



AUDIT

OF

UNDP COUNTRY OFFICE

IN

SRI LANKA

Report No. 1260
Issue Date: 5 February 2014

Report on the audit of UNDP Sri Lanka Executive Summary

From 14 to 30 October 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Sri Lanka (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 15 October 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$23 million. The last audit pertaining to the Office was completed by OAI in February 2013.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **partially satisfactory**, which means “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.” Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Not Assessed			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Partially Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Unsatisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 12 issues and resulted in 14 recommendations, of which 6 (43 percent) were ranked high (critical) priority, meaning “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 priority recommendations are as follows:

Project management (Issue 3)	<u>Weak project monitoring, assurance and reporting.</u> Programme staff had undertaken limited field visits and project risk logs were not updated in a timely manner. Furthermore, project boards did not meet as frequently as stipulated in project documents and the project annual work plans were signed late. A number of the reports were activity focused or did not cover all project output targets. OAI recommends that the Office ensure that: (a) programme monitoring visits are undertaken annually and risk logs are updated when new risks are identified; (b) project boards meet in accordance with the frequency stipulated within the programme document and approve the annual work plans in the final quarter of the preceding year; and (c) project progress reports are prepared in accordance with the Country Programme Action Plan and provide an assessment of project performance against targets identified in the Annual Work Plan.
Procurement (Issue 7)	<u>Inadequate management of performance bonds and bank guarantees.</u> The Office did not establish adequate controls for managing and securing bank guarantees and performance bonds provided by vendors, and did not maintain a complete record of these guarantees and bonds. Further, the Head of Office was not always shown as the beneficiary on these financial instruments. OAI recommends that the Office enhance the management of performance bonds and bank guarantees by: (a) ensuring that the Resident Representative is noted as the beneficiary of bank guarantees; (b) establishing procedures to record and retain bank guarantees in the Office safe; and (c) maintaining a complete record of all performance bonds and bank guarantees received from vendors.
Asset management (Issues 10)	<u>Unclear control over vehicles.</u> The Office procured 49 vehicles for other United Nations agencies, which were registered in the name of the UNDP Resident Representative. Although these vehicles were under the operational control of the respective United Nations agencies, UNDP's responsibilities for registering these vehicles were not clear. Further, the Office had not correctly reported to the Government the details of vehicles registered under the Resident Representative, and had not securely maintained vehicle registration records. OAI recommends that the Office enter into formal agreements with United Nations agencies concerning vehicles belonging to them but registered to UNDP's Resident Representative to ensure that there is clarity concerning UNDP's role with regard to the vehicle registration process. OAI also recommends that the Office ensure that accurate quarterly reports are submitted to the relevant government ministry. This should include undertaking a physical verification of all vehicles registered to the UNDP Resident Representative to confirm their existence and implement a time bound action plan to transfer vehicles to former Implementing Partners where appropriate.

Additionally, OAI recommends that Office ensure that there are adequate controls over vehicle registration certificates. This should include: (a) ensuring that all vehicle registration certificates are secured in the custody of a senior staff member; and (b) establishing controls to ensure that an updated list of vehicle registration certificates is maintained.

- (Issue 12) Incomplete asset records. The Office's 30 June 2013 asset statement was inaccurate as some assets were not included. Further, the Office could not provide a comprehensive list of development project assets, indicating acquisitions and disposals prior to 2012. OAI recommends that the Office comply with the Programme and Operations Policies and Procedures relating to asset management by: (a) ensuring that accurate records of all assets are maintained and submitted to the Office of Financial Resources Management; and (b) establishing a system for tracking pre-2012 development assets, and conducting a physical verification of all such assets.

The 2013 audit (Report No. 1058, 19 February 2013) had one recommendation which was considered "lesson learned" as the directly implemented project was closed. OAI followed up on another previous audit conducted in 2010 (Report No 707, 18 October 2010) which resulted in nine recommendations. Of these recommendations, eight were fully implemented and one was withdrawn.

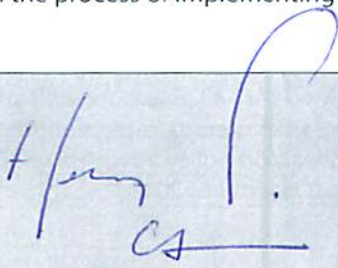
Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management.** Unsatisfactory. The Office did not have adequate controls over its assets and there was no assurance that these were adequately safeguarded. Please see Issues 10, 11 and 12 for further details.
- **Leave management.** Satisfactory. No reportable issues.
- **Global Environment Facility.** No reportable issues noted.

Management comments and action plan

The Resident Representative accepted all 14 recommendations and is in the process of implementing them.



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