



INTERNAL AUDIT DIVISION

REPORT 2014/020

Audit of the United Nations
Environment Programme's Secretariat
of the Multilateral Fund for the
Implementation of the Montreal
Protocol

Overall results relating to the provision of efficient and effective administrative support to the Multilateral Fund for the Implementation of the Montreal Protocol were initially assessed as partially satisfactory. Implementation of one important recommendation remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

14 April 2014
Assignment No. AA2013/220/03

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	2
III. AUDIT RESULTS	2-5
A. Regulatory framework	3-5
B. Performance monitoring indicators and mechanisms	5
IV. ACKNOWLEDGEMENT	5
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of the United Nations Environment Programme's Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme's Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol (the Secretariat).

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 Multilateral Fund for the Implementation of the Montreal Protocol (MLF) was established as an interim financial mechanism by a decision of the Second Meeting of the Parties to the Montreal Protocol and began its operation in 1991. The financial mechanism became permanent by a decision of the Fourth Meeting of the Parties. The main objective of the MLF was to assist developing countries who were Parties to the Montreal Protocol to comply with the control measures of the Protocol.

4. Developed countries contributed to the MLF according to the United Nations scale of assessment. The MLF was replenished eight times between 1991 and 2013 for a total of approximately \$3.2 billion. The total approved budget for the 2012-2014 triennium was \$450 million.

5. The resources of the MLF were used to fund projects and activities to phase-out substances controlled under the Montreal Protocol, and the transfer of technology to nearly 145 developing countries. The work of the MLF in developing countries was carried out by four implementing agencies, which had contractual agreements with its governing body, i.e. the Executive Committee (ExCom). The four agencies included: the United Nations Environment Programme (UNEP) through its Division of Technology, Industry and Economics, OzonAction Branch, located in Paris, France; the United Nations Development Programme; the United Nations Industrial Development Organization; and the World Bank. In addition, the resources of the MLF provided for the operating cost of the Secretariat, the fees for the role of UNEP as the Treasurer of the MLF effective 2004, the UNEP OzonAction Compliance Assistance Programme, and the core units of the three other implementing agencies.

6. The Secretariat was established in 1991 in Montreal, Canada and its activities included: development of the three-year plan and budget and a system for fund disbursement; management of the business planning cycle of the MLF; monitoring the expenditures and activities of the implementing agencies; preparation of policy papers and other documents; review and assessment of investment projects, country programmes, business plans, and work programmes of the implementing agencies; liaison between the ExCom, governments and implementing agencies; and servicing the meetings of the ExCom. The Secretariat also included the monitoring and evaluation function which was established by the ExCom in May 1997. The approved budget for the Secretariat in the period 2010 to 2013 was on average \$7.5 million per year, which also covered the cost of the ExCom meetings.

7. As at 30 August 2013, the Secretariat was headed by a Chief Officer at the D-2 level and had a total of 28 staff comprising 14 Professional and 14 General Service staff members.

8. Comments provided by the UNEP Secretariat of the MLF are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of MLF Secretariat governance, risk management and control processes in providing reasonable assurance regarding the Secretariat's **provision of efficient and effective administrative support to the MLF**.

10. The audit was included in the 2013 internal audit work plan based on a risk assessment of UNEP that identified high operational and compliance risks in the delivery of administrative services to the MLF.

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

(a) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the provision of efficient and effective administrative support to the MLF; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

(b) **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that metrics are: established and appropriate to enable measurement of the efficiency and effectiveness of operations; prepared in compliance with rules; properly reported on; and used to manage operations effectively.

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

13. OIOS conducted this audit in August 2013. The audit covered the period from 1 January 2010 to 31 May 2013.

14. 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

15. The MLF Secretariat's governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the Secretariat's **provision of efficient and effective administrative support to the MLF**. OIOS made two recommendations to address issues identified in the audit. Adequate performance indicators and mechanisms were in place and functioning satisfactorily. However, some weaknesses were identified in reporting lines and supervision of staff, and contracting of translators for the Chinese language during peak periods. Management has since implemented new procedures for contracting qualified, rostered translators for the Chinese language.

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 one important recommendation 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
Provision of efficient and effective administrative support to the Multilateral Fund	(a) Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
	(b) Performance monitoring indicators and mechanisms	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Administrative arrangements between the United Nations Environment Programme and the Executive Committee were being clarified

17. According to the Secretary-General’s Bulletin ST/SGB/2006/13 on the organization of the Secretariat of UNEP, the Secretariat of the MLF was “administratively linked to UNEP”, and was “headed by the Chief Officer, who reported directly to the ExCom of the MLF. The Secretariat assisted the ExCom in the discharge of its functions based on the terms of reference agreed by the Parties and the ExCom.

18. The ExCom entrusted the Executive Director of UNEP with the treasury functions at UNEP Headquarters in Nairobi and the implementing agency function, through the OzonAction Branch at the Division of Technology, Industry and Economics of UNEP (OzonAction) in Paris. The implementing agency and the treasury functions were stipulated in two separate agreements between UNEP and the ExCom, in 1991 and 2004 respectively. However, these agreements did not cover other administrative functions such as procurement of goods and services, and human resources management. In addition, there was no delegation of authority on administrative and financial matters signed between the Executive Director of UNEP and the Chief Officer of the Secretariat.

19. The lack of an agreement between UNEP and the ExCom and delegation of authority between UNEP and the Secretariat staff weakened accountability over the management of resources. The performance of the Chief Officer of the Secretariat (who is a UNEP staff member) was assessed by the Chairperson of the ExCom (who is a non-UN official appointed by the ExCom on a yearly basis), whereas it should have been assessed by the Deputy Executive Director of UNEP.

20. UNEP indicated that it was reviewing the modalities and pricing of services it provided to the Secretariat with the aim of increasing transparency and ensuring more cost-effective and efficient delivery. Accordingly, the Executive Director of UNEP will put forward to the ExCom a proposal for regulating the administrative services that UNEP provides to the MLF Secretariat for consideration and decision. While this would constitute a formal agreement between the Executive Director and the ExCom, the modus operandi in place is functioning well and, therefore, it will not require the introduction of any new mechanism such as a memorandum of understanding. In view of the actions being taken by UNEP in this regard, no recommendation was made.

Staff reporting lines needed to be reviewed

21. A significant number of staff members of the Secretariat reported directly to the Chief Officer. The Secretariat had two Deputy Officers, one for Economic and Financial Affairs and another for Technical Cooperation, who both reported to the Chief Officer. In addition, the Senior Programme/Project Officer for Technical Cooperation, a Programme Management Officer, a Senior Programme Assistant, and a Senior Administrative Officer also directly reported to the Chief Officer. In this arrangement, an opportunity was lost to have a more manageable span of control by having the two Deputy Chief Officers reviewing the operational work of the other officers while freeing up the Chief Officer's time for more strategic work. Section 5 of ST/AI/2010/5 on "Performance Management and Development Systems" provides for each staff member to have a first and a second reporting officer for performance evaluation purposes. In the set up that existed at the Secretariat, the Chief Officer was the first and second reporting officer for staff members. This arrangement was not in compliance with the provisions of ST/AI/2010/5.

(1) The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol, in collaboration with the Executive Director of UNEP, should review the reporting lines in the organizational structure of the Secretariat to ensure optimal functionality.

The Secretariat of the MLF accepted recommendation 1 and stated that the review of the reporting lines will be addressed once the process for the selection of the Deputy Chief Officer is completed by mid-2014. The issue would be discussed with the Deputy Executive Director during his visit to the Secretariat on 31 March 2014 and would be finalized on that basis. Recommendation 1 remains open pending receipt of the revised reporting lines.

Expenditure of the Multilateral Fund Secretariat was within budget

22. The Secretariat made the budget available to all meeting participants (including UNEP as Treasurer and Implementing Agency) four weeks before each meeting to allow for reviews and comments. The ExCom reviewed and approved the Secretariat's budget on a yearly basis. The Secretariat's budget was entirely funded by the MLF, with the exception of two posts funded by the programme support cost charged by UNEP to the MLF. The main expenditure categories were project personnel (57 per cent), ExCom costs (11 per cent) and rent (12 per cent). The remaining 20 per cent covered staff travel, consultants or sub-contractors, meeting participants' travel and daily subsistence allowances, equipment and miscellaneous services. Savings during any calendar year were returned to the MLF once the accounts were finalized and closed. OIOS concluded that the controls relating to budget preparation were satisfactory and the Secretariat's total expenditure for 2010, 2011 and 2012 for the main account were within budget.

Bank reconciliations were prepared regularly

23. A local consultant was contracted to prepare and review monthly reconciliations for the bank account maintained locally, including verification of cheque payments and bank statements. There were no long outstanding or unusual items in the reconciliations. However, it was unusual for the consultant to have the responsibility of preparing bank reconciliations, which is a key internal control that should ideally not be outsourced. In January 2014, the Chief Officer re-assigned a staff member to review and ensure that all supporting documents of bank transactions carried out by the finance assistant were properly documented and aligned with the Fund Secretariat's ledger. Considering that the Secretariat took corrective action to address the issue, no recommendation was made.

Need to use the roster to hire consultants for translation work

24. The Secretariat had a roster of ten Chinese translators regularly contracted for translating documents produced in the course of meetings of the Parties. During the “pre-sessions” (i.e., the period preceding the meetings when the Parties submit documents to be presented at their meetings), only one of the translators was contracted during the period January 2010 to May 2013, to deliver a high volume of work in a very limited time. The translator received contracts for an amount of \$271,075 and there was no evidence that other rostered translators had been considered to distribute the high workload during the pre-sessions.

25. The Secretariat explained that it had been utilizing only one translator for the pre-sessions who was able to deliver expected outputs within tight deadlines, despite the volume of work assigned. Furthermore, the Secretariat did not have in-house capacity to oversee several external Chinese translators if they were to be engaged.

26. Contracting all the work to a single translator increased the risk of non-delivery in the event of the translator’s failure to complete the high volume of work.

(2) The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol should ensure that the roster is used to source additional translators especially for the Chinese language during peak periods.

The Secretariat of the MLF accepted recommendation 2 and stated that the Fund Secretariat had already adopted a new procedure of making new contracts with qualified, rostered translators. This procedure is applicable to both in-session contract (based on the level of the translator and days worked) and the pre-session word count contracts. Through an email dated 3 February 2014, the Coordinator for Chinese translation was advised on the new procedure. By return email he agreed to the new procedure. Based on the action taken by the MLF Secretariat, recommendation 2 is closed.

B. Performance monitoring indicators and mechanisms

Performance indicators were defined and monitored

27. The Secretariat had defined performance indicators and had a mechanism in place to monitor performance. The performance indicators covered the planning and approval processes, implementation of activities, and administrative services. The Secretariat prepared the performance indicators in consultation with implementing agencies for approval by the ExCom. The indicators were kept up to date and were being revised at the time of the audit in August 2013. A mechanism was in place for monitoring the Secretariat’s activities and for reporting the progress to the ExCom. OIOS concluded that the controls for monitoring performance were satisfactory.

IV. ACKNOWLEDGEMENT

28. OIOS wishes to express its appreciation to the Management and staff of MLF Secretariat 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 United Nations Environment Programme's Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol, in collaboration with the Executive Director of UNEP, should review the reporting lines in the organizational structure of the Secretariat to ensure optimal functionality.	Important	O	Submission to OIOS of the revised reporting lines.	30 June 2014
2	The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol should ensure that the roster is used to source additional translators especially for the Chinese language during peak periods.	Important	C	Action completed	Implemented

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 MLF Secretariat in response to recommendations.

APPENDIX I

Management Response



UNITED NATIONS ENVIRONMENT PROGRAMME

Programme des Nations Unies pour l'environnement Programa de las Naciones Unidas para el Medio Ambiente
Программа Организации Объединенных Наций по окружающей среде برنامج الأمم المتحدة للبيئة

联合国环境规划署



MEMORANDUM

To:	Gurpur Kumar Deputy Director Internal Audit Division Office of Internal Oversight Services	Date:	31 March 2014
From:	Michele Candotti Chief, Executive Office	Reference:	EO/SAB/sd
Subject:	Draft report on an audit of the United Nations Environment Programme's Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No. AA2013/220/03)		

I wish to refer to your memorandum addressed to Mr. Achim Steiner, Executive Director, UNEP, dated 14 March 2014 regarding the draft report on an audit of the United Nations Environment Programme's Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No. AA2013/220/03).

Following our review of the above-mentioned report, and as per your request, I am pleased to append UNEP's comments on the implementation of the recommendations articulated by OIOS in Attachment 1.

Thank you for your usual cooperation.

Cc: Mr. Eduardo Ganem, Chief Officer, Secretariat of the Multilateral Fund
Mr. Christophe Bouvier, Director, Office for Operations and Audit Focal Point, UNEP
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS

Rec. no.	Recommendation	Critical ⁽¹⁾ / Important ⁽²⁾	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol, in collaboration with the Executive Director of UNEP, should review the reporting lines in the organizational structure of the Secretariat to ensure optimal functionality.	Important	Yes	Chief Officer	2014	The review of the reporting lines will be addressed once the process for the selection of the Deputy Chief Officer (the position that was previously occupied by the current Chief Officer) is completed by mid-2014. This issue will be discussed with the Deputy Executive Director during his visit to the Secretariat on 31 March 2014 and finalized on this basis
2	The Chief Officer of the Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol should ensure that the roster is used to source additional translators especially for the Chinese language during peak periods.	Important	Yes	Senior Administrative and Fund Management Officer	2014	The Fund Secretariat had already adopted a new procedure of making contracts with qualified, rostered translators. This procedure is applicable both to in-session contracts (based on the UN level of the translator and days worked) and the pre-session word count contracts. Through an email dated 3 February 2014, the Coordinator for Chinese translation was advised on the new procedure. By return, he agreed to the new procedure.