

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

IRAQ

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(REDACTED)

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Report on the audit of UNDP Iraq Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Iraq (the Office) from 1 to 12 February 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

Due to strict security requirements and other logistical constraints, OAI could not visit the Office in Baghdad where management, the Resident Coordinator Office, programme and some project units were based. OAI contacted representatives from the Government and donors through teleconferences. However, OAI was able to meet with the counterpart from the regional government. The on-site audit was conducted from the Office in Erbil, where operations and some project units were functioning. Project staff from the Basra Field Support Office were also contacted remotely.

The audit covered the activities of the Office from 1 January to 31 December 2014. The Office recorded programme and management expenditures totalling \$40.8 million. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Office as **unsatisfactory**, which means, “Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.” This rating was mainly due to weaknesses in organizational structure and delegation of authority, financial sustainability, development activities, Resident Coordinator Office activities, human resources, finance and procurement.

Key recommendations: Total = 15, high priority = 7

The 15 recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendations 1, 2, 3, 6); (b) reliability and integrity of financial and operational information (Recommendations 4, 5, 7, 8); (c) effectiveness and efficiency of operations (Recommendations 10, 13); (d) safeguarding of assets (Recommendation 15); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 9, 11, 12, 14).

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. All high (critical) priority recommendations are presented below:

Weak organizational
structure and controls
(Issue 1)

The following shortcomings were negatively impacting the Office: (a) organizational structure not finalized; (b) no finalized Internal Control Framework document; and (c) no actions in addressing consistent negative Global Staff Survey results and trends.

Recommendation: Improve the Office's internal controls by: (a) revising the organizational structure; (b) updating/finalizing, communicating and implementing the Internal Control Framework; and (c) developing an action plan and having an open discussion to analyse and address the issues raised in the Global Staff Survey.

Financial sustainability
of Office at risk
(Issue 2)

The following situations could potentially put the financial sustainability of the Office at risk: (a) extrabudgetary reserves consistently decreasing since 2012; (b) resource mobilization strategy existed but was not fully implemented; (c) no charges to projects for Implementation Support Services; and (d) long outstanding Government Contributions to Local Office Costs.

Recommendation: Strengthen the Office's financial sustainability by: (a) exploring other extrabudgetary resource scenarios and following these up very closely; (b) developing a resource mobilization strategy and action plan for its implementation and evaluation; (c) calculating and recovering all costs associated with project implementation in line with UNDP policies; and (d) pursuing negotiations with the Government and involving the Regional Bureau to agree on the settlement of long outstanding Government Contributions to Local Office Costs.

Inadequate monitoring
and evaluation of
UNDAF
(Issue 3)

No annual reviews, progress reports, or comprehensive evaluations of the United Nations Development Assistance Framework (UNDAF) for the cycle 2011-2014 were conducted. In addition, although the Priority Working Group and Steering Committee were formed to monitor and review progress towards the outcomes, they were only partially active. Likewise, the Planning, Monitoring and Evaluation Unit of the Resident Coordinator Office that intended to provide support in the monitoring and evaluation of the UNDAF was never established and therefore was not functional.

Recommendation: Improve the monitoring mechanism of the new programmatic cycle by: (a) refining the new UNDAF to reflect existing priorities; (b) conducting annual reviews and evaluation and elaborating on the progress reports on the UNDAF; and (c) establishing functional priority working groups and allocating resources to the monitoring and evaluation of UNDAF.

Weak financial planning and reporting by Resident Coordinator Office (Issue 4)	<p>The Office did not develop a results-based budget of the Resident Coordinator Office linked to the Annual Work Plan for 2014 and did not submit a financial report to the United Nations Development Operations Coordination Office showing how \$603,222 in resources was spent by the Office in 2014, and for what purposes.</p> <p><u>Recommendation:</u> Strengthen the Resident Coordinator Office financial planning and reporting by: (a) producing results-based budgets; and (b) submitting without further delay the financial report, detailing how resources were expended for 2014 and more timely submission of future reports.</p>
Non-completion of UNDP mandatory training courses (Issue 10)	<p>At the time of the audit, many staff members had not completed UNDP mandatory training courses, [REDACTED]</p> <p><u>Recommendation:</u> Require all staff to complete UNDP mandatory training courses and follow up with staff regularly.</p>
Inadequate management of Electronic Funds Transfer (Issue 11)	<p>For processing Electronic Funds Transfer payments to vendors and staff, the Office used an overseas company that had trading and consulting as its main company activities. The company did not have a required banking license and the Office had not requested any authorization from Treasury to use a company outside of the banking system for payment processing.</p> <p><u>Recommendation:</u> Adhere to the 'UNDP Financial Regulations and Rules' and the Country's banking laws relating to the use of the electronic banking system in the processing of Electronic Funds Transfer payments to vendors and staff.</p>
Deficient procurement and contract management (Issue 12)	<p>In 2014, the Office signed Long Term Agreements with two vendors to provide staffing services totalling \$10.2 million. OAI noted deficiencies in both the procurement process leading to the signing and also the services resulting from these agreements. The Office paid for services that were not provided or were provided outside of the agreed upon terms.</p> <p><u>Recommendation:</u> Adhere to UNDP policies and procedures related to the procurement and contract management for sourcing staffing services.</p>

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Baghdad, Iraq (the Country) with an operational office in Erbil, and a project support office in Basra. At the time of the audit, the Office had just recently completed its relocation from Amman, Jordan to Erbil, Iraq and employed 69 staff supported by 5 United Nations Volunteers and 43 service contractors in addition to a SURGE team comprised of 10 staff members that were on detail assignment. The Office was operating under strong security threats, and much of its resources and attention had been diverted to respond to the humanitarian crisis as a result of the existing conflict. The Office had approved Fast Track Procedures from November 2011 to December 2014 and all projects from its portfolio were directly implemented. The Office's programming was based on the UNDAF 2015-2019 in the areas of: (a) improving the performance and responsiveness of targeted national and sub-national institutions; and (b) addressing acute vulnerability and participation gaps.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Information and communication technology. The ICT systems managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms were adequately operating.
- (b) Safety and security. The Country was at Security Level 5 (high) in Baghdad and Level 3 (moderate) in Erbil. The Office was generally compliant with the Minimum Operating Security Standards. The Country Security Plan was updated in September 2014, and the latest Security Risk Assessment for the Country was done in August 2014, with 10 high, 13 medium and 2 low risk areas, with adequate risk mitigating measures in place.

OAI made seven recommendations ranked high (critical) and eight recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

- (a) Improve the Office's internal controls (Recommendation 1).
- (b) Strengthen the Office's financial sustainability (Recommendation 2).
- (c) Improve the monitoring mechanism of the new programmatic cycle (Recommendation 3).
- (d) Adhere to 'UNDP Financial Regulations and Rules' related to the use of the electronic banking system (Recommendation 11).
- (e) Adhere to UNDP policies related to the procurement and contract management of staffing services (Recommendation 12).
- (f) Strengthen the Resident Coordinator Office financial planning and reporting (Recommendation 4).
- (g) Require all staff to complete UNDP mandatory training courses (Recommendation 10).

Medium priority recommendations, arranged according to significance:

- (a) Use the direct contracting modality only in exceptional cases and when proper justification exists (Recommendation 13).
- (b) Pursue the implementation of the Harmonized Approach to Cash Transfer modality (Recommendation 5).
- (c) Improve the Country Programme Document preparation and evaluation process (Recommendation 6).

- (d) Improve project planning and implementation by using Atlas functionalities more efficiently (Recommendation 7).
- (e) Improve asset management (Recommendation 15).
- (f) Expedite the financial closure of all operationally closed projects (Recommendation 8).
- (g) Promote inclusive and widespread sourcing of suppliers (Recommendation 14).
- (h) Complete without delay the performance assessments for all staff (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegation of authority

Issue 1 Weak organizational structure and controls

The 'Operational Guide of the Internal Control Framework' for UNDP outlines that each head of office has overall responsibility for establishing and maintaining adequate internal controls in his/her office, and for ensuring documentation of the office's internal control procedures. Likewise, the 'Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The control environment encompasses ethical values, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, human resources policies and practices, and efficiency, competence and integrity of personnel.

During 2014, the Office completed its relocation process from Amman, Jordan to Iraq and underwent a temporary evacuation from Baghdad to Erbil due to the aggravated security situation. As the crisis situation continued in Baghdad and, as the United Nations compound where the Office was located faced limitations in terms of office space and accommodation, the Office moved all operational functions and some project units to the Erbil office and established a Field Support Office in Basra. The situations described affected the normal operations of the Office. OAI noted the following shortcomings that were negatively impacting the Office's control environment:

(a) Organizational structure not finalized

At the time of the audit, the organizational structure of the Office was under review and was undergoing adjustments. The process included a Structural Assessment Mission that assessed the status of implementation of the United Nations Assistance Mission for Iraq (UNAMI) mandate. UNDP was expected to play a special role as the lead agency designated by the United Nations and the Government for the stabilization effort in the liberated areas. This would also be reflected in the preparation of the new Country Programme Document. The latest organizational structure had the following weaknesses:

- All sub-clusters or portfolios belonging to diverse programmatic areas such as Environment, Energy and Climate Change, and Human Rights were under the common umbrella of the Governance Cluster.
- There was no programme unit and there were no clear separations between programme and project staff and functions within each portfolio. In addition, linkages between programme and projects under the same portfolio were non-existent.

- There was no adequate reporting line in the Procurement Unit, as the staff exercising supervisory functions had the same category and title as other supporting staff. The Office indicated that it had advertised a higher level post to serve as the head of the unit.
- Titles in the organization chart did not match those of the staffing table. Examples included the following: the Deputy Country Director Programme/Operations in the organization chart appeared as Deputy Country Director Programme in the staffing table; the Assistant Country Director in the organization chart had the title of Programme Specialist in the staffing table; the Technical Specialist Deputy Resident Representative in the organization chart appeared as Specialist in the staffing table.
- A Procurement Analyst (P2) post based in Amman was not included in the organization chart, but was included in the staffing table.
- There were inconsistencies in titles in the organization chart. Heads of portfolios had different titles, such as Portfolio Manager, Technical Specialist, Deputy Resident Representative, and Programme Coordinator. The Office requested that headquarters amend the titles so that they could be reflected in the final organization chart.

While the Office was fully aware of the necessity of preparing a new organization chart/organizational structure, they decided to wait for the outcomes of the above-mentioned review processes to be finalized.

(b) No finalized Internal Control Framework document

Each head of office has overall responsibility for establishing and maintaining adequate internal controls in his/her office, and for ensuring documentation of the offices' internal control procedures. The Office prepared a draft of the Internal Control Framework document in October 2014. However, it was never updated, approved or communicated to all staff until May 2015, when an updated version of the draft was presented to OAI. As the Office had undergone a restructuring process in 2014 resulting in the incorporation of new staff, most of whom were new to the UNDP system, it was essential to ensure documentation and updating of the Office's internal control procedures and acknowledgment of the roles and accountabilities of individual staff members.

(c) No actions to address consecutive negative Global Staff Survey results and trends

UNDP conducts yearly global surveys that consist of questions for all UNDP staff on a wide range of topics. Feedback is collected from staff and questions are raised on what could be done to improve the work environment. Country Offices and other units are expected to review the survey results together with their staff, identify priorities for improvement, develop action plans and targets, and implement them.

The survey results and staff participation had been consistently declining in the last three years. The number of staff that responded in 2013 was 23, compared to 58 in 2012. Even though 2012 and 2013 scores were below average, the Office did not take any specific action to address the issues and improve staff perceptions. OAI noted that while the Office organized a staff retreat in February 2014, the survey results were not part of the agenda and there was no evidence that they were discussed at all. The 2014 Global Staff Survey results continued to show lower scores in all dimensions compared to the previous two years and with only 16 respondents. Finally, management took steps to address this by including this in the agenda for discussion during their retreat scheduled for May 2015.

The Office explained that many reasons behind the low survey scores were beyond the Office's control, including unresolved accommodation issues resulting in almost all of the Baghdad-based having to relocate frequently, uncertainty, serious security limitations/restrictions resulting in lack of access to recipients and partners both national and international, as well as lingering concerns associated with the relocation from

Amman. Nonetheless, senior management acknowledged that they have the ultimate responsibility for ensuring proper working and living conditions for staff.

An organizational structure that is not well designed and results from surveys that are not acted upon could lead to low staff morale that may negatively affect the overall work environment and performance of the Office.

Priority	High (Critical)
Recommendation 1: Improve the Office's internal controls by: <ul style="list-style-type: none"> (a) revising the organizational structure; (b) updating/finalizing, communicating and implementing the Internal Control Framework; and (c) developing an action plan and having an open discussion to analyse and address the issues raised in the Global Staff Survey. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will prepare a new organizational structure. The Programme Unit has been established and has been further reinforced with clear TOR defining exact scope or responsibilities of the programme staff. (b) The Office will approve and implement the updated draft Internal Control Framework. (c) The Office plans to start discussing the Global Staff Survey results with staff in an open and constructive manner with the special session planned to be undertaken during the next staff retreat in May 2015. 	
Estimated completion date: December 2015	

2. Financial sustainability

Issue 2 Financial sustainability of Office at risk

The 'Programme and Operations Policies and Procedures' require all offices to maintain a minimum of 12 months of extrabudgetary reserves and to ensure financial sustainability by securing stable and sufficient long-term financial resources and allocating these resources in a timely manner and appropriate form in order to ensure that resources are managed effectively and efficiently.

The following situations could put the financial sustainability of the Office at risk:

- (a) Extrabudgetary reserves consistently decreasing since 2012

The Office's reserves decreased from 26 months in 2011 to 11.82 months in 2012, nearly the corporate-recommended minimum level of 12 months. By the end of 2013 and 2014, this reduced further to 9.36 and 9 months, respectively. The Office did not provide any analysis and projection of the extrabudgetary resources for the following years. If this trend continues, the sustainability of the Office may be at risk.

The Office explained that the issue had been discussed with the Regional Bureau. It was expected that results of the Financial Sustainability Exercise with focus on Direct Project Costing reinforced by the resource mobilization

efforts described below would improve the sustainability of the Office. The aforementioned role of UNDP in the stabilization of liberated areas and a number of other important initiatives, including those on Support to Syrian Refugees, crises response and reconciliation, were expected to provide further extrabudgetary resources in the subsequent months.

(b) Resource mobilization strategy existed but was not fully implemented

The financial sustainability of UNDP Country Offices depends on their ability to mobilize resources and develop partnerships. The 'Programme and Operations Policies and Procedures' require offices to establish an effective partnership, develop a resource mobilization strategy, as well as implement a corresponding action plan.

The Office indicated that the discontinuation of the Iraq Trust Fund in 2010 created serious budgetary and budget management problems, and therefore the Office needed to implement a new approach to mobilize resources.

The Office developed a Resource Mobilization Strategy for the period 2011-2014. It had undertaken a number of targeted efforts to design and implement focused and aggressive resource mobilization, including the recruitment of an External Relations Advisor in 2014 and the establishment of a Partnership and Management Support Unit with emphasis on partnership and management support, instead of the more traditional programme management support. The Office developed tools for identification and analysis of resource mobilization opportunities, such as the donor intelligence database, the Contribution Management System, and a donor engagement tracking system. However, the strategy did not include any plan for implementation and evaluation of the resources effectively mobilized. According to the Country Programme Document, the Office needed to mobilize \$360.2 million in order to implement the priorities defined for the programmatic cycle 2011-2014. The Office mobilized \$101 million during this period.

(c) No charges to projects for Implementation Support Services

The 'Programme and Operations Policies and Procedures' stipulate that offices are required to recover the cost for providing Implementation Support Services on the basis of actual costs or transaction fees. These costs are an integral part of project delivery and are related to the following services: payments, disbursements and other financial transactions; recruitment of staff, project personnel and consultants; and procurement of goods and services. In determining costs, the approach is to use actual costs for clearly identifiable transactions. When this is not possible, offices should use the same Universal Price List for transactional services used to recover costs from United Nations agencies, as reference.

No Implementation Support Services charges were recorded in the Office extrabudgetary accounts during 2013 and 2014 for the support services costs provided to projects. The Office indicated that instead of charging Implementation Support Services to projects, it was applying the Direct Project Costing methodology and that support services to directly implemented projects were included under the common premises charges. The cost recovery from common premises, however, had a different arrangement, which consisted of apportioning the cost of shared services, such as office space and head count. In addition, in apportioning costs, the Office was incorrectly applying the predetermined flat percentages to each project budget instead of using the Universal Price List or Local Price List for attributing direct costs, as set out in the Direct Project Costing methodology.

(d) Long outstanding Government Contributions to Local Office Costs

In accordance with the provisions of the standard basic agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the local cost of Country Offices. The Office had

barely received Government Contributions to Local Office Costs. The total amount outstanding from 1997 to 2014 amounted to nearly \$7 million. The Office explained that since they had adequate funds from the Iraq Trust Fund and donors, they did not pursue collecting the Government contributions. Nonetheless, in September 2013, the Office issued a formal letter to the Government. Also, UNDP headquarters and the Office approached the Government requesting either to honour payments or to reinsert itself as a Net Contributing Country, if payments were not possible. No formal response from the Government was received. The Country is experiencing conflict and thus it is difficult to get the issue resolved. The Government was paying all costs related to the United Nations system presence in the Country for many years.

In the absence of effective resource mobilization and rigorous cost recovery schemes, along with decreasing extrabudgetary resources, the Office might not be able to maintain its current structure and operational support to the host Government, even when operating from Erbil. Risks on financial sustainability may further increase should the Office re-establish its presence in Baghdad where security levels and costs are higher.

Priority	High (Critical)
Recommendation 2: Strengthen the Office's financial sustainability by: <ul style="list-style-type: none"> (a) exploring other extrabudgetary resource scenarios and following these up very closely; (b) developing a resource mobilization strategy and an action plan for its implementation and evaluation; (c) calculating and recovering all costs associated with project implementation in line with UNDP policies; (d) pursuing negotiations with the Government and involving the Regional Bureau to agree on the settlement of long outstanding Government Contributions to Local Office Costs. 	
Management action plan: <ul style="list-style-type: none"> ▪ Efforts will be further reinforced to mobilize resources from the Government under cost-sharing agreements and to continue and expand this with the regional government. In addition, the Office will be engaging Governorates through partnership agreements to fund UNDP activities. ▪ The Office will develop a plan for engagement with the Private Sector with the aim of establishing long term partnerships such as what has been done with Shell in the past. ▪ The Office will seek further advice from the Regional Bureau on Direct Project Costing making sure that solutions and options prepared are fully in line with the UNDP corporate policy on this subject. ▪ The Office will carry out a Financial Sustainability Exercise with focus on Direct Project Costing. 	
Estimated completion date: December 2015	

B. United Nations system coordination

1. Development activities

Issue 3 Inadequate monitoring and evaluation of UNDAF

The UNDAF is the strategic programme framework that describes the collective response of the United Nations system to national development priorities. This must be signed and launched following the launch of the national development plan, whenever possible. UNDAF monitoring helps the United Nations Country Team and implementing partners make mid-course corrections, as an integral part of programme management and evaluation determines whether the results made a worthwhile contribution to national development priorities, and whether there was country team support. The guidelines also indicate that the United Nations Country Team and the government must conduct an annual review of the UNDAF. In addition, the Resident Coordinator, supported by the United Nations Country Team, should report to national authorities on progress made against results agreed in the UNDAF. At a minimum, a single progress report must be produced per UNDAF cycle.

The first UNDAF for Iraq covered the period 2011-2014 and identified five priority areas to be reflected in individual United Nations agencies' work plans. At the time of the audit, the Office already launched a new UNDAF for the programmatic cycle 2015-2019 with focus on two priority areas. The following weaknesses were noted in regard to the two UNDAFs:

- No annual reviews, progress reports or comprehensive evaluations of the UNDAF for the cycle 2011-2014 were conducted. The Office indicated that no formal and comprehensive evaluation was conducted as all efforts were focused on the preparatory work for the new programmatic cycle. Instead, a 'lite' evaluation consisting of a survey and analysis to assess the UNDAF was carried out, which provided a basis for identifying priorities in the new UNDAF.
- The 2011-2014 UNDAF established the Priority Working Group and Steering Committee to monitor and review progress towards the outcomes within its respective UNDAF priority area. Likewise, the Planning, Monitoring and Evaluation Unit of the Resident Coordinator Office would provide support to the United Nations Country Team and the UNDAF working groups in monitoring and evaluating the UNDAF. Although the Priority Working Group and Steering Committee were formed, they were partially or temporarily active. In the meanwhile, the Planning, Monitoring and Evaluation Unit was never established and therefore was not functional.
- The 2015-2019 UNDAF was not aligned to the National Development Plan issued in September 2014 covering the period of 2014-2018. It did not consider the Assessment of Development Results conducted in 2013 by the Independent Evaluation Office. The draft assessment report could not be shared and discussed with the counterparts due to the crisis in the Country in June 2014. The Office was following up to finalize this process.

The lack of monitoring and periodic reviews may limit the ability to adjust the UNDAF to the new circumstances and changes in the development context of the Country.

Priority	High (Critical)
Recommendation 3: Improve the monitoring mechanism of the new programmatic cycle by: <ul style="list-style-type: none"> (a) refining the new UNDAF to reflect existing priorities; (b) conducting annual reviews and evaluation and elaborating progress reports on the UNDAF; and (c) establishing functional priority working groups and allocating resources to the monitoring and evaluation of UNDAF. 	
Management action plan: The United Nations Country Team has agreed to re-examining, under the leadership of the government, key aspects of the 2015-2019 UNDAF to ensure that priorities identified prior to the current crisis are still relevant in the new Country context. A Monitoring and Evaluation Group was reconstituted and it participated actively in the design of the UNDAF and was responsible for the identification and refinement of the UNDAF indicators and the completion of the UNDAF Matrix of Results. The Office will take the following actions: <ul style="list-style-type: none"> (a) The Matrix of Results will be revised to reflect new indicators and targets. (b) The existing Monitoring and Evaluation group will be renewed and its role clearly defined. (c) The UNDAF annual evaluation would be done after 2016. 	
Estimated completion date: March 2016	

2. Resident Coordinator Office

Issue 4 Weak financial planning and reporting by Resident Coordinator Office

Resident Coordinator Offices are required to plan the utilization of resources at the start of every year based on an approved United Nations Country Team Annual Work Plan. Budgets should be established in Atlas (enterprise resource planning system of UNDP) in accordance with the United Nations Development Operations Coordination Office guidelines, so as to directly relate them to the Annual Work Plan. Financial reports are to be produced for each financial year detailing how office resources were spent. Offices should submit annual plans and financial reports to the United Nations Development Operations Coordination Office.

The budget of the Resident Coordinator Office was recorded in Atlas under Project Nos. 00045037 and 00085280, funds 11980 and 68030. Total expenditures for the projects were \$603,222 and \$703,386 in 2014 and 2013, respectively, as reflected in Project Budget Balance Reports for 2014 and 2013.

OAI noted the following deficiencies:

- The Office did not develop a results-based budget linked to the Annual Work Plan for 2014. Thus, OAI could not establish a direct link between the budget in Atlas and the United Nations Country Team Annual Work Plan.

- The Resident Coordinator Office did not submit a financial report to the United Nations Development Operations Coordination Office showing how \$603,222 in resources was spent by the Office in 2014 and for what purposes.

The lack of results-based budgeting and the incorrect set-up of budgets in Atlas may result in inaccurate accounting of resource expenditures and in the inability to submit the necessary financial reports.

Priority	High (Critical)
Recommendation 4: Strengthen the Resident Coordinator Office financial planning and reporting by: <ul style="list-style-type: none"> (a) producing results-based budgets for each year, detailing planned budget allocations for each activity; and (b) preparing and submitting without further delay the financial report, detailing how resources were expended for 2014 and more timely submission of future reports. 	
Management action plan: The development of a United Nations Country Team Work Plan for 2015 was delayed due to various commitments related to the Level 3 emergency response in the Country. A preliminary budget allocation has been done, taking into account the costs of the personnel and those costs necessary to guarantee the functioning of the Office. Given the extraordinary situation of the Country (ongoing conflict and related humanitarian crisis), which is severely impacting most development activities; a detailed budget allocation could not be developed yet. The budget available will be allocated to cover the emerging development priorities as the situation evolves and the work plan is consolidated. The Resident Coordinator Office will prepare a financial report at the end of the year 2015 showing details on how resources were utilized during the year.	
Estimated completion date: December 2015	

3. Harmonized Approach to Cash Transfers

Issue 5 Harmonized Approach to Cash Transfers not fully implemented

The Harmonized Approach to Cash Transfer (HACT) Framework is the sole framework applied by the adopting agencies when transferring cash to implementing partners. It applies in every country and context based on their respective risk profiles. Emphasis is on standardizing the way the United Nations agencies work with implementing partners to reduce transaction costs while ensuring joint operationalization with respect to country macro-assessments as well as assessments and audits of shared partners. HACT consists of four processes: (a) macro-assessments; (b) micro-assessments; (c) cash transfers and disbursements; and (d) assurance activities that include planning, periodic on-site reviews (spot checks), programmatic monitoring, scheduled audits and special audits.

OAI noted that no actions and decisions were made by the Resident Coordinator towards HACT implementation at the United Nations Country Team level in 2014. The Office was using the Funding Authorization and

Certificate of Expenditures form to process cash advances to responsible parties in the implementation of directly implemented projects. Although each agency Country Representative has primary responsibility and accountability for implementation of the HACT framework at the country level, the Resident Coordinator is also responsible for supporting agencies implementing the HACT framework, encouraging agencies to coordinate activities and coordinating the development of the macro-assessment and reviewing the status of HACT implementation. The Operations Management Team decided to undertake the micro-assessment of implementing partners only recently.

The objectives of harmonizing practices among the United Nations agencies, including lessening the burden of using multiple procedures, will not be achieved unless HACT requirements are implemented.

Priority	Medium (Important)
Recommendation 5:	
In coordination with other partners, pursue the implementation of the Harmonized Approach to Cash Transfer modality and ensure that its related requirements are duly adhered to.	
Management action plan:	
The Office is already applying a limited version of the HACT modality by the use of the Funding Authorization and Certificate of Expenditures form and the HACT payment modalities such as cash transfer, direct payment and spot check processes with some partners. Under the leadership of the new Resident Coordinator, a new Inter Agency Working Group has been established to work on the way forward for full HACT compliance. The Office has nominated two Focal Points. The Inter Agency Working Group is currently working on updating the list of partners (non-governmental organizations, civil society organizations, national counterparts) to prepare the macro- and micro-evaluation process. With this said, HACT will not be easy to implement but the Office is determined and committed to pushing for the success of the exercise.	
Estimated completion date: June 2016	

C. Programme activities

1. Programme management

Issue 6 Delays in Country Programme Document preparation and evaluation

According to the 'Programme and Operations Policies and Procedures', the Country Programme Document for UNDP assistance flows directly from the UNDAF and states more clearly those results in the UNDAF for which UNDP has a direct responsibility. Thus, the Country Programme Document must be prepared during the strategic planning stage together with the UNDAF.

It is mandatory for UNDP offices to present to the Executive Board an Evaluation Plan with each country, regional and global programme document for its consideration and approval. The Evaluation Plan is a component of the Monitoring & Evaluation Framework, and should include those evaluations which can be foreseen at the end of the programme planning stage.

The Office did not simultaneously prepare a new Country Programme Document that was based on the current UNDAF that was launched for the new programmatic cycle 2015-2019. Instead, the Country Programme Document covering the period 2011-2014 was extended until the end of year 2015. The document was aligned to the previous UNDAF that defined five priority areas, while the new UNDAF identified two main priority areas.

The Office explained that the new document was in the final preparation stage in 2014, but the escalation of the conflicts in Northern Iraq caused dramatic changes in the political and humanitarian context, affecting the Country's development agenda. Therefore, the Office requested to extend the existing programme document to the end of 2015 and decided to adjust the upcoming one to respond to the Country's urgent emerging priorities and needs, as the old draft version became partially irrelevant and obsolete.

The Office expanded its Evaluation Plan to include the evaluation of four outcomes and two projects scheduled during 2011 and 2014. However, OAI received the evaluation report only for Outcome 5. The Office indicated that two evaluations (of Outcomes 2 and 5) were undertaken in 2013 and the outcome evaluation scheduled for 2014 could not be completed due to the security situation. Regarding the report for Output 2, OAI was provided a document regarding the 'UNDAF mid-term review Terms of Reference'.

The lack of Country Programme Document outcome monitoring may lead to the inefficient use of donor resources, the inability to identify and report results, and may have a negative impact on the organization's reputation.

Priority	Medium (Important)
Recommendation 6: Improve the Country Programme Document preparation and evaluation process by: <ul style="list-style-type: none"> (a) updating and finalizing the draft document to align it to the new development context and programmatic cycle as required by the UNDP policy and procedures; and (b) conducting evaluations of outcomes and projects as planned and uploading reports in the Independent Evaluation Office's database. 	
Management action plan: A new Country Programme Document was in the final preparation stage when the crisis escalated in Northern Iraq in June 2014. Thus, the Office requested to extend the current document. Re-drafting a new one allowed the inclusion of a number of key elements, such as new Government priorities, Structural Assessment Mission, and national stabilization effort. Preparations were still ongoing in close consultation with UNDP headquarters and Government partners both in Baghdad and Erbil. The Country Programme Document was to be submitted to the Executive Board session in September 2015. The Assessment of Development Results for 2013 was scheduled to be finalized soon, although not all of the recommendations would be applicable to the existing programming context. The Office undertook the assessment in the last quarter of 2013. Completion of the exercise has been postponed repeatedly despite multiple efforts to speed it up. Starting March 2015, the Office has been in weekly contact with the Regional Bureau.	
Estimated completion date: June 2015	

2. Project management

Issue 7 Weaknesses in use of Atlas project module

The 'Programme and Operations Policies and Procedures' stipulate that Atlas shall be used for both financial management and substantive monitoring, for which the project management information in Atlas needs to be up-to-date and complete. This enables offices and headquarters units to produce reports, such as the web-based reports (Project Progress Report and Project Budget Balance) in the Executive Snapshot, that are part of UNDP Country Office central oversight and monitoring while serving as the building blocks for periodic reviews and communications with stakeholders.

OAI reviewed a sample of 8 out of 47 active projects, representing 45 percent of the total project actual expenditures during the period under review. OAI noted the following shortcomings:

- The project module in Atlas was not fully used to capture activities, milestones and general documentation relevant to project implementation. In addition, information available was outdated and incomplete. Furthermore, projects from the sample that were handed over from one project manager to another had limited background documentation.
- Non-governmental organizations and civil society organizations acting as responsible parties in project implementation were not reflected in Atlas Chart-fields at the budget level. The Office was using 32 responsible parties to assist with the implementation of directly implemented project activities. However, budget and expenditures implemented by responsible parties during 2014 were charged to a UNDP implementation code in Atlas instead of an individual implementing code for each partner. Thus, information on which office actually incurred the recorded expenditures in Atlas was not accurately reflected. The Office explained that responsible parties were new partners in 2014 and the UNDP implementing code was temporarily used to accelerate the payment process, and regularization would be made once the new implementation codes were received.

Failure to keep information complete and updated in UNDP's systems may affect the timely delivery of projects and may result in sharing inaccurate information with relevant stakeholders.

Priority	Medium (Important)
Recommendation 7:	
Improve project planning and implementation by using Atlas functionalities more efficiently and capturing all information on the status of project implementation for proper and timely reporting to relevant stakeholders.	
Management action plan:	
The Office has already taken a number of steps toward utilizing the Atlas project module to the full extent. Currently, all project related documentation has been successfully uploaded into Atlas. Project information has been updated with key missing elements and components have been added. In addition, a plan has been prepared to ensure full utilization of the Atlas project management including risk, issues and monitoring modules. These efforts have been partially shouldered under special mission aimed at introduction of the Programme Finance Officer to the Office.	
Estimated completion date: December 2015	

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Issue 8 Projects not financially closed in a timely manner

The 'Programme and Operations Policies and Procedures' require that operationally closed projects be financially closed within 12 months of operational closure. Any residual balances should be cleared within this timeframe to enable the financial closure of projects.

The Office's project portfolio included 13 projects that were operationally closed between 2005 and 2013, but that had not been financially closed at the time of the audit. The Office indicated that out of the 13 projects, 5 projects were operationally closed between 2004 and 2007. The Office also indicated that they were following up with UNDP headquarters seeking an administrative closure as there were missing documents due to the relocation from Iraq to Amman under serious security constraints after 2003. For the remaining projects that were operationally closed between 2009 and 2013, the Office was going to take all of the necessary actions to speed up the financial closure process.

Projects not timely closed may face the risk of inappropriate or unapproved charges being made against them.

Priority	Medium (Important)
Recommendation 8:	
Expedite the financial closure of all projects operationally closed for a period longer than 12 months, and financially close projects within 12 months of their operational closure.	
Management action plan:	
The Office has already started taking action. Five projects that were operationally closed in the period between 2004 and 2007 had been administratively closed and ultimately, financially closed. Also for the eight projects that were operationally closed between 2009 and 2013, the financial closure is in progress and will be finalized shortly. At the management level the Office will ensure full compliance with UNDP's regulation and guidance regarding the project closure timeframe.	
Estimated completion date: December 2015	

D. Operations

[NOTE: Certain information from this section has been redacted as it is deemed to contain sensitive information.]

1. Human resources

Issue 9 Performance Management and Development not completed

A performance assessment not only measures a staff member's contribution towards corporate results, but is also a vital tool for career development.

As of February 2015, 27 of 69 staff members had not yet started uploading the targets in their Performance Management and Development system for 2014. In addition, 30 staff members had not yet completed their Performance Management and Development exercises for 2013.

The non-completion of staff performance assessments within the required timeframe may result in the failure to provide timely feedback and address areas needing improvement in staff performance. In addition, without agreed upon performance targets, supervisors may not have the proper criteria for conducting assessments.

Priority	Medium (Important)
Recommendation 9:	
Complete the performance assessments for all staff, which should include targets for the coming year.	
Management action plan:	
Performance Management and Development for 2013 and 2014, as well as the performance plans for 2015 are being finalized as recommended. Special efforts are being made at various levels to bring a sense of urgency and importance to the issue.	
Estimated completion date: December 2015	

Issue 10 Non-completion of UNDP mandatory training courses

Mandatory training courses are important for ensuring that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. Some certificates of mandatory training courses are valid only for three years.

At the time of the audit, the Office had 69 staff members, many of whom had not completed UNDP mandatory training courses, as follows:

- 8 staff had not completed the UN Prevention of Harassment course;
- 10 staff had not completed the course on Ethics;
- 14 staff had not completed the course on Legal Framework;
- 10 staff had not completed the Gender Journey course;

■ [REDACTED]

The Office explained that a number of targeted efforts had been made to resolve this issue. The importance of the courses for efficient and effective performance has been repeatedly reiterated. Completion of the online mandatory courses has been made a prerequisite to any external training opportunities, including National Staff Capacity Development and Capacity Building Programme.

Not completing mandatory training courses may lead to staff members not being aware of important policies that are relevant to their roles and responsibilities.

Priority	High (Critical)
Recommendation 10:	
Require all staff to complete UNDP mandatory training courses and follow up with staff regularly.	
Management action plan:	
The Office is finalizing the National Staff Capacity Building and Development Programme. One of the key preconditions for staff to benefit from training opportunities is the completion of mandatory online training courses.	
Estimated completion date: August 2015	

2. Finance

Issue 11 Inadequate management of Electronic Funds Transfer

The 'UNDP Financial Regulations Rules' indicate that the Treasurer, Bureau of Management, is authorized to designate the bank or banks to which UNDP funds and UNDP administered funds will be deposited and maintained. UNDP's financial policies and procedures also require the establishment and use of electronic banking systems as part of a bank service. In this regard, the Atlas system allows three payment formats: manual cheques, system cheques, and Electronic Funds Transfer. Of these, only the Electronic Funds Transfer payment format is processed by the UNDP Interface, a software that permits UNDP to instruct its banks to pay and transfer funds from UNDP's bank account to vendors and staff accounts. Country Offices may establish Electronic Interfaces between Atlas and local banks where local banks have electronic banking capability. Electronic Funds Transfer is the preferred mode of payment whenever possible as it is less expensive, more efficient, and eliminates the use of cheques.

During 2014, the Office processed 3,468 payments through Electronic Funds Transfer, equivalent to 77 percent of all payments made during that period. For processing these payments to vendors and staff after the relocation to Iraq, the Office continued to use a Jordanian company that was contracted in 2009 when the Office was still based in Jordan. Commission fees paid for this service during 2014 amounted to \$124,712 (1.4 percent of the cash delivered in Iraq). The registration document of the company indicated trading and consulting as its main activities. These activities were not in accordance with article 27 of the Iraqi Banking Law, which considered providing settlement and transfer services for money, securities, payment orders and payment instruments to be banking activities. Moreover, article 3 of the same law stipulated that no person in Iraq shall engage in banking business without a banking license or permit issued by the Central Bank of Iraq. The Office provided a banking license, but it was issued by the Central Bank to another company and not the contracted Jordanian vendor.

The Office explained that the reason for using a private company for processing payments to vendors was that international sanctions made money transfers through the traditional system very difficult and lengthy. Thus, the Office opted to use the services of companies to transfer funds. OAI, however, did not obtain evidence of any authorization from UNDP Treasury to use companies outside of the Iraqi banking system for processing Electronic Funds Transfer payments.

The Office had a local bank account in Iraq since 2005. In 2006, the Central Bank activated the Real Time Gross Settlement system that connected it with the main bank branches for exchanging transactions inside the Country; however, the Office did not explore this option for the transfer of funds after relocating from Jordan.

Using the services of companies and systems not in accordance with local banking laws to process Electronic Funds Transfer payments may result in financial and reputational risks for the Office.

The Office explained that the Electronic Funds Transfer interface is not possible with any bank in the Country including the Central Bank. The cheque payment method is only used with the Central Bank located in Erbil. However, vendors in other locations across the Country experienced issues with the collection of their cheques from Erbil. Due to the limitations of the local banks in providing Electronic Funds Transfer services, the Office's alternative solution was to use other banks in the Country. This process, however, could be very lengthy and may cause undue delays in the transfer of funds.

Priority	High (Critical)
Recommendation 11:	
Adhere to the 'UNDP Financial Regulations and Rules' and the Country's banking laws related to the use of the electronic banking system in the processing of Electronic Funds Transfer payments to vendors and staff.	
Management action plan:	
The Office will initiate with headquarters treasury the approval process for the use of the money transfer company, which is currently the best alternative for this crisis situation. The Country is also negotiating with the Central Bank the possibility to use the wire transfer (letter of transfer sent to banks), which can eventually reduce the use of other banks.	
Estimated completion date: December 2015	

3. Procurement

Issue 12 Deficient procurement and contract management

The 'Programme and Operations Policies and Procedures' require offices to conduct procurement activities in a fair and transparent manner, in the interest of UNDP, and provide best value for money through a competitive process. Regardless of how effective each phase of the procurement process is executed, if the offers are not evaluated in a fair and transparent manner, the overall process fails. The purpose of evaluation is to ensure that the most qualified and responsive offer represents best value for money. Once a contract has been awarded and signed, contract management is the next process, which ensures that all parties to the legally binding agreement fully meet their respective obligations as efficiently and effectively as possible. The Office must also ensure that, in case they decide on a Long Term Agreement, this must be used according to the UNDP policies.

In 2014, the Office signed Long Term Agreements with two vendors to provide staffing services totalling \$10.2 million. These services consisted of sourcing and shortlisting of suitable candidates, induction and training of newly hired candidates, and arrangement of visa and work permits. The Office indicated that the need for these services was linked to the operational context of the Office's transition from Amman to Iraq, which resulted in a significant number of separations of the Amman-based staff. Faced with a severe internal capacity gap and constraints caused by the mandatory break in service requirement, the Office used Long Term Agreements as the contracting modality for hiring staffing services to ensure continuity of operations.

OAI reviewed the procurement process for the provision of staffing services and noted deficiencies in the technical evaluation. The main technical evaluation criteria used by the Office to select the vendors was their having a consultant database or roster. During the evaluation process, the Office technically rejected two offers because there was no information regarding a consultant database in their proposals. The awarded vendor simply indicated the existence of a roster in its technical proposal, but did not specify the number of existing curricula vitae and the areas of expertise. A request for more details on the database was made only to the awarded vendor, but not to the other competitors. Lack of consistency and fairness in the technical evaluation process could jeopardize receiving the best value for money and could increase the risk that the process will not be competitive or transparent.

During 2014, the Office hired 76 consultants by using the two Long Term Agreements, 29 international staff and 47 national staff. The following weaknesses were noted:

- Of the 76 consultants recruited, 41 were previously directly contracted by the Office in Amman under individual contract, service contract or staff modalities. It was discussed and agreed that colleagues hired by UNDP previously under various modalities could not be re-hired within six months from the date of expiration of their contracts. This restriction in re-hiring was circumvented with the use of Long Term Agreements with these two companies for the sourcing of these candidates.
- As per the conditions agreed to in the Long Term Agreements, three curricula vitae had to be provided by the company from their database. Based on these, the Office had to evaluate and select the most appropriate candidate. In four out of five cases reviewed, the selection and evaluation processes were not followed and the candidate was directly proposed and selected by the Office. This was contrary to the agreement with the Procurement Section that no candidates could be hired unless the process was competitive and that the candidates were reviewed by a selection panel. The selection panels also needed to be revised to include representatives from more than one project/unit.
- In one case, the evaluation criteria were extremely restrictive in order to recruit a specific consultant to perform a core function. The consultant that was selected and hired previously had an individual contract with the Office that exceeded 265 days. Since the Office did not get the approval for the extension of the contract from the respective Bureau, the Office engaged the consultant through the Long Term Agreement with the staffing service provider.
- In another case, the Office asked the staffing service company to include a specific candidate in the list of curricula vitae to be assessed during the selection process. Although this candidate was not finally selected, it was an indication that the selection process could be manipulated.
- It was also noted that two consultants recruited through these companies were providing procurement and finance functions, which are considered core functions. According to the UNDP policies and procedures, under no circumstances shall individual contractors be used for functions normally performed by a staff member, nor should it be used to replace a staff member who has taken any type of leave, for any period of time.

The above observations demonstrate that the Office contracted these staffing service companies without adhering to UNDP rules on competitive selection and contracting. The requirement for competition was circumvented by using Long Term Agreements that are not intended to be used to avoid competition. The lack of fairness and transparency in conducting the procurement processes through the staffing service contractors may put the Office at financial and reputational risk, as it may not be able to obtain the best value for money.

It is recognized that with the current situation in the Country and the challenges faced by the Office, there is a need for some flexibility to be able to procure the necessary skills and expertise needed for the implementation of programmes and projects as well as for the mitigation of major security risks and addressing access issues. This should, however, be carefully balanced with compliance with procurement policies and procedures. The Office agreed that it would change these practices and in fact, discussions with the Office on the subject took place in January 2015, prior to the arrival of the audit team.

Priority	High (Critical)
Recommendation 12: Adhere to UNDP policies and procedures related to the procurement and contract management, particularly if Long-Term Agreements are to be used again for sourcing staffing services by: <ul style="list-style-type: none"> (a) determining proper technical specifications in the solicitation documents; (b) ensuring proper and fair procurement evaluation processes; (c) awarding individual contracts competitively through fair and transparent selection processes; and (d) correctly using the individual contracting modality. 	
Management action plan: The Office has taken note of the recommendation and is taking remedial actions, as follows: <ul style="list-style-type: none"> ▪ All procurement requests to contract through the staffing service company must first be reviewed/approved by the senior management prior to soliciting curricula vitae from the Long Term Agreement holders. ▪ Limit the use of the Long Term Agreements to those contracts that require the consultant to travel/work in high-risk areas that require security escort services (in the event that UNAMI cannot provide the services). When doing so, follow closely improving security framework (despite deteriorating security situation), allowing better flexibility in the utilization of standard UNDP modalities. ▪ Ensure that the solicitation, evaluation and contracting is done in accordance with UNDP procurement guidelines and the Long Term Agreement terms and conditions, with no candidates proposed by the Office. ▪ The use of individual contract to perform core functions will be limited to the standard three-month duration and on an exceptional basis, a six-month duration, under the Special Measures as approved by the Bureau of Management. In both instances, the individual contract will not have any fiduciary duties/responsibilities. ▪ Those colleagues ineligible to be hired under UNDP modality for any type of limitations/restrictions will not be hired by the staffing service company under any circumstances. ▪ All Office colleagues will be informed of the above, accordingly. <p>Ultimately, it is the objective of the Office to gradually phase out the partially excessive use of the Long Term Agreements and ensure that they are used for what they were intended for, while at the same maintaining</p>	

the integrity of the procurement process.

Estimated completion date: August 2015

Issue 13 Excessive use of direct contracting modality

The 'Programme and Operations Policies and Procedures' define direct contracting as a procurement method that allows the awarding of a contract without competition. Offices may only use this method when it is not feasible to undertake a competitive bidding process, and that proper justifications exist. In this regard, the 'UNDP Financial Regulations and Rules' describe the specific circumstances or justifiable reasons that allow the use of direct contracting.

OAI reviewed a sample of 32 procurement processes, 5 of which were direct contracts, and identified the following deficiencies concerning two cases regarding the direct contracting modality:

- In one case, the rationale for direct contracting of technical training services was based on the intellectual property rights on the software acquired by the vendor. Three out of five trainers provided by the vendor were freelancers, which indicated that the training service could have been provided by other vendors through a competitive process, regardless of the intellectual property ownership. In addition, a letter from the supplier indicated that the software was operating from the vendor's hosting servers and could be transferred to any other hosting environment, at the discretion of UNDP or the Government upon the signature of the non-disclosure agreement. Thus, there was no evidence of the need to limit the delivery of technical training services and the hosting of the software to this specific vendor.
- In 2010, UNDP signed a contract with an ICT vendor to design a specific database. Later in 2012, UNDP contracted the same company, using a direct contracting modality, to add new elements to the database. During 2014, the Office signed a new contract with the same vendor again using direct contracting modality to upgrade the database and make it accessible online. The justification provided for successive direct contracting of the same vendor was that it would ensure continuity of the service and solve any problems with the database when migrating from a desktop to an online application. Additionally, there was a link between the development of the original system and the proposed system upgrades. However, it was noted that the real justification for contracting the same vendor was that the project end users were dissatisfied with the first product. Thus, the real purpose of using the direct contracting modality was to fix the issues with the initial design before migrating to the online system. In addition, the upgrading of the database to make it accessible online (performed by the vendor during 2014) could have been performed by any other qualified company, since there was no need for compatibility and consistency with existing equipment, systems, or technologies.

The explanation provided by the Office did not meet the criteria for direct contracting modality as specified by the 'UNDP Financial Regulations and Rules', and thus did not ensure the achievement of best value of money.

Priority	Medium (Important)
Recommendation 13:	
Use the direct contracting modality only in exceptional cases and when proper justification exists in accordance with the 'UNDP Financial Regulations and Rules'.	
Management action plan:	
Management will review each request for direct contracting to ensure that justification is valid and permissible under the financial rules and provisions for direct contracting.	
Estimated completion date: May 2015	

Issue 14 Deficient sourcing of suppliers and inappropriate response to local market

Essential to effective competition and the promotion of fairness, integrity and transparency, is UNDP's commitment to an inclusive approach towards procurement and encouraging widespread sourcing. An integral part of the procurement process is ensuring that vendors meet the requirements of UNDP. In order for a vendor to be qualified to submit an offer and potentially be awarded a contract, it must demonstrate, and in certain cases certify, that it has the technical capability to satisfactorily meet the requirements. It must also have the proper facilities, experience, and a record of satisfactory performance with previous clients, possibly including UNDP. According to UNDP's regulation and rules, the purpose of opening competition to the international market is to provide equal opportunity to the universe of eligible vendors.

The Office explained that local supply market was not perfect and characterized by a limited number of suppliers, and that the majority of them were registered as general trading companies that allowed them to diversify their business interests and not necessarily limit themselves to a specific field of specialization. Some well-established companies were able to tap into the local resources and outsource the services as they took the lead in bidding for UNDP contracts. This could have been the case in the Country, however, and the use of generic suppliers could have led to low quality of service, civil works or goods, as it was unclear how the Office identified and assessed the field of expertise or specialization of vendors in the procurement process.

OAI also noted that the limited market response to procurement solicitation was not only related to the current state of the local market but also to the restrictive bidding conditions and inconsistency in the evaluation process. In another procurement case of an open international competition, a local vendor was assessed as technically responsive out of the two offers received. The Evaluation Committee assessed the rejected offer as technically non-responsive because the vendor did not comply with having business registration and presence in the South of Iraq or experience in the implementation of projects in developing countries. The Office, however, did not provide appropriate justification for the requirement of having business registration and presence in the South of Iraq.

As the process of sourcing suppliers is an important phase of the procurement cycle, the use of a limited number of generic unspecialised suppliers, restrictive bidding conditions, and inconsistency in the evaluation process, may result in poor procurement decisions and may increase the risk of not obtaining best value for money.

Priority	Medium (Important)
Recommendation 14: Promote inclusive, widespread and competitive sourcing of suppliers by: <ul style="list-style-type: none"> (a) conducting market research to identify vendors with the appropriate specialized business activities; (b) establishing and using consistent and coherent criteria when evaluating technical proposals; and (c) avoiding unnecessary restrictive bidding conditions. 	
Management action plan: The United Nations Country Team (led by UNICEF) is currently conducting a local market analysis and the outcome will inform the sourcing strategy for the Office. Further, management, in consultation with the Team and Procurement Support Office, may consider hosting a supplier's fair, to inform/educate local vendors on United Nations procurement. The objective is to attract vendors and level the competition. The Office will conduct in-house training on establishing evaluation criteria and the mechanics of evaluating proposals in a fair and unbiased manner to strengthen the quality and integrity of the procurement processes.	
Estimated completion date: December 2015	

4. Asset management

Issue 15 Weakness in asset management

A physical count of assets must be conducted at least twice a year to ensure that the data included in the Atlas fixed asset data corresponds to the items physically present at the Country Office, and to allow the production of donor reports and financial statements. Each Country Office must assign the responsibility of coordinating the process of verifying the existence of assets to the Physical Verification Coordinator. This Coordinator should be a staff member with some finance or accounting knowledge and be responsible for the establishment of a team that excludes the Asset Focal Point, for the purposes of segregating functions.

During the audit, OAI noted the following weaknesses:

- As per the discussions with the Asset Focal Point, a physical verification committee was appointed to conduct end-of-year physical verification of assets in all locations in the Country. No verification reports were made available to serve as evidence that the Office conducted the year-end physical verification for the Office and project assets. In addition, no information was provided on the appointment of a physical verification committee to conduct these verifications.
- During the review of an In-service report as of 31 December 2014, the following was noted:
 - OAI conducted a physical verification of a sample of assets and noted that one asset was missing (IT equipment). Locations of assets were not updated in the system (one armored vehicle's location in the system was Erbil while it was relocated to Baghdad according to the Office). In addition, not all assets were labelled with tag numbers.

- 89 assets with a Net Book Value of \$112,000 showed the asset location as Amman, while the office in Amman was closed and all assets were shipped to Iraq.
- 16 assets were acquired between 2005 and 2011 had a zero Net Book Value.

These weaknesses were due to the lack of capacity in the Asset Management Unit. Inadequate asset management may lead to assets not being fully accounted for, undetected losses, or misuse.

Priority	Medium (important)
Recommendation 15: Improve asset management by: <ul style="list-style-type: none"> (a) conducting and documenting the asset verification process and having the verification reports signed by the assigned verification committee; (b) updating the asset locations in the system and tagging all assets; and (c) reviewing and deciding if zero Net Book Value assets should be re-evaluated or disposed. 	
Management action plan: The Office's Focal Point was recruited in November 2014. The Office organized a detailed mission of a colleague from the Bangladesh office to assist with the year-end submission, and the capacity building of Office staff. The Office has established a time table for the completion of works as follows: <ul style="list-style-type: none"> ▪ Mid-year physical verification committees were established on 9 April 15 for Baghdad, Erbil, Basra, Duhok and Suleimanyah with a time table for each location. A UNDP Asset Focal Point coordinates with all committees and conducts field missions to all locations. In this process, all assets and UNDP properties will be tagged. ▪ The Office's Asset Focal Point shared the updated In-service reports with respective Project Managers/ Project Asset Focal Points to verify their asset conditions and send their input by 1 May 2015. Then the Office's Asset Focal Point will update the asset location/other data accordingly in the system. ▪ In coordination with the concerned projects and senior management, the Asset Focal Point initiated the process of reviewing the items to be disposed, including items with zero Net Book Value and update the data in the system. 	
Estimated completion date: July 2015	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** 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.
- **Medium (Important)** 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. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.