consultation with DFSM, should arrange an independent external audit of sub-projects 03/SB/AFG/RP/334 (h\$ and 03/SB/AFG/RP/331 (g\$ totalling US\$ 1.9 million implemented by the International Catholic Migration Commission, for which no project records are available locally (Rec. 06).

B. Other Programme Issues

(a) Water points

32. DACAAR, UNHCR, Afghanistan's main partner in the "Water" Sector, completed more than 30,000 water points in Afghanistan over the years of which 2,700 were under UNHCR sub-projects in 2002 and 2003.

33. The provisions in the sub-project budgets were per well (method when contractors are used) whereas costing was per category of expenditure (method when partner does not use contractors). Therefore the provisions in sub-project budgets could not be related to actual costs incurred. DACAAR overspent its 2003 UNHCR sub-project budget of US\$ 1.17 million by US\$ 163,000, of which US\$ 121,000 (74 per cent) on wells. *OCM, Kabul disallowed the overspending.*

34. Until mid 2003, DACAAR followed its own strategies and UNHCR's participation was limited in the "site" selection process. In Jalalabad and until UNHCR participated in the selection process in August 2002, DACAAR drilled and deepened 160 wells under a UNHCR sub-project in districts where there were no returnees and reported 32 wells as completed that were not completed. When UNHCR queried this, DACAAR merely installed hand pumps on existing wells to account for the discrepancy. *SO, Jalalabad took action by more actively participating in the "site" selection processes.*

35. DACAAR maintains a database on wells and has a maintenance program in place. This database is also available to the Ministry of Rural and Rehabilitation Development (MRRD) that is managing national water programs.

36. Since 2002, other partners completed 3,300 of the total 6,000 wells, 55 per cent. They did not record technical data and therefore the data is not available for future planning exercises of the MRRD or for maintenance purposes.

37. Some partners were costly. ACF completed only 17 out of 70 planned water points in Sar-e-Pul and Mazar in 2002. The total reported and verified expenditure to complete the water points was US\$ 103,000 that is five times the estimated cost.

38. The salaries paid by ARAA in the Western Region to make rings for shallow wells were triple the cost of rings if purchased. *According to ARAA, the produced rings were of a better quality than purchased ones.* ARAA also paid US\$ 58,000 on drilling contracts for the drilling of fifty-five wells in Ghor. The lowest quote was US\$ 17.5 per meter for 30 meters of drilling that is a reasonable price, but the contracts entered into for the drilling of 60 meters, thereby doubling the contract price. Questionable was the US\$ 40 per meter paid by SRO in the same region.

39. *Sub-Offices undertook to benchmark drilling costs and in particular, SO, Herat established a benchmark of US\$ 15 to 18 per meter up to 35 meters using UNICEF's expertise but there are obvious factors to take into consideration, especially the strata.* Noted, however, is that in both cases, ARAA and SRO, the procedures followed to enter into the contracts could be irregular. SRO presented questionable quotations and ARAA doubled the drill meters in the contracts.

(b) Shelter programme

40. UNHCR provided good guidance to partners engaged in the shelter programme. The number of beneficiaries to be assisted was mainly determined by returnee numbers and considering the “high return rate” to Afghanistan, the allocation of units was naturally not an easy task that was further complicated by UNHCR’s limited programme capacity to effectively participate in all beneficiary selections.

41. OIOS could not base its results of site visits on representative samples of selected shelters because of the difficulty to locate the shelters. Some shelters are also not numbered. The shelters visited in the South, Western, Northern and South Eastern Regions, were generally better occupied than those in the Eastern and Central Regions. OIOS did not find cases where the partners did not provide the shelter materials and cash assistance to the beneficiaries and the assistance, except for SRO, was well documented. Cases were noted where the cash assistance was paid but the shelters and/or latrines were not completed. Also and except for the Kusk-i-Rabat Sangi district in the Western Region and Mir Bacha Kot district in the Central Region, the beneficiaries, in general, used all the shelter materials provided to them.

42. SRO’s records of shelter and cash assistance were incomplete. SRO also provided a further seven additional beams per beneficiary as it reckoned that the UNHCR procured beams were of a bad quality and could break. During a field visit to Kusk-i-Rabat Sangi, OIOS noted that SRO provided the additional beams only after the construction of the shelters was completed; they were therefore not used by the beneficiaries.

43. In a nutshell and as per OIOS’s findings, the Programme Sections gave good guidance to the partners, were adequately involved in the beneficiary selection processes and ensured that materials and cash assistance are provided, but were understaffed to visit enough of the more than 90,000 constructed shelters. *OCM, Kabul engaged the services of a Shelter Monitor to improve shelter monitoring from 2004.* This will contribute towards a more structured and effective monitoring strategy, but the question of capacity at Sub-Offices to obtain the desired coverage during visits remains.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan should match future monitoring strategies with capacity at Programme Sections at Sub-Offices to ensure adequate coverage during shelter visits (Rec. 07).

(c) Income-generation and cash for work projects

44. In October 2003, OIOS questioned the feasibility of several income-generation projects, in which UNHCR invested significant funds, such as the peanut oil factory in the Zhare Dasht settlement and the wool spinning revolving projects in the Southern Region. The direct costs only for the peanut oil production amounted to more than US\$ 600,000. The monthly labour cost to shell the peanuts was US\$ 24,000 per month. It is a revolving fund and OIOS calculated that the minimum selling price as US\$ 3.16 per litre if the project is to be feasible. CADG sold no oil. *SO, Kandahar undertook to determine the sustainability of*

the revolving project and the possibility to transfer ownership to the beneficiary population. Zhare Dasht is a temporary settlement and therefore the possible transfer to beneficiaries is questionable. Considering the cost of the project, OCM, Kabul should address the matter.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan should decide on the future of the peanut factory project in Zhare Dasht that cost more than US\$ 600,000 as of November 2003 with no return on investment so far (Rec. 08).

45. The cost of wool purchased in wool spinning revolving projects totalled US\$ 500,000 in the Southern Region, but partners sold no spin wool. *As suggested by OIOS, SO, Kandahar assessed the feasibility of the project as a revolving project and subsequently discontinued it from 2004.*

46. ISRA implemented a crop production project in Eastern Afghanistan in 2002 totalling US\$ 385,000 in which it provided 12,000 beneficiaries with maize and wheat seeds, fertilisers, toolkits and training. There were inconsistencies in the distribution of maize seeds in the first phase of the project, including allegations that the seeds did not reach the intended beneficiaries.

47. Distribution was better controlled during the second phase, but OIOS assessed SO, Jalalabad's overall monitoring of the project as inadequate. ISRA was also not in a position to provide adequate explanations during the audit in July 2003, with its agriculture engineers finding it difficult to locate the villages in which the beneficiaries were located. *Upon OIOS's request, ISRA did submit a report on wheat production that included statistics on production, that SO, Jalalabad undertook to verify.* Until such time, the outcome and sustainability of the project is unknown.

48. BRR/ARDU made 1,500 windows and 750 doors in the Central region for the shelter programme. The cost of the materials only totalled US\$ 89,000 that was 50 per cent more than the purchase price of the items in Kabul. SARS paid US\$ 43,000 for materials to make 500 doors and 1,000 windows. The material cost alone was twelve per cent more than the purchase cost of a door and a window with glass. *SO, Kabul undertook to review and suggested central purchasing by OCM, Kabul.* OIOS supports this suggestion.

(d) **Financial and performance monitoring**

49. Financial monitoring, except for SO, Mazar-i-Sharif, was adequate, but not adequately matched with performance monitoring. *Project Control at OCM, Kabul assisted national staff at SO, Mazar-i-Sharif to improve financial monitoring.*

50. Given the security constraints, large number of projects in remote areas and limited capacity of the programme sections, performance monitoring was in most cases based on ad hoc missions that were inadequate to obtain the necessary coverage of activities, measure performance and link performance to financial monitoring. Noted, however, was that Quick Impact Projects (QIPs) under the short format Sub-Agreements, used in the Central (SO, Kabul) and Eastern (SO, Jalalabad) regions, were better monitored than projects under the long format Sub-Agreements. It is difficult to link the expenditures reported in a financial

Sub-Project Monitoring Report to an individual project because the actual “Bill of Quantities”; i.e. staff costs, materials, transport costs etc. incurred cannot be related to an individual project.

51. OIOS found that the short format agreement and contracts, as legal instruments, address the major concerns of QIPs, especially in respect of a “Bill of Quantities”, better control over actual delivery within a specified period, reduced “paper work” and facilitate a better financial and performance monitoring process. From 2004, UNHCR ceased the use of the short format. Although this is unfortunate, UNHCR, Afghanistan substantially reduced QIPs in 2004.

C. Supply Management

(a) Procurement

52. OIOS noted a substantial improvement in the procurement processes of the Supply Chain at OCM, Kabul. In particular, entering into frame agreements that resulted in a better and faster procurement process and purchases were more economical.

53. Compared to 2002, when partners were not applying appropriate procurement procedures and monitoring by UNHCR Sub-Offices was limited, OIOS noted a positive development. Delegation of procurement to partners has been significantly reduced, especially for shelter materials. Throughout the audits of 2002 sub-projects, OIOS had noted the difficulties that partners experienced with suppliers and the non-compliance of partners with UNHCR procurement procedures that resulted in uneconomical purchases. InterSOS purchased windows and doors totalling US\$ 900,000 from an “import-export” firm, after the originally selected suppliers failed to deliver, and paid US\$ 50,000 more than local procurement according to SO, Jalalabad prices.

54. There are activities, such as construction activities, in which partners were still required to procure materials in 2003. For these activities, OIOS found it difficult to obtain benchmark amounts, but noted substantial differences in prices paid by partners for some items. Differences as much as double for construction stone, 16 per cent for cement and 10 per cent for steel bars. More problematic is the failure of partners to keep proper stock records for construction activities. SRO purchased construction materials totalling US\$ 168,000 in 2003, without keeping stock records or even a procurement register.

55. A further weakness noted, is the tracking of procured shelter materials. GTZ transported the materials to the partners. The partners recorded distribution to individual beneficiaries, but did not keep stock records and therefore, a consolidated account of items distributed by the partners and materials on hand is not available.

Recommendation:

- The UNHCR, Sub-Offices in Afghanistan should request its implementing partners in the shelter programme to keep stock records for shelter materials received, distributed and on hand, starting 2004 (Rec. 09).

(b) Logistics

56. The main logistical activity remains the transport of shelter materials and NFIs across Afghanistan and in 2003, GTZ transported more than 30,000 metric tons across Afghanistan at the cost of US\$ 700,000 and engaged transporters through bidding exercises that were carried out on a six-monthly basis and resulted in commendable reductions in transport prices since the beginning of the operation.

57. The rates paid to contractors, engaged by the partners, to distribute shelter materials to beneficiaries differed substantially; as much as 6 times between the regions and as much as 4 times between partners within the regions. In some provinces US\$ 10 per shelter was paid, whereas as high as US\$ 70 were paid in others. Quotations obtained by partners were in some cases exactly the amount provided for in the sub-project budget.

58. OIOS is of the opinion that Sub-Offices should have obtained advice from GTZ on reasonable transport rates. Assuming that GTZ trucks transported materials for only 15 shelters per truck and disregarding the distance (GTZ transported mainly long haul whereas implementing partners transported only within districts, in most cases short distances, i.e. 40 km.), OIOS calculated the average transportation cost at US\$ 30 per shelter. Given that some implementing partners paid as much as US\$ 70 per shelter, it appears that there is a potential for significant cost savings. *SO, Herat noted the observation, but cautioned that GTZ rates were not comparable with that of partners. Other SOs mentioned that road conditions and other factors should be considered. Nevertheless, they recognised the need for more cost-effective transport. OCM, Kabul undertook to find a solution.*

(c) Warehousing

59. OIOS assessed the warehouse management of GTZ in the Afghan operation to be adequate. A total of 57 warehouses and sub-warehouses, including 28 rubb halls, were functional in 2003 and assets and NFIs stored at the date of the audit in May 2004 totalled more than US\$ 9 million.

60. Towards the end of 2003, OCM, Kabul entered into a Memorandum of Understanding with UNAMA to use part of the UNAMA compound for warehousing. The cost to UNHCR for four pre-fabricated warehouses, gravelling of the land for rubb halls and access road was US\$ 350,000. From March 2004, UNHCR discontinued NFI distributions to returnees. As of May 2004, a comprehensive plan as to the movement of stock, distributions, contingency stock and future utilisation of the warehousing at the UNAMA compound was not yet prepared. *OCM, Kabul will compile a distribution plan taking into account the various factors.*

(d) Fleet management

61. UNHCR deployed 378 vehicles in Afghanistan of which 163, 43 per cent, under the custody of partners. GTZ's workshop in Kabul services only vehicles under the custody of UNHCR; currently the workshop is only utilized at 25 per cent of its capacity. The situation is rather unfortunate, because UNHCR provides for repair and maintenance in the partners' sub-project budgets, whereas GTZ's workshop is under-utilised, thereby risking double funding maintenance costs. *The feasibility of using GTZ or other workshops is in the process at OCM, Kabul.* Following OCM, Kabul's decision to move the workshop, thereby reducing

the rental cost of a second compound, GTZ recently build a new workshop in its main compound at considerable cost. OCM, Kabul should consider this cost in such a feasibility study.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan should consider the costs already invested by GTZ in building a new vehicle workshop when deciding on a concept for servicing UNHCR vehicles under the custody of implementing partners (Rec. 10).

(e) Assets

62. The Afghan operation has 8,500 assets with an acquisition value of US\$ 18 million (current value US\$ 10 million). The AssetTrak records remain centralized at OCM, Kabul and Supply Chain completed the updates of assets at Sub-Offices. OCM, Kabul did not perform physical verifications of some 4,000 assets under its custody or that of its partners. OIOS suggested that OCM, Kabul engage GTZ.

63. *OCM, Kabul is of the opinion that most assets are with partners and verified during verifications. The relevant forms are part of the project closure and the function is difficult to delegate to GTZ.* The comments are noted, but without physical verifications carried out thus far, it is rather questionable that the Programme Section and the Supply Chain at OCM, Kabul have adequate capacity with the necessary expertise to perform the physical verifications, especially of such a large number of assets.

D. Security and Safety

64. UNHCR's security arrangements are in accordance with the Minimum Operating Security Standards (MOSS) for Afghanistan, based on a risk assessment of UNSECOORD for Afghanistan staff, and restrictions enforced by OCM, Kabul on movements within Afghanistan. UNHCR determine areas of "access" or "no access", taking into account the monthly risk classification (high, medium or low risk) of UNSECOORD and inputs from its Sub-Offices, and indicate the areas on a "UNHCR Staff Access" map. UNHCR suspended all activities in areas that UNSECOORD classified as "high risk" areas. Movements are restricted in most districts within the Southern, South-Eastern and Eastern regions. Currently, all Encashment Centres are accessible.

65. As a rule, all road missions are with armed security escorts, provided by the Ministry of Interior. UNHCR is improving escort arrangements, mainly the engagement of better quality and trained armed personnel and the provision of equipment and vehicles to the Ministry. UNHCR also allocated US\$ 1.4 Million for security equipment and subsequently, OCM, Kabul ordered 6 "hard skin light vehicles", at the cost of US\$ 160,000 each, and ballistic blankets for 70 vehicles. UNHCR is, through these steps and regular update of the "UNHCR Staff Access" map, actively improving staff safety during road missions. Partners follow their own security arrangements, but UNHCR provides some security materials under Sub-agreements.

66. There is uncertainty as to the whether the official security phase 3 for Afghanistan is appropriate in the current security situation. OCM, Kabul informed OIOS that the UN security team recommended phase 4 for the Southern, South-Eastern and Eastern regions in June 2004, but that was not discussed at following Security Management Team (SMT) meetings. *According to OCM, Kabul, UNHCR's security measures in place responded to the security situation in security phases 4 or 5 in these regions.* OIOS supports this conservative approach.

67. As of July 2004, the Field Safety Advisors (FSAs) posts at all Sub-Offices were vacant. SOs, Mazar-i-Sharif, Jalalabad and Kandahar had FSAs on mission. SOs, Herat and Gardez were without FSAs. *The recruitment of FSAs is in process.*

68. Security and evacuation plans and day-to-day security measures, such as security clearances, briefings and communication procedures are in place. OCM, Kabul conducted its first evacuation exercise on 3 July 2004, but Sub-Offices did not conduct any such exercises. *OCM, Kabul will arrange the exercises and the FSA at OCM, Kabul will attend the exercises at SOs Herat and Gardez that are without FSAs.*

69. UNHCR uses the United Nations Humanitarian Air Services (UNHAS), under the umbrella of the World Food Programme, for air travel. There are no co-ordination between UNHCR and UNHAS regarding security arrangements or security of staff using the services. There are circumstances in which security arrangements are required, especially in the case of flight diversions that occurred in the past. Furthermore and according to the latest member list, UNHAS is not a member of the SMT.

Recommendation:

- The UNHCR Office of the Chief of Mission in Afghanistan should, in consultation with UNHAS, establish security procedures for situations/incidents related to the use of UNHAS flights in which UNHCR staff members could be involved (Rec.11).

E. Administration

70. In the areas of administration and finance, the UNHCR offices in Afghanistan generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

(a) Medical Insurance Plan (MIP)

71. OCM, Kabul did not properly supervise and operate the MIP in Afghanistan. The data in the system is not accurate and not complete. With the exception of LO, Islamabad, the claims were not processed throughout 2003, merely because of a minor technical problem in the electronic system. It was not until the last quarter of 2003, that OCM, Kabul settled the 2003 claims, 514 claims totalling US\$ 40,000. The claims included vouchers that dated as far back as January 2002. Some claims were settled almost a year after submission.

72. Benchmark amounts were not set for the claims and treatments, of which there are

many that include treatments incurred in Pakistan that were recorded as not “outside country”. Even a treatment in India in August 2003, was recorded as not “outside country”. Because there are no prevailing patterns of charges for medical services in Afghanistan, the amounts claimed were paid. *After consultation with the Joint Medical Service in May 2004, OCM, Kabul decided that medical expenses incurred in Pakistan and Iran can be, in exceptional cases, considered as reasonable and customary in Afghanistan. OCM, Kabul is also in the process to obtain prices from hospitals and physicians to determine reasonable prices in such cases.*

73. The MIP was decentralised early 2004 and OIOS was concerned that the weaknesses in the system will prevail, especially when abuses found in other large operations are considered. *The decentralisation was decided by DHRM and a regional workshop was held in Sri Lanka and software already installed. Therefore, it will be difficult to recentralise and not in the interest of staff. OCM, Kabul will ensure that SOs manage the MIP properly.*

(b) Overtime

74. OCM, Kabul paid US\$ 95,000 for overtime work in 2003. OIOS found the overtime arrangements at OCM, Kabul not to comply with the UNHCR rules. Staff members were, in general, paid overtime without obtaining approval before the overtime was undertaken. *OCM, Kabul took corrective steps.*

V. ACKNOWLEDGEMENT

75. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and implementing partners in Afghanistan.

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