



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**CHINA**

**Report No. 2743**  
**Issue Date: 9 July 2024**

## 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 15 to 26 April 2024. 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)

In addition, OAI assessed the performance of the Office within development activities. Specifically, the audit team reviewed whether project approval by local counterparts was managed efficiently.

Performance auditing is an independent, objective and reliable examination of an entity or process to assess whether economy, efficiency and effectiveness in the employment of available resources is being achieved.

The audit covered the activities of the Office from 1 January 2023 to 29 February 2024. The Office recorded programme and management expenses of approximately \$30 million. The last audit of the Office was conducted by OAI in 2020.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

### Overall audit rating

OAI issued an audit rating for the Office of **satisfactory/some improvement needed**, which means “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.” This rating was mainly due to the Office’s financial sustainability challenges.

Conclusion on the performance audit areas reviewed: The project approval process by local counterparts, for Global Environment Facility (GEF)-funded projects, could be more efficient since it required, on average, eight months from project document signature until the approval was obtained for activities to commence. These findings have been incorporated in the overall auditing rating.

**Key recommendations:** Total = 6, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1, 2	High
	5	Medium
Effectiveness and efficiency of operations	3	Medium
Safeguarding of assets	6	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)

The Office had not been financially sustainable since 2021, as its income was insufficient to cover the institutional costs. The Office recorded revenue deficits of \$660,000 in 2023), \$347,000 in 2022 and \$62,000 in 2021.

The Office's financial sustainability challenges were attributable to the following:

a) Insufficient host Government Contributions to Local Office Costs (GLOC)

The Country transitioned to high middle-income country (high MIC) status in 2017, and after a two-year grace period that ended in 2019, it was expected to increase its GLOC from 2020 onwards in accordance with the relevant Executive Board decisions.

As per the Office's cost estimates (based on 2021 proforma costs), which have been communicated to the Government, the Government's share of the resource envelope amounted to \$1.65 million annually. However, since 2020, the Government has made contribution payments towards local office costs of about \$800,000 annually, based on annual cash targets that were calculated when the Country had a middle-income country status. This resulted in an annual deficit of \$850,000 of the Government's share of funding the resource envelope, applicable from 2021.

b) Uncertainty over funding arrangements for Office personnel

There was no clear basis for the direct allocation of payroll costs to development projects.

The Office explained that delivery enabling services (DES) costs could not be fully recovered from development projects due to inadequate cost recovery provisions within existing government cost-sharing and vertical fund projects. This necessitated, in some instances, the use of remaining funds from legacy projects to fund these positions.

Recommendation 1: To improve the recovery of GLOC, the Office should: (a) in coordination with the Regional Bureau for Asia and the Pacific and other relevant UNDP business units, continue to liaise with the Government towards reaching an agreement on recovering the outstanding GLOC amounts for 2021–2024 and obtaining confirmation that contributions from 2025 onwards will be in full accordance with the Executive Board decision; and (b) coordinate with the Bureau for Management Services to notify the Executive Board of any unrecovered amounts for previous years through the appropriate reporting mechanisms.

Recommendation 2: The Office should improve its financial sustainability by: (a) developing a forward-looking financial strategy, and a time-bound action plan until the end of the programme cycle with specific measures to ensure its implementation; (b) conducting an analysis of all positions directly charged to development projects to classify them as dedicated project positions and positions servicing multiple projects; and (c) expediting the revision of the government cost-sharing agreements to reflect recovery of DES costs in accordance with UNDP policies.

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**Management comments and action plan**

The Resident Representative accepted all six 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.

A handwritten signature in black ink, appearing to read 'Guillermo Munoz'.

Guillermo Munoz  
Deputy Director (Audit) a.i.  
Office of Audit and Investigations