AUDIT

OF

UNDP COUNTRY OFFICE

IN

IRAQ

Report No. 2180
Issue Date: 21 April 2020
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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 16 to 27 February 2020. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

The audit covered the activities of the Office from 1 January to 31 December 2019. The Office recorded programme and management expenses of approximately $367 million. The last audit of the Office was conducted by OAI in 2018.

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 partially satisfactory/some improvement needed, which means “The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due the inadequate management of cheque payments, and challenges with project budget management and closure.

**Key recommendations:** Total = 5, high priority = 2

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
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<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>2</td>
<td>High</td>
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<tr>
<td></td>
<td>1</td>
<td>Medium</td>
</tr>
<tr>
<td>Reliability and integrity of financial and operational information</td>
<td>4</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>5</td>
<td>Medium</td>
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</table>

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

Challenges in budget management and project closure (Issue 2) At the time of the audit, the Office faced challenges in terms of implementation of the project budgets and activities management, as well as the closure process, as described below.
a) **Project delivery weaknesses**
   - 8 out of 11 projects reviewed had a delivery below 80 percent in 2019. 6 out of the 8 projects had less than 50 percent delivery.
   - Delays in finalizing project documents.
   - Delays in finalizing Responsible Party Agreements.

b) **Project closure weaknesses**
   - As at 24 February 2020, 18 ongoing outputs with past expiry dates had active and ongoing status in Atlas (enterprise resource planning system of UNDP). Another output which had been set as operationally closed for more than 12 months, had yet to be closed financially.
   - A review of six closed projects (three operationally closed and three financially closed) showed the following: (i) final Combined Delivery Report not approved and signed by UNDP and implementing partner (one case); (ii) non-closure of bank accounts (two cases); (iii) outstanding cash balance of $53,478 (one case); (iv) project closure checklist not completed in Atlas (two cases); and (v) minutes of the final project review not available (two cases).

**Recommendation:** The Office should strengthen project budget monitoring, implementation and closure by: (a) identifying bottlenecks to project delivery and developing a timebound action plan to address them in order to boost project delivery; and (b) establishing a mechanism to monitor project end dates, and ensuring that closure procedures are timely initiated.

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**Inadequate management of cheque payments (Issue 4)**

The audit team reviewed the bank reconciliation process with a sample of 33 of 20,545 vouchers totalling $44 million out of $325 million in 2019. The review noted weaknesses in the controls over cheque payments as follows:

   - For 50 payments totalling $298,181 in January 2019, the issued cheques differed from the system assigned cheque numbers.
   - Six cheque payments for six different vendors with a total of $210,682 on behalf of a United Nations agency were all cashed at the bank by the same individual, who had not been named in the Atlas vendor record, as required.

**Recommendation:** The Office should strengthen controls over cheque payments and ensure accurate recording of transactions in Atlas by: (a) maintaining copies of cheques and collector’s identification for an audit trail; and (b) discontinuing the manual adjustment to the bank statements, verifying the accuracy of the manual bank account reconciliation, and communicating identified irregularities during bank reconciliation to the respective United Nations agency that authorized payment.

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**Implementation status of previous OAI audit recommendations:** Report No. 2011 (29 January 2019).

- Total recommendations: 7
- Implemented: 7
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 have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge Osttveiten
2020.04.21
12:38:50 -04'00'
Helge S. Osttveiten
Director
Office of Audit and Investigations
I. About the Office

The Office is located in Baghdad, Iraq with an operational office in Erbil, and field offices in Basra, Karbala & Anbar as well as project offices in Mosul, Sulaymaniyah and Duhok. At the time of the audit, the Office had 98 staff members (42 International, 17 National Officers and 39 General Service) supported by 109 service contractors, and 44 United Nations Volunteers. The four pathways in the Country Programme Document were: (a) strengthened stabilization; (b) diversified pro-poor economic growth for sustainable livelihoods; (c) improved governance with accountable institutions that protect the rights of vulnerable groups and pave the way for citizen-state trust; and (d) decreased fragility to climate change. The programme budget decreased from $559.5 million in 2018 to $356.9 million (or minus 46 percent) in 2019 in anticipation of ending of the stabilization programme, the largest project, which accounted for more than 90 percent of the delivery.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. Controls were established and functioning. The revised Internal Control Framework was aligned with the Office’s structure.

(b) Operations/ICT and general administration. Controls over assets management, travel and management cost recovery were adequately functioning.

(c) Operations/Staff and premises security. UNDP operates under the United Nations Country Team umbrella and is covered by the United Nations security plans and Area Security Risk Management (SRM). Control systems in the Office were adequate and effective with sound business continuity systems and security arrangements.

OAI made two recommendations ranked high (critical) and three 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) Strengthen controls over cheque payments (Recommendation 4).

(b) Strengthen project budget monitoring, implementation and closure (Recommendation 2).

Medium priority recommendations, arranged according to significance:

(a) Strengthen programme delivery (Recommendation 1).

(b) Follow up for the timely collection of Government Contributions towards Local Office Costs (Recommendation 3).

(c) Strengthen recruitment and collection procedures (Recommendation 5).

The detailed assessment is presented below, per audit area:
A. Programme

1. Quality Assurance Process

Issue 1  Weaknesses in programme delivery

Programme delivery requires strong programme and project management supported by a quality assurance process. Programme delivery should describe expected outcomes in sufficient detail and include evaluation steps to gain assurance on the delivery. Project plans must be prepared in a timely fashion, address risk management and clearly describe the outputs. The quality assurance process must be sufficiently staffed to give assurance on the quality of the programme delivery.

The audit disclosed the following weaknesses:

Programme management:
- Seven outcome indicators that had the baselines disaggregated per gender did not provide such gender disaggregation for the targets to facilitate performance measurements and contributions to programme objectives.
- Neither the previous Country Programme Document for 2016-2020 nor the new Country Programme Document for 2020-2024 had a planned midterm evaluation for the programme.

Project management:
- The annual work plans were either finalized late or not dated for five outputs reviewed.
- Data on risk management were either outdated or incomplete for five outputs reviewed. As an example, the “lack of resources and capacity to support project implementation” and the “low delivery” were not addressed in the logs.
- For three of the five outputs reviewed, social and environmental screening was not conducted during the design phase or there was no evidence that the environmental impacts and risks were being successfully managed and monitored.
- For four of the five outputs reviewed, annual progress reports were either missing or did not provide progress against annual output targets in the Results and Resources Framework.

Quality assurance:
- The quality assurance function showed weaknesses in staffing. A delay in adequate staffing of the Programme Management and Support Unit, specifically the monitoring and evaluation function, did not allow the unit to strengthen quality assurance at the programme and project level, thereby impacting programme and project management.

Without a strong programme and project management including an adequate quality assurance function, adequate performance is difficult to manage, which could negatively impact the achievement of objectives.
<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
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<tr>
<td>The Office should strengthen programme delivery by:</td>
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<tr>
<td>(a) addressing the capacity gap within the quality assurance function including finalization of the recruitment of the Monitoring and Evaluation Specialist;</td>
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<tr>
<td>(b) finalizing, in a timely manner, annual work plans, finalize risk logs for completeness; and</td>
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<tr>
<td>(c) strengthening the quality assurance over the Programme Pillars to ensure alignment between baselines and targets next to the inclusion of planned evaluations.</td>
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<tr>
<td><strong>Management action plan:</strong></td>
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<tr>
<td>(a) The Local Project Appraisal Committee system will be re-established within the Office, with clear guidance on the design and appraisal quality assurance, in order to strengthen the project design process.</td>
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<tr>
<td>(b) Strengthen the quality assurance capacities of the Programme Pillars through on the job-training and mentorship.</td>
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<tr>
<td>(c) Re-schedule and complete the Results Based Management training for programme and project staff.</td>
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<tr>
<td>(d) Finalize the recruitment of a Monitoring and Evaluation Specialist for the Programme Management and Support Unit (30 June 2020).</td>
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<tr>
<td>(e) Continue the monthly review of project implementation (including progress against delivery) at Programme Pillar meetings chaired by the Resident Representative and Deputy Resident Representative-Programme, including to identify solutions to challenges faced.</td>
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<td><strong>Estimated completion date:</strong> December 2020</td>
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2. Programme/Project Design and Implementation

**Issue 2** Challenges in project delivery and project closure

Project budgets should be based on available capacity. The implementation of budgeted activities should be monitored to ensure bottlenecks are timely addressed. In addition, the ‘UNDP Programme and Operations Policies and Procedures’ require that projects be closed in a timely manner.

At the time of the audit, the Office faced challenges in terms of implementation of the project budget and activities management, as well as the closure process, as described below.
a) **Project delivery weaknesses**

The Office’s programme delivery was $466 million and $292.3 million in 2018 and 2019, respectively. One project “Funding Facility for Stabilization” accounted for about 90 percent of the programme delivery in 2019 and had a strong delivery rate of 94 percent impacting positively on the overall delivery of 81.9 percent. However, this project was expected to be finalized, and therefore the delivery rate depended on the delivery rate of the other projects. A review of 11 projects with a budget of at least $1 million each in 2019 disclosed the following:

- 8 out of 11 projects reviewed had a delivery below 80 percent in 2019.
- 6 out of the 8 projects had less than 50 percent delivery.
- Delays in finalizing project document.
- Delays in finalizing Responsible Party Agreement.

b) **Project closure weaknesses**

- As at 24 February 2020, 18 ongoing project outputs with past expiry dates had active and ongoing status in Atlas (enterprise resource planning system of UNDP). Another project output which had been set as operationally closed for more than 12 months, had yet to be closed financially.
- A review of six closed projects (three operationally closed and three financially closed) showed the following: (i) final Combined Delivery Report not approved and signed by UNDP and implementing partner (one case); (ii) non-closure of bank accounts (two cases); (iii) outstanding cash balance of $53,478 (one case); (iv) project closure checklist not completed in Atlas (two cases).

The weaknesses in project delivery and closure were caused by weaknesses in the monitoring of budgeting, implementation and closure.

By not monitoring the budgeting, implementation and closure of projects sufficiently, there is a risk that resources will not be used efficiently and that project outputs will not be achieved.

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<th>Priority</th>
<th>High (Critical)</th>
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<tbody>
<tr>
<td><strong>Recommendation 2:</strong></td>
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<tr>
<td>The Office should strengthen project budget monitoring, implementation and closure by:</td>
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<tr>
<td>(a) identifying bottlenecks to project delivery and developing a timebound action plan to address them in order to boost project delivery; and</td>
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<tr>
<td>(b) establishing a mechanism to monitor project end dates and ensuring that closure procedures are timely initiated.</td>
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| **Management action plan:** | |
| (a) Continue the monthly review of project implementation (including progress against delivery) at Programme Pillar meetings chaired by the Resident Representative and Deputy Resident Representative-Programme, including to identify solutions to challenges faced. | |
| (b) In late 2019 with the Programme Management and Support Unit (establishment, a mechanism was introduced to review the closure requirements of the Office’s project portfolio through the Project Closure Work Bench once in two months, to identify the upcoming projects that require operational |
and/or financial closure, and provide timely notifications to the Programme Pillars and project teams of closure deadlines. This mechanism will be strengthened to enable clearing closure of old projects, and timely closure of projects in the future. As part of this mechanism, senior management sign off on the offline Project Closure Checklists is also coordinated through the Programme Management and Support Unit (with inputs from project teams and Finance).

**Estimated completion date:** December 2020

### B. Operations

#### 1. Financial Management

**Issue 3** Long outstanding Government Contributions towards Local Office Costs

According to the 'UNDP Programme and Operations Policies and Procedures', cash targets of host Government Contributions towards Local Office Costs (GLOC), in accordance with the provisions of the Standard Basic Assistance Agreements (SBAA) with UNDP, are communicated annually. Offices must take all necessary steps to ensure that governments meet their obligations for payment of contributions and must keep Headquarters informed by copying correspondence to the respective Regional Bureau.

At the time of the audit, the outstanding GLOC since 2016 amounted to $1.3 million. In June 2019, the Office communicated the annual cash target to the Government and followed up on the outstanding amount. The Office advised that it also constantly followed up on the GLOC during meetings with the Government. No minutes of meetings or official communications were provided to the audit team confirming that the Government was ready to settle it.

Outstanding obligations not met by the Government decrease the amount of available funds that could be used by UNDP in the implementation of its development programmes.

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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 3:**

The Office, with support of the Regional Bureau, should continue to follow up with the Government on timely collection of the cash target of the Government Contributions towards Local Office Costs, including collection of long outstanding amounts from previous years.

**Management action plan:**

The Office will continue following up with relevant government authority.

**Estimated completion date:** December 2020
Issue 4  Inadequate management of cheque payments

The Office should put in place sufficient controls to ensure the correct management of cheques. These controls should include measures to reconcile Atlas payments with bank transactions.

The audit team reviewed the bank reconciliation process with a sample of 33 of 20,545 vouchers totalling $44 million out of $325 million in 2019. The review noted weaknesses in the controls over cheque payments, as follows:

(a) **Weaknesses in controls for cheque payments**

- For 50 payments totalling $298,181 in January 2019, the issued cheques differed from the system assigned cheque numbers. This was due to a technical problem experienced with the cheque printer. The Office opted to document the variations by manually adjusting the reference numbers on bank statements during the bank reconciliation, as opposed to cancelling all affected payments. Similar errors were also noted in the September 2019 bank statement.
- The Office did not maintain copies of payroll and vendor cheques to support an audit trail. The cheque stubs maintained by the Office did not indicate the amounts paid and collector signatures.

(b) **Unknown payees in bank statement**

- Six cheque payments for six different vendors with a total of $210,682 on behalf of a United Nations agency were all cashed at the bank by the same individual, who had not been named in the Atlas vendor record, as required. The Office records showed that these cheques were collected by six different individuals designated as bearers by the various companies.
- The different payee was not flagged during bank reconciliation review process as the Office explained that it is accountable for making payments based on authorized instructions from officials of the other United Nations agency. Neither the Office nor the other agency could identify the individual that cashed the cheques.

Weak controls over the management of cheque payments increase the risk of fraud.

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<tr>
<th>Priority</th>
<th>High (Critical)</th>
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<tbody>
<tr>
<td>Recommendation 4:</td>
<td>The Office should strengthen controls over cheque payments and ensure accurate recording of transactions in Atlas by:</td>
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<tr>
<td></td>
<td>(a) maintaining copies of cheques and collector's identification for an audit trail; and</td>
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<td></td>
<td>(b) discontinuing the manual adjustment to the bank statements, verifying the accuracy of the manual bank account reconciliation, and communicating identified irregularities during bank reconciliation to the respective United Nations agency that authorized payment</td>
</tr>
<tr>
<td>Management action plan:</td>
<td>(a) The Office will maintain copies of cheques and reinforce the collection of identification of the cheque collectors.</td>
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</tbody>
</table>
(b) The Office will discontinue the manual adjustment to the bank statements. All the cheque payments debited to the Office’s accounts and reconciled were issued by the Office and tally with records. Therefore, there was no issue of inaccurate verification and there were no irregularities to be reported/communicated during the year under review.

Estimated completion date: November 2020

2. Human Resources Management

Issue 5 Weaknesses in human resources management

The UNDP Recruitment and Selection Framework Policy stipulates that every application should be considered. Objective reasons to include or exclude candidates on shortlists, and adequate assessment documentation and reports should be maintained. Further, for the Office to perform optimally, vacant posts should be filled in a timely manner.

A review of 21 of the 37 recruitments of staff members and service contracts during the audit period indicated weaknesses in the adequacy of supporting documentation and timeliness of recruitment processes in 6 of the 21 (22 percent) recruitments reviewed.

In 4 of the 6 instances, the criteria to select candidates were unclear or not followed. In 2 of the 6 recruitments, the e-recruit platform did not contain all assessments.

Vacancies had not been timely filled. Seven of the 21 (29 percent) vacancies sampled took, on average, 238 days (ranging from 201 to 488 days) to be filled. In addition, 6 of the 37 vacant posts had yet to be filled as at February 2020 even though they had been vacant from 211 to 399 days. This did not comply with the Office’s benchmark of 78 days to enhance recruitment and selection efficiency.

Weaknesses in the recruitment and selection process may lead to perceptions of bias or favoritism. Additionally, delays in filling vacancies may hinder the Office’s ability to effectively deliver on its programme.

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<th>Priority</th>
<th>Medium (Important)</th>
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<tr>
<td>Recommendation 5:</td>
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<td>The Office should strengthen the recruitment and selection procedures by:</td>
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<td>(a) indicating the criteria to be used to shortlist candidates in the recruitment strategies, and providing adequate supporting documentation substantiating how candidates were moved from longlists to shortlists; and</td>
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<td></td>
<td>(b) timely filling vacant posts as per the Office’s internal performance indicators.</td>
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</table>
Management action plan:

(a) The Office, as always, will emphasize and ensure that shortlists are not finalized unless the assessment of candidates by the shortlister clearly stipulates the criteria used for shortlisting and the reason(s) as to why candidates are/aren’t shortlisted. The Office will also ensure that the shortlist creator develops a matrix per the criteria stipulated in the job description and assess/grade the longlisted candidates accordingly to ensure more clarity and transparency on how candidates are moved from longlist to shortlist.

(b) The Office has SOPs in place that clearly stipulate in detail the steps of recruitment process for all contract modalities and reflect the time frame for each step (KPIs). The Office has a recruitment tracking mechanism in place. The recruitment cases are reviewed weekly for updates. The Office, as always, will observe and ensure adherence to internal performance indicators to the extent possible.

**Estimated completion date:** September 2020
Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**
  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**
  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**
  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**
  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.