

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP IRAQ

LOCAL AREA DEVELOPMENT PROGRAMME
(Directly Implemented Project No. 86812, Output No. 94013)

Report No. 1641

Issue Date: 29 June 2016

Report on the Audit of UNDP Iraq Local Area Development Programme (Project No. 86812, Output No. 94013) Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Deloitte & Touche (the audit firm), from 25 April to 2 May 2016, conducted an audit of the Local Area Development Programme (Project No. 86812, Output No. 94013) (the Project), which is directly implemented and managed by the UNDP Country Office in Iraq (the Office). This was the first audit of the project.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2015, and the accompanying Funds Utilization statement¹ as of 31 December 2015 as well as Statement of Assets as of 31 December 2015. The audit did not include activities and expenses incurred or undertaken at the "responsible party" level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters). In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditure			Project Assets		
Amount (in \$'000)	Opinion	NFI* (in \$'000)	Amount (in \$'000)	Opinion	NFI* (in \$'000)
2,847	Qualified	245 (overstated)	44	Qualified	-164 (understated)

*NFI = Net Financial Impact

The audit firm qualified its opinion on project expenditure and on project assets due to overhead expenses of \$55,000 recorded in the Combined Delivery Report above the project requirement of 7 percent, the lack of sufficient documentation for payroll costs of \$25,000 incurred during the period, and the incorrect recording of assets equivalent to \$164,000 as expenditures.

Key recommendations: Total = 3, high priority = 3

The audit resulted in three recommendations, which aim to ensure the following:

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	1, 2	High
Safeguarding of assets	3	High

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendations are presented below:

Numerous salary allocation adjustments during the audit period (Issue 1)

The audit identified numerous correction entries in allocating payroll costs on related projects due to the fact that salary costs were charged to projects/budgets other than those the personnel were working for. The qualified amount of \$25,000 relates to one transaction representing a payroll correction entry that was booked twice. This situation was mainly due to confusion caused by the existence of another project with a similar name to the Project under review.

Recommendation: The Office should implement alternative procedures on correctly allocating salaries on a timely basis.

Overhead expenses above required threshold (Issue 2)

There was a difference of \$55,153 between the calculation of overhead costs recognized in the Combined Delivery Report and the calculation of overhead costs based on the 7 percent acceptable rate mentioned in the project document.

Recommendation: The Office should recognize the overhead costs according to the acceptable UNDP project document rate of 7 percent.


Assets incorrectly recorded as expenditures (Issue 3)

The Office purchased a vehicle for \$164,430 through the Project and recorded it as an expenditure in the Combined Delivery Report, rather than as an asset in the Statement of Fixed Assets, thus impacting the accuracy and reliability of financial reporting.

Recommendation: The Office should perform an independent review to ensure that purchases of assets are coded to an asset code instead of an expenditure code.

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

LOCAL AREA DEVELOPMENT PROGRAMME “LADP”

IMPLEMENTED BY

UNITED NATIONS DEVELOPMENT PROGRAMME “UNDP”

FOR THE YEAR ENDED DECEMBER 31, 2015

Executive Summary

LOCAL AREA DEVELOPMENT PROGRAMME “LADP”

Executive Summary

1. Background Information

On July 20, 2014 the United Nations Development Programme “UNDP” entered into an agreement with the European Union “EU” for the implementation of the project entitled: Local Area Development Programme “LADP” (the “Project”) with an estimated total budget of EUR 11,500,000. The Project is implemented by UNDP country office in Iraq (‘the Office’) with an implementation period being 36 months starting on the first day of the month following the date on which the first installment of the project budget is paid.

The project has an objective of achieving good governance strengthened by enhancing public policies and service delivery and improving planning and implementation processes at the governorate level for the benefit of the people of Iraq.

Below are the key results that are to be achieved by the project:

- Improved capacity for planning and implementation at governorate level, resulting in higher budget execution and service delivery, leading towards better sector wide planning.
- Improved communication and coordination between central and governorate levels, and increased participation of communities in local development.

2. Audit Objective

The objective of the financial audit is to express an opinion on the Project’s financial statements prepared by the Office which include:

- Expressing an opinion on whether the expenses incurred by the project during the year ended 31 December 2015 and the funds utilization as at 31 December 2015 are fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP, and (iv) supported by properly approved vouchers and other supporting documents.
- Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the project as at 31 December 2015.
- Expressing an opinion on whether the statement of cash held by the project presents fairly the cash and bank balance of the project as at 31 December 2015.

3. Audit Scope

We conducted our audit in accordance with the International Standards on Auditing. The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project during the year ended 31 December 2015. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of “responsible parties”, unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.

Our scope of work covered the following:

	<u>USD</u>
Expenditures reported in the CDR	2,847,339
Fixed assets reported in the statement of assets and equipment	44,000

4. Audit Results

The following issues were identified during our audit and were deemed material enough to modify our audit opinion. Accordingly a qualified audit report was issued for both the Statement of Expenses and the Statement of Assets and Equipment.

- 1- The Office purchased a vehicle under the Project during the year and recorded it as an expenditure in the combined delivery report (CDR) rather than as an asset in the statement of fixed assets. Consequently the CDR is overstated by USD 164,430 and the statement of fixed assets is understated by the same amount.

Moreover, article 3 to the Project agreement states that 7 percent of the Project’s direct eligible costs can be claimed by the implementing partner as indirect costs for reimbursement. However, actual indirect costs included in the CDR exceeded the allowable percentage by an amount of USD 55,153.

- 2- The CDR included a payroll transaction whose supporting documents were not made available to us. Therefore, we were unable to obtain sufficient appropriate audit evidence on the occurrence of payroll expenditures amounting to USD 25,246.

Other internal control findings were reported under the “Letter to Management” points.

Erbil, Iraq
June 9, 2016

Deloitte & Touche
Deloitte & Touche

LOCAL AREA DEVELOPMENT PROGRAMME "LADP"
IMPLEMENTED BY
UNITED NATIONS DEVELOPMENT PROGRAMME "UNDP"
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015

LOCAL AREA DEVELOPMENT PRGORAMME “LADP”
IMPLEMINTED BY
UNITED NATIONS DEVELOPMENT PROGRAMME “UNDP”
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To: the Office of Audit and Investigations, United Nations Development Programme "UNDP"
Project name: Local Area Development Programme "LADP"

REPORT ON THE STATEMENT OF EXPENSES

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization statement totalling USD 2,847,339 ("the statement") of the UNDP project Local Area Development Programme "LADP" for the year ended 31 December 2015.

Management's Responsibility for the statement

Management is responsible for the preparation of the statement for the Local Area Development Programme "LADP" and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project's preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

- 1) The UNDP purchased a vehicle under the project during the year and recorded it as an expenditure in the combined delivery report (CDR) rather than as an asset in the statement of fixed assets. Consequently the CDR is overstated by USD 164,430.

Moreover, article 3 to the project agreement states that 7 percent of the project's direct eligible costs can be claimed by the implementing partner as indirect costs for reimbursement. However, actual indirect costs included in the CDR exceeded the allowable percentage by an amount of USD 55,153.

Had management corrected the above misstatements, the total expenses for the year ended 31 December 2015 reported under the CDR would not exceed the amount of USD 2,627,756.

- 2) The CDR included a payroll transaction whose supporting documents were not made available to us. Therefore, we were unable to obtain sufficient appropriate audit evidence on the occurrence of payroll expenditures of USD 25,246.

Qualified opinion

In our opinion, except for the effects of the matter described in paragraph (1) of the "Basis for qualified opinion" and the possible effects of the matter described in paragraph (2) of the "Basis for qualified opinion" the attached Combined Delivery Report (CDR) and Funds Utilisation statement present fairly in all material respects the expenditures of USD 2,847,339 incurred by the project for the year ended December 31, 2015 in accordance with UNDP accounting policies.

Emphasis of Matter

- Without further qualifying our opinion, we draw attention to note 7 to the financial statements, which states that the CDR included expenditures incurred by the responsible party "UN Habitat" of USD 773,599. These expenditures were incurred in accordance with terms and conditions of the "UN agency to UN agency contribution agreement" entered into between UNDP and UN Habitat. The supporting documents for those expenditures are maintained by and under the responsibility of UN Habitat.
- Without further qualifying our opinion, we draw attention to note 8 to the financial statements which states that the CDR included common expenditures of USD 289,204 allocated by the "United Nation Development Programs" country office to this project.
As the UNDP country office in Iraq adopted the approach of having pool accounts where some administrative expenses are recorded once occurred to be allocated later amongst the active projects in Iraq relatively on a fair share basis.

Consequently, our audit was limited to look at the authorization of such allocation fair basis and did not extend to audit the pool accounts themselves.

Erbil, Iraq
June 9, 2016

Deloitte & Touche
Deloitte & Touche

Deloitte & Touche
Management Consulting W.L.L.

REPORT ON THE STATEMENT OF ASSETS AND EQUIPMENT

We have audited the accompanying Statement of Fixed Assets & Equipment ('the statement') of the UNDP project Local Area Development Programme "LADP" as at 31 December 2015.

Management's Responsibility for the statement

Management is responsible for the preparation of the statement for Local Area Development Programme "LADP" and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

The UNDP purchased a vehicle under the project during the year and recorded it as an expenditure in the CDR rather than as an asset in the statement of fixed assets. Consequently the statement of fixed assets is understated by USD 164,430.

Qualified opinion

In our opinion, except for the effects of the matter described in the "Basis for qualified opinion" the attached Statement of Assets presents fairly in all material respects the balance of inventory of the UNDP project Local Area Development Programme "LADP" amounting to USD 44,000 as at 31 December 2015 in accordance with UNDP accounting policies.

Erbil, Iraq
June 9, 2016

Deloitte & Touche
Deloitte & Touche

Deloitte & Touche
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REPORT ON THE STATEMENT OF CASH POSITION

We noted that the UNDP project Local Area Development Programme "LADP" did not have a dedicated bank account for DIM project activities subject to audit and accordingly a Statement of Cash Position was not produced.

Erbil, Iraq
June 9, 2016

Deloitte & Touche
Deloitte & Touche

Deloitte & Touche
Management Consulting W.L.L.



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

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Run Time: 22-02-2016 13:02:16

Selection Criteria :

Business Unit : IRQ10
Period : Jan-Dec (2015)
Selected Project Id : 00086812
Selected Fund Code : 30079
Selected Dept. IDs : B0450
Selected Outputs : 00094013

Project Id : 00086812 Local Area Development EU	Period :	Jan-Dec (2015)		
Output # : 00094013 Local Area Development EU	Impl. Partner :	99999 UNDP		
	Location :	UNDP IRAQ		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Ex

Dept: 45001 (Iraq - Central)

Fund : 30079 (EUROPEAN COMMISSION)

61205 - Salaries - GS Staff	0.00	7,858.18	0.00	7,858.18
61305 - Salaries - IP Staff	0.00	378,503.37	0.00	378,503.37
61310 - Post Adjustment - IP Staff	0.00	60,685.40	0.00	60,685.40
62205 - Dependency Allow - GS Staff	0.00	260.00	0.00	260.00
62210 - Contrib to Jt Staff Pens Fd-GS	0.00	1,371.05	0.00	1,371.05
62215 - Contrib. to Medical, social In	0.00	509.50	0.00	509.50
62225 - Hazard Duty Station Allow-GS	0.00	1,170.00	0.00	1,170.00
62240 - Annual Leave Expense - GS	0.00	807.85	0.00	807.85
62305 - Dependency Allowances-IP Staff	0.00	1,398.30	0.00	1,398.30
62310 - Contrib to Jt Staff Pens Fd-IP	0.00	36,178.27	0.00	36,178.27
62315 - Contrib. to medical, social In	0.00	1,747.28	0.00	1,747.28
62320 - Mobility, Hardship, Non-remova	0.00	28,888.51	0.00	28,888.51
62335 - Hazard Duty Station Allow-IP	0.00	5,260.00	0.00	5,260.00
62340 - Annual Leave Expense - IP	0.00	3,403.49	0.00	3,403.49
63330 - Ed Grt Incl Trvl&Allow-IP Stf	0.00	43,081.73	0.00	43,081.73
63335 - Home Leave Trvl & Allow-IP Stf	0.00	2,435.85	0.00	2,435.85
63340 - Proc trips/Rest & Recup-IP Stf	0.00	3,525.00	0.00	3,525.00
63365 - Special Oper Living Allow-IP	0.00	18,298.29	0.00	18,298.29
63505 - Hazard Insurance	0.00	44,198.57	0.00	44,198.57
63530 - Contribution to EOS Benefits	0.00	6,248.09	0.00	6,248.09
63535 - Contribution to Security	0.00	10,143.19	0.00	10,143.19
63540 - Contribution to Training	0.00	1,915.06	0.00	1,915.06
63545 - Contribution to ICT	0.00	2,499.23	0.00	2,499.23
63550 - Contributions to MAIP	0.00	666.43	0.00	666.43
63555 - Contribution to UN JFA	0.00	4,998.45	0.00	4,998.45
63580 - Contributions to Appendix D	0.00	499.87	0.00	499.87
64306 - Appointment-Ticket Costs	0.00	1,023.00	0.00	1,023.00
64308 - Appointments-Lump Sum	0.00	10,566.06	0.00	10,566.06
64309 - Appointment-Shipments	0.00	10,500.00	0.00	10,500.00
65115 - Contributions to ASHI Reserve	0.00	18,253.69	0.00	18,253.69
65135 - Payroll Mgt Cost Recovery ATLA	0.00	1,068.87	0.00	1,068.87
71205 - Intl Consultants-Sht Term-Tech	0.00	142,394.87	0.00	142,394.87
71305 - Local Consult-Sht Term-Tech	0.00	42,814.11	0.00	42,814.11
71405 - Service Contracts-Individuals	0.00	225,834.28	0.00	225,834.28
71410 - MAIP Premium SC	0.00	536.09	0.00	536.09
71415 - Contribution to Security SC	0.00	8,712.17	0.00	8,712.17
71605 - Travel Tickets-International	0.00	31,370.94	0.00	31,370.94
71610 - Travel Tickets-Local	0.00	13,378.07	0.00	13,378.07
71615 - Daily Subsistence Allow-Intl	0.00	8,083.00	0.00	8,083.00
71620 - Daily Subsistence Allow-Local	0.00	10,490.78	0.00	10,490.78
71625 - Daily Subsist Allow-Mtg Partic	0.00	- 709.94	0.00	- 709.94
71635 - Travel - Other	0.00	3,292.50	0.00	3,292.50
72105 - Svc Co-Construction & Engineer	0.00	445,648.87	0.00	445,648.87
72110 - Svc Co-Agricultural Management	0.00	90,000.00	0.00	90,000.00



Combined Delivery Report By Project

Project Id : 00086812 Local Area Development EU	Period : Jan-Dec (2016)
Output # : 00094013 Local Area Development EU	Impl. Partner : 99999 UNDP
	Location : UNDP IRAQ

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72120 - Svc Co-Trade and Business Serv	0.00	14,750.00	0.00	14,750.00
72125 - Svc Co-Studies & Research Serv	0.00	50,000.00	0.00	50,000.00
72135 - Svc Co-Communications Service	0.00	1,620.00	0.00	1,620.00
72216 - Spec purp transp Armored&Mine	0.00	170,979.26	0.00	170,979.26
72220 - Furniture	0.00	2,490.00	0.00	2,490.00
72311 - Fuel, petroleum and other oils	0.00	85.47	0.00	85.47
72399 - Other Materials and Goods	0.00	1,924.50	0.00	1,924.50
72425 - Mobile Telephone Charges	0.00	1,054.99	0.00	1,054.99
72440 - Connectivity Charges	0.00	1,195.64	0.00	1,195.64
72445 - Common Services-Communications	0.00	60,323.77	0.00	60,323.77
72505 - Stationery & other Office Supp	0.00	34.19	0.00	34.19
72515 - Print Media	0.00	48.00	0.00	48.00
72605 - Grants to Instit & other Benef	0.00	18,000.00	0.00	18,000.00
72705 - Hospitality-Special Events	0.00	0.00	0.00	0.00
72715 - Hospitality Catering	0.00	0.00	0.00	0.00
72805 - Acquis of Computer Hardware	0.00	14,750.00	0.00	14,750.00
73120 - Utilities	0.00	26,186.11	0.00	26,186.11
73125 - Common Services-Premises	0.00	70,000.00	0.00	70,000.00
74105 - Management and Reporting Svcs	0.00	113,594.90	0.00	113,594.90
74220 - Translation Costs	0.00	327.00	0.00	327.00
74225 - Other Media Costs	0.00	1,597.00	0.00	1,597.00
74505 - Insurance	0.00	69,568.96	0.00	69,568.96
74510 - Bank Charges	0.00	544.24	0.00	544.24
74525 - Sundry	0.00	66.74	0.00	66.74
75105 - Facilities & Admin - Implement	0.00	254,467.10	0.00	254,467.10
75705 - Learning costs	0.00	112,864.75	0.00	112,864.75
75707 - Learning - subsistence allowan	0.00	21,701.20	0.00	21,701.20
75709 - Learning - training of counter	0.00	1,281.47	0.00	1,281.47
75711 - TrnWkshp&Conf - Stipends	0.00	10,800.00	0.00	10,800.00
75712 - TrnWkshp&Conf - Honorariums	0.00	2,281.00	0.00	2,281.00
77360 - Med Exams(Incl Pre-empl)-TA	0.00	128.00	0.00	128.00
77402 - Contrib-Security Share GOE	0.00	96,519.63	0.00	96,519.63
77660 - Dep Exp Owned -Vehicle	0.00	611.11	0.00	611.11
Total for Fund 30079	0.00	2,847,339.35	0.00	2,847,339.35
Total for Dept : 45001	0.00	2,847,339.35	0.00	2,847,339.35
Total for Output : 00094013	0.00	2,847,339.35	0.00	2,847,339.35

Project Total :	0.00	2,847,339.35	0.00	2,847,339.35
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Signed By : Isabela Uribe

Date : 22/01/2016

Signed By : Adam Khabab

Date : 23/2/2016



UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

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Run Time: 22-02-2016 13:02:18

Selection Criteria :

Business Unit : IRQ10
Period : Jan-Dec (2015)
Selected Project Id : 00086812
Selected Fund Code : 30079
Selected Dept. IDs : B0450
Selected Outputs : 00094013

Project id : ALL		Period : Jan-Dec (2016)		
Output # : ALL		Impl. Partner :		
		Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
45001 - Iraq - Central	0.00	2,847,339.35	0.00	2,847,339.35



Funds Utilization

Selection Criteria :

Business Unit : IRQ10
Period : Jan-Dec (2015)
Selected Project Id : 00086812
Selected Fund Code : 30079
Selected Dept. IDs : 80460
Selected Outputs : 00094013

Project/Award: 00086812 Local Area Development EU

Period : As at Dec 31, 2015

Output #	Impl. Partner :99999 UNDP	UNDP AMOUNT
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		43,388.89
Inventory		0.00
Prepayments		0.00
Commitments		612,452.95



Asset Management Detail Report

Business Unit: IRQ10
Operating Unit: IRQ

Country: Iraq
Department: 45001

Category: In Service
Impl Agency: 001981

Project Type: All
Donor: 10159

Amount >=0
Fund Code: 30079

From/To date: 01-MAY-2013 ~ 31-DEC-2015
Project: 00094013 Profile ID:

<u>Business unit</u>		<u>Asset ID</u>	<u>Profile ID</u>	<u>Description</u>	<u>TAG Number</u>	<u>Serial Number</u>	<u>Model</u>	<u>Location</u>	<u>Acquisition Date</u>
IRQ10		000000001823	MTRV4	A) Automobiles or cars	UN-3770	JTMH009JXF5104705		IRQERR	2015-11-12
<u>Currency</u>		<u>Cost</u>	<u>Quantity</u>	<u>Operating Unit</u>	<u>Department</u>	<u>Impl Agency</u>	<u>Donor</u>	<u>Project</u>	<u>Fund code</u>
USD		44000.00	1.00	IRQ	45001	001981	10159	00094013	30079
Count:		1		Total Value:		44,000.00 (USD)			

LOCAL AREA DEVELOPMENT PROGRAMME “LADP”

IMPLEMENTED BY
UNITED NATIONS DEVELOPMENT PROGRAMME “UNDP”

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1- GENERAL INFORMATION:

On July 20, 2014 the United Nations Development Programme “UNDP” entered into an agreement with the European Union “EU” for the implementation of the project entitled: Local Area Development Programme “LADP” (the “Project”) with an estimated total budget of EUR 11,500,000. The implementation period of the project is 36 months starting on the first day of the month following the date on which the first installment of the project budget is paid.

The project has an objective of achieving good governance strengthened by enhancing public policies and service delivery and improving planning and implementation processes at the governorate level for the benefit of the people of Iraq.

Below are the key results that are to be achieved by the project:

- Improved capacity for planning and implementation at governorate level, resulting in higher budget execution and service delivery, leading towards better sector wide planning.
- Improved communication and coordination between central and governorate levels, and increased participation of communities in local development.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Statement of compliance:

The financial statements and the explanatory information are prepared in accordance with the UNDP accounting policies and procedures.

Basis of preparation:

The financial statements are prepared on an accrual basis of accounting in accordance with the financial regulations and the rules of UNDP.

Foreign currencies:

The Project’s presentation currency is USD for the statement of expenditures and the statement of fixed assets. All expenditures are incurred in USD.

Fixed assets

Fixed assets are stated at the cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

The implementing partner estimated the useful life for calculating the depreciable life of vehicles as 12 years.

3- COST STRUCTURE:

For the year ended December 31, 2015, the cost plan is summarized as follows:

	Expenditures incurred USD
Payroll	705,939
Service contracts (sub-contracts)	602,019
Contracting services (individuals)	420,092
Implementation support cost	254,467
Equipment	190,840
Learning costs	135,847
Professional services	113,595
Security	96,520
Premises rental and maintenance	96,166
Travel (in country/ international)	65,885
Communication & audio visual equipments	62,574
Miscellaneous	103,395
	2,847,339

Below is the cost plan by activity:

	Expenditure incurred USD
Activity 1: Center Iraq	1,282,895
Activity 2: South Iraq	710,378
Activity 3: North Iraq	854,066
	2,847,339

4- FIXED ASSETS:

	Vehicles USD	Total USD
Opening balance	-	-
Additions	44,000	44,000
Fixed Assets cost as of December 31,2015	44,000	44,000
Less accumulated depreciations:		
Opening balance	-	-
Additions, year charges	611	611
Fixed assets depreciation as of December 31,2015	611	611
Fixed assets net book value as of December 31,2015	43,389	43,389

5- FINANCING STRUCTURE

For the year ended 31 December, 2015, UNDP received the amount of \$4,405,797 (Euro 3,849,813) from the Donor after signing the project agreement.

6- INDIRECT COSTS

Article 3 of the project agreement states that 7 percent of the project's direct eligible costs can be claimed by the implementing partner as indirect costs for reimbursement.

7- RESPONSIBLE PARTY EXPENDITURES:

On April 16, 2015 the UNDP and the United Nations Human Settlement Programme "UN Habitat" entered into an agreement in which a part of the project budget was assigned to "UN Habitat" as a responsible party for an amount of \$ 2,101,048. The agreement came into effect from May 1, 2015 until April 30, 2018. During the year ended December 31, 2015 the responsible party incurred an amount of \$773,599.

8- COMMON COST EXPENDITURES:

The CDR included common expenditures of \$289,204 allocated by the “United Nation Development Programs” country office to this project on a fair share basis.

9- APPROVAL OF THE FINANCIAL STATEMENTS:

The project director approved the financial statements on June 9, 2016.

LOCAL AREA DEVELOPMENT PROGRAMME “LADP”
IMPLEMENTED BY
UNITED NATIONS DEVELOPMENT PROGRAMME “UNDP”

LETTER TO MANAGEMENT

LOCAL AREA DEVELOPMENT PROGRAMME "LADP"

We have completed our Audit Procedures for the project Local Area Development Programme ("the Project") implemented by the UNDP Country Office in Iraq, ("the Office") for the year ended 31 December 2015.

As part of our examination we studied and evaluated the system of internal accounting controls utilized by the Office to the extent we considered necessary in order to meet the requirements of International Standards on Auditing. These standards require a study and evaluation of internal accounting control only for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing an opinion on the financial information maintained by the Office.

Our study and evaluation was, therefore, more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole and would not necessarily disclose all material weaknesses in the system of the internal accounting controls.

Our work to date indicates that the internal controls and accounting systems are effective to meet the requirements to effectively manage the Project. Our work, however, indicates certain areas where the Project internal control systems and accounting procedures may be enhanced. This report covers those areas of significance identified to date, which require your kind attention.

Erbil, Iraq
June 9, 2016

Deloitte & Touche
Deloitte & Touche

Deloitte & Touche
Management Consulting W.L.L.

Issue Title:

Salaries allocation is subject to excessive adjustments during the period.

Observation

During our specific audit procedures, we noted excessive correction entries in allocating payroll cost on related projects. Our inquiries of the responsible employee in the HR department revealed that those corrections are made when salary costs of certain employees are charged to projects/ budgets other than those they were working on. This weakens the reliability and accuracy of financial records, increases the possibility of errors, and indicates lack of control over salary allocation process.

Priority:

High.

Recommendation

We recommend the Office to implement alternative procedures that maintain allocating the salaries on timely basis.

Management response and action plan:

The Project, which commenced several years ago, has continued through different phases funded by different donors (such as LADP I and LADP II). LADP funded by the European Union commenced in 2015. Due to 1) similarity of names; 2) transition period from one project to another; 3) projects' entries into the system and 4) change of the chart of accounts (COA) some of the staff were charged to incorrect COA. Staff mainly working under LADP II transferred to work under LADP- EU. These entries were identified and corrections were duly made in line with the actual payroll report. Nevertheless, we acknowledge that these corrections could have been avoided and should have been implemented faster.

Action to be taken: All Project staff pay roll costs are established (except for two staff members to be recruited) and fully registered in the system with the correct COA, hence no changes or corrections are required.

Issue Title:

Overhead expenses exceed the Project requirement of 7 percent of total expenses.

Observation

We noted a difference in the calculation of the overhead cost between the percentages stated in the project document of 7 percent and the amount recognized in the CDR Total differences amounted to \$55,153.

Priority:

High.

Recommendation

We recommend the Office recognize the overhead cost limited to 7 percent of total expenditures in accordance with the project document.

Management response and action plan:

The Project management noticed the overcharging of overheads beyond the allowed 7 percent by the Contribution agreement signed by EU and UNDP (called GMS in UNDP system). The charges are processed by an automated system and the attached snapshot clearly demonstrates that the GMS encoded into the system is 7 percent. Project management raised this issue with the responsible department at UNDP HQ Office of Finance & Resource Management ("OFRM") for further review and investigation.

Action to be taken: Corrections will be made manually by GLJE by the Office in case it is not resolved by OFRM through the general system soon.

Issue Title:

Assets incorrectly recognized as expenditures.

Observation

The Office purchased a vehicle for \$164,430 under the Project during the year and recorded it as an expenditure in the CDR rather than as an asset in the statement of fixed assets. This weakens the accuracy and reliability of financial reporting and fixed asset listing in addition to an overstatement of project expenditures.

Priority:

High.

Recommendation

We recommend that an independent review is conducted to ensure that purchases of assets are coded to an asset code instead of an expenditure code.

Management response and action plan:

The procurement of the armored vehicle was executed by the UNDP Procurement Support Office in Copenhagen (PSO) under a global UNDP Long Term Agreement (LTA) with the manufacturer. The armored vehicle was purchased for the UNDP - Basra project office. Import of armored vehicles in Iraq is a complex and lengthy procedure in terms of both international and Iraqi rules and regulations. It requires numerous permissions and authorizations from Iraqi Ministry of Foreign Affairs, Customs and other institutions. In 2015 CDR the vehicle was expensed due to wrong entry in ATLAS (Human Error). Corrective action is taken with Global Common Shared Services (GSSC) of UNDP (kindly see attached 2016 CDR crediting US\$185,129.72; the cost of the vehicle which will be automatically depreciated on monthly basis as per IPSAS guidelines) –. Currently, the vehicle is registered as an asset in UNDP books and system (please, refer to the attached report).

We would like to mention that the total cost of the vehicle is \$185, 129. (Including shipment cost).