INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/053

Audit of the management of the ecosystem sub-programme in the United Nations Environment Programme

Overall results relating to effective management of the ecosystem sub-programme were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

19 June 2013
Assignment No. AA2012/220/02

# CONTENTS

# AUDIT REPORT

## Audit of the management of the ecosystem sub-programme in the United Nations Environment Programme

## I.     BACKGROUND

1.      The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the ecosystem sub-programme in the United Nations Environment Programme (UNEP).

2.      In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3.      The principal responsibility for environment within the United Nations system is vested with UNEP.  The ecosystem sub-programme is one of the priority areas in the UNEP medium-term strategy for 2010-2013.  The main objective of the ecosystem sub-programme is to ensure that countries utilize the ecosystem approach to enhance human well-being. This sub-programme builds upon the UNEP mandate to improve scientific understanding of ecosystem functioning as reflected in the Millenium Ecosystem Assessment and promotes an approach that addresses a whole ecological unit as a single system. According to the UNEP biennial programme and support budget for 2010-2011, the ecosystem sub-programme strategy was to:

- Influence planning and assistance framework at regional and national levels towards a cross-sectoral, integrated approach to ecosystem while promoting awareness of the cross linkages between humans and their impacts on ecosystems as well as the benefits people derive from them.
- Build the capacities of regional, sub-regional, national and local entities to assess and minimize impacts on ecosystems, to reverse their decline, and build resilience to maximize the delivery of ecosystem services.
- Promote institutional  shifts at the regional and national levels to realign national development planning processes to address  the degradation of ecosystem services and build resilience, recognizing biodiversity as an essential component of ecosystem functioning.

4.      The Division of Environmental Policy Implementation (DEPI) was the lead division for the implementation of the ecosystem sub-programme in UNEP.  The implementation of the sub-programme is done across other divisions in UNEP in collaboration with other external partners. In this regard, DEPI is tasked with further developing, testing, and applying the ecosystems management approach; providing programmatic coherence to the sub-programme during its implementation; and ensuring the proper sequencing of interventions, particularly among inter-linked expected accomplishments.  It also has to define, in consultation with other divisions, the quality standards and expectations specific to the sub-programme against which other divisions manage the delivery of outputs. The ecosystem sub-programme budget for the biennium 2010-2011 was $90 million.

5.      Comments provided by UNEP are incorporated in *italics*.

# II.    OBJECTIVE AND SCOPE

6.      The audit of the management of the ecosystem sub-programme in UNEP was conducted to assess the adequacy and effectiveness of UNEP governance, risk management and control processes in providing reasonable assurance regarding **the effective management of the ecosystem sub-programme in UNEP**.

7.      This audit was included in the 2012 internal audit work plan based on the risk assessment of UNEP that identified strategic and operational risks as high in the delivery of UNEP sub-programmes. The ecosystem sub-programme was selected as a thematic priority for testing the adequacy and effectiveness of controls in mitigating the identified risks.

8.   The key controls tested for the audit were: (a) risk management and strategic planning mechanisms; (b) mandates and delegation of authority system, and (c) results-based management. For the purpose of this audit, OIOS defined these key controls as follows:

   (a)      **Risk management and strategic planning** - controls that provide reasonable assurance that risks relating to the ecosystem management programme are identified and assessed, and that action is taken to mitigate or anticipate risks.

   (b)      **Mandates and delegation of authority system** – controls that provide reasonable assurance on the clarity of the authority, roles and responsibilities of UNEP and other departments, UN or other entities involved in the ecosystem sub-programme to ensure effective and efficient programme delivery.

   (c)      **Results-based management** - controls that provide reasonable assurance that mandates are articulated clearly and comprehensively to ensure that they are achieved.

9.      The key controls were assessed for the control objectives shown in Table 1. Certain control objectives (shown in Table 1 as "Not assessed") were not relevant to the scope defined for this audit.

10.     OIOS conducted this audit from 14 March 2012 to 6 December 2012.  The audit covered the period from 1 January 2010 to 31 December 2011.

11.     OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks.  Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

# III.    AUDIT RESULTS

12.     UNEP governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **the effective management of the ecosystem sub-programme in UNEP**.  OIOS made two recommendations to address the issues identified in the audit.   Overall, UNEP put in place a control framework to ensure the effective management of programmes and sub-programmes at the corporate level. However, in the ecosystem sub-programme, weaknesses were identified in the formulation of objectives and the strategic allocation of resources.

13.     The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

<p style="text-align:center"><b>Table 1: Assessment of key controls</b></p>

| Business objective(s) | Key controls | Control objectives | | | |
|---|---|---|---|---|---|
| | | Efficient and effective operations | Accurate financial and operational reporting | Safeguarding of assets | Compliance with mandates, regulations and rules |
| **Effective management of the ecosystem sub-programme in UNEP** | (a) Risk management and strategic planning | Partially satisfactory | Partially satisfactory | Not assessed | Satisfactory |
| | (b) Mandates and delegation of authority system | Satisfactory | Satisfactory | Not assessed | Satisfactory |
| | (c) Results-based management | Partially satisfactory | Partially satisfactory | Not assessed | Satisfactory |
| **FINAL OVERALL RATING:  PARTIALLY SATISFACTORY** | | | | | |

# A.     Risk management and strategic planning

<u>Performance management and accountability frameworks were in place</u>

14.     UNEP mandates were operationalized in the Programme Performance Management Framework through a number of documents including the 2010-2013 Medium Term Strategy; umbrella projects which defined detailed activities; biennial Programme of Work; and agreements with implementing partners which detailed expected outcomes for programmes including the ecosystem sub-programme. In addition, the Programme Accountability Framework (2010-2011) defined roles and responsibilities and provided guidance on relevant regulations, rules and administrative procedures.

<u>Criteria for allocation of funds to the sub-programme were not clearly documented</u>

15.     DEPI was the lead division for the ecosystem sub-programme and was allocated 57 per cent of the total expenditure for the 2010-2011 biennium (around $36 million out of a total $63 million based on initial allotment). The remaining funds were spread among other divisions and regional offices participating in the implementation of the ecosystem sub-programme. However, criteria for allocation of resources within the ecosystem sub-programme and projects, and across participating divisions and regional offices were not clearly stated and documented. Project and programme managers verbally indicated that the budget allocation process within DEPI, and among the divisions and all the other entities involved in the implementation of the sub-programme, was not clear.

16.     In addition, allotments for the ecosystem sub-programme were created in the Integrated Management Information System along both project and divisional demarcations. Some allotments were created to provide funds directly traceable to the implementation of the sub-programme of work; others were created to fund the divisional cost structure without any direct traceability to the programme of work. In the absence of clear criteria to guide the allocation of resources, UNEP could not easily determine how effective and efficient the strategic management process had been in optimizing the allocation of resources for the achievement of the intended objectives.

> **(1) UNEP should define clear sub-programme resource allocation criteria, which are consistent with the performance management framework adopted to steer performance to mission critical areas and identified priorities.**
>
> *UNEP accepted recommendation 1 and stated that this recommendation regards corporate policies beyond the scope of the audit on the sub-programme on ecosystems management. UNEP's Medium Term Strategy and Programme of Work are negotiated and defined by its Governing Council. Upon adoption of the Programme of Work, the role of the Executive Director is to seek funding and implement the Programme of Work. The 2014-15 budget exercise was mostly based on output based budgeting allocating resources consistently with performance and level of effort required and priority established by Sub-Programme Coordinators, consistent with the Accountability Framework.* Recommendation 1 remains open pending receipt of evidence of definition of criteria and their use in the allocation of resources to individual sub-programmes.

# B.    Mandates and delegation of authority system

<u>The existing organizational setting for effective programme implementation was under review</u>

17.    UNEP operationalized the programme performance framework for the implementation of the 2010-2011 Programme of Work through a matrix-like structure to foster a sub-programme centered focus. As a result, DEPI was required to implement the ecosystem sub-programme with the cooperation of other UNEP divisions and regional offices. However, the organizational setting, including authority and budget allocations, remained divisional rather than sub-programme centered as noted in UNEP accountability framework dated April 2010. Accordingly, Heads of the relevant Divisions retained related responsibilities for administration of resources and performance delivery.    As a result of the organizational arrangements in place:

- The lead division had no mechanisms to influence the directors of other UNEP cooperating divisions.
- The sub-programme Coordinator was assigned responsibility without authority and performed mainly facilitation tasks.
- The regional offices had a limited role in identifying opportunities for interventions and efficient delivery of the sub-programme.

18.    Interviews with programme staff across the division highlighted that gains achieved, in terms of better integration or cooperation among the divisions and the regional offices involved in the delivery of the ecosystem sub-programme, were limited and often constrained to those thematic areas where interdivisional working groups already existed.  There was a need to review authority and accountability of key actors to attain the advantages of a sub-programme centered structure in achieving programme objectives.  *UNEP clarified that the recent evaluation of the Medium Term Strategy by the UNEP Evaluation Office addresses the issue of matrix management. A final position will be determined after having reviewed different options and guidance from Member States on the overall future framework of UNEP.*

<u>Controls were in place for the management of advances to implementing partners</u>

19.    The implementation strategy, which consisted of outsourcing close to 100 per cent of the ecosystem activities, implied a heavy reliance on partners' input. Within its mandate, UNEP acted as a catalyst for the ecosystem and engaged implementing partners, including other United Nations agencies

and related organizations, civil society and the private sector, to assist countries in the development of ecosystem planning and the sustainability of actions undertaken. As the programme implementation was generally fragmented into low value projects (up to a maximum of $200,000), small scale funding agreements were frequently used. OIOS review of eight such agreements for four out of 14 projects did not identify any reportable control deficiencies. The agreements were signed in line with existing delegation of authority, and controls were deemed to be adequate for the relatively small amounts of advances.

# C.    Results-based management

Programmatic objectives lacked clarity for measurement of accomplishments

20.    DEPI defined specific outputs for its 2010-2011 Programme of Work including three expected accomplishments and related indicators, targets and baselines for the ecosystem sub-programme. The ecosystem sub-programme received income totaling $72 million, which was needed for the achievement of stated Programme of Work outputs and expected accomplishments, out of the approved budget of $90 million for the biennium 2010-2011.   Variances in assumptions and resources resulted in project downsizing and delays in programme and project implementation. OIOS review of 14 of the 25 projects in the ecosystem sub-programme portfolio indicated that, due to delays in receiving funds and mobilizing projects, three projects were on track, two projects had not yet started by the end of the biennium, four started during the second year, and five started only after the third quarter of the first year.

21.    Wide adoption of non-SMART (specific, measurable, attainable, realistic, and time-bound) objectives in the ecosystem sub-programme made it difficult to measure the achievement of expected accomplishments and outputs. Terms such as outputs and outcomes in the Programme of Work were used interchangeably indicating lack of a common understanding of terminology and practices.  For many projects, despite the presence of a logical framework, it was difficult to appreciate how activities were impacting the expected accomplishments due to:

- Causal relationships that were not clearly being defined in project documents;
- Insufficient resources for projects;
- Activities  being undertaken at the local level when results were stated at the country/region level; and
- Confusion between results and indicators.

22.    As a result, it was often difficult for UNEP to demonstrate that it achieved results within its ecosystem sub-programme as defined in its Performance Management Framework, and that its efforts and activities were a key determinant of such results

> **(2) UNEP should formulate ecosystem sub-programme objectives for the new Medium Term Strategy for 2014-2017 which are specific, measurable, attainable, realistic, and time-bound.**
>
> *UNEP accepted recommendation 2 and stated that the new Medium Term Strategy and Programme of Work for 2014-15 already include these criteria at the corporate level. The objective of the ecosystem sub-programme adopted by the UNEP Governing Council in its 27th session in line with the Medium Term Strategy 2014-17 is being implemented through three expected accomplishments which address the terrestrial, freshwater and marine ecosystems among others. The expected accomplishments will be projectized into projects that are coherent, measurable and timely in consultation with other sub-programmes.* Recommendation 2 remains open pending receipt of

| evidence that UNEP has formulated SMART objectives for the ecosystem sub-programme. |
| --- |

## IV. ACKNOWLEDGEMENT

23. OIOS wishes to express its appreciation to the Management and staff of UNEP for the assistance and cooperation extended to the auditors during this assignment.


(*Signed*) David Kanja
Assistant Secretary-General for Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

### Audit of the management of the ecosystem sub-programme in UNEP

| Recom. no. | Recommendation | Critical[1]/ Important[2] | C/ O[3] | Actions needed to close recommendation | Implementation date[4] |
|---|---|---|---|---|---|
| 1 | UNEP should define clear sub-programme resource allocation criteria, which are consistent with the performance management framework adopted to steer performance to mission critical areas and identified priorities. | Important | O | Receipt of evidence of definition of criteria and their use in the allocation of resources to individual sub-programmes. | 31 December 2013 |
| 2 | UNEP should formulate ecosystem sub-programme objectives for the new Medium Term Strategy for 2014-2017 which are specific, measurable, attainable, realistic, and time-bound. | Important | O | Receipt of evidence that UNEP has formulated SMART objectives for the ecosystem sub-programme. | 31 December 2013 |

---

[1] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

[3] C = closed, O = open

[4] Date provided by UNEP in response to recommendations.

# APPENDIX I


# Management Response

**AUDIT RECOMMENDATIONS**

**Audit of the ecosystem management programme in UNEP**

| Rec. no. | Recommendation | Critical[1]/ Important[2] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| 1 | UNEP should define clear resource allocation criteria for sub-programmes that are consistent with the performance management framework adopted to steer performance to mission critical areas and identified priorities to achieve intended objectives. | Important | Yes | Director, Donor Partnerships and Contributions, Office for Operations | 31/12/13 | This issue has already been addressed. As UNEP informed OIOS in January 2013 that UNEP notes that this recommendation regards corporate policies beyond the scope of the audit on the Sub-Programme on Ecosystems Management. For corporate funding received, UNEP has indeed put in place mechanisms to link resources allocation to Sub-Programme needs based on the Sub-Programme Coordinator's assessment, in consultation with Sub-Programme focal points in the Divisions, of the resources required by output for the subprogramme. UNEP's Medium Term Strategy and Programme of Work (POW) are negotiated and defined by its Governing Council. Upon adoption of the POW, the role of the Executive Director is to seek funding and implement the Programme of Work. The Executive Director has |

---

[1] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

| Rec. no. | Recommendation | Critical[1]/ Important[2] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | | | | | | the authority to deviate up to 10% from the approved budget. The 2014-15 budget exercise was mostly based on output based budgeting allocating resources consistently with performance and level of effort required and priority established by Sub-Programme Coordinators, consistent with the Accountability Framework. |
| 2 | UNEP should review current organizational arrangements to foster increased cooperation and clarity of roles and responsibilities over the EM sub-programme performance. | Important | No | N/A | N/A | In January 2013, UNEP mentioned to OIOS that the Accountability Framework of UNEP, which was approved in 2010 spells out the accountability/responsibility of various levels of management for delivering the outputs of every part of the POW is stated.  As stated earlier, the recent evaluation of the MTS (UNEP Evaluation Office) addresses the issue of matrix management. UNEP Management will determine its final position after having reviewed different options and guidance from Member States on the overall future framework of UNEP. UNEP has carried out its own evaluation of internal management arrangements. This OIOS recommendation does not reflect the only option to improve EM Sub-Programme performance. Draft ToR have been developed and shared with Subprogramme Coordinators. The revised ToR and reporting structure are under consideration in view of the current transformation of the UNEP |

| Rec. no. | Recommendation | Critical[1]/ Important[2] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | | | | | | Secretariat, and working model following Rio+20 and GA Resolution 67/213. After implementation of these changes, UNEP may need to review the ToR. |
| 3 | UNEP should formulate EM sub-programme objectives for the new Medium Term Strategy for 2014-2017 which are specific, measurable, attainable, realistic, and time-bound. | Important | Yes | Sub-Programme Coordinator | 31/12/13 | This issue is being implemented at the corporate level. However, in January 2013, UNEP requested OIOS to clarify how this recommendation relates to the Ecosystems Management section of the MTS. If so, OIOS needs to be more specific. The new MTS and POW for 2014-15 already include these criteria at the corporate level.

The biennial POW for 2014-15 adopted by UNEP's Governing Council in its 27th session states the objective of the EM subprogramme as follows: "To promote a transition to integrating the conservation and management of land, water and living resources to maintain bioidiversity and provide ecosystem services sustainably and equitably among countries" in line with the MTS 2014-17. This objective is being implemented through three expected accomplishments which address the terrestrial, freshwater and marine ecosystems among others. The expected accomplishments will be projectized into projects that are coherent, measurable and timely in consultation with other subprogrammes. |