



## INTERNAL AUDIT DIVISION

### REPORT 2016/054

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Audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe

Overall results relating to the effective management of selected subprogrammes and related technical cooperation projects were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

26 May 2016  
Assignment No. AN2015/720/01

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# AUDIT REPORT

## Audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe (ECE).

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. ECE was established on 28 March 1947 pursuant to United Nations Economic and Social Council (ECOSOC) resolution 36 (IV). ECE 56 member countries are located in Europe, North America and Asia. ECE is responsible for promoting sustainable development and regional cooperation and integration through: (a) policy dialogue, (b) normative work, and (c) regional networks of experts. ECE also promotes technical cooperation with economies in transition to assist them in acceding to and implementing international conventions, norms and standards including policy advice, capacity-building and field projects.

4. The Commission, which reports to ECOSOC, provides strategic direction to the work of the ECE secretariat and serves as a forum for high-level policy dialogue on economic development for the region. It meets once every two years. Implementation of the overall guidance set by the Commission is entrusted to the Executive Committee (EXCOM). In between the biennial sessions of the Commission, EXCOM acts on behalf of the Commission on all matters related to ECE activities in conformity with its terms of reference.

5. The 2014-2015 biennium ECE programme of work comprised eight interdependent and complementary subprogrammes. The two subprogrammes and related technical cooperation projects covered in this audit are described below.

#### (a) Environment subprogramme

6. Responsibility for the subprogramme is vested in the Environment Division. The Division's objective is to improve environmental governance and performance in the European region to safeguard the environment and health. ECE had negotiated five environmental conventions, also known as multilateral environmental agreements, all of which were in force.

7. The budgetary allocation for the subprogramme in the 2014-2015 biennium was \$33.4 million, which included resources for 49 posts. About 33 per cent of the budget was funded from the regular budget and 67 per cent from extrabudgetary resources. In 2014-2015, the Environment Division managed 24 active technical cooperation projects with total allocations of \$14 million.

#### (b) Transport subprogramme

8. Responsibility for this subprogramme is vested in the Transport Division. Its objective is to promote international movement of goods and mobility of persons. The Division serviced 58 international

conventions on inland transport, aimed at developing efficient, harmonized and integrated, safe and sustainable pan-European transport systems.

9. The budgetary allocation for the Transport subprogramme in the 2014-2015 biennium was \$17.4 million, which included resources for 45 posts. About 76 per cent of the budget was funded from the regular budget and 24 per cent from extrabudgetary resources. In 2014-2015, the Transport Division managed 11 technical cooperation projects with total allocations of \$2.5 million.

10. Both subprogrammes also received funding from the regular programme for technical cooperation and the Development Account.

11. Comments provided by ECE are incorporated in italics.

## II. OBJECTIVE AND SCOPE

12. The audit was conducted to assess the adequacy and effectiveness of ECE governance, risk management and control processes in providing reasonable assurance regarding the **effective management of selected subprogrammes and related technical cooperation projects in ECE**.

13. The audit was included in the 2015 OIOS risk-based work plan due to the operational risks related to the management of subprogrammes and their related technical cooperation projects.

14. The key control tested for the audit was subprogramme and project management. For the purpose of this audit, OIOS defined the key control as one that provides reasonable assurance that systems exist for: (a) effective and efficient implementation of mandated objectives based on clearly articulated strategies and guidelines for planning, executing and reporting on subprogramme activities; and (b) planning, fundraising, executing, monitoring and reporting on the performance and results of technical cooperation projects in an efficient and effective manner.

15. The key control was assessed for the control objectives shown in Table 1. One control objective (shown in Table 1 as “Not assessed”) was not relevant to the scope defined for this audit.

16. OIOS conducted the audit from November 2015 to January 2016. The audit covered the period from January 2014 to November 2015. The scope of the audit covered two areas: (i) the management of two subprogrammes - Environment and Transport; and (ii) management of technical cooperation projects related to the subprogrammes.

17. 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

18. The ECE governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of**

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<sup>1</sup> 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.

**selected subprogrammes and related technical cooperation projects in ECE.** OIOS made three recommendations to address the issues identified. Work planning and risk management processes were in place, and controls over reporting to intergovernmental bodies and donors on the activities of the Environment and Transport subprogrammes were satisfactory. ECE also effectively monitored and reported on the outputs of the subprogrammes. However, ECE needed to: strengthen the arrangements for managing technical cooperation projects; develop a comprehensive resource mobilization strategy to help mitigate the risk of inadequate funding; and strengthen controls over project monitoring and the selection of consultants and individual contractors.

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

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Effective management of selected subprogrammes and related technical cooperation projects in ECE</b>	Subprogramme and project management	Partially satisfactory	Satisfactory	Not assessed	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### **Subprogramme and project management**

Work planning processes for the Environment and Transport subprogrammes were adequate and effective

20. Managers were required by United Nations policies and procedures to develop work plans and related processes to implement work programmes for which they were responsible.

21. Work planning was effectively integrated in ECE processes to manage the Environment and Transport subprogrammes. The work planning processes for the Divisions were driven by the work programmes of the intergovernmental and expert bodies and conventions that they serviced. Subprogramme managers, their sections and staff developed their annual work plans based on the annual/biennial activities and the servicing of these bodies. OIOS assessed controls over the work planning activities of the two subprogrammes as adequate and effective.

Risk management processes for the Environment and Transport subprogrammes were generally adequate and effective

22. ECE secretariat internal policies, in line with the United Nations Secretariat guidance, stated risk management was a key part of the accountability framework including: (a) identification and assessment of risks; (b) risk monitoring; and (c) information and communication.

23. ECE developed a biennial risk treatment plan in line with the core risks of the United Nations Secretariat indicating related internal controls, risk response, responsible staff/organizational unit, and implementation date. In general, the risks were operationally relevant to the Environment and Transport subprogrammes. Specific risks related to the subprogrammes were addressed in the day to day management by the division directors and their staff in coordination with the sectoral committees and the governing bodies of the conventions. ECE updated the implementation status of the risk response periodically. ECE recognized emerging risks and their potential impact on its effectiveness and reputation and initiated mitigating measures accordingly. Therefore, OIOS assessed that ECE risk management processes in relation to the two subprogrammes were adequate and effective.

#### ECE was properly monitoring outputs of the subprogrammes

24. United Nations Secretariat heads of departments and offices were required to monitor expected accomplishments, as measured by the delivery of outputs scheduled in the approved programme budget.

25. OIOS reviewed 35 per cent of the combined 260 outputs related to the expected accomplishments of Transport and Environment Divisions for the period 2014-2015 to assess their rate of implementation. As of November 2015, the Transport Division reported that 47 per cent of its outputs was completed, 43 per cent was in progress and 10 per cent was yet to be started. The Environment Division reported 53 per cent completion, while 40 per cent was in progress and 7 per cent was yet to be started. Senior management at the division level actively monitored the progress of programme activities through regular meetings, trip reports, and preparation and submission of activity reports to sectoral committees and governing bodies of their conventions. The directors of the subprogrammes regularly reported on the subprogramme activities during directors' meetings with the Executive Secretary. Accordingly, OIOS assessed that ECE monitoring activities regarding outputs related to the two subprogrammes' expected accomplishments and indicators of achievements as adequate and effective.

#### Controls over reporting to intergovernmental bodies and donors on the activities of the Environment and Transport subprogrammes were adequate and effective

26. ECE policies required subprogramme managers and the Programme Management Unit with the support of the Executive Office to prepare substantive and financial reports to inform intergovernmental bodies and donors on the performance of subprogramme and technical cooperation activities.

27. ECE prepared and submitted periodic substantive and financial reports to intergovernmental bodies and donors on the activities of the two subprogrammes as required in a timely manner. The reports included highlights of their accomplishments, trends in regular budget allotments and voluntary contributions, and project expenditures. The information was supplemented with detailed regional and sectoral analyses. OIOS assessed controls over periodic substantive and financial reporting to intergovernmental bodies and donors regarding these subprogrammes as adequate and effective.

#### Detailed arrangements for managing technical cooperation projects needed to be established

28. The ECE Technical Cooperation Strategy and directive on the management of extrabudgetary resources were expected to require the establishment of arrangements to guide project management.

29. OIOS reviewed 34 technical cooperation projects (including 22 managed by the Environment Division and 12 by the Transport Division) totaling about \$15.2 million, funded from extrabudgetary resources for the 2014-2015 biennium. The revised project budgets ranged from \$25,000 to \$2.3 million with implementation periods spanning one to seven years. Project managers complied with established guidance by completing technical cooperation project forms, which were submitted to EXCOM for

approval. The forms included the duration, objectives, expected results, target group, justification, budget and manager of the projects. However, the forms were not supplemented with documents conveying important project management arrangements such as: project governance and management structure; roles and responsibilities of various participants; interim milestones and deliverables for longer duration projects; project assumptions, risks and interdependencies and how they would be managed; performance indicators; and monitoring and evaluation provisions. These arrangements needed to be formalized, especially for high value, multi partner or long duration projects.

30. The ECE Technical Cooperation Strategy and directive on management of extrabudgetary resources did not include requirements for the development of a standard project management framework. Consequently, the arrangements for effective project management were not adequately established, increasing the risk that projects may not be efficiently executed and monitored.

**(1) ECE should provide guidance on the arrangements to be established to manage technical cooperation projects, based on criteria such as the size and duration of the project.**

*ECE accepted recommendation 1 and stated that it had revised its Directive on Establishment of Extrabudgetary Resources to provide detailed guidance on the management of technical cooperation projects (planning, monitoring, evaluation), based on such criteria as their size (\$250,00 and above) and their duration (one year and more). Based on the action taken by ECE, recommendation 1 has been closed.*

A resource mobilization strategy needed to be developed

31. United Nations Secretariat departments and offices were expected under the Enterprise Risk Management framework to develop, as a risk response, a comprehensive multi-year resource mobilization strategy and advocate for an increase in the number of donors to help mitigate the risks related to the lack of predictability of donor contributions.

32. For the biennium 2014-2015, \$3 million or 23 per cent of the Transport subprogramme's total budget and \$19 million or 64 per cent of the Environment subprogramme's total budget were expected to come from extrabudgetary resources. Against this expectation, actual voluntary contributions of \$4.5 million and \$14.9 million, respectively, were received. A substantial amount of the voluntary contributions received was from members of EXCOM.

33. ECE developed an information paper on multilateral environmental agreements giving an overview of key challenges and opportunities for ensuring the sustainability and quality of support provided by ECE. The information paper also explored steps to identify the resource requirements of the environmental legal agreements and the need to have a resource mobilization strategy. However, ECE had not yet formulated an overall resource mobilization strategy to ensure sustainability of these voluntary contributions.

34. The above resulted as ECE did not have sufficient staffing resources to develop and implement a resources mobilization strategy. It had, however, established a task force to develop a resource mobilization strategy for the Environment subprogramme, taking into consideration the specific needs of each area of its programme of work. The lack of a resources mobilization strategy could result in lost opportunities to mobilize more resources to support additional activities.

**(2) ECE should develop a comprehensive resource mobilization strategy for the extrabudgetary resources requirements of the Environment and Transport subprogrammes.**

*ECE accepted recommendation 2 and stated that it would develop a comprehensive resource mobilization strategy and submit it to EXCOM for approval. Recommendation 2 remains open pending receipt of a copy of the resource mobilization strategy.*

Controls over the selection of consultants needed to be strengthened

35. The administrative instruction on consultants and individual contractors (ST/AI/2013/4) required departments to develop rosters of consultants and individual contractors based on the area of expertise required for conducting specialized work and to advertise services needed for more than six months on an electronic platform. In the process of selecting a consultant or an individual contractor, heads of departments were also responsible for instituting competitive selection procedures.

36. OIOS reviewed 32 out of 248 contracts for consultants or individual contractors or 31 per cent of the total value of the contracts amounting to \$1.8 million to assess the adequacy of controls over the selection process. OIOS observed that: (a) the United Nations corporate platform (Inspira) was not used to advertise openings for consultancies lasting more than six months and no formal roster of consultants was maintained; (b) 12 consultants were awarded two to three contracts during the biennium; and (c) the same individual was selected at least twice with the submission of the same shortlist of candidates.

37. As a result, current controls in place to ensure transparency in the selection of consultants were not adequate. ECE relied on the same individuals when selecting consultants or individual contractors resulting in an appearance of limited competition in the selection process. ECE informed OIOS that it relied on the United Nations Office at Geneva to provide recruitment services through a service level agreement.

**(3) ECE should take action to ensure that: (i) its service level agreement with the United Nations Office at Geneva requires the Office to use the United Nations Secretariat platform to advertise opportunities for consultancies; and (ii) it maintains a centrally managed roster of suitably qualified consultants or individual contractors.**

*ECE accepted recommendation 3 and stated that it would use the United Nations Secretariat online platform to advertise consultancies, and maintain a centrally managed roster of qualified consultants or individual contractors to ensure transparent and competitive selection. Recommendation 3 remains open pending receipt of evidence that ECE consultancies are advertised on the United Nations Secretariat online platform and that a centrally managed roster of qualified consultants or individual contractors has been established.*

ECE introduced a more competitive process for selecting implementing partner (grantee)

38. United Nations Secretariat policies required programme managers to follow a transparent and competitive selection process when grants were provided to a third party entity (implementing partner).

39. OIOS reviewed 14 out of 44 grants awarded by ECE for the period 2014-2015 by the Transport and Environment subprogrammes. Total value of the grants amounted to \$1.3 million. There was inadequate transparency and competition in selecting grantees and many grantees received multiple grants during the biennium. Although ECE established guidelines for the Grants Committee, the latter focused only on the assessment and approval of the grantees that had been selected by programme managers. There was no independent review of the grantee selection process to ensure transparency and to verify whether the selected grantee had the capacity to implement the grants for the intended purpose.



40. ECE did not develop standard operating procedures with adequate instructions to ensure transparency and competition in the selection of grantees. ECE was therefore unable to demonstrate that the best available implementing partner was selected.

41. After the audit, ECE issued revised guidelines outlining the process to competitively select and assess the eligibility of grantees. In light of the action taken by ECE, OIOS did not make a recommendation on this matter.

#### **IV. ACKNOWLEDGEMENT**

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

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	ECE should provide guidance on the arrangements to be established to manage technical cooperation projects, based on criteria such as the size and duration of the project.	Important	C	Action completed	Implemented
2	ECE should develop a comprehensive resource mobilization strategy for the extrabudgetary resources requirements of the Environment and Transport subprogrammes.	Important	O	Submission of a copy of the resource mobilization strategy.	28 October 2016
3	ECE should take action to ensure that: (i) its service level agreement with the United Nations Office at Geneva requires the Office to use the United Nations Secretariat platform to advertise opportunities for consultancies; and (ii) it maintains a centrally managed roster of suitably qualified consultants or individual contractors.	Important	O	Submission of evidence that ECE consultancies are advertised on the United Nations Secretariat online platform and that a centrally managed roster of qualified consultants or individual contractors has been established.	30 December 2016

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies 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.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by ECE.

# **APPENDIX I**

## **Management Response**

**MEMORANDUM**

To: Muriette Lawrence-Hume  
Chief, New York Audit Service  
Internal Audit Division, OIOS

Ref.: 2016/OES/PMU/166  
Date: 20 May 2016

From: Christian Friis Bach



Subject: **Revised draft report on an audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe (Assignment No. AN20015/720/01)**

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1. I acknowledge the receipt of your memo dated 4 May 2016 and the revised draft report on the audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe (Assignment No. AN 20015/720/01).
  2. The revised audit report was discussed at the Directors' meeting on 20 May 2016. The comments and the management response adopted at that meeting are attached to the present memo.
  3. In conclusion, I would like to express appreciation to the audit team and thank them for fruitful cooperation.

Enclosures: 1. ECE comments on the OIOS audit report  
2. ECE management response  
3. Revised ECE Directive on Establishment of Agreements and Management of Extrabudgetary Resources

cc: Mr. Tilchand Acharya, Chief, Field Section, Internal Audit Division, OIOS  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS  
Mr. Andrey Vasilyev, Deputy Executive Secretary, ECE  
Ms. Zamira Eshmambetova, Director, Programme Management Unit, ECE  
Ms. Eva Molnar, Director, Transport Division, ECE  
Mr. Serguiz Ludwiczak, Acting Director, Environment Division, ECE

## Management Response

## Audit of selected subprogrammes and related technical cooperation projects in the Economic Commission for Europe

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ECE should provide guidance on the arrangements to be established to manage technical cooperation projects, based on criteria such as the size and duration of the project.	Important	Yes	Z. Eshmambetova, Director, PMU  M. Sylver, Acting Executive Officer	8 April 2016	ECE has revised its Directive on Establishment of Agreements and Management of Extrabudgetary Resources, to provide detailed guidance on the management of technical cooperation projects (planning, monitoring, reporting, evaluation), based on such criteria as their size (US\$ 250,000 and above) and duration ( one year and more). ECE Directive 18 is attached to the management response for ease of reference  ECE considers this recommendation as implemented and requests OIOS to close it.
2	ECE should develop a comprehensive resource mobilization strategy for the extrabudgetary resources requirements of the Environment and Transport subprogrammes.	Important	Yes	Z. Eshmambetova, Director, PMU  M. Sylver, Acting Executive Officer	28 October 2016	ECE will develop a comprehensive resource mobilization strategy. It will submit it to EXCOM for approval, to ensure continued political and financial support to its work.
3	ECE should take action to ensure that: (i) its service level agreement with the United Nations Office at Geneva requires the Office to use the United Nations Secretariat platform to advertise opportunities for consultancies; and (ii) it maintains a centrally managed roster of suitably qualified consultants or individual contractors.	Important	Yes	M. Sylver, Acting Executive Officer	30 December 2016	ECE will use the United Nations Secretariat on-line platform with a view to advertising consultancies. It will also maintain a centrally managed roster of qualified consultants or individual contractors, to ensure their transparent and competitive selection

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies 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.