UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

UNDP

AUDIT

OF

UNDP COUNTRY OFFICE

IN

CHINA

Report No. 2271

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Report on the Audit of UNDP China
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP China (the Office) from 12 to 30 October 2020. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2019 to 30 September 2020. The Office recorded programme and management expenses of approximately $55 million. The last audit of the Office was conducted by OAI in 2016.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe and petty cash contents were not verified.
(f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **satisfactory,** which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area".

Good practices

The Office developed innovative business development practices in the area of communication and partnerships. The Sustainable Development Goals (SDGs) awareness campaigns have reached approximately 50 million people, positioning UNDP as a leading advocate on localizing SDGs using an extensive range of platforms: campaigns, publications, press releases, blogs, interviews and video messages. In terms of social media, the Office leveraged communication through a wide range of platforms. The Office was able to engage successfully with the private sector by working with national stakeholders to secure innovative financing, in addition has partnered with high tech companies to utilize 'big data' as a supplementary measurement tool for the living standard index analysis used in human development reporting.

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 weaknesses in project management, and inadequacies in the procurement function.

The two recommendations aim to ensure the achievement of the organization's strategic objectives (Recommendation 1), and effectiveness and efficiency of operations (Recommendation 2).

Implementation status of previous OAI audit recommendations: Report No. 1605, 15 April 2016.
      Total recommendations: 8
      Implemented: 7
      Withdrawn: 1

Management comments and action plan

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Brett Simpson
Officer-in-Charge Office of Audit and Investigations

I.   About the Office

The Office, located in Beijing, China (the Country) and its Country Programme covered the period 2016-2020 with the following development priorities:

a) Equitable development and poverty reduction;
b) Improved and sustainable environment; and
c) Enhanced global engagement.

During the period from January 2019 to September 2020, the Office spent $49.2 million on development activities, a decrease of 32% percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan-Dec 2019 $million	Expenditure Jan-Sep 2020 $million
Solvent Sector Plan Stage II	0.75	6.48
Yellow Sea Large Marine Ecosystem	3.34	0.81
ICR Stage II	4.14	0.01
Engagement Facility	1.03	0.74
E-waste Full-size project	1.72	0.26
Total	**10.98**	**8.3**

Source: UNDP STREAM Analytics

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
Global Environment Facility (GEF)	32.02
Multilateral Fund for the Implementation of the Montreal Protocol	14.36
Government of China	11.54
Total	**57.92**

Source: UNDP STREAM Analytics

The Country was the first globally to be severely impacted by the COVID-19 global pandemic resulting in stringent lockdowns and movement restrictions that lasted through the first quarter of 2020. Consequently, government institutions and other implementing partners were unable to fully operate during this period which affected the implementation of programme activities. This is reflected through the decreased expenditure on development activities.

II.   Good practices

OAI identified good business development practices for the enhancement of the UNDP brand through innovative communication initiatives and private sector engagement. The Sustainable Development Goal (SDG) awareness campaigns have reached an annual average of 50 million people, positioning the Office as a leading advocate on localizing SDGs. The Office has also contributed to issue-based advocacy, including messaging on COVID-19 through the "Spread the Word, Not the Virus" campaign that engaged over 36 million people.

In addition, the Office has partnered with high tech companies to utilize 'Big Data' as a supplementary measurement tool for the living standard index analysis used in human development reporting.

The Office has one of the largest portfolios for private sector engagement in the Asia Pacific region. It has worked with national stakeholders to complete a baseline analysis of business awareness of the SDGs. The report resulting from this analysis, assisted in providing insight on how best to gear businesses investment towards sustainable development solutions.

III.   Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. Controls and procedures within governance activities, including corporate planning, organization and staffing, and the internal control framework were adequate.
(b) Operations/Finance. Controls over costs recovery, cash and bank management, and payments were found to be adequate and generally functioning well.
(c) Operations/Human Resources. Processes related to recruitment, separation, leave management and training were generally found to have adequate controls and working effectively.
(d) Operations/Administrative Services. Controls and procedures over travel, assets and vehicles management were found to be adequate.
(e) Operations/Information Communication and Technology. At the time of the audit, the Office had an approved and tested Business Continuity Plan and Disaster Recovery Plan.

Satisfactory performance was observed in relation to the performance audit questions, as indicated below:

(a) Development activities.

The following question and sub-questions were used to determine the effectiveness of the Office's project management practices.

Did project management practices contribute to project effectiveness and efficiency?

Based on the review of eight projects, the audit team concluded that the project management practices were generally effective and efficient, with some exceptions noted as detailed in Issue 1. These exceptions included risk logs not being regularly updated, and a fragmented project portfolio.

i.   Was project planning designed to meet the long-term objectives of the project?

The review of the sampled projects indicated that project annual plans were aligned with the objectives of the project, including a well-articulated results chain.

ii.   Did management oversight contribute to improving effectiveness of development projects?

There was evidence of management oversight through the establishment of detailed monthly reports. The report included i) programmatic information including budget v actual, NIM advance ageing reports, projects awaiting closure ii) as well as operational comprising of: fund utilization information, recruitment status as well as individual contractors lists. This report was supported by Atlas reports and included visual to provide further insight.

iii.   Did adequate resource diversification contribute to the achievement of project objectives?

China recently graduated to an upper middle-income country, which limits the availability of development partners. In response the Office has been successful in diversifying its partnerships and aligning financing with the SDGs.

OAI made two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:
   (a) Enhance project management practices (Recommendation 1)
   (b) Enhance controls over procurement (Recommendation 2)

The detailed assessment is presented below, per audit area:

A.   Development Activities

1. Project Administration

Issue 1   Project management weaknesses

The UNDP Programme and Operations Policies and Procedures stipulate the requirements for implementing programmes and projects. These include (a) risk management and reporting (b) development of and integrated programme portfolio.

The audit reviewed 8 out of 60 development projects, representing 32 percent ($11.3 million) and 43 percent ($9.3 million) total programme delivery for 2019 and 2020, respectively.

A review of the programme-related processes highlighted the following weaknesses:

   (a)   Risk management and reporting

         Atlas (enterprise resource planning system of UNDP) risk logs had not been updated during the audit period for three out of the eight projects reviewed which had experienced low delivery rates. In addition, another project had encountered implementation challenges as a result of funding delays and impact of COVID-19; however, the risk log was only updated in September 2020. The Office stated that the risks were discussed via email communication although these were not recorded in the risk log.

   (b)   Fragmented project portfolio

         The Office had 60 development projects at the time of audit, including 17 with budgets less than $0.5 million, and 24 with budgets less than $1 million. Out of these, 5 were GEF-funded that require separate stand-alone projects per GEF requirements. However, there were nine projects with budgets of $0.2million and below with the smallest being $65,000. The Office, in its 2019 Integrated Work Plan recognised the need to streamline the projects and adopt a portfolio approach. This is yet to be undertaken.

Failure to adhere to the prescribed UNDP policies and procedures may expose the Office to potential risks and unnecessary overhead costs associated with administering a high number of small projects

Priority	Medium (Important)

Recommendation 1:
 	
The Office should enhance its project management practices by:
 	
    (a)   ensuring risk logs are regularly reviewed and updated; and
    (b) adopting a portfolio approach to streamline project management.	

Management action plan:
 	
The Office agrees with the recommendation and will undertake the following actions:
 	
    (a)   Conduct review of project risk logs of development projects. Update the ATLAS risk register in line with the signed project documents and include a risk log section in the Project Progress Reports.
 	
    (b)   For thematically similar NIM projects with common implementing partners, the Office will move towards a portfolio approach while gradually closing smaller scale projects..
 	
Estimated completion date: December 31, 2021	

B.   Operations -Procurement

1. Goods and Services

Issue 2 <u>Weaknesses within procurement</u>

The 'UNDP Programme and Operations Policies and Procedures' require offices to develop consolidated procurement plans which updated throughout the year. In addition, use of the e-tendering system is mandatory for international competitive procurement valued at $ 150,000 and above. Business units are further encouraged to utilize e-tendering for all procurement processes above $5,000, and to complete a spend analysis to determine efficiencies within procurement.

The review of the procurement identified the following inadequacies:

    (a) Insufficient procurement planning

        The Office uses PROMPT (the corporate procurement planning tool) for planning its procurement transactions. However, these plans were incomplete. For example, the procurement plan for 2019 amounted to $1.3 million while the overall procurement completed was $6.2 million. As of August 2020, information in PROMPT included procurements totaling $1.7 million while the Office estimated that the total procurement for 2020 would be approximately $6 million. The Office approved procurements totaling $2.7 million (representing 43 per cent of total procurement for 2019) in the last quarter of 2019, suggesting inadequate procurement planning.

        Furthermore, the Office had not been able to complete a comprehensive spend analysis of procurement which may result in failure to benefit from achieving economies of scale when completing procurements.

(b) E-tendering platform not used

The Office had not used the e-tendering platform as it was of the view that the platform was cumbersome and may deter vendor participation.

Failure to use the e-tendering platform increases the risk of manipulation during the bidding process.

Priority	Medium (Important)
Recommendation 2: To enhance controls over its procurement, the Office should: (a) include all procurement transactions in the PROMPT system in a timely manner; (b) perform a spend analysis of goods and services to be procured throughout the year in order to benefit from economies of scale (c) enhance use of the e-tendering system in accordance with corporate requirements.	
Management action plan: The Office accepts the recommendation and will undertake the following actions: (a) Consistently use the PROMPT platform to incorporate all UNDP project procurements; (b) Liaise with UN Agencies on the completion of a spend analysis as part of the implementation of the Business Operations Strategy (BOS) on categories identified by the UN Operations Management Team (UNOMT) for common procurement; and (c) Ensure use of e-tendering platform for procurement actions in line with POPP requirements **Estimated completion date:** December 31, 2021	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**

  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.

- **Medium (Important)**

  Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low**

  Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.