



AUDIT

OF

UNDP COUNTRY OFFICE

IN

Serbia

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Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Governance	3
1. Planning and risk management	3
B. Development Activities	5
1. Projects Administration	5
C. Operations	7
1. Human Resources/ Recruitment of Staff	7
Definitions of audit terms - ratings and priorities	10

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 20 June to 5 July 2022. 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 following areas and sub areas: governance, development activities, and procurement.

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.

- (a) Governance:
 - 1. Did the country programme have clear objectives, with sufficient resources and implemented as planned?
- (b) Development activities:
 - 2. Were project objectives clearly defined, and results measurable, and adequately monitored?
- (c) Procurement:
 - 3. Was procurement undertaken in an effective and efficient manner?

The audit covered the activities of the Office from 1 January 2021 to 31 March 2022. The Office recorded programme and management expenses of approximately \$36 million. The last audit of the Office was conducted by OAI in 2017.

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). Due to the low risk level assessed during the audit planning phase, 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, and site visits) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe content and petty cash were not verified.
- (f) The information communication and technology area was not reviewed on-site.

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 adequately 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.”

Conclusions on the performance audit areas reviewed:

- (a) Governance: Did the country programme have clear objectives, with sufficient resources and implemented as planned?

The Office had not sufficiently defined expectations from UNDP in the Country programme output indicators to guide programming and enable UNDP to assess its contribution to the Government’s national goals. This impacted programming estimates for the CPD period and monitoring programme implementation (refer to Issues 1).

- (b) Development activities: Were project objectives clearly defined, and results measurable, and project activities adequately monitored?

Although the Office clearly defines its projects’ objectives in the project documents, and adequately monitored project activities, the audit team noted inadequate project reporting and results framework design in 4 (50%) of 8 sampled projects reviewed (refer to Issue 2) which prevented accurate assessment of project results and monitoring of project activities.

- (c) Procurement: Was procurement undertaken in an effective and efficient manner?

Based on the review of a sample of 19 procurement transactions with a total of \$17 million (representing 59 percent of all procurement during the audit period), the audit indicated that procurement practices were generally effective and efficient in supporting programme implementation and processed in line with UNDP’s guiding procurement principles.

These findings have been incorporated in the overall auditing rating.

Key recommendations Total = 3, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1	High
	2	Medium
Effectiveness and efficiency of operations	3	High

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:

Inadequate programming expectations definition and monitoring: (Issue 1)

The audit noted 11 out of the 22 output indicators in the Country Programme Document was not clearly defined ; targets to be achieved by the Office for three output indicators had not been defined by the second year of Country Programme Document (CPD) implementation; and the CPD outcome 2 indicators on education and employment included targets for women, youth and Roma populations, but the relevant data had not been reflected in the output indicators.

In addition, the Office's 2021 Results Oriented Annual Reporting did not provide visibility of current CPD progress for 16 out of 22 output indicators, which indicated cumulative targets and achievements from prior CPD period.

Recommendation: The Office should improve definition of programming expectations on output indicators and monitoring by: (a) defining country programme document output indicators, including relevant data where applicable; and (b) defining annual output indicator targets in UNDP's corporate planning solution 'Quantum +' where applicable, , and if needed, seek guidance from the Regional Bureau on reporting.

Delays in executing human resources processes (Issue 3)

There were delays in filling vacant positions during the audit period. A review of the recruitment process for 42 vacant posts as of March 2022 revealed that 23 recruitments, including 17 National Personnel Services Agreement (NPSA) posts requested by Government were delayed. In these instances, positions were yet to be filled four months after the vacancy announcement date. The audit noted 36 NPSA contracts were extended but contracts had not been signed and issued (Face Sheet extensions) although these contracts should have been issued between March and May of 2022 but were still pending as of June 2022.

Recommendation: The Office should (a) follow up with Global Shared Services Centre (GSSC) to ensure that these NPSA contracts are issued timely and (b) establish a roster of experts to ensure vacant posts, particularly those within government ministries, are filled promptly.

Implementation status of previous OAI audit recommendations: Report No. 1769, 26 May 2022.

Total recommendations: 3

Implemented: 3

Management comments and action plan

The Resident Representative, a.i. accepted all three 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.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Belgrade, Serbia (the Country) and its Country Programme covered the period 2021-2025 with the following development priorities:

- a) Harnesses the full potential of a green, sustainable and inclusive economy;
- b) Well-being, social equity and human potential are at the heart of systems, policies and practices; and
- c) Building trust and mutual accountability through the rule of law, rights and duties agenda.

During the period from 1 January 2021 to March 2022 the Office spent \$34 million on development activities a decrease by 3 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. 2021 \$million	Expenditure Jan.-Mar. 2022 \$million
Accelerated Delivery Initiative	5.7	2.0
Digital Serbia	3.4	1.5
EU for Civil Protection	2.3	0.2
Accelerating Change in Public Administration	1.4	0.01
Public Finance Platform	1.2	0.2
Total	14.0	3.9

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
Serbia Government	34.2
European Union	2.6
Sweden	1.8
Vertical fund-GEF	1.3
United Kingdom	1.2
Total	41.1

II. Audit results

Effective controls were established and functioning in the following areas:

- (a) **Operations- Procurement:** The Office effectively planned procurements, applied appropriate procurement strategies, and successfully made use of UNDP's internal expert knowledge for complex procurement services.
- (b) **Operations- Finance:** Controls over cost management and income generation were found to be good and payments were well supported and efficient. The Office took immediate action to improve financial reporting and safeguard UNDP from vendor protests over inconsistencies audit team noted in the applied United Nations rate of exchange.

- (c) Operations- Administration. The Office properly managed the administration services, including asset management, vehicle management, and travel management.
- (d) Operations- Information and Communication Technology. The ICT Unit successfully maintained its regular operations while supporting 22 technology initiatives across UNDP, earning \$0.2 million through cost recovery, which is a good accomplishment.

OAI made two recommendations ranked high (critical) and one recommendation ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:

- (a) Improve programme output indicators definition and monitoring (Recommendation 1).
- (b) Establish a roster of experts (Recommendation 3).

Medium priority recommendation:

- (a) Enhance project design and reporting (Recommendation 2).

Conclusion on the Office's performance in the following audit areas/sub areas:

To form an opinion and conclude on the performance elements of this audit, the audit team used the following audit criteria:

- Country Programme Document (CPD) 2021-2025, UNDP Strategic Plan signature solutions for 2022 to 2025, and the United Nations Sustainable Development Cooperation Framework 2021-2025.
- The CPD and projects Results and Resources Framework and Evaluation plan.
- UNDP Programme and Operations Policies and Procedures.

(a) Governance:

1. Did the country programme have clear objectives, with sufficient resources and implemented as planned?

A review of the CPD indicated that the Office had not defined clearly 11 out of the 22 country programme output indicators to guide programming and enable UNDP to assess its contribution to the national goals. The unclear definition of programme output indicators impacted: (a) Realistic programme budget estimates for the CPD period, which had a delivery balance of \$20 million for the remaining three years from 2023 to 2025. This necessitated re-programming of expected CPD delivery for the remaining three years; and (b) the CPD implementation monitoring of annual targets, which reported cumulative targets and achievements from the prior CPD period. This did not enable reporting of actual progress for the current CPD period for timely addressing of implementation challenges (refer to Issue1).

(b) Development activities:

2. Were project objectives clearly defined, and results measurable, and adequately monitored?

The audit team assessed the effectiveness of the project design, its focus and progress made towards achievement of project outputs and noted that the results frameworks in the project documents were not adequately designed or updated with changes in four (50%) of eight sampled

projects reviewed. Since the outputs were not clearly defined, indicators were not specific, measurable, and timebound, the baselines and targets values had inconsistencies as they were defined numerically but measured qualitatively, and vice versa, and the progress report did not include results framework that showed progress against predefined annual targets at the output level (refer to Issue2).

(c) Procurement

3. Was procurement undertaken in an effective and efficient manner?

The Office conducted its procurement practice effectively and efficiently despite many complex projects such as the designing of social infrastructure. It accomplished this through the support of an Engineering Tech-cell unit (ETC) that it had established in 2017, consisting of 8 to10 engineers in all significant specialization areas.

The detailed assessment is presented below, per audit area:

A. Governance

1. Planning and risk management

Issue 1 Inadequately defined output indicators and monitoring of UNDP country programme document delivery expectations

The audit team reviewed the clarity and implementation of the Country Programme Document (CPD) 2021 – 2025 strategic objectives and identified the following inadequacies:

Programme output indicators in CPD were unclear and not well defined

The UNDP ‘Programme and Operations Policies and Procedures’ requires that outcomes and outputs are defined at an appropriate level, have specific, measurable, attainable, relevant, time-based (SMART), results-oriented indicators, with specified baselines and targets. Gender-responsive, sex-disaggregated indicators should be used when appropriate.

The country programme document (CPD) for the period 2021 to 2025 defined three strategic objectives with four outcomes and 22 output indicators. However:

- 11 out of the 22 output indicators had not been well defined. For instance, an output indicator of ‘open budget index value’ with a target score of 60 on transparency did not clarify UNDP’s expected contribution.
- Target values for three output indicators had not been determined by the second year of CPD implementation, as the Office awaited adoption of an integrated climate and energy plan and operationalization of the Office depopulation portfolio. The Office had not yet defined interim measures specific to UNDP to guide planning of project activities in support of the expected national plans.
- The CPD outcome no. 2 indicator on education and employment included targets for women, youth, and Roma populations, but the output indicators did not reflect the relevant data for individual targets instead they were presented in an aggregated form.



The above occurred because output indicators were developed with a high-level focus on national and international measures.

Without clear and well defined programme output indicators, the Office may not adequately plan its work and assess its contribution to the Country's national goals. In absence of clearly defined expectations, project targets were retroactively linked to the CPD. For instance, planned activities relating to marginalized target groups had not yet commenced.

Inadequate monitoring of CPD implementation

The UNDP 'Programme and Operations Policies and Procedures' requires that outcomes and outputs must be monitored at least annually through the Results-Oriented Analysis Report and reviewed by a joint governance mechanism such as programme boards. The annual analysis of evidence should inform management decision-making, improve effectiveness and efficiency, and adjust programming as necessary.

The Office monitored CPD progress in UNDP's corporate planning solution 'Quantum +'. However the audit noted the following:

The Office's 2021 Results Oriented Annual Reporting (ROAR) did not enable reporting of actual progress for the current CPD period for 16 out of 22 output indicators because it included cumulative targets and achievements from prior (2018 to 2021) CPD period. For instance, number of trainings conducted included prior CPD achievements which did not seem as befitting.

The above happened because UNDP's contribution in the CPD were not clearly defined for 11 of 22 output indicators to enable definition of annual programming targets during implementation, and the Office had not finalized the process of establishing a CPD annual review mechanism. The required annual CPD review had therefore not been undertaken.

Inadequate reporting of results may not enable timely actions to address programme implementation challenges.

Priority	High (Critical)
Recommendation 1:	
<p>The Office should improve definition of programming expectations and monitoring by:</p> <ul style="list-style-type: none"> (a) defining country programme document output indicator expectations from UNDP, including relevant data where applicable; and (b) defining annual output indicator targets in UNDP's corporate planning solution 'Quantum +' where applicable, for the defined expectations from UNDP, and if needed, seek guidance from the Regional Bureau on cumulative vs. current period reporting. 	
Management action plan:	
<p>The Office will develop an annex to the CPD to define additional 11 output indicators which will better measure UNDP specific work, including baselines, annual targets and sources of verification. These new data will be transferred in Quantum + and monitored from 2022 onwards.</p>	
Estimated completion date: December 2022	

B. Development Activities

1. Projects Administration

Issue 2 Inadequate project results framework and reporting

During the audit period, the Office had 36 ongoing development projects with a total expenditure of \$34.2 million. The audit team sampled and reviewed eight projects with an expenditure of \$19.6 million, or 57 percent of the total delivery.

Four (50 percent) of the eight reviewed projects with a total expenditure of \$10.6 million and consisting of three country office support to national implementation modality and one direct implementation modality revealed the following deficiencies.

Projects reports did not include adequate information to report results.

According to the UNDP 'Programme and Operations Policies and Procedures', country offices should provide project progress (narrative) reports that reflect the most recent results against the project indicators and agree on a reporting format if the project progress report information is insufficient or not detailed.

The audit team noted that two projects' annual progress reports did not include information which tracks and compares aggregate results against targets. In addition, the reports only summarized completed activities without demonstrating the indicator's progress towards output achievements.

Although the Office stated that the Government counterparts were satisfied with the annual progress report, the signed project document's monitoring and evaluation plan required the report to include progress data showing the results achieved against pre-defined annual targets at the output level.

Project results framework was not well designed or modified to reflect substantial revisions

The UNDP 'Programme and Operations Policies and Procedures' requires Country Offices to identify clear and consistent outputs and establish clear results-based indicators to measure if a result has been achieved. Also, it requires that all indicators' data source and frequency are established, along with baselines and targets.

The UNDP 'Programme and Operations Policies and Procedures' requires Offices to revise project documentation to capture substantive revisions such as project design and results framework changes.

Project output definition deficiencies

- In three projects, the output statements were either not clearly defined or implied results that were not supported by the project activities. Thus, the statements did not adequately capture the intended changes (results) to be realized after the completion of project activities.

Results framework shortcomings

- One project had several discrepancies: (a) the output indicator targets were marked numerically, but progress was reported qualitatively; (b) the final year target column was left blank, which meant that progress could not be measured, especially where the baseline and annual targets were similar; and (c) the data collection method was left blank. The Office explained that the discrepancies occurred due to the project's unique design that required special reporting, which it will use during the next project reporting phase. The audit team noted the Office's comment but did not see concrete reasons why it was not used in the previous reporting phase.



- The results framework of two projects had not been revised to reflect substantial revisions in baseline definitions and targets values, indicators design enhancement, and output statements definition modifications. For example, in one project, outputs 1 and 2 were converted to activities following a Government request but the results framework was not revised to show the new outputs' definitions.
- The indicators for one project with an end date of January 2023 were developed in June 2022, so progress reporting for 2021 was made without indicators. However, in the absence of indicators, the progress report indicated that one of the significant activities, the adoption of the National Adaptation Plan (NAP), which had not yet been implemented at the time of the audit, was on progress instead of reporting a significant delay that necessitated a project no-cost extension. Thus, major hindrance to achievement of planned results was not highlighted in the variance column provided in the report.

The above occurred due to insufficient project quality assurance assessment on project design and not prioritizing time to update results framework substantive changes.

Delayed project implementation

The audit team noted that three or 38 percent of the sampled projects had low overall delivery. As of June 2022, two of the three projects had not utilized 46 percent (or \$1.5 million) and 62 percent (or \$32.5 million) of their budgets despite being in operation since December 2018 and March 2017 and ending on 31 December 2023. The third project had not utilized 50 percent (or \$1 million) of its budget even though it was set to end on 31 December 2022. The office attributed the delay to the Covid-19 impacts, time-consuming processes due to complex activities that was not factored in during design phase.

In addition, a delay in approving three projects' annual work plans was noted. The delays ranged between two to three months, partially contributing to the above noted low delivery. The Office attributed the delay to time spent holding multiple meetings with various government ministries to confirm fund availability and approve projects outputs.

The Office explained that the stakeholders were informed of the various project challenges and were ready to approve a no-cost project extension when requested. Nevertheless, the audit team emphasized the need to expedite the project's implementation.

Project delays that result in extensions may render the project ineffective due to unbudgeted additional costs.

Priority	Medium (Important)
Recommendation 2:	
The Office should enhance its project design and reporting by	
(a)	Revising the projects' progress reports template, in consultation with the Government counterpart, to incorporate results frameworks progress and ensure that progress reports contain output indicator progress.
(b)	Conducting a quality assurance assessment on project designs when substantive revisions are made and addressing weaknesses identified in the project's results framework to ensure concise output definitions; develop specific, measurable, and time-bound indicators accompanied by coherent baselines and targets.

- (c) Timely addressing project delivery issues in collaboration with the government to prevent extended project delivery delays that necessitate project duration extension.

Management action plan:

- (a) The Office will revise progress report format to specific government counterparts to include reporting on project output indicators as defined in respective results frameworks.
- (b) The Office will reinvigorate the quality control during the project design stage which will, besides the mandatory quality assessment by the delegated assessor, include pre-LPAC, during which relevant staff will comment on the project document's quality, including results framework. The same principles will be applied in case of substantive project revisions during the implementation.
- (c) The senior management will issue an inter-office memorandum to all project managers necessitating the need to escalate potential project implementation delays to the Resident Representative /Deputy Resident Representative and cluster lead. Accordingly, the management will intervene to timely address any project delivery issues in consultation with the government, donors and other stakeholders.

Estimated completion date: December 2022

C. Operations

1. Human Resources/ Recruitment of Staff

Issue 3 Delays in executing human resources processes

The audit team noted the following shortcoming related to human resources process.

Long duration to fill vacant positions

National Personnel Services Agreement (NPSA) Policy requires an NPSA to be issued for any period from one day and up to a maximum of twelve months at a time. According to the Standard Operating Procedures for Global Shared Service Centre (GSSC) HR Services - recruitment of regular National Personnel Services Agreement (NPSA), the process to fill vacant posts should take no more than three months from the date vacancy is posted to contract issuance. The Memorandum for provision of services (MPS) requires government requests to be processed as per the UNDP regular recruitment procedure timeline.

A review of the recruitment process for 42 vacant posts as of March 2022 revealed that 23 recruitments, including 17 NPSA posts requested by Government were delayed. The time was calculated from the vacancy announcement date to the contract issuance date.

- It took four to five months to fill 4 of the 21 NPSA vacancies, while 17 posts were pending contract issuance even though three to four months had already passed. It is essential to complete the

recruitment process in a timely manner as the duration of NPSA contracts are generally not more than 12 months.

- One Fixed Terms Appointment (FTA) was still pending contract issuance after four months, and the other was in the shortlisting phase after five months.

Furthermore, it took between 11 and 28 days to complete job classifications for nine NPSAs, which was longer than the seven days cited in HR SOP for job classification.

Lastly, during the audit period, the Office had 275 NPSAs, and 181 of the NPSAs worked in the Government ministries, engaged through the Memorandums for provision of services (MPS). During a meeting between auditors and Government counterparts, the Government highlighted delays in getting relevant experts to work in projects on a timely basis, which impacted the efficiencies of its operations.

The Office explained that it had previously maintained a roster of experts, with the last rooster being established in 2019. The audit team acknowledged the comment but emphasized the need for the Office to reintroduce the roster to mitigate ongoing delay risks.

Delay in issuing personnel service agreement contract

The “Programme and Operations Policies and Procedures” Instructions for Personnel Services Agreement (PSA) stipulates that a Face Sheet entitled “Personnel Services Agreement” shall be issued only by GSSU. Two PSA originals shall be signed, and after signature, UNDP would keep one original and provide the PSA Holder with the other original.

GSSC extended 36 NPSAs contracts but had not signed and issued personnel service agreements (Face Sheet extensions) that should have issued between March and May of 2022 but were still pending as of June 2022. Thus, these personnel were working without receiving signed contracts. During discussions with the Office, it revealed that the affected NPSAs had raised concerns of continuing working without evidence a contract was signed.

The above delays occurred because of challenges encountered during clustering HR processes, which meant some processes took longer than expected.

The above may impact negatively on UNDP reputation if unable to timely provide services to Governments and staff continue working without signed contracts.

Priority	High (Critical)
Recommendation 3:	
<p>The Office should</p> <p>(a) follow up with Global Shared Services Centre (GSSC) to ensure that these NPSA contracts are issued timely; and</p> <p>(b) continue its previous practice of establishing a roster of experts to ensure vacant posts, particularly those within government ministries, are filled promptly.</p>	
Management action plan:	
<p>The Office appreciates the OAI recommendation and confirms it will continue with the same practice; the SOP for the NPSA roster will be updated and shared with the OAI team. Also, following the recent announcement from BMS to devolve selected HR functions to Business Units/ Country Offices, we believe this decision will improve the Office's recruitment process effectiveness and efficiency.</p>	



Estimated completion date: December 2022

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.