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Reference: AUD-7-5-:83(317/00)

Date: 6 March 2000

To: Benon V. Sevan, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director
Audit and Management Consulting Division
Office of Internal Oversight Services

Subject: **OIOS Audits of the Oil for Food Programme (AH99/7/2) and OIP-funded DESA-executed project IRQ 97003 (AH99/4/3)**

1. I am pleased to submit to you the findings and recommendations of AMCD's audit of project IRQ 97003 for the Rehabilitation of the Electricity Network in North Iraq executed by the United Nations Department of Economic and Social Affairs (DESA). The audit was conducted from August to December 1999 at Headquarters, with fieldwork carried out in North Iraq in October 1999. A copy of the draft audit report is attached for your information. Please note that the draft report does not contain DESA's comments which have not yet been received.

2. Certain recommendations contained in this memorandum are based on the findings discussed in the audit report, while others follow from our review of documents and reports that the UNDP Office for Audit and Performance Review (internal audit) made available to AMCD auditors. In addition, during our meeting with you on 8 December 1999, we discussed a number of issues that were also taken into account in formulating the following recommendations.

Need for clarification of implementation arrangements between UN/DESA and UNDP/DEX for ongoing project activities executed by DESA

3. In November 1998, UNDP elected to implement itself the Rehabilitation of the Electricity Network in North Iraq project, previously executed DESA project IRQ 97003. However, DESA remained involved in certain project activities that it had initiated. Our audit of this project disclosed that more than a year after the implementation of the UNDP Direct Execution modality (DEX), there were no formal arrangements between DESA and UNDP on how project components executed by DESA would be coordinated with DEX. We noted that there was no coordination of the project activities for the repair of the draft tubes at the Derbandikhan station (expenditure of $962,000), on the procurement of generators (expenditure of $64.8 million). According to DESA, it is likely that inefficiencies resulted or would result from this lack of coordination.

4. Similarly, DESA expressed concern about the lack of clear implementation arrangements with DEX for two DESA-executed project components: the $5.2 million rehabilitation of the Dokan Hydropower station and the $21.6 million contract for the Azmar and North Erbil substations'

turnkey projects. In our opinion and because of the importance and materiality of these operations, close monitoring by UNDP is required. In that context, we believe that an intervention by the Office of the Iraq Programme (OIP) is needed to stimulate the coordination and cooperation between UN/DESA and UNDP/DEX.

> **Recommendation 1:** OIP should initiate a tripartite meeting with DESA and UNDP, to formalize implementation arrangements for these project components executed by DESA (AH99/7/2/1).

Need to follow up on UNDP Baghdad expenditures against OIP-funded UNOPS-executed project (IRQ/98/001)

5. As noted in the UNDP Office for Audit and Performance Review Audit Report No. IAS0042 (issued 11 August 1999), the UNDP country office in Baghdad charged significant expenditures to this project, effectively offsetting the administrative costs of the office. With the reduction of extra-budgetary resources arising from the suspension of government local office contributions, UNDP Baghdad has maintained its level of operations by using OIP resources to supplement its core administrative budget.

6. According to the IRQ/98/001 project document, the objective of the project is to provide administrative and financial support for UN agencies implementing Security Council Resolution 986. Although the UNDP Baghdad staff is, to some extent, occupied in fulfilling the project objective, no staff are dedicated to the project. Similarly, equipment and vehicles charged to the project are used for administrative purposes. As noted in the audit report, project funds of approximately $500,000 were used to offset country office administrative expenses. However, this did not appear to be properly documented and authorized. It is also our understanding that since UNOPS was the executing agency for this project, they should have been aware of the expenditures and questioned them.

> **Recommendation 2:** OIP should request UNOPS and UNDP to provide the details of the project expenditures used to offset UNDP Baghdad administrative expenses and of any subsequent action taken to correct the situation (AH99/7/2/2).

> **Recommendation 3:** OIP should request periodic audits by UN agencies executing OIP funded projects, the reports of which should be copied to OIP (AH99/7/2/3).

Need for a comprehensive audit of the UNDP/DEX Electricity Network Rehabilitation Programme (ENRP)

7. The UNDP Office for Audit and Performance Review, in its October 1999 management review of ENRP, did not formulate an opinion on the programmatic, managerial and financial aspects of project management. Considering ENRP's budget of $438.9 million (eleven projects

totaling $201.8 million have been initiated in July and October 1999), OIOS believes it is time to verify the regularity of financial reports and the degree of achievement of the goals versus the expenditures, among other factors. We were informed that UNDP has scheduled an audit of ENRP for September 2000. This represents an opportunity for OIP to include items of interest to OIP in the terms of reference for that audit.

> **Recommendation 4:** OIP should inform UNDP of items it would like included in their upcoming annual financial audit of ENRP (AH99/7/2/4).

Need to establish an adequate monitoring system for OIP-funded projects

8. Following our discussion with you on 8 December 1999, we concluded that the informational needs of the Office of the Iraq Programme need to be re-assessed, with the aim to improving the current system of monitoring the budgets for projects implemented by the executing agencies. There was a general agreement that the memorandums of understanding between the OIP and the executing agencies should include auditing, project evaluation and reporting obligations of the agencies, especially concerning implementation progress and the utilization of the budget.

> **Recommendation 5:** OIP should revise of the standard memorandum of understanding document to include specific requirements for auditing, project evaluation and reporting (AH99/7/2/5).

> **Recommendation 6:** OIP should set up a monitoring system to ensure that the executing agencies provide accurate, complete and timely information on project/programme implementation (AH99/7/2/6).

9. I would appreciate receiving your reply on the acceptance and implementation status of each audit recommendation, including an implementation schedule where appropriate by 15 April 2000.

10. We wish to express our appreciation for the assistance and cooperation extended to the auditors by the management and staff of the Office for the Iraq Programme.

Attachment:
Draft audit report of DESA Project IRQ 97003 (AH99/4/3)

Copy to:
UN Board of Auditors
Planning and Compliance Officer, OIOS