



AUDIT

OF

UNDP IRAQ

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

Report No. 1641

Issue Date: 29 June 2016

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

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

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

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

Audit results

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

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

*NFI = Net Financial Impact

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

Key recommendations: Total = 3, high priority = 3

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

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

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

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

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

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

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

Overhead expenses above required threshold (Issue 2)

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

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

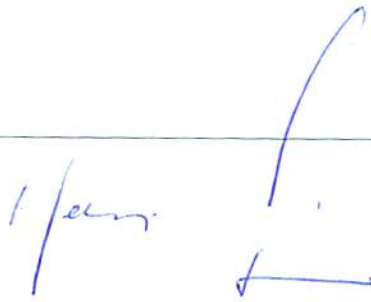
Assets incorrectly recorded as expenditures (Issue 3)

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

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

Management comments and action plan

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



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