INTERNAL AUDIT DIVISION

REPORT 2015/007

Audit of the activities performed by the United Nations Environment Programme relating to the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

Overall results relating to the efficient and effective management of the programme were partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

29 January 2015
Assignment No. AA2014/220/03

CONTENTS

AUDIT REPORT

Audit of the activities performed by the United Nations Environment Programme relating to the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the activities performed by the United Nations Environment Programme (UNEP) relating to the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD programme).

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 UN-REDD programme was created in September 2008 to assist developing countries to build capacity to reduce emissions from deforestation and forest degradation, as well as enhance sustainable management of forests. Three United Nations organizations participated in the implementation of the UN-REDD programme under a memorandum of understanding. The UN-REDD Programme had a strategic plan covering the period 2011–2015 and was implemented at the global and national levels. During the period covered by this audit (2011-2013), the programme was managed through a Policy Board, a Strategy Group, a Management Group and the UN-REDD Programme Secretariat. The Secretariat, located in Geneva, Switzerland, provided leadership for the programme, managed reporting, monitoring and evaluation for the programme, raised awareness and mobilized resources for the programme, and facilitated inter-agency collaboration and communication.

4.   At the global level, the UN-REDD programme had six interlinked work areas with associated outcomes. UNEP took the lead in two of the six work areas, viz.: (i) Multiple benefits and safeguards; and (ii) Green Economy transformation. The other participating agencies took the lead in the remaining four work areas namely: (i) National REDD governance; (ii) Stakeholder engagement; (iii) Transparent, equitable and accountable management; and (iv) Measurement, reporting and verification, and monitoring.

5.   A Multi-Donor Trust Fund was established in July 2008 to support the implementation of the programme and was housed by one of the participating agencies. The trust fund was used to pool resources from donors and provide funding for the programme. The Policy Board approved the funding of programme activities that were performed by the participating agencies. The total budget for the six areas for 2011 to 2013 amounted to $80 million of which $31 million related to UNEP activities including the UN-REDD Secretariat activities relating to UNEP. The UNEP expenditures were for Global Programme activities (60 percent); Targeted Support activities (21 percent); National Programme activities (18 percent) and the remainder was for backstopping (one percent).

6.   At the time of the audit, the UN-REDD programme supported 51 partner countries across Africa, Asia-Pacific, and Latin America and the Caribbean. The Policy Board had approved a total of $67.8 million for the development and implementation of national programmes in 18 partner countries. Other

partner countries accessed financial and technical support through targeted support, were observers on the Policy Board, and participated in regional workshops and knowledge sharing arrangements.

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

II.   OBJECTIVE AND SCOPE

8.   The audit was conducted to assess the adequacy and effectiveness of UNEP governance, risk management and control processes in providing reasonable assurance regarding **efficient and effective management of activities performed by UNEP relating to the UN-REDD programme.**

9.   This audit was included in the OIOS work plan for 2014 at the request of UNEP, in view of related financial and reputational risks, which were assessed as high.

10.   The key controls tested for the audit were: (a) performance monitoring indicators and mechanisms; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

> (a)   **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that metrics are: (i) established and appropriate to enable monitoring of performance; and (ii) used to manage operations effectively.

> (b)   **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the UNEP component of the UN-REDD programme, including in areas such as financial management and procurement; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

11.   The key controls were assessed for the control objectives shown in Table 1.

12.   OIOS conducted the audit from May to July 2014 at UNEP Headquarters in Nairobi and the UN-REDD Secretariat offices in Geneva. Additionally, a field visit was conducted to Panama City where there were significant national programme activities in the UNEP work area. The audit covered the period January 2011 to December 2013. OIOS reviewed the outputs and indicators of achievement for the UNEP component of activities and tested compliance with United Nations Financial Regulations and Rules, United Nations Procurement Manual, Memoranda of Understanding, UNEP partnership policy and procedures and delegation of authority.

13.   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

14.   The UNEP governance, risk management and control processes examined were **partially satisfactory[1]** in providing reasonable assurance regarding the **efficient and effective management of activities performed by UNEP relating to the UN-REDD programme**.

15.   OIOS made three recommendations to address issues identified in the audit. There were specific and measurable performance indicators for the two work areas that UNEP took the lead in, as well as for the UN-REDD Secretariat. This facilitated objective performance measurement and evaluation and reporting to stakeholders. UNEP established partnerships and monitored the implementation of activities in accordance with the UNEP Partnership Policies and Procedures. However, there were areas that required strengthening at the UN-REDD Secretariat and participating agencies, such as: (a) establishing a mechanism that requires implementing agencies to provide evidence of reported performance in order to assure the quality of performance reports; and (b) developing processes and tools to harmonize the programme's administrative processes and protocols to improve information sharing, quicken the decision making processes, and enhance efficiency in programme delivery.

16.   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 three important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	**Accurate financial and operational reporting**	**Safeguarding of assets**	**Compliance with mandates, regulations and rules**
Efficient and effective management of activities performed by UNEP relating to the UN-REDD programme	(a) Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Performance monitoring indicators and mechanisms

Performance indicators were specific and measureable

17.   The performance indicators that guided UN-REDD activities led by UNEP were specific and measureable. UNEP was the lead agency in two out of the six work areas that were pursued in the UN-REDD programme and also took the lead on the UN-REDD Secretariat. UNEP implemented activities through partnerships and in collaboration with participating agencies. The outputs had specific and

---

[1] A rating of **"partially satisfactory"** means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

measureable indicators for the activities performed, and were part of a results-based monitoring framework that the Secretariat used in 2013 for reporting to stakeholders. The UN-REDD Secretariat also engaged independent evaluation teams to assess the impact of the outputs. OIOS concluded that controls relating to specificity, measurement and reporting on outputs for UNEP led work areas were adequate.

<u>Evidence of performance reported to stakeholders was required from implementing agencies</u>

18.   The UN-REDD Secretariat reported programme performance based on targets set out in the UN-REDD Programme Strategy for 2011-2015 and related work programmes. Upon request, UNEP and the UN-REDD Secretariat provided evidence to OIOS to support the basis on which performance was reported to stakeholders relating to the work areas that were led by UNEP. OIOS confirmed that the evidence that was provided was consistent with existing performance reporting guidelines on the means of verification that was required for each output achieved.

19.   The Secretariat reported UN-REDD programme performance based on information provided by implementing agencies. However, there was no mechanism in place at the Secretariat to verify the completeness and accuracy of information provided by the agencies. The Secretariat only consolidated what the agencies reported to have been achieved. OIOS is of the view that it is important that the Secretariat requires implementing agencies to provide evidence to corroborate the performance reported to the Secretariat. This would provide for quality assurance of the performance reports consolidated by the Secretariat and reported to stakeholders.

> **(1) UNEP, in coordination with the UN-REDD Secretariat, should establish a mechanism that requires implementing agencies to provide evidence of reported performance in order to assure the quality of performance reports.**
>
> *UNEP accepted recommendation 1 and stated that work had already started to implement this recommendation and that it would, by June 2015, provide documentation to demonstrate that it had established a mechanism to provide supporting evidence of reported performance.* Recommendation 1 remains open pending receipt of documentation showing that UNEP has established a mechanism to ensure that implementing agencies provide supporting evidence of reported performance.

B.   Regulatory framework

<u>Need for compliance with reporting requirements specified in the Memorandum of Understanding between implementing agencies and guidelines issued by the Administrative Agent</u>

20.   The UN-REDD programme financial and narrative reporting is guided by the Memorandum of Understanding (MOU) between the UN-REDD agencies and the reporting guidelines issued by the Administrative Agent of the Multi-Partner Trust Fund (MPTF). UNEP financial reports to the MPTF office detailed the funds transferred by the trust fund and received by UNEP, UNEP expenditures, funds held by UNEP as well as interest earned on the funds held. The narrative reports detailed the progress achieved in the implementation of programme activities. The MOU requires UNEP to provide the MPTF office with: (a) annual financial statements; and (b) annual narrative progress reports, not later than April 30 and March 31 respectively after the end of each calendar year. The MPTF reporting guidelines also require the UN-REDD agencies to submit both electronic financial statements as well as certified hard copies of the financial statements within the dates specified in the MOU.

21.   A review of compliance with the reporting requirements for the period 2011 to 2013 showed that UNEP submitted all electronic annual financial statements within the specified deadlines. However, certified hard copies were submitted approximately ten and 34 days late for 2011 and 2012 respectively while for the year 2013, the reports were submitted 48 days after the due date.

22.   There was no documentation provided to ascertain whether UNEP prepared and submitted the annual narrative progress reports to the Administrative Agent, as required. UNEP did not maintain any records/documentation or put in place a system to track the submission of the narrative reports to the Administrative Agent. According to UNEP, these narrative reports were used by the Administrative Agent to prepare the consolidated annual reports to donors and the UN-REDD Policy Board. In the view of UNEP, the fact that its activities were consistently included in the annual consolidated reports prepared by the Administrative Agent was by itself an indication that the reports were submitted.

23.   Non-compliance with the reporting requirements specified in the MOU could undermine the timely monitoring of programme performance and also dilute accountability.

> **(2) UNEP should ensure compliance with the reporting requirements prescribed in the Memorandum of Understanding with the Administrative Agent and maintain proper records to demonstrate compliance.**
>
> *UNEP accepted recommendation 2 and stated that it will, by June 2015, provide OIOS with evidence to demonstrate compliance with reporting requirements prescribed in the MOU with the Administrative Agent.* Recommendation 2 remains open pending receipt of evidence demonstrating UNEP compliance with reporting requirements prescribed in the MOU with the Administrative agent.

Incompatible administrative systems increased the potential for administrative inefficiencies

24.   UN-REDD is a collaborative programme implemented jointly by three different United Nations agencies. A UN-REDD strategy document outlined the overarching goals and strategy for implementing programme activities. The document also clarified the roles and responsibilities of each agency.

25.   There were no UN-REDD specific policies, procedures and systems for handling administrative matters relating to the programme. Each participating agency handled its administrative matters in accordance with its own policies, financial regulations, rules, directives and procedures. To this end, the participating organizations used different, and sometimes incompatible, information technology systems, maintained different financial accounting and reporting systems and cycles, and had different processes and arrangements for decision making and delegation of authority which had the potential to slow down the pace at which common decisions were made. For example, in Paraguay, UNEP advanced funds to other participating agencies to implement the UNEP portion of programme activities. However, due to different reporting cycles and formats, the other participating agencies did not provide timely reports on the use of funds so advanced or at times provided reports in a format that did not facilitate timely review and analysis by UNEP. This created inefficiencies in reporting and limited the ability of UNEP programme managers to effectively monitor and report on the status of funds utilization. Furthermore, the fact that each participating agency only had access to information maintained in its own systems made it difficult to share information across the programme, and prevented programme managers from having access to real time data pertaining to progress and status of funds utilization.

26.   The incompatible procedures and processes posed challenges for operations at the country level in terms of increased transaction costs, contributed to delays in performance of activities, and increased the demands on national counterparts. According to the Secretariat, there was no scope to establish or

propose streamlined administrative and operational procedures because the programme was intended to operate in accordance with each agency's rules, policies and procedures.

27.　　UNEP stated that various initiatives and processes had been developed to enhance harmony and efficiency within the UN-REDD programme. Several reporting templates, including project tracking tools, had been developed to harmonize the reporting processes.

28.　　Whilst acknowledging the fact that each participating agency had to comply with its own administrative protocols/structures, as per signed MoUs, and also acknowledging the efforts undertaken to harmonize various administrative processes, the absence of fully integrated administrative systems and processes increased administrative inefficiencies and ineffectiveness.

> **(3) UNEP, in collaboration with the participating agencies, should develop processes and tools to harmonize the programme administrative processes and protocols, with a view to improving information sharing, quickening the decision making processes and enhancing efficiency in programme delivery.**
>
> *UNEP accepted recommendation 3 and stated that the issue has been incorporated in the framework of the 2016-2020 UN-REDD Strategy formulation, and that full implementation of this recommendation will be linked to the finalization and approval of the new UN-REDD Strategy.* Recommendation 3 remains open pending receipt of documentation showing the tools developed to harmonize programme administrative processes and protocols.

Partnerships were entered into and administered in accordance with applicable policies and procedures

29.　　The UNEP Partnership Policies and Procedures prescribe the Organization's policies, practices, rules and procedures for administering partnership agreements to enhance consistent and standard approaches for entering into partnerships and ensure effective management of partnership agreements across UNEP. The policy, amongst others, required due diligence to be undertaken before entering into agreements with for profit and not-for-profit organizations. It also prescribed the administrative, financial management and oversight arrangements/safeguards relating to partnerships. In this regard, UNEP signed agreements with partners which detailed expected results/outputs to be achieved through the partnership and also specified when payments were to be made to the partners. Normally, the schedule for payments included an initial lump sum payment to be made upon signing of the agreement with subsequent payments being made after delivery of agreed outputs/deliverables such as detailed financial and narrative reports to substantiate expenditures incurred for work performed. Therefore, UNEP was expected to use the partnership agreements to monitor the implementation of activities as well as use of funds.

30.　　During the period 2011 - 2013, UNEP and the UN-REDD Secretariat entered into approximately 48 partnership agreements (with an estimated value of $12.5 million) with partners across regions where the UN-REDD programme was implemented. OIOS reviewed 28 agreements valued at $11.7 million and noted that the partnerships were entered into and administered in accordance with the UNEP Partnership Policies and Procedures. Specifically, OIOS confirmed that UNEP had identified, assessed and selected partners in accordance with its policies and procedures. OIOS review also showed that: (a) payments to partners were made in accordance with signed agreements; (b) initial payments were disbursed after agreements had been signed; and (c) subsequent payments were made upon receipt and acceptance of expected deliverables. OIOS therefore concluded that controls for entering into partnerships and administering agreements were in place and working satisfactorily.

IV. ACKNOWLEDGEMENT

31.   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 activities performed by the United Nations Environment Programme relating to the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	UNEP, in coordination with the UN-REDD Secretariat, should establish a mechanism that requires implementing agencies to provide evidence of reported performance in order to assure the quality of performance reports.	Important	O	Receipt of documentation showing that UNEP has established a mechanism to ensure that implementing agencies provide supporting evidence of reported performance.	June 2015
2	UNEP should ensure compliance with the reporting requirements prescribed in the Memorandum of Understanding with the Administrative Agent and maintain proper records to demonstrate compliance.	Important	O	Receipt of evidence demonstrating UNEP compliance with reporting requirements prescribed in the MOU with the Administrative agent.	June 2015
3	UNEP, in collaboration with the participating agencies, should develop processes and tools to harmonize the programme administrative processes and protocols, with a view to improving information sharing, quickening the decision making processes and enhance efficiency in programme delivery.	Important	O	Receipt of documentation showing the tools developed to harmonize programme administrative processes and protocols.	December 2015

---

[2] 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.

[3] 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.

[4] C = closed, O = open

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

APPENDIX I

Management Response

Management Response

Audit of the activities performed by the United Nations Environment Programme relating to the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP, in coordination with the UN-REDD Secretariat, should establish a mechanism that requires implementing agencies to provide evidence of reported performance in order to assure the quality of performance reports.	Important	Yes	Senior Programme Officer, Forest and Climate Change	June 2015	Work has already started to implement this recommendation. Implementation date indicates by when documentation will be provided showing that a mechanism has been established to provide supporting evidence of reported performance.
2	UNEP should ensure compliance with the reporting requirements prescribed in the Memorandum of Understanding with the Administrative Agent and maintain proper records to demonstrate compliance.	Important	Yes	Senior Programme Officer, Forest and Climate Change	June 2015	Work has already started to implement this recommendation. Implementation date indicates by when evidence will be provided to demonstrate compliance with reporting requirements prescribed in the MOU with the Administrative Agent.
3	UNEP, in collaboration with the participating agencies, should develop processes and tools to harmonize the programme administrative processes and protocols, with a view to improving information sharing, quickening the decision making processes and enhance efficiency in programme delivery.	Important	Yes	Senior Programme Officer, Forest and Climate Change	December 2015	Work has already started to implement this recommendation. This is done in the framework of the 2016-2020 UN-REDD Strategy formulation, and thus full implementation of this recommendation will be linked to the finalization and approval of the new UN-REDD Strategy.

---

[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.