

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP PAPUA NEW GUINEA

**ENHANCING ADAPTIVE CAPACITY OF COMMUNITIES TO CLIMATE CHANGE-RELATED
FLOODS IN THE NORTH COAST AND ISLANDS REGION OF PAPUA NEW GUINEA**
(Project No. 59799, Output No. 74956)

Report No. 1960

Issue Date: 17 July 2018

**Report on the Audit of UNDP Papua New Guinea
Enhancing Adaptive Capacity of Communities to Climate Change-Related Floods in the North Coast and
Islands Region of Papua New Guinea (Project No. 59799, Output No. 74956)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through KPMG SA (the audit firm), from 27 April to 11 May 2018, conducted an audit of Enhancing Adaptive Capacity of Communities to Climate Change-Related Floods in the North Coast and Islands Region of Papua New Guinea (Project No. 59799, Output No. 74956) (the Project), which is nationally implemented¹ with direct support services by the UNDP Country Office in Papua New Guinea (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit 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 2017 and the accompanying Funds Utilization statement² as of 31 December 2017. The audit did not cover the Statement of Cash Position 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*.

Audit results

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

| Project Expenses | |
|------------------------|-------------|
| Amount (in \$ '000) | Opinion |
| 2,184 | Unmodified* |

*Unmodified = unqualified or clean opinion

Key recommendation: Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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.” This recommendation includes actions to address insufficient controls on the capitalization and disposal of fixed assets. The attached KPMG audit report noted a history of shortcomings in respect to the capitalization and recording of fixed assets, the net effect of which is an understatement of fixed assets by an amount of \$33,377 as of 31 December 2017.

¹ The responsible units in UNDP facilitate the audit of nationally implemented (NIM) projects. However, this NIM project was audited by OAI due to the significant involvement of the Country Office in its implementation, and the subsequent materiality of the amount expended by UNDP.

² 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.

In OAI's opinion, the shortcomings would have warranted a modified audit opinion on the Statement of Assets as of 31 December 2017. However, considering that the project activities ended on 31 December 2017, the relatively low value of this issue (only 1.5 percent of audited expenditure), and the Office's management stating that they are addressing this matter, no audit opinion on the Statement of Assets as of 31 December 2017 has been issued.

The recommendation aims to ensure compliance with legislative mandates, regulations and rules, policies and procedures.

Management comments and action plan

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

A handwritten signature in blue ink, appearing to read 'Antoine Khoury', is enclosed in a rectangular box. The signature is stylized and cursive.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations