



AUDIT

OF

UNDP COUNTRY OFFICE

IN

MONTENEGRO

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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 19 April to 4 May 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 and communication technology (ICT)

OAI designed the following performance audit questions to guide the review of the following areas and sub-areas:

Main audit question: *Are the programme and operations activities effectively supporting the achievement of agreed results?*

- (a) Governance
 - i. *Was the Office's organizational structure adequate to achieve the agreed results in its portfolio of projects?*
- (b) Development activities
 - ii. *Was project management undertaken effectively?*
 - a. *Were projects designed with clear and measurable results linked to strategic objectives of the Country Programme?*
 - b. *Were project monitoring and change management activities timely undertaken?*
- (c) Procurement
 - iii. *Were procurement activities conducted effectively and in accordance with applicable policies?*
- (d) Finance
 - iv. *Were financial transactions processed timely?*

The audit covered the activities of the Office from 1 January 2020 to 31 March 2021. The Office recorded programme and management expenses of approximately \$12.2 million. The last audit of the Office was conducted by OAI in 2015.

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 and communication technology area was not reviewed on-site.



Overall audit rating

OAI assessed the Office's performance as **fully 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:

The audit did not result in any recommendations.

Low risk issues (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 Podgorica, Montenegro, and its Country Programme covered the period 2017–2021 with the following development priorities:

- i) Democratic governance
- ii) Environmental sustainability
- iii) Social inclusion
- iv) Economic development.

During the period from January 2020 to March 2021, the Office spent \$11.1 million on development activities, an increase of 23 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan.-Dec. 2020 \$million	Expenditure Jan.-Mar. 2021 \$million
COVID-19 Emergency Response	\$3.3	-
Comprehensive Environmentally Sound Management of PCBs	\$0.2	\$0.5
Creative Montenegro	\$0.5	\$0.4
Strengthening health system in Montenegro	\$0.5	-
Improving the efficiency of the justice system	\$0.4	-
Continuation of social welfare system reform	\$0.5	-
Continuation of ISWIS	\$0.4	-
Total	\$5.8	\$0.9

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period \$million
European Union	\$7.2
Global Environment Facility	\$3.3
Government of Montenegro	\$2.3
Total	\$12.8

II. Audit results

Effective controls were established and functioning in all audited areas, as follows:

- (a) Governance. Adequate internal controls were in place to ensure segregation of duties. Staff were aware of the Office's priorities, challenges and control objectives.
- (b) Development Activities. The controls governing project design, appraisal and implementation were adequate and supported the implementation of the country programme. Interviews were conducted with government counterparts, project stakeholders and donors who expressed their appreciation of the Office as a valued development partner.

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- (c) Operations – Procurement. A review of the procurement function, including samples of procurement transactions and management of individual contractors indicated that adequate controls were in place.
 - (d) Operations – Finance. The Office adequately monitored the use of financial resources, managed the risk of financial loss, and maintained accurate accounting records. There was appropriate management of commitments, disbursements, and follow-up of outstanding receipts, and cash.
 - (e) Operations – Human resources. The governance, risk management and control systems within human resource management, including recruitment, separations were adequate.
 - (f) Operations – Administrative Services. The governance, risk management and control systems within administrative services, which include travel and common services, were adequate and effective.
 - (g) Operations – Information and communication technology (ICT). The governance, risk management and control systems within ICT, including the implementation of the business continuity plan were operational and effective.

Further, satisfactory performance was observed in relation to the performance audit questions.

Main audit question: *Are the programme and operations activities effectively supporting the achievement of agreed results, ?*

The programme and operations activities were effectively supporting the achievement of agreed results, for example in areas such as *'support to national institutions for public administration reform'*.

Conclusions for each audit question were as follows:

(a) Governance

- (i) *Was the Office's organizational structure adequate to achieve the agreed results in its portfolio of projects?*

An appropriate Office structure was in place to implement the country programme. The structure included project teams grouped by programme area which facilitated effective operational and programmatic support during project implementation

(b) Development activities

- (ii) *Was project management undertaken effectively?*

- a. *Were projects designed with clear and measurable results linked to strategic objectives of the Country Programme?*

The review of seven projects from a portfolio of 32 development projects confirmed they were designed with clearly defined and measurable outputs. These were in line with the strategic objectives of the Country Programme and the United Nations Sustainable Cooperation Framework. The 2020 Montenegro National Human Development Report "On the verge of a digital future for all" highlighted the threats and opportunities in public administration system reform, taking into account the impact on the labour market, education and the creation of an accountable and service-oriented administration. The Office was able to support this area through the programme

on public administration reform, which included projects assisting the digitalization of services to ensure service continuity during the COVID-19 pandemic.

b. Were project monitoring and change management activities timely undertaken?

The project management was undertaken effectively for project implementation, and closure. Project monitoring was adequately completed through quality assurance, and monitoring visits in accordance with the project document and supported by written reports. Due to the COVID-19 pandemic, the Office had to readjust project work plans and modify the existing portfolio; the change management was timely, allowing projects to remain on track to achieve the agreed results.

(c) Procurement

(iii) Were procurement activities conducted effectively and in accordance with applicable policies?

The audit team concluded that procurement was completed effectively and in accordance with applicable policies.

For the period reviewed, the Office utilized the corporate procurement planning platform (PROMPT) for their annual procurement planning. A sample of procurement activities were reviewed, and it was confirmed they were completed in accordance with applicable policies. Furthermore, the COVID-19 response project procured personal protective equipment in a timely and effective manner to support health workers during the pandemic.

The sample included 30 procurement processes that were submitted through the Contracts, Assets and Procurement committee which provided an effective review and assurance that value for money was achieved.

(d) Finance

(iv) Were financial transactions processed timely?

The financial transactions reviewed were processed timely and accurately. For all 52 payment vouchers reviewed, the payments were completed within the terms and conditions agreed. All payments except for two were approved within one day and all payments were recorded accurately.

The audit did not result in any recommendations.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.