



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**SRI LANKA**

**Report No. 2321**  
**Issue Date: 21 May 2021**

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## Report on the Audit of UNDP Sri Lanka Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Sri Lanka (the Office) from 22 February to 12 March 2021. 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)

OAI designed six performance audit questions to guide the review of the following areas:

- (a) Governance
  - (i) Was the Office generating sufficient income to meet its operational costs and ensure its financial sustainability?
- (b) Development activities
  - (i) Were projects on track in achieving the planned output results?
- (c) Procurement
  - (i) Were procurement transactions being completed in a timely manner?
  - (ii) Was the Office adequately leveraging economies of scale in its procurement processes?
- (d) Financial management
  - (i) Were payments to vendors processed in a timely manner?
- (e) Human Resources
  - (i) Have recruitments been completed in a timely manner?

The audit covered the activities of the Office from 1 January 2020 to 31 January 2021. The Office recorded programme and management expenses of approximately \$19 million. The last audit of the Office was conducted by OAI in 2018.

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 (location, 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/some improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were 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". This rating was mainly due to the Office's financial sustainability and project implementation challenges.

**Key recommendations:** Total = 4, high priority = 2

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3	High
	2	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4	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. All high (critical) priority recommendations are presented below:

Office's financial sustainability at risk (Issue 1)

Between 2018 and 2020, the Office had experienced several challenges related to its financial sustainability:

- a) The Office was under-delivering against the expected \$20 million a year mainly due to a decline in donor funding. The Office programme delivery was \$18 million in 2018, \$17.7million in 2019 and \$16 million in 2020.
- b) The Office income decreased from \$2 million in 2019 to \$1.15 million in 2020 due low delivery.
- c) The staff costs between 2019 and 2020, were \$1.35 million and \$1.27 million, respectively, against a declining income.
- d) The Office's management costs represented 9.6 percent of the Office total expenditures, significantly above the 6.3 percent average ratio for a mid-sized Office in the Asia / Pacific region.

In addition to the above, the Office could face a delivery shortfall of 31 percent in 2021 due to funds withheld from the Green Climate Fund that could aggravate its financial sustainability.

**Recommendation:** The Office should mitigate the impact of financial sustainability by a) reducing its operating costs and align them with available resources or increase its revenue through higher delivery; and b) developing a risk mitigation strategy should the Green Climate Fund funding either be reduced, or not approved for disbursement.

Implementation challenges in a Green Climate Fund project (Issue 3)

The Integrated Water Management Project funded by the Green Climate Fund (GCF) was approved in June 2016. The audit team noted the following:

- (a) The project started in June 2017, a year after being approved by the GCF Board. As a result, the associated budget estimates based on the 2015 market data were outdated by the time the project initiated.

- (b) The budget figures presented by the responsible party in the project document were not verified by the Office at the time the project document was created.
- (c) In September 2019, the Office informed the Bangkok Regional Hub (BRH) that the budget allocated in the project document was much lower than the expected actual costs. The estimated budget shortfall was \$11.3 million.
- (d) In April 2020, the GCF was informed on the budgetary shortfall, seven months after the BRH was notified by the Office.
- (e) In August 2020, the GCF put on hold the disbursement of \$9.75 million, as per the signed agreement, pending GCF Board decision. The GCF Board was due to consider the full request in August 2021.

As a result of the above, the Office has been supporting the project activities, by utilizing its reserves. A mid-term evaluation was planned for mid-2021.

Recommendation: The Office in coordination with the Bangkok Regional Hub should strengthen its oversight by: a) establishing adequate quality assurance over the project design and communication processes to ensure the accuracy and validity of information contained in the project proposals, including budgets; and b) utilizing results from the mid-term evaluation to steer the project back on track and address the key risks and challenges in a timely manner.

**Implementation status of previous OAI audit recommendations:** Report No. 2008, 10 January 2019.


Total recommendations: 3

Implemented: 3

### Management comments and action plan

The Resident Representative accepted all four 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.

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