

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MONTENEGRO

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Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Programme activities	2
1. Programme management	2
2. Project management	3
Definitions of audit terms - ratings and priorities	6

Report on the Audit of UNDP Montenegro Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Montenegro (the Office) from 28 September to 9 October 2015. 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, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, 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 2014 to 30 June 2015. The Office recorded programme and management expenditures of approximately \$11.5 million. The last audit of the Office was conducted by OAI in 2009.

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 **satisfactory**, which means, “Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.”

Key recommendations: Total = 3, high priority = 0

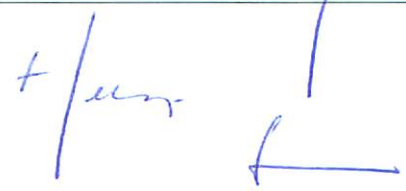
The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means, “Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address the lack of exit strategies for strengthening national capacities, inadequate controls over project monitoring, and inadequate annual project reporting.

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2 and 3).

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. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Podgorica, Montenegro (the Country) was established in 2007. At the time of the audit, the Office was implementing the 'United Nations Development Assistance Framework', covering the period 2012 through 2016 in the areas of social inclusion, environmental protection, and democratic governance and sustainable economic development. The majority of the projects were directly implemented by UNDP.

The Office had 17 staff members, 38 service contract holders and 5 United Nations Volunteers.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The Office had adequate controls over organizational structure and delegations of authority, leadership/ethics and values, and risk management. No reportable issues were noted on the financial sustainability of the Office.
- (b) United Nations system coordination. Adequate key controls were in place. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.
- (c) Partnerships and resource mobilization. The review of the Office's overall relationship with partners, its resource mobilization strategy, and development project funding sources did not identify any reportable issues.
- (d) Finance. Payment processing, disbursements and banking activities were found to be compliant with financial policies and procedures.
- (e) Human resources. Adequate controls were established in human resource management. The review of recruitment and separation processes did not identify any reportable issues.
- (f) Procurement. Procurement controls were functioning adequately and no reportable issues were noted.
- (g) General administration. General administration controls, which included asset management, travel management, and common services, were generally well established and functioning adequately. No reportable issues were identified.
- (h) Safety and security. The latest Security Risk Assessment for the Country was completed in May 2015. Security risks were low and all mitigating measures were in place. No reportable issues were identified.
- (i) Information and communication technology. The review of software and hardware management, back-up and restoration arrangements, and the latest disaster recovery plan did not identify any control weaknesses. The same was noted during the ocular visit to the Office's server rooms.

OAI made three recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Strengthen national capacity by ensuring that the Project Document includes a capacity-building component and an exit strategy (Recommendation 1).
- (b) Strengthen project monitoring activities (Recommendation 2).
- (c) Adhere to the 'UNDP Programme and Operations Policies and Procedures' when preparing annual project reports (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme activities

1. Programme management

Issue 1 Lack of exit strategies to strengthen national capacity

The 'UNDP Programme and Operations Policies and Procedures' state that projects should contribute to national ownership, support policy development, and strengthen national capacities and partnerships to ensure lasting results. For directly implemented projects, there should be a clear exit strategy.

At the time of the audit, 27 projects, or 98 percent of all projects, were directly implemented. In January 2012, the Director of the Regional Bureau for Europe and the Commonwealth of Independent States approved all of the projects within the existing Country Programme Document (2012-2016) to be implemented through the direct implementation modality. However, there should have been a gradual shift to the national implementation modality (NIM). Specifically, in the approval letter, the Director indicated that "it is paramount that the Country Office will make every effort to continuously assess the national partner's capacity in order to determine in a timely manner if a transfer to NIM would indeed be possible during the life of the projects as also stipulated in the Country Programme Document."

The draft evaluations of two projects (Project Nos. 59194 and 57368) concluded that they had failed to develop an exit strategy. Furthermore, certain measures may not have been sustainable for Project No. 59194, and national ownership had not been sufficient. For Project No. 57368, the national institution had relied too heavily on UNDP.

In addition, it was noted that the Project Document for Project No. 62234 where activities involved the restoration of historic buildings and public spaces through low carbon energy efficient development, lacked an exit strategy describing how the capacity of the municipality would be strengthened in order to manage these activities in the future. The Office explained that the capacity would be strengthened by encouraging green design ideas and innovations in urban development through workshops and competitions; however, these activities had been discontinued during the audit period due to lack of funding.

Due to omission of exit strategies, or exit strategies that were not clearly articulated within the Project Documents, the Office had not completed an assessment of the national partner's capacity to determine if a transfer to NIM was possible.

In response to the draft report, the Office indicated that it would continue to enhance national ownership of projects by holding regular Project Board meetings to, among other matters, ensure that project interventions were fully taken over by the Government and other partners. Additionally, the Office would continue to work

together with the Government on a sustainability assessment of project results. The assessment findings and follow-up plans for any project adjustments would be presented for action at the Project Steering Committee meetings.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen national capacity by ensuring that the Project Document includes a capacity-building component and exit strategy. This should be reviewed on an annual basis to assess project sustainability and national ownership. For future projects, the Office should hold discussions with the Government, and suggest national implementation as the preferred modality. Any other arrangements should be reflected in the Project Document.	
Management action plan:	
Exit strategies will be prepared and reviewed, where applicable, on an annual basis. For future projects (e.g. Second Biannual Update Review) the possibility for national implementation modality will be considered and discussed with the relevant government counterparts.	
Estimated completion date: December 2016	

2. Project management

Issue 2 Inadequate controls over project monitoring

(a) Failure to update monitoring information for development projects

The 'UNDP Programme and Operations Policies and Procedures' require monitoring information, including logs that track risks, issues, and lessons learned, to be created and updated regularly in Atlas (enterprise resource planning system of UNDP). The review of three projects (Project Nos. 59194, 62234 and 59392) indicated that limited or no monitoring information had been uploaded to Atlas within the audit period.

Project implementation issues may not be addressed in a timely manner due to missing or inadequate information.

(b) Lack of frequent Project Board meetings

The 'UNDP Programme and Operations Policies and Procedures' state that Project Boards should provide overall guidance and direction to projects, review project progress, and address project issues. However, a review of six projects disclosed that for one project (62234), the Board only met once during the audit period. For another project (59194), the Board met only once in the preceding 12 months, instead of every 6 months as per the Project Document. The Office indicated that even though Project Board meetings were not held more frequently, these projects had been discussed on a quarterly basis with the Government at the cluster level.

The lack of frequent meetings may prevent the Project Boards from effectively carrying out their duties.

(c) Project implementation delays

The UNDP-GEF Business Process Document stipulates that a no-cost extension is required from the donor in the event that a project cannot be completed within the established timeframe.

There were delays in implementing projects, which resulted in no-cost extensions. Specifically, Project No. 59194 required two no-cost extensions from the donor covering a two-year period. Three other projects (Project Nos. 57368, 61738 and 61714) funded by the same donor required no-cost extensions during the audit period. The Office indicated that project extensions were required because of poor planning.

The regional hub indicated that as of February 2015, the donor would only provide no-cost extensions in exceptional circumstances and only once within the project life cycle.

Not implementing projects within the required timeframe could lead to reputational damage to UNDP and might result in the loss of future funding.

(d) Delays in financial closure of projects

The 'UNDP Programme and Operations Policies and Procedures' require projects to be operationally closed once activities have been fully implemented. The operationally closed projects should then be financially closed within one year of operational closure. The Office had four projects that were not financially closed within the required period. The Office explained that the delays in project closure were due to an omission from management.

Projects that are not closed on a timely basis may be at risk of having inappropriate or unapproved charges made against them.

In response to the draft report, the Office indicated that several actions had already been taken, such as updating a majority of the project data in Atlas, and conducting several Project Board/Steering Committee meetings.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project monitoring activities by: <ul style="list-style-type: none"> (a) regularly updating monitoring information in Atlas on project risks, issues and lessons learned; (b) increasing the frequency of Project Board meetings depending on project risks and needs; (c) establishing a realistic timeframe for implementing project activities during the design stage; and (d) closing projects in Atlas within one year of operational closure. 	
Management action plan: The Office will take the following actions: <ul style="list-style-type: none"> (a) update all project logs by the end of 2015 and review them on a quarterly basis; (b) organize Project Board/Steering Committee meetings by the end of year – management will ensure that all projects have at least two Steering Committee and Project Board meetings held per year, and the 	

- frequency of the Project Board meetings will be specified in the Project Documents endorsed by the Local Programme Advisory Committee;
- (c) conduct a detailed quality assurance exercise on all projects during the appraisal stage, including reviewing the timeframe and resources assigned for project implementation – the project work plan will be regularly assessed against implementation progress and presented at the Steering Committee and Project Board meetings; and
 - (d) review the Office portfolio list on a quarterly basis to ensure ongoing compliance.

Estimated completion date: 31 December 2015

Issue 3 Inadequate annual project reporting

The 'UNDP Programme and Operations Policies and Procedures' require that annual project reports include a summary of results achieved against pre-defined annual targets and baselines, and measured against a set of quantitative and qualitative indicators. The annual report should include revalidation of the project and programme results. Furthermore, the annual report should include an indication that the delivery of outputs will lead to the desired outcomes.

The outputs of Project No. 62234 included reducing CO2 emissions and decreasing unemployment; however, the reports prepared had information on expenditures only. Similarly, for Project Nos. 67159 and 59392, the reports consisted of activities completed but did not include an assessment against planned activities. Furthermore, project challenges and risks were not highlighted. Although the Office was generally aware of information required to be included in the annual reports, this was not done consistently due to various reasons, including the lack of oversight.

There is a risk that the Office may not be able to accurately measure progress toward results, identify bottlenecks, or take timely action to address them.

Priority	Medium (Important)
Recommendation 3:	
The Office should adhere to the 'UNDP Programme and Operations Policies and Procedures' when preparing annual project reports, which should follow results-focused reporting and include an assessment of risks and challenges identified.	
Management action plan:	
The Office will prepare annual reports for all projects by the end of March 2016. The standards will be set and communicated to all project staff to ensure that reporting is done at least once a year, in a form that highlights project challenges and risks, is results-focused, and ensures that bottlenecks are identified with appropriate and timely actions taken.	
Estimated completion date: March 2016	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** 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.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** 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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.