



AUDIT

OF

FUNDING FACILITY FOR STABILIZATION
(Directly Implemented Project No. 89459, Output Nos. 95684 and 120726)

IN

UNDP IRAQ

Report No. 2665
Issue Date: 14 September 2023

**Report on the Audit of Funding Facility for Stabilization
(Project No. 89459, Output Nos. 95684 and 120726)
Implemented by UNDP Iraq
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Talal Abu-Ghazaleh & CO. International (the audit firm), from 5 June to 5 July 2023, conducted an audit of ‘Funding Facility for Stabilization’ (Project No. 89459, Output Nos. 95684 and 120726) (the Project), which is directly implemented and managed by the UNDP Country Office in Iraq (the Office). The last audit of the Project was conducted by OAI in 2022 and covered project expenses from 1 January to 31 December 2021.

The audit firm conducted a financial audit in accordance with the International Standards of Auditing (ISA), the 700 series, 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 expenses for the period from 1 January to 31 December 2022 and the accompanying Funds Utilization statement¹ as of 31 December 2022 as well as Statement of Assets (Output No. 95684) as of 31 December 2022. 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), or expenses of other United Nations agencies (Output No. 120726). The audit did not cover the Statement of Assets (Output No. 120726) as no assets were held by the Output. In addition, the audit did not cover the Statement of Cash 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* of The Institute of Internal Auditors (The IIA).

Audit results

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

Output No.	Project Expenses				Project Assets	
	Amount (in \$ ‘000)	Opinion	NFM*** (in \$ ‘000)	Impact on CDR	Amount (in \$ ‘000)	Opinion
95684	137,526*	Qualified	3,465	Overstatement	759	Unmodified
120726	7,193**	Unmodified	N/A****	N/A****	N/A****	N/A****

* Expenses recorded in the Combined Delivery Report were \$154,206,098. Excluded from the audit scope were transactions that relate to expenses processed and approved by other UNDP offices outside of the country (\$15,837,356). Also excluded were expenses incurred at the “responsible party” level (\$843,119), which were subject to a separate audit that resulted in an unmodified opinion.

** Expenses recorded in the Combined Delivery Report were \$10,726,215. Excluded from the audit scope were transactions that relate to expenses of other United Nations agencies (\$34,999) and expenses processed and approved by other UNDP offices outside of the country (\$3,498,207).

***NFM= Net Financial Misstatement

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated 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.

***Not Applicable

The audit firm qualified its opinion on project expenses (Output No. 95684) due to recording of project's expenses in the incorrect accounting period. The resulting financial impact was a material overstatement of the financial statements in the amount of \$3,465,124, which represented 2.5 percent of the project expenditures directly incurred by the Office as of 31 December 2022.

Key recommendations: Total = **2**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address the recording of project expenses in the appropriate accounting period (Recommendation 1), and weak contract management processes which resulted in payment of \$3.5 million to vendors on the basis of recently expired contracts (Recommendation 2).

The two recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 1); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2).

Implementation status of previous OAI audit recommendations:

The previous audit (Report No. 2510, issued on 15 August 2022) did not result in any recommendations.

Management comments and action plan

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



Chris Taylor
Director
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