

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

CHINA

Report No. 1605
Issue Date: 15 April 2016

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 29 February to 10 March 2016. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2015 to 29 February 2016. The Office recorded programme and management expenditures of approximately \$55 million. The last audit of the Office was conducted by OAI in 2012.

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

Overall 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." This rating was mainly due to weaknesses noted in the handling of funds transferred to projects, specifically in incorrectly recording advances as expenses, and performance-based agreement funds remaining idle.

Good practice

The Office had established a Due Diligence Committee in June 2014 to particularly review and approve the selection of private sector partners for the engagement of development projects. The Committee was following the Policy on Due Diligence and Partnerships with the Private Sector and was using a uniform risk assessment tool for all cases, which enabled the better selection of partners to work with.

Key recommendations: Total = 8, high priority = 1

The eight recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Reliability and integrity of financial and operational information	8	High
Effectiveness and efficiency of operations	5	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3, 4, 6, 7	Medium

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 recommendation is presented below:

Weaknesses in handling funds transferred to projects (Issue 8)

The review of the Office's financial transactions during the audit period indicated weaknesses, such as incorrectly recording advances amounting to \$0.6 million as project expenses, thus resulting in overstatement of the total project expenditure. The audit also disclosed that the Office had made payments to implementing partners amounting to \$1.5 million that were incorrectly recorded as grant payments, when in fact they were contractual payments made to vendors. In addition, all of the above-mentioned payments were recorded as grants, when in fact they were advances made to the implementing partner, who subsequently disbursed some of the funds as contractual payments to vendors during the audit period. Further, funds for Montreal Protocol funded projects were being disbursed to the implementing partner based on performance. From 2012 to 2015, a total of \$52 million was disbursed to the partner, out of which \$33.5 million still remained with the partner. There was a risk of loss of income generated from interest, related to these funds being idle for a long period of time.

Recommendation: The Office should enhance controls over handling funds transferred to projects by: (a) using the correct account code when recording payments made so that advances are not recorded as expenses, as well as recording project contractual payments as such and not as grant payments; and (b) considering revising the payment schedule that provides direct payment to the recipient at the request of the implementing partner, or transferring funds in smaller tranches based on specific milestones, so that large amounts of funds do not remain unused with the implementing partner for a long period of time.

Management comments and action plan

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

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Ostveiten
Director
Office of Audit and Investigations