

To: The AIHRC, Donors of the AIHRC and the UNDP
Donor meeting
UNDP Office

PricewaterhouseCoopers
Accountants N.V.
Prins Bernhardplein 200
1097 JB Amsterdam
P.O. Box 94071
1090 GB Amsterdam
The Netherlands
Telephone +31 (20) 568 66 66
Facsimile +31 (20) 568 68 88
www.pwc.com/nl

November 15, 2005

Subject: Recommendations to the AIHRC

Dear Donors of the AIHRC

We have concluded our assignment to provide financial advisory services to the Afghan Independent Human Rights Commission (the AIHRC). The scope of our assignment was to:

1. Provide capacity building related to Accountancy and Financial Administration and Management – including identification of training for the newly recruited staff and building up sound accounting structures and procedures;
2. Assist the AIHRC with building sound procedures and routines related to outsourcing and financial support to NGOs;
3. Perform other capacity building measures as deemed necessary by the AIHRC or the UNDP.

Our assignment did not constitute a review or an audit. We herewith provide you with a description of our activities, findings and recommendations.

Peter van Driel
PwC Advisory

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1 General Impressions

1.1 Background of the AIHRC

The AIHRC was established by decree of the President of the AIA on June 6, 2002. According to this decree the responsibilities of the AIHRC include:

- Monitoring human rights;
- investigate human rights violations; and
- develop domestic human rights institutions.

The AIHRC has grown substantially over the past three years with expenditures during the first nine months of 2005 reaching USD 2.9m. The AIHRC is currently deploying its activities through eight regional offices and a headquarter in Kabul.

During the first years of operation the AIHRC received assistance from and donor funding through the UNDP. Recently the AIHRC has received some bilateral funding for minor projects. The AIHRC has now requested to receive bilateral donor funding for its main activities as well.

The AIHRC maintains a website, www.aihrc.org.af, that is regularly updated.

1.2 Impression of procedures and accounting records of the AIHRC

Based on our assessment of the procedures and accounting records of the AIHRC we have found that procedures and records are in general adequate. However, we detected some deficiencies and areas for improvement that will require attention in the immediate future.

In the following chapters we provide details of our main findings and corresponding recommendations.

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2 Capacity building related to accountancy, financial administration and management

2.1 Activities

We reviewed the AIHRC accounting and financial reporting system and procedural and internal control manuals.

2.2 Findings and recommendations

2.2.1 Fixed assets

finding

The AIHRC has prepared fixed asset listings. However, these lists are incomplete with respect to the purchase value of the assets and the asset identification numbers. The AIHRC did as yet not put anybody in charge to complete the missing information. The completion of the information in this list will be a UNDP requirement to hand over the project.

Furthermore, expected lifespan of the assets is not mentioned. This lifespan is important to use the lists for planning of future investments and corresponding cashflows.

recommendation

The fixed asset lists should be completed with purchase value of all assets. In order to complete this task before the transition the AIHRC will have to appoint an employee to this task. It is recommended to include the expected life span as well to allow the list to be used for future investment planning.

Furthermore, not all assets are as of yet numbered and labelled. This exercise will have to be completed prior to UNDP handing over the assets to the AIHRC.

2.2.2 Withholding tax

finding

The law on withholding tax became effective as of Mizan 1, 1384 (September 23, 2005). As of October 30 the AIHRC has not yet withheld any tax from their employees. The AIHRC needs to comply with the local regulations as soon as possible in order to avoid negative publicity on the integrity of the AIHRC.

The monthly tax obligation amounts to approximately AFA 450,000 (USD 9.000).

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recommendation

We recommend withholding tax from salaries immediately in accordance with the Afghan law on withholding tax. Furthermore, the tax for the month of October should be withheld during the coming month.

In order to maximize control over the withholding tax we propose to deduct the tax on HQ. The field offices should receive the payroll (gross salary, withholding tax and net salary) from HQ with the corresponding net salaries in cash. HQ is to assure that all taxes are paid on time.

2.2.3 Monitoring

finding

Monitoring of the management of the AIHRC is mostly restricted to authorising individual transactions. Even though this realizes a high assurance on individual transactions, it provides little assurance on aggregate data. Furthermore, considering the expected increase in AIHRC activities the verification of detailed transactions will occupy too much time of the executive director, thereby increasing the need to monitor on aggregate data instead.

recommendation

We recommend the management of the AIHRC to review, on a monthly basis, the comparison between budget and actual recorded expenditures by activity and regional office. The findings from this review should be discussed with the regional offices and documented through minutes of meetings.

2.2.4 Reporting by activities

finding

The main project of the AIHRC, as currently managed through UNDP, comprises eight different activities: Women Rights, Child Rights, Human Rights Education, Monitoring and Investigation, Transitional Justice, Research & Policy, Constructing & Printing and Transition.

Expenditures are currently assigned to the different activities by dividing the expenditures through the number of projects to which they relate. Even though transparent, this method is highly inaccurate and does not take into account the overhead nature of many of the expenditures. As a result, the current financial information by activity has little value and can therefore not be used for high level monitoring.

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recommendation

We recommend the AIHRC to implement overhead and governance budget codes to record all expenditures not directly related to the main activities. The overhead codes should include administrative, housing and other overhead expenditures. The governance code is to be used for all expenditures related to the commissioners.

An example of the proposed reporting is included as annex I to this report.

2.2.5 Reporting to donors

finding

The current report as send by UNDP to the donors provides very little financial information. Only total expenditures by donor are provided and assigning expenditures to individual donors is highly arbitrary. Furthermore, this reporting format does not provide insight in the expenditures for the main activities of the AIHRC and therefore no link to the accompanying narrative.

recommendation

We recommend the AIHRC to report a balance sheet as well as an income and expenses account. The expenses account should include at least the expenditures per activity and by regional office as well. The financial data reported additionally will increase the transparency of the AIHRC towards donors and will allow a better understanding of the linkage between activities (narrative) and the related costs.

An example of the proposed reporting is included as annex I to this report.

2.2.6 Managing donor funds

finding

The UNDP currently receives all donor funding and provides the AIHRC with funding on a quarterly basis, based on the budget for the coming quarter. Under direct funding the AIHRC will manage all donor funds.

The UNDP is currently tracking donor commitments and funding received, assuring timely contributions by all donors. Since this task is not previously managed by the AIHRC there is a risk that, if not implemented on time, the AIHRC might run out of funds during the first months of receiving direct donor funding.

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recommendation

We recommend the donors to provide funding based on the quarterly budget as prepared by the AIHRC. We further recommend advancing on average six months budgeted expenditures at any time. The advance for the 3rd quarter of any year should therefore only be provided after approval of the 1st quarter reporting.

Furthermore, the AIHRC should prepare and maintain a tracking system of all donor contracts, commitments and contributions received. This system should also keep track of expected and agreed upon disbursement dates to project future cash flows and prevent shortages of funding.

2.2.7 Financing the transition period

finding

The first quarter of 2006 is still expected to be funded through UNDP. This implies that the AIHRC needs to have direct donor funds available as of April 1, 2006 to finance the ongoing activities.

For this date to be met the AIHRC should already obtain funding during the first quarter to be used during the second quarter. Furthermore, arrangements need to be made to transfer any remaining funds under the care of the UNDP to either the AIHRC or the donors.

Furthermore, the AIHRC has to prove it has contracted obligations to spend the funding of the USA as currently managed by UNDP or the remaining funding will be lost to them according to the donor contract.

recommendation

We recommend that in the contracts between donors and the UNDP for 2006 be mentioned that any remaining balance of contributions under the care of UNDP be handed over to the AIHRC at the end of the first quarter.

We furthermore recommend the AIHRC to enter into contracts with donors immediately so as to obtain the necessary funding for the second quarter expenditures during the first quarter. These funds, even though received during the first quarter, will only be spent on expenditures originating in the second quarter or thereafter.

Considering the amount of the remaining USA contribution the AIHRC has to take immediate action to assure that this amount of funding will not be lost to them.

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2.2.8 Operational Manuals

finding

The AIHRC has several excel sheets and word documents containing procedures, standard documents and flowcharts. Even though most procedures are described the current format makes them little accessible and difficult to read.

recommendation

We recommend the AIHRC to combine the different descriptions into one operational manual. We further recommend this manual to be signed and approved by the executive director (for agreeing to the procedures) and by the finance officer (for committing to verify that all transactions recorded were made in accordance with the manual).

We further recommend that the manuals that are now in English be translated into Dari to facilitate understanding by the employees.

2.2.9 Government contribution

As of yet the AIHRC does not receive any government contribution.

3 Assist the AIHRC with building sound procedures and routines related to outsourcing and financial support to NGOs

3.1 Introduction

In these paragraphs only those NGOs are taken into account that deploy activities similar to those of the AIHRC. These NGOs either conduct workshops sponsored by the AIHRC or receive support for capacity building. Contracts with "NGOs" for other services (e.g.: printing, construction) were considered as part of the normal purchasing process.

3.2 Findings and recommendations

3.2.1 Contracts

finding

For most contracts with NGOs the AIHRC receives all the original supporting documentation of expenditures. However, this is not a contractual requirement. Furthermore, the contracts don't contain paragraphs regarding the use of the name of the AIHRC and recovery of funds in case of misuse.

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recommendation

Since contracts are most important when there is a disagreement with NGOs the contracts need to be prepared taking into account possible disagreement.

We recommend the AIHRC to add paragraphs to all the contracts with NGOs regarding the use of the name of the AIHRC (prohibited, required), standard financial reporting requirements, the right of the AIHRC to receive all original documentation of the expenditures financed from the AIHRC funds and the obligation of the NGO to refund all funds not spend in accordance with the approved budget.

Furthermore, a dispute clause should be included stating the applicable law and regulations for any dispute (jurisdiction, decision, appeal).

3.2.2 Reporting by NGOs

finding

In the past the reporting requirements by NGOs were not mentioned in the contract. As a result, it became difficult to monitor the actual use of the funds.

recommendation

The contributions made to NGOs should be based on the execution of the budgeted activities. Reporting by the NGOs on the use of funds, actual expenditures and activities compared to budget, should be part of the contract and a condition for the NGOs entitlement to the contribution.

4 Other findings and considerations

4.1 Introduction

Even though not part of our initial Terms of Reference, we came across some issues in the course of our assignment that we would like to report to you.

4.2 Findings and recommendations

4.2.1 Code of Conduct

All employees should comply with the AIHRC principles (e.g.: respecting human rights, integrity, objectivity). However, the principles have not yet been formalised in the employee contracts. We recommend including a paragraph on understanding, concurring and complying with the AIHRC principles in all the employee contracts.

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4.2.2 Internal control department

As yet the AIHRC has no internal control department to internally review expenditures, procedures and reporting. Even though the current level of activities may not yet warrant the expenditures of setting up such a department, the AIHRC is expected to grow substantially during the coming years.

Since setting up an internal control department is time consuming and the department itself requires highly skilled employees it is recommend to assess whether or nor preparations should be made (e.g.: training of employees, job descriptions, activities, scope) to allow for such a department in the near future.

4.2.3 Accounting period

The AIHRCs accounting period is January 1 until December 31 for recording of all its transactions and budget preparation. Since the AIHRC is an Afghan Institution and subject to Afghan law and regulations in accordance with the Afghan Solar Year (app. March 21 – March 20) we recommend considering changing the accounting period to match the Afghan year.

Prior to changing the accounting period the donors should be consulted since it might impact the donor contracts.

4.2.4 Insurance

As yet the AIHRC does not have any insurance. Considering the risks the AIHRC is facing (third party liability) and the expected increase in assets (buildings under construction) we advice the commission to reconsider whether or not insurance of some of the risks is preferable.

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Annex I Quarterly financial reporting format

AIHRC - Quarterly report

	30-sep	30-jun
Contributions to be received		
Advances		
Other		
Receivables	0	0
Banks		
Cash		
Total cash	0	0
Total Assets	0	0
AIHRC own funds		
Contributions received in advance		
Accounts payable		
Total liabilities	0	0
Total Liabilities	0	0

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AIHRC - Quarterly report

	Budget	Cum 30-06	3rd Quarter	Cum 30-09	Variance
Total donor contributions				0	0
Government contribution				0	0
Other income				0	0
Total income	0	0	0	0	0
Children Rights				0	0
Education Section				0	0
Women rights				0	0
Transitional Justice				0	0
Monitoring and investigation				0	0
Field Monitoring				0	0
Media Publication				0	0
Disabled				0	0
Research Centre (L/S)				0	0
Reporting				0	0
Resource Centre				0	0
Database				0	0
Total program costs	0	0	0	0	0
Administrative expenditures					
Logistics				0	0
ICT				0	0
Bank charges				0	0
Total running costs	0	0	0	0	0
Commissioner salary and benefits				0	0
Total governance	0	0	0	0	0
Construction of buildings				0	0
Buildings	0	0	0	0	0
Total Expenditures	0	0	0	0	0
Net result	0	0	0	0	0

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AIHRC - Quarterly report

	Kabul	Mazar	Herat	Jalalabad	Kunduz	Badakhshan	Maimana	Daikundi	Total
Donor contributions	0								0
Government contribution	0								0
Other income	0								0
Total income	0	0	0	0	0	0	0	0	0
Children Rights									0
Education Section									0
Women rights									0
Transitional Justice									0
Monitoring and Investigation									0
Field Monitoring									0
Media Publication									0
Disabled									0
Research Centre (US)									0
Reporting									0
Resource Centre									0
Database									0
Total program costs	0	0	0	0	0	0	0	0	0
Administrative expenditures									0
Logistics									0
ICT									0
Bank charges	0	0	0	0	0	0	0	0	0
Total running costs	0	0	0	0	0	0	0	0	0
Commissioner salary and benefits									0
Total governance	0	0	0	0	0	0	0	0	0
Construction of buildings									0
Buildings	0	0	0	0	0	0	0	0	0
Total Expenditures	0	0	0	0	0	0	0	0	0
Net result	0	0	0	0	0	0	0	0	0

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Annex II Abbreviations

Abbreviation	Description
AFA	Afghani
AIA	Afghan Interim Administration (predecessor to GIRA)
AIHRC	Afghan Independent Human Rights Commission
GIRA	Government of the Islamic Republic of Afghanistan
HQ	(AIHRC) Head Quarters
MoF	Ministry of Finance
NGO	Non Governmental Organization
UNDP	United Nations Development Program
USD	United States Dollars