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UNITED NATIONS DEVELOPMENT PROGRAMME
(UNDP)
GRANT OF GLOBAL FUND TO FIGHT AIDS,
TUBERCULOSIS AND MALARIA
MANAGEMENT LETTER ISSUES
FOR THE PERIOD FROM 1 APRIL 2016 TO
31 DECEMBER 2016

FOR SUB-RECIPIENT AGREEMENT
IMPLEMENTED BY
HUMANITARIAN ASSISTANCE & DEVELOPMENT
ASSOCIATION FOR AFGHANISTAN (HADAAF)
KABUL-AFGHANISTAN

SUB-RECIPIENT AGREEMENT DESCRIPTION

PROJECT NAME: STRENGTHENING AND SCALING-UP MALARIA PREVENTION AND CASE MANAGEMENT TO IMPROVE HEALTH STATUS IN AFGHANISTAN

PROJECT NUMBER: AFG-M-UNDP

SUB-RECIPIENT NAME (SR): HUMANITARIAN ASSISTANCE & DEVELOPMENT ASSOCIATION FOR AFGHANISTAN (HADAAF)

PERIOD COVERED BY THE AGREEMENT: 1 APRIL 2016 TO 31 DECEMBER 2016

HOST COUNTRY: AFGHANISTAN



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15 March 2017

To: United Nations Development Programme (UNDP)

Audited Project:

Period covered under this report: 1 April 2016 to 31 December 2016

Project number: AFG-M-UNDP

Name of the Sub-recipient: Humanitarian Assistance & Development Association for Afghanistan (HADAAF)

Sub-recipient code: 6876

Location: Kabul - Afghanistan

Subject: Management Letter

Dear Sirs,

While performing our audit on the Special Purpose Financial Statements, for the Sub-recipient Agreement implemented by Humanitarian Assistance & Development Association for Afghanistan (HADAAF) / Kabul-Afghanistan (the "Sub-recipient") for the period from 1 April 2016 to 31 December 2016, we considered the Sub-recipient's internal controls and compliance with the agreement terms, in order to determine our auditing procedures for the purpose of expressing an opinion on the Special Purpose Financial Statements.

We report only on those matters that come to our attention during the normal course of our audit that included a review and evaluation of the project system of internal controls to the extent necessary to determine the nature, timing and extent of our procedures. This work should not therefore be relied upon to show that no other weaknesses exist or areas require attention

However, we would like to draw your attention to certain matters related to the Sub-recipient's financial activities and the compliance with the agreement terms, which we identified during our audit of the Special Purpose Financial Statements; also we became aware of several matters related to the Sub-recipient's internal controls and operating efficiency. This letter does not affect our audit report on the Special Purpose Financial Statements.

We have already discussed these comments and suggestions with the Sub-recipient's management; we would be pleased to provide any clarification that you may require on the issues raised in this letter.

We are grateful to the Sub-recipient's staff members for their assistance and cooperation during our audit.

Yours faithfully

BDO Jordan
Samman & Co.


Rami Samman



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INTRODUCTION

SCOPE OF WORK

1. Assess the reliability and integrity of Sub-recipient financial and operational information;
2. Assess the effectiveness and efficiency of Sub-recipient operations in carrying out Sub-recipient activities;
3. Assess safeguarding of assets procured with Global Fund grants funds; and
4. Assess compliance with applicable laws, regulations and rules, policies and procedures, as well as the Sub-recipient's agreements.

CATEGORIES OF FINDINGS

We set out below a summary of the significant findings. Each of the findings in the detailed report is assigned a risk grading to reflect its criticality.

A summary of the risk grading is as follows:

Criticality	Description
High	Prompt action is required to ensure UNDP is not exposed to high risks, i.e. failure to take action could result in major negative consequences and issues for UNDP.
Medium	Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money.

ASSESSMENT OF SUB-RECIPIENT'S INTERNAL CONTROL SYSTEM

REF	AUDIT AREA	OVERALL RATING	NUMBER OF FINDINGS PER PRIORITY RATING			FINANCIAL IMPACT
			HIGH	MEDIUM	LOW	USD
1	Organization and Staffing	Satisfactory	-	-	-	-
2	Sub-recipient Activities Management	Satisfactory	-	-	-	-
3	Review of Sub-recipient Activities' Progress	Satisfactory	-	-	-	-
4	Human Resources	Satisfactory	-	-	-	-
5	Finance	Unsatisfactory	1	1	1	82
6	Cash Management	Partially Satisfactory	-	-	1	-
7	Procurement	Partially Satisfactory	-	1	-	-
8	Asset Management	Partially Satisfactory	-	1	-	-
9	Warehouse Management	N/A	-	-	-	-
10	Information Systems	Satisfactory	-	-	-	-
11	General Administration	Satisfactory	-	-	-	-
12	Follow-up on Previous Audits	N/A	-	-	-	-
	Total		1	3	2	82

A. FINANCE

A-1. POOR BOOK KEEPING

PROJECT CODE	AFG-M-UNDP
CONDITION	<p>We have noted that the Sub-recipient does not maintain a proper accounting system for the UNDP Project. Instead, separate, non-integrated spreadsheets are maintained.</p> <p>In addition, and as a result of using excel sheets instead of accounting system, the following weaknesses were found:</p> <ul style="list-style-type: none"> - Payment vouchers are manually numbered and many vouchers' numbers were manually corrected. - Voucher (dated 30 /9/2016 # CPV-ZBL-003) / top up card issued for the employees / with the amount of AFN 2,600 is not recorded in the expenses transactions sheet and the same amount was recorded in the sheet but with different voucher number which does not exist. - Most of voucher numbers and dates are entered manually which resulted in mistakes. - In some vouchers we found that the description on the transactions sheet differs from that on the voucher. - There was discrepancy in the dates for part of the vouchers which indicates a lack of control over this process such as: <ul style="list-style-type: none"> ➤ Invoice date 7/7/2016 ➤ Goods receive voucher date 10/7/2016 ➤ Purchase request date 7/8/2016 ➤ Purchasing analysis without date ➤ Payment voucher date 7/10/2016 - In some cases, we did not find the purchase order, purchase request and goods receive note attached with the vouchers.
IMPACT	Absence of proper accounting system may lead to lack of control over accounting transactions and possible error and misstatement in the FACE report preparation.
CRITERIA	A satisfactory accounting system should be maintained.
PRIORITY	High
RECOMMENDATION	<p>The Sub-recipient should implement a suitable accounting system to record and monitor all transactions relevant to the Sub-recipient agreement. This should take into consideration the budget line items according to the budget agreement, which can then be used to facilitate the preparation of the FACE report and trace the amounts reported back into the accounting system.</p> <p>This will save time, reduce errors and provide more accurate and prompt reports.</p>

<p>MANAGEMENT RESPONSE</p>	<p><i>“Management response is as follows:</i></p> <ol style="list-style-type: none"> <i>1. This findings is true, from Jan onward HADAAF finance planned to post all expense related to MCP project into QuickBooks, we have map the chart of account and going to start entry from Jan onward.</i> <i>2. From Jan onward HADAAF use pre numbered Bank payment Voucher “BPV” and Cash payment voucher “CPV”</i> <i>3. Descriptions in the vouchers and GL is strictly being reviewed.</i> <i>4. Finance will check carefully all vouchers from the field and if there is any discrepancy will investigate the field finance in charge.</i> <i>5. Now a day the new finance officer working in MCP project will check over all vouchers and seek clarification and ask for completeness of document’s from the filed staff”</i>
<p>AUDITOR’S COMMENT</p>	<p>No comment.</p>
<p>UNDP COMMENT</p>	<p><i>“No comment”</i></p>

A-2. EXPENSES NOT RELATED TO THE PROJECT

PROJECT CODE	AFG-M-UNDP			
CONDITION	We have noted certain expenses (communication, transportation) related to other projects but included in UNDP project expenses as follows:			
	Voucher #	Project name	Description	AFN
	CPV-MCP-016-022	SEHAAT	Prepaid mobile cards	2,200
	CPV-0516-101	PPP-Nuristan	Equipment transportation	2,200
	CPV-0516-102	PPP-Nuristan	Equipment transportation	1,050
				5,450
IMPACT	<p>This expenditure is considered ineligible cost in accordance with Sub-recipient agreement as set in "Article VII (5) SR Resources; Procurement":</p> <p><i>"During the term of this Agreement, all SR Resources shall be used only for the purposes of carrying out SR Activities and in accordance with this Agreement. The Sub-recipient shall be responsible for their proper custody, maintenance and care. The Sub-recipient shall maintain complete and accurate records of all SR Resources and shall regularly verify the inventory thereof. The Sub-recipient shall provide UNDP a verified list of the inventory of SR Resources in such form as UNDP may request. The Sub-recipient shall purchase and maintain appropriate insurance for the SR Resources in the amounts agreed upon between the Parties and incorporated in the budget contained in the Work Plan."</i></p>			
CRITERIA	All expenses should be related to the project and according to its budget.			
PRIORITY	Low			
RECOMMENDATION	The Sub-recipient should adhere to the signed agreement requirements. Accordingly, we recommend that the Sub-recipient should refund to UNDP the amount of AFN 5,450 (USD 82).			
MANAGEMENT RESPONSE	<p>1. <i>Three vouchers noted that costs are related to other projects. Please note that voucher CPV-MCP-016-022 does not found we have not reported this cost in the MCP project neither this is in the ledger. Voucher CPV-5016-101 is not belong to other projects, only heading of different project are mistakenly written as Nangarhar and project name came PPP Nuristan, if you consider the other part of the voucher there is some other fact within the vouchers that</i></p>			

	<p><i>indicate the expense is belong to MCP. Example in the description written "Transportation cost of MCP equipment" the other evidence is Narration in the bottom of voucher "amount paid for Transportation Cost of MCP equipment from Kabul to Qalat" "Qalat" is the capital of Zabul province where the MCP project is being implemented.</i></p> <p><i>Same issue is with voucher number CPV-0516-102</i></p>
AUDITOR'S COMMENT	<p>The voucher number is CPV-KBL-1016-1022 as there is a typing error above. What we concluded from these vouchers is only that they are not related to the UNDP project.</p>
UNDP COMMENT	<p>UNDP budget utilized for other project's expenditures without prior approval of UNDP should be considered ineligible.</p>

A-3. LACK OF INTERNAL AUDIT DEPARTMENT(FUNCTION)

PROJECT CODE	AFG-M-UNDP
CONDITION	We have noted that the Sub-recipient does not have an internal audit department (function).
IMPACT	The existence of internal audit department is a control by itself as the basic objective of the internal audit function is to provide reasonable assurance that the Sub-recipient's objectives are met and operations are efficient. Therefore, the lack of such function may jeopardize the achievement of objectives and operational efficiency.
CRITERIA	An internal audit department existence provides assurance that the Sub-recipient staff follow the internal policies and procedures.
PRIORITY	Medium
RECOMMENDATION	If feasible, we recommend establishment of effective internal audit department (function) to provide reasonable assurance of meeting the Sub-recipient's objectives.
MANAGEMENT RESPONSE	<i>"This is a need for HADAAF and this point is already discussed with HADAAF senior management, HADAAF senior management has reached to a basic plan for having an internal audit each quarter during a year. Having internal audit department as one of HADAAF functional area is not being supported by donor, instead HADAAF has intention to outsource the internal audit for 2017"</i>
AUDITOR'S COMMENT	No comment.
UNDP COMMENT	"No comment"

B. CASH MANAGEMENT

B-1. BANK RECONCILIATIONS

PROJECT CODE	AFG-M-UNDP
CONDITION	<p>We have noted the following weaknesses regarding the preparation of the bank reconciliations:</p> <ul style="list-style-type: none"> - The bank reconciliation was prepared on blank papers (not on the Sub-recipient letterhead papers). - The Sub-recipient did not attach a statement of the bank from the accounting system (recording system), with the bank reconciliation. - No date (preparation/review/approval) existed on the bank reconciliations.
IMPACT	<p>Control over the accuracy of the accounting for bank transactions is reduced as certain errors and irregularities could not be promptly detected.</p> <p>In addition, since bank reconciliation existed to match the bank balance as in the statement obtained from bank and the statement generated from the accounting system, then absence of the statement from the accounting system means that the bank reconciliation is not applicable.</p>
CRITERIA	Bank reconciliations should be prepared properly on regular basis.
PRIORITY	Low
RECOMMENDATION	<p>Bank reconciliations should be prepared in a systematic and monthly manner with the following details for each reconciling item:</p> <ul style="list-style-type: none"> • Date on which the cheque is drawn/ received; • Amount; • Name of the party (from whom cheque is received / in whose favor the cheque is drawn); • Reason for the item appearing in the reconciliation; and • Date of subsequent clearance of the reconciling items. <p>The bank reconciliation should be reviewed by a person independent of the preparer to ensure that the reconciliation has been properly prepared and that long outstanding and unusual items have been properly explained.</p> <p>Bank reconciliation should be prepared on the Sub-recipient letterhead papers with clear dates for preparation/review and approval.</p>
MANAGEMENT RESPONSE	<p><i>"Some points in regard to bank reconciliation are irrelevant like date missing, lack of "prepared by", "approved by" etc. as we checked all these characteristics exist, except that of "lack of bank account balance printed from QuickBooks" as long as we map the chart of account in the system for MCP we will fulfill this weakness in the future also as soon as we enter all Jan & Feb expense in the QuickBooks"</i></p>

AUDITOR'S COMMENT	We disagree with the management response that certain characteristics exist as they are not included on the copies of the bank reconciliations we obtained during the audit, however we can share these copies if needed.
UNDP COMMENT	<i>"No comment"</i>

C. PROCUREMENT

C-1. SEGREGATION OF DUTIES

PROJECT CODE	AFG-M-UNDP
CONDITION	We have noted that the procurement responsibilities are handled by the finance department.
IMPACT	Control over the accuracy of the procurement process is reduced as certain errors , irregularities and misappropriation could not be promptly detected.
CRITERIA	A segregation in duties should be existed between the conflicted tasks.
PRIORITY	Medium
RECOMMENDATION	We recommend the Sub-recipient to hire a new person to handle the procurement tasks, and if not possible, to hand the procurement tasks to a person outside the finance department who does not have a custody, authorization or recording authority as these tasks are in conflict with the procurement responsibilities.
MANAGEMENT RESPONSE	<i>“During the time from the start of MCP there was no procurement in this project, beside this we have separate logistic officer in Zabul province where SEHAT and MCP project are being implemented. The logistic officer in Zabul is Mr. Enayatullah. Also we have procurement Sr.Officer in Kabul “Naqibullah”.”</i>
AUDITOR’S COMMENT	This is a control point and not related to the UNDP project only.
UNDP COMMENT	<i>“UNDP agrees with the auditor, and recommends that all procurements be handled by the procurement department and not finance”</i>

D. ASSET MANAGEMENT

D-1. INSURANCE COVERAGE

PROJECT CODE	AFG-M-UNDP
CONDITION	During our audit, we have noted that the Sub-recipient assets are not covered by insurance.
IMPACT	<p>Lack of insurance exposes the Sub-recipient to the risk of loss of assets and consequently affects operations.</p> <p>Also this is considered not in compliance with the Sub-recipient agreement "Article VII (5) SR Resources; Procurement" which states:</p> <p><i>"During the term of this Agreement, all SR Resources shall be used only for the purposes of carrying out SR Activities and in accordance with this Agreement. The Sub-recipient shall be responsible for their proper custody, maintenance and care. The Sub-recipient shall maintain complete and accurate records of all SR Resources and shall regularly verify the inventory thereof. The Sub-recipient shall provide UNDP a verified list of the inventory of SR Resources in such form as UNDP may request. The Sub-recipient shall purchase and maintain appropriate insurance for the SR Resources in the amounts agreed upon between the Parties and incorporated in the budget contained in the Work Plan."</i></p>
CRITERIA	Assets (fixed assets/inventories/cash (cash in safe/cash in transit/cashier)) should be protected by insurance.
PRIORITY	Medium
RECOMMENDATION	The Sub-recipient should have full insurance coverage for its assets (fixed assets/inventories/cash (cash in safe/cash in transit/cashier)).
MANAGEMENT RESPONSE	<i>"In Afghanistan unfortunately there is no reliable insurance company for the purpose of ensuring organization asset, majority of organizations are similar to HADAAF suffers from this risk"</i>
AUDITOR'S COMMENT	No comment.
UNDP COMMENT	<i>"No comment"</i>