

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)

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)

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.

Recommendation: 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.

Non-completion of UNDP mandatory training courses (Issue 10)

At the time of the audit, many staff members had not completed UNDP mandatory training courses, [REDACTED]

Recommendation: Require all staff to complete UNDP mandatory training courses and follow up with staff regularly.

Inadequate management of Electronic Funds Transfer (Issue 11)

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.

Recommendation: 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.

Deficient procurement and contract management (Issue 12)

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.

Recommendation: Adhere to UNDP policies and procedures related to the procurement and contract management for sourcing staffing services.

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.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is written over a rectangular box. The signature is stylized and extends above and to the right of the box.

Helge S. Ostveiten
Director
Office of Audit and Investigations