

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SERBIA

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Report on the Audit of UNDP Serbia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Serbia (the Office) from 6 to 17 March 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 January 2017. The Office recorded programme and management expenditures of approximately \$17.6 million. The last audit of the Office was conducted by OAI in June 2012.

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, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

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. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address weaknesses corporate external relations and partnerships, project design and implementation, and financial resources management.

The three recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Efficiency and effectiveness of operations	2	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1, 3	Medium

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 have 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. Ostveiten
Director
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I. About the Office

The Office, located in Belgrade, in the Republic of Serbia (the Country), comprised of 19 staff members, 69 service contract holders and 4 United Nations Volunteers (2 nationals and 2 international) at the time of the audit. The Country Programme Document, covering the period 2016-2020, focused on the following areas: (a) accountable and representative governance institutions serving people; (b) equal participation for women and lives free of violence; (c) inclusive and sustainable growth; and (d) low-carbon and climate-resilient development. The Office had a portfolio of 32 ongoing projects and delivered \$17.6 million during the period under review.

II. Audit results

Satisfactory performance was noted in the area of governance and United Nations leadership and coordination.

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) Aim to have the common premises fully occupied in order to reduce costs (Recommendation 2).
- (b) Ensure compliance with project implementation requirements (Recommendation 1).
- (c) Enhance compliance with duty travel policies and procedures (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

1. Project implementation

Issue 1 Deficiencies in project implementation

The 'UNDP Programme and Operations Policies and Procedures' on project management require all offices to seek authorization from their Regional Bureaux prior to using the direct implementation modality (except when the Fast Track Procedures are activated, which automatically give the offices the authority to use the direct implementation modality by default). Those policies and procedures provide guidance on various steps and documentation to be provided at the project definition and implementation stages, including: (i) defining, well in advance, results to be achieved that are specific, measurable, achievable, realistic and time-bound (SMART) through a resources and results framework or an annual work plan; and (ii) conducting field visits at least once a year and drafting an action oriented report upon return of mission. Finally, Atlas (enterprise resource planning system of UNDP) should be used for both financial management and substantive monitoring.

The audit team tested five projects representing 56 percent of expenditures during the period under review and checked the existence of valid authorizations for all projects under direct implementation. The following exceptions were noted:

- A project was implemented under the direct implementation modality without prior authorization from the Regional Bureau for Europe and the Commonwealth of Independent States. Therefore, there was no assurance that the Office had sufficient capacities to implement it.

- In three cases, the project annual work plans were either signed with delays or not dated. The late signature of annual work plans can delay the implementation of projects, which can negatively impact the overall delivery of the Office as well as its reputation.
- Planned activities were not specific and measurable in one project. Consequently, the measurement of progress and results may be difficult and the usefulness of field visits as a basis to take corrective actions moving forward may be limited.
- Atlas was not used as a project monitoring tool. Out of five projects tested, the risks log was not completed in one case, issue logs were not completed in four cases, and monitoring logs were not completed at all for two projects. In two other instances, the last update was dated 2014, whereas the concerned projects were still ongoing. The Office generally relied on the quarterly briefs issued by the Office of Financial Resources Management to identify and take corrective actions on recurrent issues such as cost sharing deficits and ongoing projects with past end dates. However, these issues could have been anticipated and addressed in a timely manner using Atlas.

Subsequent to the audit fieldwork, the Office updated Atlas logs for projects selected for further testing. However, the updates did not cover the other projects of the portfolio.

Priority	Medium (Important)
Recommendation 1: The Office should ensure compliance with project implementation requirements and improve its project monitoring controls by: <ul style="list-style-type: none"> (a) obtaining prior authorization from the Regional Bureau for directly implemented projects; (b) signing off SMART results and resources frameworks and annual work plans at the beginning of the year and systematically dating them; and (c) systematically and regularly updating Atlas logs for all ongoing projects, and using Atlas as a project monitoring tool to anticipate the identification and resolution of recurrent issues. 	
Management action plan: The Office had standard operating procedures endorsed by senior management on 16 November 2016 and sent to all programme staff on project management, monitoring and assurance, which addressed the issue of project approval (with previous implementation modality definition and assessment of DIM/NIM modality), SMART results and resources framework, and the requirement for the update of Atlas logs on a quarterly basis.	
Estimated completion date: December 2017	
OAI Response OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

B. Operations

1. Financial resources management

Issue 2 Shortcomings in management of common premises

Where appropriate, United Nations agencies are encouraged to operate as one, including sharing common premises. In accordance with the International Public Sector Accounting Standards, the 'UNDP Programme and Operations Policies and Procedures' stipulate that when premises are donated to the UN system, leasehold improvements should be recorded under each agency's books in proportion to the amount contributed, which should be based on their share of occupancy.

The Government had provided rent-free premises for 10 years to United Nations funds, programmes and specialized agencies as in-kind contributions. An agreement to this effect was signed between the Government and the Office on September 2015, upon which UNDP would coordinate improvements to allow for occupancy of the building by UNDP and other United Nations agencies. In this regard, \$1.4 million in building improvements was pre-financed using the Office's extrabudgetary resources. Participating agencies moving in to the building would reimburse UNDP based on the proportion of the space they occupied.

At the time of the audit fieldwork, one out of the three floors of the building was almost empty. Due to the low occupancy rate, the Office was covering 84 percent of the total building improvement costs, instead of 54 percent, which would have been the case if the building was fully occupied.

Management stated that they were in negotiations with another two United Nations agencies, which would potentially lead to the full occupancy of the building and bring the cost ratio down to 54 percent for the Office.

In the event that no new tenants occupy the building, improvement costs related to the unoccupied part of the building estimated at \$400,000 will have to be borne by the Office.

Priority	Medium (Important)
Recommendation 2:	
The Office should aim to have the common premises fully occupied in order to reduce costs.	
Management action plan:	
The Office is in the final phase of negotiations with two United Nations agencies for a total of 550 square meters of office space. Once the negotiation is finalized, the first floor will be fully occupied.	
Estimated completion date: December 2017	

2. ICT and general administrative management

Issue 3 Weaknesses in travel management

The duty travel section of the 'UNDP Programme and Operations Policies and Procedures' provides guidelines, administrative requirements and operational procedures for processing official business or duty travel undertaken by staff members, consultants and service contract holders, and non-UNDP personnel.

A review of 10 staff travel cases highlighted the following issues of non-compliance with the travel policy:

- A travel analysis was not systematically performed to determine compliance with the travel policy. In three cases of international travel, only one quotation was received instead of three as required by the travel policy. Therefore, the decision to use the selected itinerary and class of travel was not supported by evidence such as travel duration and costs of itineraries.
- Four international air tickets were purchased between 2 and 12 days prior to the departure date, whereas the standard operating procedure recommended that the procurement of tickets take place 21 days ahead of travel. In all cases reviewed, the audit noted that the Office had enough time to process the tickets within the 21-day advance period.
- Two travel claims (F.10) filed by travellers were not submitted to the certifying officer/or approving officer for validation and sign off.

The Office could not provide justification for these exceptions, which could have been avoided with adequate oversight.

The lack of compliance with the duty travel policies and procedures may prevent the Office from obtaining adequate assurance that travel activities are undertaken in a cost-efficient and cost-effective manner and that travel takes place as planned.

Priority	Medium (Important)
Recommendation 3: The Office should enhance compliance with duty travel policies and procedures by: <ul style="list-style-type: none"> (a) requesting three itineraries from travel agencies whenever applicable and demonstrating compliance with travel policy by adequately documenting the choice of the itinerary; (b) purchasing air tickets ahead of time as per UNDP policy; and (c) submitting all travel claims to the appropriate certifying authority within two weeks of returning from official missions. 	
Management action plan: The Office agreed with the recommendation and sent written instructions to alert all staff to travel requirements pointed out by the audit.	
OAI Response OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** 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.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.