



INTERNAL AUDIT DIVISION

REPORT 2014/109

Audit of financial management in the Implementation Support Unit for the Biological Weapons Convention in the Office for Disarmament Affairs

Overall results relating to management and use of financial resources in the Implementation Support Unit for the Biological Weapons Convention were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

12 November 2014
Assignment No. AE2014/530/01

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AUDIT REPORT

Audit of financial management in the Implementation Support Unit for the Biological Weapons Convention in the Office for Disarmament Affairs

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial management in the Implementation Support Unit (ISU) for the Biological Weapons Convention (BWC) in the Office for Disarmament Affairs (ODA).
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 Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction, commonly known as BWC opened for signature in 1972 and entered into force in 1975. It prohibits the development, production, acquisition, transfer, retention, stockpiling and use of biological and toxin weapons and is a key element in the international community's efforts to address the proliferation of weapons of mass destruction. A Conference to review the operations of the Convention is held every five years. Two annual one-week meetings, a BWC State Parties meeting and an expert meeting, are held between the Conferences.
4. ISU was established in 2007 and is responsible for providing administrative support to the Convention including: supporting BWC meetings; facilitating communication among the State Parties with other organizations and institutions; and, supporting the implementation of the decisions and recommendations of the Conferences. ISU is also responsible for supporting the Confidence Building Measures. The ISU mandate was approved at the sixth Conference held in 2006 for an initial period from 2007 to 2011. The mandate was reviewed at the seventh Conference and extended to 2016 when the next Conference will be held.
5. ISU was headed by a P-5 (Head of ISU) and supported by two professional staff at P-3 and P-2 level. The Head of ISU reported to the Director, ODA Geneva Branch. In addition to overseeing ISU, the Head of ISU also oversaw a project implemented by the ODA Geneva Branch titled "The Joint Action in Support of the Biological Weapons Convention". ODA started to implement the project in 2009 and the current phase, covering the period 2012 to 2014, had a total budget of \$2.2 million and was scheduled to end in September 2014. The project had two staff who reported to the Head of ISU. The post of the Head of ISU was vacant at the time of this audit.
6. The core ISU budget was approved at the Conferences. The budget was financed by the State Parties' contributions (assessed contributions) which were determined based on the United Nations scale of assessment pro-rated to take into account the number of State Parties. In addition, ISU received voluntary contributions from State Parties to support its activities and to finance the Sponsorship Programme. The Sponsorship Programme was established at the seventh Conference in 2012 to support and increase the participation of developing countries in BWC meetings.
7. The total expenditure managed by ISU for the biennium 2012-2013 was approximately \$3 million as shown in table 1 below.

Table 1

Summary of expenditure managed by the Implementation Support Unit for the bienniums 2010-2011 and 2012-2013 by funding source

Funding source	2010-2011 \$	2012-2013 \$
Assessed contributions	2,402,910	2,177,378
Voluntary contributions to ISU	280,682	86,117
Total ISU expenditure	2,683,592	2,263,495
Contributions to the “Joint Action in support of the BWC” project	1,112,878	837,688
Total	3,796,470	3,101,183

Figures were obtained from financial statements and Integrated Management Information System (IMIS) records provided by United Nations Office at Geneva (UNOG) Financial Resources Management Service (FRMS) and ISU

8. Comments provided by ODA are incorporated in italics.

II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of ODA governance, risk management and control processes in providing reasonable assurance regarding the **effective management and use of financial resources by ISU for BWC**.

10. The audit was added to the 2014 internal audit work plan at the request of ODA due to concerns regarding the use of ISU financial resources.

11. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to ensure that ISU receives, manages and uses its financial resources in accordance with United Nations Financial Regulations and Rules; (ii) are implemented consistently; and, (iii) ensure the reliability and integrity of financial and operational information.

12. The key control was assessed for the control objectives shown in Table 2.

13. OIOS conducted this audit from April to July 2014. The audit covered the period from 1 January 2012 to 31 March 2014.

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 ODA governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management and use**

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.

of financial resources by ISU for BWC. OIOS made three recommendations to address the issues identified in the audit.

16. There were adequate arrangements for computing and billing the State Parties for their share of the assessed contributions. There were also no significant exceptions noted in the review of supporting documentation for expenditures. Further, review checks were put in place to ensure that agreements with donors were in future signed by authorized official before the related contributions were recorded and used. ISU did not also fully comply with the reporting requirements to donors but action had been taken to address the control deficiencies and correct the errors made in reporting to two donors. However, there was a need to address the potential liability that could arise if unpaid contributions towards convention meetings are not settled and have to be written off. In addition, there was a need for ISU to put in place arrangements to have access to up to date information on expenditure and outstanding balances for each voluntary contribution. There was also a need to establish formal arrangements for administering the Sponsorship Programme.

17. The initial overall rating was based on the assessment of key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 2: 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
Effective management and use of financial resources by ISU for BWC	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

A. ASSESSED CONTRIBUTIONS

There were adequate arrangements for computing and billing the State Parties for their share of the assessed contributions

18. UNOG FRMS was responsible for computing and billing the State Parties for their share of the assessed contributions. The audit reviewed the assessments for one year and noted that the computations were adequately supported and reconciled to the financial statements. Details of the assessed contributions for each State Party as well as a summary financial report for each meeting were submitted to the State Parties. Interim assessments were computed and billed at the beginning of the year based on the approved budget and the final assessments were computed in the subsequent year once all details of the actual expenditure were available. OIOS therefore concluded that there were adequate arrangements for computing and billing the State Parties for their share of the assessed contributions.

Need to address the potential liability that could arise if unpaid assessed contributions are not settled

19. BWC assessed contributions were voluntarily funded by Member States who participated in BWC meetings. As at 31 December 2013, there were outstanding assessed contributions receivable totaling \$450,127 which represented approximately 32 per cent of the annual assessed contributions. Thirty-six out of the 218 receivables (17 per cent) were long outstanding as they related to assessments for 2011 and prior years. Delays in receipt of contributions could lead to cash flow problems in financing the activities of BWC. The Organization was also exposed to potential losses if the unpaid assessed contributions towards convention meetings are not settled. This is because the expenditures to support the BWC meetings have already been incurred by the organization and would have to be written off against regular budget resources or other sources of voluntary contributions if the assessed contributions are not received from the State Parties concerned.

(1) The Financial Resources Management Service at UNOG should work with the Office of Disarmament Affairs to propose solutions to Member States to address the potential liability to the Organization if unpaid assessed contributions towards convention meetings are not settled and have to be written off.

UNOG accepted recommendation 1 and stated that the BWC Meeting of States Parties will take place from 1-5 December 2014. A review will be undertaken on the contributions and letters will be sent out by March 2015. The Chief of BWC ISU Unit will obtain a list of those States who have not paid outstanding contributions. Recommendation 1 remains open pending receipt of details of solutions proposed to Member States to avoid the potential liability from outstanding assessed contributions.

Corrective actions were taken to strengthen the arrangements for offsetting overpaid contributions against subsequent assessments

20. Overpayments arose in cases where the final assessed contributions were lower than the interim assessments billed to and paid by a State Party. As at 31 December 2013, there were accumulated overpayments totaling \$533,574 including some long outstanding ones relating to 2008 assessments. Prior to 2014, UNOG FRMS did not offset the overpayments against the subsequent year's assessments unless a State Party authorized this in writing. However, in 2014 UNOG FRMS changed this approach and informed the State Parties that any outstanding overpayments would be automatically deducted from subsequent assessments unless they indicated otherwise within a given deadline. This approach was more efficient as it reduced the need for repeated follow-up efforts and helped to avoid the build-up of overpayments over years. As corrective action had already been taken in this regard, no recommendation was made.

B. VOLUNTARY CONTRIBUTIONS

Checks were put in place to ensure that agreements with donors are signed by authorized officials before the related contributions are recorded and used

21. The authority to sign agreements with donors was delegated to the ODA Executive Office based at the United Nations Headquarters in New York. However, between January 2010 and December 2013, the Head of ISU signed agreements relating to eight contributions totaling \$209,000 without submitting them to the ODA Executive Office. As a result, there was no independent review of the signed agreements to ensure that they were appropriate and established in accordance with the guidelines stipulated in the United Nations administrative instruction on the Management of Trust Funds. In order to prevent recurrence, the ODA Executive Officer issued instructions in June 2014 to remind staff that they

did not have authority to sign agreements with donors. A new control was also put in place that required ODA to provide a copy of the agreements with donors to the Headquarters Contributions Service, Office of Programme Planning, Budget and Accounts of the Department of Management, before any contributions from the donor were recorded. These actions will help ensure that agreements are in place and appropriately authorized before funds are received, recorded and used. As corrective action had been taken, no recommendation was made.

The Implementation Support Unit did not fully comply with the financial reporting requirements to donors but action had been taken to address the control deficiencies and correct the errors made in reporting to two donors

22. Failure to submit accurate reports to donors as stipulated in donor agreements could lead to reputational risks and may affect the ability of ISU to attract donor funds in future. Reports were submitted to donors with respect to the Joint Action in support of the BWC project. However, with respect to the other ISU voluntary contributions, donor financial reports were submitted in only one out of the six cases where such reports were required. In the one case where a financial report was submitted to the donor, the report was not accurate. It incorrectly indicated that the contribution from the concerned donor was used to sponsor participants to the BWC meeting of August 2013 although the relevant funds had not been used as at 31 December 2013. The participants listed in the report had been sponsored using funds from another donor and reported in the financial reports to that donor. The deficiency was attributed to the fact that ISU did not monitor compliance with donor reporting requirements and did not submit financial reports to donors through the ODA Executive Office as required. In June 2014, the ODA Executive Office issued instructions to remind staff that they did not have authority to submit reports directly to donors. ISU also made appropriate adjustments to correct the errors made in the financial reports to the two donors. In view of the corrective actions taken, no recommendation was made.

Need for the Implementation Support Unit to put in place arrangements to have access to up to date information on expenditure and outstanding balances for each voluntary contribution

23. ISU needed to have up-to-date and accurate records on the status of the voluntary contributions in order to effectively plan and monitor the use of the funds. There were adequate records maintained with respect to the Joint Action in support of the BWC project. However, with respect to other voluntary contributions, ISU did not maintain records to track information that was not directly available from IMIS at Geneva. Five of the contributions including earmarked contributions were posted to the same account and therefore there was a need to separately track expenditures and balances relating to each contribution. Further, the contributions were received and recorded at ODA in New York and funds were only transferred to Geneva when ISU planned to spend them during the year. Therefore, there was a need for the ODA Executive Office to provide this information on a regular basis. In the absence of readily available information, ISU had to manually compute the available balances every time decisions had to be made on the use of the funds. This was inefficient and also prone to error, particularly in cases where several contributions were posted to the same account. ISU was also unlikely to have a reliable overview of the status of its voluntary contributions as illustrated by ISU not being aware of the status of two pledged donations.

(2) The Implementation Support Unit for the Biological Weapons Convention, ODA should put in place arrangements to ensure that it has access to up to date information on expenditure and outstanding balances for each voluntary contribution including; (i) establishing separate account codes for earmarked contributions; and, (ii) obtaining regular reports from the Office of Disarmament Affairs Executive Office on contributions received but not yet allotted that are recorded in the financial systems in New York.

ODA accepted recommendation 2 and stated that this process is already in action but can be further streamlined. The coordination can be improved in the BWC ISU in providing information to the Executive Office of ODA when receiving notifications by States in a timely manner. Recommendation 2 remains open pending receipt of evidence showing that ISU has put in place appropriate arrangements to have up to date information on expenditure and outstanding balances for each voluntary contribution.

Need to establish formal arrangements for administering the Sponsorship Programme

24. As at 31 December 2013, five contributions had been made to the Sponsorship Programme since it was established in 2012, and another donor had directly paid tickets for participants in lieu of contributing cash. The Joint Action in support of the BWC project also had a budget for sponsoring participants to BWC meetings. The available funds were treated as a pool and the selection of participants to be sponsored was done based on the available consolidated funds. However, no consolidated financial reports were prepared to show the total funds available and how they were utilized. ISU reported the details of the donations received and the countries sponsored in its annual reports to the State Parties but these were narrative rather than financial reports. There was a need for consolidated financial reports to enhance accountability and better inform donors and ISU management about the use of funds. Preparing consolidated reports may also help in mitigating the risk of reporting the same expenditures to different donors (as explained earlier in this report). The deficiency could be attributed to the fact that the arrangements for administering the Sponsorship Programme had not been defined and therefore the reporting needs had not been adequately addressed. Defining the arrangements for administering the Sponsorship Programmes could also serve as a useful information tool to potential donors and beneficiaries as well as the State Parties in general.

(3) The Implementation Support Unit for the Biological Weapons Convention, ODA should establish formal arrangements, including reporting requirements, for administering the Sponsorship Programme.

ODA accepted recommendation 3 and stated that the ISU is compiling a list of requests from States parties for the Sponsorship Programme. This list will be forwarded to the Chair for recommendation of selected candidates. The Chair will provide a list with an order or priority, based on criteria. Voluntary contribution received from a State Party will then be used to meet the recommendations from the Chair. In practice, the requests are outnumbering the available funds and the non-selected applicants will remain in the waiting list for the next meeting. Recommendation 3 remains open pending receipt of formal arrangements put in place for administering the Sponsorship Programme including reporting requirements.

C. DISBURSEMENTS AND TRAVEL

There were adequate arrangements for computing the conference service costs

25. Conference service expenditures incurred by ISU related to interpretation, document processing, translation and other services used for BWC meetings. The audit reviewed the costs charged with respect to three of the State Parties meetings in 2012 and 2013. The costs charged were supported by detailed calculations of the various conference services provided in each meeting. The UNOG Division of Conference Management had systems in place to track and compile the various conference services utilized in each meeting. The unit costs used to compute the charges were in accordance to the approved rates stipulated in the UNOG Financial and Administrative Rules on Conference Charges. OIOS therefore concluded that the arrangements for computing the conference service costs were adequate.

There were adequate arrangements for selection of participants to meetings and workshops, and processing their travel costs

26. The approach used in selecting the experts and participants for meetings and workshops organized by ISU was satisfactory and in line with the administrative instruction on “Participants in Advisory Meetings”. Participants representing the State Parties were selected by the countries themselves based on the profile provided by ISU and other participants were selected in line with the objectives of the workshop. Efforts were made to get experts from the regions or countries for national and regional workshops held under the Joint Action in support of the BWC project. With respect to travel costs, a review of travel allowances for three workshops showed that they were computed based on correct number of days and appropriate arrangements were put in place to disburse the funds. UNOG FRMS reviewed and approved the disbursements, which reduced the risk of error. OIOS therefore concluded that there were adequate arrangements for the selection of experts and participants, and processing their travel costs.

Travel by staff was appropriately authorized and supported with mission reports

27. The audit reviewed 30 official trips undertaken by ISU staff, including travel that was fully sponsored by meeting organizers. No significant exceptions were noted. ISU complied with the established practice of preparing travel requests, quarterly travel plans and mission reports after each trip. Travel requests were approved by the Director, ODA Geneva Branch, as well as the Director, ODA Headquarters as required. Mission reports were also signed by the Director, ODA Geneva Branch and sent to the Director at ODA Headquarters. The Head of ISU was the certifying officer but his travel was certified by the Director, ODA Geneva Branch. OIOS therefore concluded that travel by staff was appropriately authorized and supported with mission reports.

Procurement was done in accordance with established practices

28. The audit reviewed all the procurement actions above \$10,000, which included procurement for translation and workshop venues, and a sample of three lower value procurement cases. No exceptions were noted. There was evidence of competitive selection or appropriate justification of why competitive selection was not needed. The contracts above \$4,000 were signed by authorized officials in the UNOG Procurement and Contracts Unit. OIOS therefore concluded that controls over procurement were satisfactory.

IV. ACKNOWLEDGEMENT

29. OIOS wishes to express its appreciation to the Management and staff of ODA 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 financial management in the Implementation Support Unit for the Biological Weapons Convention
in the Office for Disarmament Affairs**

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The Financial Resources Management Service at UNOG should work with the Office of Disarmament Affairs to propose solutions to Member States to address the potential liability to the Organization if unpaid contributions towards convention meetings are not settled.	Important	O	Receipt of details of solutions proposed to Member States to avoid the potential liability from outstanding assessed contributions	31 March 2015
2	The Implementation Support Unit for the Biological Weapons Convention, ODA should put in place arrangements to ensure that it has access to up to date information on expenditure and outstanding balances for each voluntary contribution including; (i) establishing separate account codes for earmarked contributions; and, (ii) obtaining regular reports from the Office of Disarmament Affairs Executive Office on contributions received but not yet allotted that are recorded in the financial systems in New York.	Important	O	Receipt of evidence that ISU has put in place appropriate arrangements to have up to date information on expenditure and outstanding balances for each voluntary contribution.	31 December 2014
3	The Implementation Support Unit for the Biological Weapons Convention, ODA should establish formal arrangements for administering the Sponsorship Programme including reporting requirements.	Important	O	Receipt of formal arrangements put in place for administering the Sponsorship Programme including reporting requirements	31 August 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 ODA in response to recommendations.

APPENDIX I

Management Response



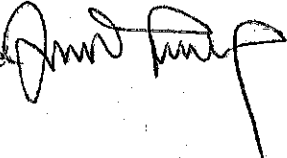
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MEMORANDUM

23 October 2014

To: Gurpur Kumar, Deputy Director
Internal Audit Division, OIOS

From: Ivor Fung, Officer-in-Charge 
Geneva Branch of ODA

Subject: Draft report on an audit of financial management in the Implementation Support Unit for the Biological Weapons Convention in the Office for Disarmament Affairs (Assignment No. AE2014/530/01)

1. Reference is made to your memorandum to Ms. Angela Kane, High Representative for Disarmament Affairs, dated 9 October 2014 containing the draft report on an audit of financial management in the Implementation Support Unit for the Biological Weapons Convention in the Office for Disarmament Affairs, Geneva Branch.
2. On behalf of the Geneva Branch, United Nations Office for Disarmament Affairs, I confirm the report referred to above has been reviewed.
3. As requested in paragraph 1 of said memorandum, I am attaching herewith our comments including an action plan with target dates and the titles of the individuals responsible for implementing the recommendations.
4. The opportunity to comment on the recommendations is much appreciated.

cc. Ms. Angela Kane, High Representative UNODA
Ms. Margaret Ross, Executive Officer, UNODA
Mr. Hans G. Baritt, Chief, Financial Resources Management Service, UNOG
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS
Ms. Gabriele Kraatz-Wadsack, OIC, BWC Implementation Support Unit

Management Response

**Audit of financial management in the Implementation Support Unit for the Biological Weapons Convention
in the Office for Disarmament Affairs**

Rec. no.	Recommendation	Critical/Important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Financial Resources Management Service at UNOG should work with the Office of Disarmament Affairs to propose solutions to Member States to address the potential liability to the Organization if unpaid contributions towards convention meetings are not settled.	Important	Yes	Programme Planning and Budget Section UNOG		
2	The Implementation Support Unit for the Biological Weapons Convention, ODA should put in place arrangements to ensure that it has access to up to date information on expenditure and outstanding balances for each voluntary contribution including; (i) establishing separate account codes for earmarked contributions; and, (ii) obtaining regular reports from the Office of Disarmament Affairs Executive Office on contributions received but not yet allotted that are recorded in the financial systems in New York.	Important	Yes	Chief of Unit for ISU	Upon arrival of the Chief of Unit to commence duty as of end of November	
3	The Implementation Support Unit for the Biological Weapons Convention, ODA should establish formal arrangements for administering the Sponsorship Programme including reporting requirements.	Important	Yes	Chief of Unit for ISU	Prior to the Meeting of Expert, that will take place in August 2015	Action Plan: - The ISU is compiling a list of requests from States Parties for the Sponsorship Programme. - This list will be forwarded to the Chair for recommendation of selected

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.

Management Response

Audit of financial management in the Implementation Support Unit for the Biological Weapons Convention
in the Office for Disarmament Affairs

Rec. no.	Recommendation	Critical/ Important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>candidates. The Chair will provide a list with an order of priority, based on the following criteria: <i>Quote from Final Document, VII RevCon: [...] Priority for sponsorship will be given to those States Parties which have previously not participated in the meetings, or have been unable to regularly send experts from capital. Sponsorship may also be provided, depending upon the availability of resources, to enhance participation of states not party in order to promote universalization of the Convention. [...]</i></p> <ul style="list-style-type: none"> - Voluntary contribution received from a State Party (if any) will then be used to meet the recommendations from the Chair. - In practice, the requests are outnumbering the available funds and the non-selected applicants will remain in the waiting list for the next meeting.