Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2016/074

Audit of the United Nations Environment Programme Environmental Governance Subprogramme

Overall results relating to the effective management of the Environmental Governance Subprogramme were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

8 July 2016
Assignment No. AA2015/220/04

CONTENTS

AUDIT REPORT

Audit of the United Nations Environment Programme
Environmental Governance Subprogramme

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Environmental Governance Subprogramme.

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 UNEP Governing Council decision 19/1 defined the role of UNEP as the "leading global environmental authority that sets the global environmental agenda, that promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations System and that serves as an authoritative advocate for the global environment".

4.   The Environmental Governance Subprogramme is one of the seven cross-cutting thematic priorities outlined in UNEP's Medium Term Strategy 2014-2017. The objective of the Subprogramme was to strengthen synergies and coherence in environmental governance to facilitate the transition towards environmental sustainability in the context of sustainable development.

5.   In this regard, UNEP was expected through this Subprogramme, together with a wide range of partners, to focus on: (a) coherent international decision-making processes for environmental governance; (b) adequate capacities to achieve internationally agreed objectives and national environmental priorities through adequate legal and institutional measures; and (c) integration of environmental sustainability in development at all levels, including regional, sub-regional and national.

6.   The Division of Environmental Law and Conventions (DELC) had the responsibility for coordinating the Environmental Governance Subprogramme. According to the biennial programme of work and budget for 2014-2015, the Subprogramme had a budget of $56.7 million which was allocated as follows: DELC had $16.9 million (30 per cent); the Division of Environment Policy and Implementation (DEPI) had $13.6 million (24 per cent); and Regional offices, Regional Support Office and major stakeholders had $19.8 million (35 per cent). The remaining $6.4 million (11 per cent) was allocated to the Division of Early Warning and Assessment ($2.8 million or five per cent), the Division of Communication and Public Information ($1.8 million or three per cent), and the Division of Technology, Industry and Economics ($1.8 million or three per cent). The budget was to be financed by the Environment Fund ($21.9 million or 39 per cent), other funds including trust and earmarked funds ($27.3 million), regular budget ($6.5 million), and programme support costs (just under $1 million).

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 **effective management of the UNEP Environmental Governance Subprogramme**.

9.   The audit was included in the 2015 internal audit work plan for UNEP due to the risk that potential weaknesses in implementation of the Subprogramme could adversely affect the achievement of the UNEP mandate.

10.   The key controls tested in this audit were: (a) programme and project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

a) **Programme and project management -** controls that provide reasonable assurance that the Subprogramme and related projects are managed efficiently and effectively; and

b) **Regulatory framework -** controls that provide reasonable assurance that policies and procedures: (i) exist to guide the Subprogramme; (ii) are implemented effectively; 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 November 2015 to March 2016. The audit covered the period from January 2014 to December 2015. The audit focused on the review of Subprogramme activities in DELC, DEPI, Regional Offices for Africa, Europe and Asia Pacific, and the Regional Support Office.

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 initially assessed as **partially satisfactory**[1] in providing reasonable assurance regarding **effective management of the Environmental Governance Sub-programme**. OIOS made five recommendations to address issues identified in the audit.

15.   Generally, the Environmental Governance Subprogramme was being implemented in accordance with the Medium Term Strategy 2014-2017 and programme of work. However, there was a need to: (a) enhance accountability by specifying the expected accomplishments, indicators of achievement and responsible project managers for all projects under the Subprogramme; (b) strengthen performance monitoring of Subprogramme projects; (c) improve the system for reporting performance results; (d) strengthen the effectiveness of the coordination function for the Subprogramme; and (e) ensure that due diligence is carried out in all cases in accordance with the UNEP partnership policy.

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[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.

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 the implementation of five 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
Effective management of the Environmental Governance Subprogramme in UNEP	(a) Programme and project management	Partially satisfactory	Partially satisfactory	Not Assessed	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Not Assessed	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Programme and project management

The programme framework needed to be revised to enhance accountability

17.   The programme framework for Environmental Governance was a key building block for implementing the programme of work. The programme framework should therefore indicate the expected accomplishments and related indicators of achievement sought to be fulfilled by projects implemented under the Subprogramme, as well as the project managers responsible for implementing them.

18.   OIOS review of the programme framework for the Subprogramme showed that the expected accomplishments and indicators of achievement were not specified for eight projects, whereas project managers responsible for implementing the projects were not designated for five projects.

19.   Inadequate information in the programme framework could result in dilution of responsibility and accountability. Projects without specific expected accomplishment indicators could pose challenges in measurement, evaluation and reporting of performance. The lack of identified project managers could result in non-execution or delays in execution of projects. For example, implementation of three out of five projects for which no project manager was identified was yet to start.

> **(1) UNEP should clearly specify the expected accomplishments, indicators of achievement and responsible project managers for all projects under the Environmental Governance Subprogramme to enhance accountability.**
>
> *UNEP accepted recommendation 1 and stated that it will revise the subprogramme framework to indicate the expected accomplishments, indicators of achievement and responsible staff member.* Recommendation 1 remains open pending receipt of the revised programme framework.

Need to strengthen performance monitoring of Subprogramme projects

20.	The UNEP Programme Manual highlights the responsibilities for project performance monitoring and overall higher level monitoring mechanisms available to senior management, including semi-annual and annual programme performance reviews which are meant to trigger corrective action for non-performing projects within a Subprogramme. The results of monitoring and reviews are reported via the Programme Information Management System (PIMS) and consolidated into programme performance reports (PPR) at the programme of work level. The Programme Manual also requires project managers to report to senior management on progress in project implementation including problems encountered.

21.	As of 31 March 2016, 10 out of 35 projects (or 28.5 per cent) were fully funded while 15 out of 35 (or 43 per cent) were only partially funded. The other 10 out of 35 projects (28.5 per cent) under the Environmental Governance programme framework were yet to start. Three of these 10 projects were yet to be approved but were still expected to be implemented, while the remaining seven were expected to be removed from the Subprogramme framework. These seven projects were considered either not needed anymore or not ripe for development, and for one project, funding was lost due to internal delays.

22.	UNEP explained that the Subprogramme framework was an evolving document, which included concepts that with time appeared not needed anymore as stand-alone projects. UNEP further stated that a lesson learned from this was to plan for fewer projects to make best use of resources.

23.	OIOS is of the view that UNEP needs to strengthen performance monitoring to ensure that remedial action is taken in a timely manner to address challenges and bottlenecks in project implementation. Inadequate monitoring could result in non-implementation or partial implementation of activities and non-attainment of expected accomplishments.

> **(2) UNEP should strengthen performance monitoring of projects under the Environmental Governance Subprogramme to ensure that challenges and bottlenecks are addressed in a timely manner.**
>
> *UNEP accepted recommendation 2 and stated that it will hold regular six-monthly reviews of the project portfolio performance, feeding into the reporting cycle at project and programme of work level, under the leadership of the Lead Division Director. Implementation of the recommendation on enhancing PIMS will also facilitate this process.* Recommendation 2 remains open pending receipt of evidence that performance monitoring has been strengthened to ensure that challenges and bottlenecks are addressed in a timely manner.

Need to improve the reporting of performance results

24.	According to the UNEP Programme Manual, during the development of programme frameworks, UNEP identifies linkages between projects to deliver the programme of work, and to ensure that the results planned are not only feasible but also achievable in the most effective manner, drawing from the strengths of different parts of UNEP and its partners. The UNEP Quality Assurance Section (QAS) is expected to validate performance results and achievement of expected accomplishments for reporting in the PPR.

25.	According to the results validated by QAS and reported in the PPR, seven out of eight indicators had met or exceeded the targets as of December 2014 and December 2015. Indicators for expected accomplishments related to "law and institutions" and "coherence and synergies" were reported as met and only one indicator related to mainstreaming environmental sustainability was shown as partially met.

26.   OIOS reviewed the performance of the 35 projects in the programme framework portfolio of Environmental Governance that were supposed to contribute towards expected accomplishments on "law and institutions" and "coherence and synergies".   The results showed that: 10 projects (28.5 per cent of all projects) did not start during the period under review; 15 projects (43 per cent) were partially funded by the first quarter of 2016; and only 10 projects (28.5 per cent) were fully funded.

27.   It was not clear how the expected accomplishments were fully achieved as stated in the PPR for 2014-2015 since 10 projects were yet to start and 15 projects were only partially funded.   While individual project output and outcome data was available in PIMS, the system did not contain up to date consolidated outcome data for all projects, including projects at concept stage, for validating the reported results.   UNEP explained that this information is being incorporated as a new functionality in PIMS 2.0. The PPR results reported for the Subprogramme were therefore not supported by consolidated information relating to the performance of its underlying projects.

28.   Weaknesses in reporting and information used for validating Subprogramme results could result in inaccurate or unreliable performance reports.

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(3) UNEP should enhance the Programme Information Management System to enable the consolidated reporting of Subprogramme performance results for all projects including those at the concept stage.

UNEP accepted recommendation 3 and stated that PIMS will be modified to ensure that outcome level reporting for projects is consolidated and directly linked to expected accomplishment level reporting and that approved project concepts are included in the monitoring tool. Recommendation 3 remains open pending receipt of consolidated reports produced by the enhanced version of PIMS.

Need to strengthen the coordination function

29.   In 2014, UNEP created the positions of Global Subprogramme Coordinator (GSPC) and five Regional Subprogramme Coordinators for the Environmental Governance Subprogramme.   The GSPC position was filled in 2014 while the Regional Subprogramme Coordinator position for Panama was also filled.   In December 2015, the General Assembly approved the remaining four Regional Subprogramme Coordinator positions and UNEP was in the process of filling these posts.

30.   OIOS reviewed the terms of reference (TOR) for the coordinators (including the Regional Development Coordination Officers based at each Regional Office) and noted the following:

   i) The TOR in the Programme Manual (May 2013) was out dated since it only referred to the programme of work for 2010-2011.   Furthermore these TOR made no reference to the Regional Subprogramme and Regional Development Coordination Officers.

   ii) First and second reporting officers for Regional Development Coordination Officers differed between Regional Offices.   The Regional Development Coordination Officer in Bahrain reported to the Regional Director as the first reporting officer (FRO) and the Director of the Regional Support Office based at UNEP Headquarters in Nairobi as second reporting officer (SRO). However the Regional Development Coordination Officers in Bangkok, Geneva and Nairobi reported to the Deputy Regional Director as FRO and the Regional Director as SRO.

31.   The annual coordination plan for the Environmental Governance Subprogramme as a whole was currently being developed.   The Programme Strategy and Planning Team prepared a generic individual

work plan for GSPC but none for the coordination function as a whole. The work plan for GSPC did not include the responsibility to coordinate with Regional Subprogramme Coordinators and other coordination functions within the Subprogramme, including the Regional Development Coordination Officers.

32.   The above conditions were attributed to the fact that the repositioning of the Subprogramme coordinator functions as a stand-alone function was still relatively new and ongoing and therefore, some of the operational procedures were still evolving or had not clearly been spelled out. The lack of clarity in the roles and responsibilities for the coordination function could potentially weaken its effectiveness.

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(4) UNEP should: (i) update and circulate the terms of reference for the various positions within the coordination function for the Environmental Governance Subprogramme; and (ii) consolidate their individual work plans/goals into an annual plan for the function as a whole to monitor its effectiveness.

UNEP accepted recommendation 4 and stated that: (i) it has reviewed the TOR for different coordination functions and finds that they accurately reflect the functions to be performed. Further, TOR of regional environmental governance subprogramme coordinators was circulated on 19 April 2016. The TOR for Regional Development Coordination Officers was re-circulated by the Director Regional Support Office on 4 July 2016; and (ii) UNEP will address this part of the recommendation by developing a global coordination plan reflecting roles, responsibilities and timelines at global and regional levels. Recommendation 4 remains open pending receipt of a global coordination plan.

B.   Regulatory framework

<u>Management of partnerships needed to be strengthened</u>

33.   The UNEP Partnership Policy and Procedures dated 21 October 2011 governed the establishment and management of partnerships. The main objective of the policy was to provide guidance for identification and selection of partners and management oversight on partnerships. OIOS reviewed 25 out of 110 partnership agreements which were active during the period 1 January 2014 to 31 December 2015, i.e. five Project Cooperation Agreements (PCAs) amounting to $3.4 million and 20 Small Scale Funding Agreements (SSFAs) amounting to approximately $1 million. Monitoring and implementation of partnerships was generally adequate but there was need to strengthen controls in relation to performing due diligence for PCAs, as explained below.

34.   According to UNEP procedures, requesting offices are required to submit to the Partnership Committee a due diligence report regarding new partners in cases falling under the UNEP partnership policy for vetting and final approval of partners before entering into PCAs. Copies of the report should be sent to the Office for Operations' central database for partnerships for safekeeping. OIOS review of the five PCAs showed that in three cases, no due diligence checks were needed in terms of the UNEP policy because they were government institutions. In one case, a due diligence report had been prepared, and in one other case, there was no evidence to show that due diligence was conducted.

35.   OIOS review of 20 SSFAs showed that five were signed with government institutions which did not require due diligence; due diligence reports were prepared in 10 cases; and in 5 instances there were no due diligence reports. These five were longstanding partners and had been engaged by UNEP before the introduction of due diligence checks.

36.   Without the required due diligence being done on implementing partners, UNEP may be exposed to financial loss in the event that they have questionable backgrounds and/or are financially incompetent to carry out the entrusted activities.

> **(5) UNEP should ensure that due diligence is carried out in all cases in accordance with its partnership policy.**
>
> *UNEP accepted recommendation 5 and stated that it has issued a memo instructing managers to ensure that due diligence is undertaken for all partners as required by the UNEP Partnerships Policy and Procedures. UNEP will provide samples of two to three partnership agreements signed after the date of the memo to confirm compliance.*   Recommendation 5 remains open pending receipt of samples of partnership agreements confirming compliance with due diligence procedures.

IV.   ACKNOWLEDGEMENT

37.   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.

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STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Environment Programme Environmental Governance Subprogramme

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	UNEP should clearly specify the expected accomplishments, indicators of achievement and responsible project managers for all projects under the Environmental Governance Subprogramme to enhance accountability.	Important	O	Receipt of the revised programme framework.	30 June 2017
2	UNEP should strengthen performance monitoring of projects under the Environmental Governance Subprogramme to ensure that challenges and bottlenecks are addressed in a timely manner.	Important	O	Receipt of evidence that performance monitoring has been strengthened to ensure that challenges and bottlenecks are addressed in a timely manner.	30 June 2017
3	UNEP should enhance the Programme Information Management System to enable the consolidated reporting of Subprogramme performance results for all projects including those at the concept stage.	Important	O	Receipt of consolidated reports produced by the enhanced version of PIMS.	31 December 2017
4	UNEP should: (i) update and circulate the terms of reference for the various positions within the coordination function for the Environmental Governance Subprogramme; and (ii) consolidate their individual work plans/goals into an annual plan for the function as a whole to monitor its effectiveness.	Important	O	Receipt of a global coordination plan.	31 December 2016
5	UNEP should ensure that due diligence is carried out in all cases in accordance with its partnership policy.	Important	O	Receipt of samples of partnership agreements confirming compliance with due diligence procedures.	31 December 2016

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[2] 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.

[3] 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.

[4] C = closed, O = open

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

APPENDIX I

Management Response

Management Response

Audit of the United Nations Environment Programme Environmental Governance Subprogramme

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP should clearly specify the expected accomplishments, indicators of achievement and responsible project managers for all projects under the Environmental Governance Subprogramme to enhance accountability.	Important	Yes	Global Coordinator for the Environmental Governance Subprogramme	30 June 2017	UNEP will revise the subprogramme framework to indicate the expected accomplishments, indicators of achievement and responsible staff member.
2	UNEP should strengthen performance monitoring of projects under the Environmental Governance Subprogramme to ensure that challenges and bottlenecks are addressed in a timely manner.	Important	Yes	Lead Director for the Environmental Governance Subprogramme	30 June 2017	UNEP will hold regular six-monthly reviews of the project portfolio performance, feeding into the reporting cycle at project and programme of work level, under the leadership of the Lead Division Director. Implementation of recommendation no.3 will also facilitate this process.
3	UNEP should enhance the Programme Information Management System to enable the consolidated reporting of Subprogramme performance results for all projects including those at the concept stage.	Important	Yes	Director, UNEP Office for Operations	31 December 2017	UNEP's project information management system will be modified to ensure that outcome level reporting for projects is consolidated and directly linked to expected accomplishment level reporting and that approved project concepts are included in the monitoring tool.

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[1] 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.

[2] 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.

Management Response

Audit of the United Nations Environment Programme Environmental Governance Subprogramme

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	UNEP should: (i) update and circulate the terms of reference for the various positions within the coordination function for the Environmental Governance Subprogramme; and (ii) consolidate their individual work plans/goals into an annual plan for the function as a whole to monitor its effectiveness.	Important	Yes	(i) Director, Regional Support Office (ii) Global Coordinator for the Environmental Governance Subprogramme	(i) Complete (ii) 31 December 2016	(i) UNEP has reviewed the TORs for different coordination functions and finds that they accurately reflect the functions to be performed. Further, TORs of **regional environmental governance subprogramme coordinators** were circulated on 19 April 2016, as confirmed in UNEP's response to the Detailed Results. The TORs **for regional development coordination officers** were recirculated by the Director, RSO on 4 July 2016. No further action is required on this sub-recommendation and UNEP therefore requests that it be closed. (ii) UNEP will address this recommendation by developing a global coordination plan, reflecting roles, responsibilities and timelines at global and regional levels.
5	UNEP should ensure that due diligence is carried out in all cases in accordance with its partnership policy.	Important	Yes	Director, Office for Operations	31 December 2016	UNEP has issued a memo instructing UNEP management to ensure that due diligence is undertaken for all partners as required by the UNEP Partnerships Policy and Procedures. This was shared with OIOS on 10 June 2016.

Management Response

Audit of the United Nations Environment Programme Environmental Governance Subprogramme

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						On 13 June 2016 OIOS indicated that it would review two to three partnership agreements signed after the date of the memo to confirm compliance. UNEP will provide samples as requested.