



AUDIT

OF

UNDP COUNTRY OFFICE

IN

SRI LANKA

Report No. 2745
Issue Date: 5 August 2024

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 27 May to 7 June 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 in the area of development activities. Specifically, the audit team reviewed whether the actions taken by the Office following receiving the forensic audit report for Project No. 117353 were effective towards improving its internal processes of providing project assurance and project oversight.

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 31 March 2024. The Office recorded programme and management expenses of approximately \$22.3 million. The last audit of the Office was conducted by OAI in 2021.

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 weaknesses noted in risk management, project administration, procurement, and financial management processes.

Conclusions on the performance audit areas reviewed: The Office took the following effective actions: (a) advocating for providing Country Office support for nationally implemented projects, (b) increasing the frequency of project board meetings, and (c) conducting additional reviews on expenditures incurred by implementing partners and responsible parties to improve its processes on project assurance and oversight following the results of the forensic audit report of Project No. 117353. However, the audit team noted that the Office did not change the risk rating of the responsible party for the implementation of project activities. These findings have been incorporated in the overall auditing rating.

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

These recommendations include actions to address the following:

| Objectives | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Achievement of the organization’s strategic objectives | 1 | Medium |
| Effectiveness and efficiency of operations | 5 | Medium |
| Safeguarding of assets | 4 | High |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 2 | High |
| | 3, 6 | 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 recommendations are presented below:

Weaknesses in the administration of the portfolio on Peace, Justice, and Strong Institutions (Issue 2)

For the portfolio on Peace, Justice, and Strong Institutions, the Office performed the design Quality Assurance (QA) and the Social and Environmental Screening Procedures (SESP) at the portfolio level. Nine projects that started during the audit period were added to the portfolio of Peace, Justice, and Strong Institutions without conducting design QA assessments or SESP.

In addition, the portfolio board met only at the end of February 2024, thereby delaying individual project work plan approval by two months.

Recommendation: The Office should improve its Peace, Justice, and Strong Institutions portfolio management by: (a) undertaking design QA procedures and SESP for projects at the portfolio level in a timely manner; and (b) conducting portfolio board meetings in a timely manner to ensure project work plans are timely approved and executed.

Insufficient follow-up actions on the internal control deficiencies identified through HACT assurance activities (issue 4)

For one implementing partner and one responsible party, the Office did not change their risk levels despite Harmonized Approach to Cash Transfer (HACT) activities flagging continuous internal control weaknesses at the partner’s level.

Recommendation: The Office should: (a) implement the HACT policy requirements and ensure that implementing partners and responsible parties have taken all remedial actions to address the internal control deficiencies identified during the HACT assurance activities; and (b) revise the implementing partner risk rating if the recommendations from the HACT assurance activities are not implemented in a timely manner.

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.

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Sean DeBlieck

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Sean DeBlieck
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