



INTERNAL AUDIT DIVISION

REPORT 2014/133

Audit of the United Nations
Environment Programme Northwest
Pacific Action Plan Regional
Coordinating Unit

Overall results relating to efficiency and effectiveness of activities of the Regional Coordinating Unit were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

15 December 2014
Assignment No. AA2014/220/04

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AUDIT REPORT

Audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Northwest Pacific Action Plan (NOWPAP) Regional Coordinating Unit (RCU or the Unit).
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. NOWPAP was adopted in 1994 by four member states, namely the People's Republic of China, Japan, the Republic of Korea and the Russian Federation, as a part of the UNEP Regional Seas Programme within the Division of Environmental Policy Implementation.
4. The overall goal of NOWPAP is the wise use, development and management of the coastal and marine environment so as to obtain the utmost long-term benefits for the human populations of the region, while protecting human health, ecological integrity and the region's sustainability for future generations. In this regard, three subsidiary complementary goals were adopted as follows: (i) The control, halting and prevention of any further degradation and deterioration of the coastal and marine environment and its resources; (ii) The recovery and rehabilitation of coastal and marine environments that have been degraded and which still have the potential for such a recovery; and (iii) The long-term sustainability of coastal and marine environmental quality and resources as assets for the present and future human populations of the region.
5. The Intergovernmental Meeting (IGM) was the high-level governing body of NOWPAP that provided policy guidance and made decisions. In accordance with IGM decisions, four Regional Activity Centres (RACs) were established to implement NOWPAP activities. RCU, co-hosted by Japan and the Republic of Korea, was set up in 2004 to facilitate the implementation of NOWPAP activities. The Unit had six positions of which three were vacant as at 29 August 2014.
6. NOWPAP activities were financed by contributions from the four member states. During the period from January 2011 to June 2014, the total expenditure for NOWPAP was \$5.8 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 **the effective management of the activities of the RCU**.

9. The audit was included in the OIOS work plan for 2014 at the request of UNEP in view of the financial, operational and reputational risks, which were considered to be high, related to the activities of the RCU.

10. 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 RCU financial management, procurement, and other operations; (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: (i) established and appropriate to enable monitoring of performance; and (ii) used to manage operations effectively.

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

12. OIOS conducted this audit from August to September 2014. The audit covered the period from January 2011 to June 2014.

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 activities of the RCU**. OIOS made six recommendations to address issues identified in the audit. There was no agreement between Member States and UNEP regarding the services that UNEP was providing, resulting in lack of clarity of roles and mutual expectations of both parties. There was a growing mismatch between income and expenditure for operating the two NOWPAP offices in Toyama and Busan which was weakening the financial position of the NOWPAP trust funds. The most significant expenditure related to staff and other personnel costs, which were incurred as per the approved organization structure and paid in accordance with United Nations conditions of service. Performance indicators had not been developed for all activities expected to be performed by the RCU as stated in the terms of reference for the Unit, which made it difficult to measure and evaluate the performance of the RCU.

15. 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 five important recommendations remain in progress.

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.

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 activities of the RCU	(a) Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
	(b) Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

There was a need to clarify roles and mutual expectations with Member States

16. It is a good practice to have an agreement upfront between parties that have agreed to an undertaking. The RCU was established following UNEP Governing Council decision 21/30 that requested the Executive Director to establish the Coordinating Unit as a UNEP administered secretariat of NOWPAP. However, following the establishment of the RCU, there was no agreement, such as a Memorandum of Understanding (MOU) or other undertaking, between UNEP and the Member States setting out their roles, responsibilities and mutual expectations for administering the RCU. An agreement could clarify, inter alia, (a) delegation of authority for RCU administrative activities; (b) allocation of appropriate shares of programme support costs between trust funds and other central administrative functions; and (c) performance evaluations and management reviews.

17. The lack of an agreement between UNEP and Member States increased the risk of misunderstanding of the responsibilities and accountabilities involved in the delivery of the services by UNEP, and could potentially compromise the quality, cost efficiency and effectiveness in the delivery of services.

(1) UNEP should propose establishing an agreement with NOWPAP Member States in order to clarify roles, responsibilities and mutual expectations.

UNEP accepted recommendation 1 and stated that it would develop a MOU for consideration by Member States at the 20th NOWPAP IGM in 2015. Recommendation 1 remains open pending receipt of the MOU developed and presented to the IGM.

There was a mismatch between contributions and actual expenditure incurred in operating the Regional Coordinating Unit

18. In accordance with the agreements signed with UNEP, the host countries provided office accommodation and resources to support the implementation of NOWPAP activities. The two governments agreed to make financial contributions to UNEP for the operation of the RCU Toyama Office and RCU Busan Office. In this regard, Japan provided a total of \$1,800,000 to UNEP for the RCU

Toyama Office during the period 2011 to 2013. Similarly, the Republic of Korea provided \$1,373,246 to UNEP for the RCU Busan Office during the same period.

19. There was a growing mismatch between the contributions provided and the actual cost of operating the two offices. From 2011 to 2013, there was a shortfall of \$484,576 between the contributions of \$1,800,000 and the operational expenditure of \$2,284,576 in the RCU Toyama Office. Similarly, in the RCU Busan Office, operational expenditure of \$1,620,361 exceeded contributions of \$1,373,246 by \$247,115 during the same period.

20. The mismatch between contributions and expenditure was the result of a lack of a mechanism to ensure that the contributions expected to be received were adequate to cover the projected expenditures based on approved staffing structures. UNEP explained that the increase in expenditure was mainly due to the fact that while the same number of staff had been hired (as per approved structures), the total cost of hiring the staff had increased in line with United Nations-wide conditions of service. The shortfalls were being financed by accumulated contributions from prior years which were diminishing every year. In light of the weakening financial position of the NOWPAP trust fund, Member States and UNEP were working on possible alternatives for addressing the shortfalls.

(2) UNEP should, in collaboration with host Member States, take measures to address the shortfall in contributions pertaining to the Toyama and Busan offices of the Regional Coordinating Unit and ensure, as far as possible, that such shortfalls do not occur in the future.

UNEP accepted recommendation 2 and stated that the issue of the shortfall between voluntary contributions and cost of the two RCU offices had been presented to the Member States at IGM 16, 17 and 18. Since IGM 18, this issue has become a central point of concern of the Member States. UNEP provided all the documentation and information for Member States to understand the situation. It was a key agenda item for the 19th IGM which took place in October 2014 where Member States could not agree on a solution. The issue will be further discussed at the second Extraordinary IGM in March 2015 with a view to reaching agreement and adoption of the relevant resolution/decision by Member States. Recommendation 2 remains open pending receipt of evidence showing the measures taken to address the shortfall between contributions and operational costs for the two NOWPAP offices in Toyama and Busan.

Staff were paid according to the structure approved by Member States

21. Staff costs were the most significant expenditure for the RCU. During the biennium 2012-2013, staff costs amounted to \$2.1 million which represented around 68 per cent of the \$3.1 million expenditure incurred during the period.

22. OIOS reviewed the staff costs incurred and confirmed that they were in accordance with the staffing structure approved by Member States in March 2002, which consisted of six posts. As part of internal control procedures established with UNEP, UNON paid the staff members. OIOS concluded therefore that controls for paying staff were in place and working satisfactorily.

Long outstanding pledges needed to be addressed

23. The NOWPAP financial statements for 2012-13 showed long outstanding pledges aggregating to \$750,000. These pertained to one pledge in the amount of \$125,000 made by a Member State in 1998, and other pledges amounting to \$625,000 made by another Member State between 2001 and 2010.

24. UNEP needed to determine the likelihood of collecting these pledged contributions since it may not be prudent to continue reflecting the unpaid pledges as assets and as part of the cumulative surplus. UNEP noted that since the Organization had adopted the International Public Sector Accounting Standards, provisions for uncollectable contributions would be made to ensure the accuracy and reliability of financial statements.

(3) UNEP should take appropriate action to address the long outstanding pledges amounting to \$750,000.

UNEP accepted recommendation 3 and stated that it would develop a working document for submission to the Member States at the 20th IGM in 2015 and propose the adoption of a decision/resolution on this issue by Member States. Recommendation 3 remains open pending receipt of evidence of the action taken by UNEP on the long outstanding pledges.

Trust fund reserves needed to be established

25. There was no reserve established for the Support of the NOWPAP Action Plan trust fund. This was contrary to the Administrative Instruction on General Trust Funds which requires trust funds to maintain operating cash reserve level of 15 per cent of estimated annual expenditures. UNEP staff stated that they were in the process of setting up operating reserves in collaboration with Members States.

26. The lack of adequate working capital reserve could result in non-implementation of trust fund activities and inability to meet commitments during financial difficulties.

(4) UNEP, in collaboration with NOWPAP Member States, should establish operating reserves for the Support of the NOWPAP Action Plan trust fund.

UNEP accepted recommendation 4 and stated that it presented a draft set of Financial Rules and Procedures specific to NOWPAP as a working document at the 19th IGM which took place in October 2014, for approval by the Member States. This draft set of Financial Rules and Procedures contains the principles and modality for the establishment of an operating reserve. It is expected to be approved before or at the 20th IGM. Recommendation 4 remains open pending confirmation that an operational reserve has been set up for the Support of the NOWPAP Action Plan trust fund.

Travel was conducted in accordance with established procedures

27. The RCU conducted travel in accordance with United Nations administrative instructions on travel. During the period January 2011 to June 2014, the RCU travel expenditure amounted to \$200,000. OIOS review of 16 randomly selected travel requests amounting to \$56,000 showed that approved travel plans were on file, travel requests had been duly authorized, self-ticketing was pre-approved, lowest cost travel option was selected, and appropriate standard of accommodation was used. OIOS therefore concluded that controls relating to travel were in place and working satisfactorily.

B. Performance monitoring indicators and mechanisms

Performance indicators for the Regional Coordinating Unit needed to be specific and measurable

28. While Member States had provided terms of reference for the RCU, specific and measurable performance indicators had not been developed to facilitate measurement and evaluation of the activities performed by the Unit. According to the terms of reference, the Unit was responsible for general

coordination, specific programme management tasks, resource mobilization, financial management and administration. Lack of performance indicators could result in stakeholders' inability to objectively evaluate the performance of the Unit and ensure accountability.

(5) UNEP should communicate to Member States the need to develop performance indicators for the Regional Coordinating Unit.

UNEP accepted recommendation 5 and stated that it will prepare a working document for the Member States consideration at the 20th NOWPAP IGM in 2015, communicating the need to measure the performance of the RCU based on an agreed set of performance indicators and established baselines. The working document will include a proposal for the Member States to adopt a decision/resolution on this issue. Recommendation 5 remains open pending the establishment of performance indicators for the RCU.

Expected results of partnership agreements needed to be specific and measurable

29. According to the UNEP Programme Manual (May 2013 edition), agreements with partners must detail how the outcome would be measured, including quantity, quality and time. It further states that indicators should "include an accompanying means of verification. It should measure change that is attributable to the UNEP project intervention. Each indicator should be linked to easily obtainable data sources in order to measure and verify progress towards planned results."

30. During the period from January 2011 to June 2013, the RCU signed five Small Scale Funding Agreements with Regional Activity Centres which amounted to \$42,000. The agreements did not have specific and measurable expected results/outcomes. For example, the agreements stated broad and/or general expected results/outputs such as to "strengthen cooperation in the region", "raise the profile of UNEP in the fight against marine litter" and "enhance public awareness of marine litter in the region" which could not be measured for performance evaluation.

31. The lack of specific performance indicators in agreements could result in the inability of the RCU to measure and evaluate the success of the projects undertaken. It could also result in loss of credibility and fund raising potential for other projects, and inability to effectively report to Member States the successes achieved.

(6) UNEP should ensure that Small Scale Funding Agreements used at the Regional Coordinating Unit contain specific and measurable performance indicators to facilitate project performance evaluation and reporting.

UNEP accepted recommendation 6 and stated that it had issued instructions for immediate adherence of NOWPAP to the template developed at UNEP corporate level, which includes requests for specific and measurable performance indicators. Based on the action taken by UNEP, recommendation 6 has been closed.

The performance of staff members was appraised in accordance with relevant Administrative Instructions

32. For the performance cycles in the years 2011 to 2013, OIOS confirmed that staff performance appraisals were done in accordance with the applicable administrative instruction. Individual staff work-plans were prepared, midpoint performance reviews were conducted, and year end overall performance appraisals were completed. OIOS therefore concluded that controls relating to performance appraisal of staff were in place and working satisfactorily.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNEP should propose establishing an agreement with NOWPAP Member States in order to clarify roles, responsibilities and mutual expectations.	Important	O	Receipt of the MOU developed and presented to the IGM.	30 June 2016
2	UNEP should, in collaboration with host Member States, take measures to address the shortfall in contributions pertaining to the Toyama and Busan offices of the Regional Coordinating Unit and ensure, as far as possible, that such shortfalls do not occur in the future.	Important	O	Receipt of evidence showing the measures taken to address the shortfall between contributions and operational costs for the two NOWPAP offices in Toyama and Busan.	31 December 2015
3	UNEP should take appropriate action to address the long outstanding pledges amounting to \$750,000.	Important	O	Receipt of the action taken by UNEP on the long outstanding pledges.	30 June 2016
4	UNEP, in collaboration with NOWPAP Member States, should establish operating reserves for the Support of the NOWPAP Action Plan trust fund.	Important	O	Confirmation that an operational reserve has been set up for the Support of the NOWPAP Action Plan trust fund.	30 June 2016
5	UNEP should communicate to Member States the need to develop performance indicators for the Regional Coordinating Unit.	Important	O	The establishment of performance indicators for the RCU.	30 June 2016
6	UNEP should ensure that Small Scale Funding Agreements used at the Regional Coordinating Unit contain specific and measureable performance indicators to facilitate project performance evaluation and reporting.	Important	C	Action completed.	Implemented

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNEP in response to recommendations.

APPENDIX I

Management Response



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:	Mr. Gurpur N. Kumar, Deputy Director Internal Audit Division	Date:	05 December 2014
From:	Mr. Christophe Bouvier Officer in Charge, UNEP	Reference:	AA2014/220/04
Subject:	Draft Report on an audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit (Assignment No. AA2014/220/04)		

Reference is made to the above-mentioned draft report on an audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit.

Please find attached UNEP's response.

Management Response

Audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP should propose establishing an agreement with NOWPAP Member States in order to clarify roles, responsibilities and mutual expectations.	Important	YES	DEPI Director	30 June 2016	UNEP will develop a draft MoU for consideration by Member States at the 20 th NOWPAP IGM in 2015.
2	UNEP should, in collaboration with host Member States, take measures to address the shortfall in contributions pertaining to the Toyama and Busan offices of the Regional Coordinating Unit and ensure, as far as possible, that such shortfalls do not occur in the future.	Important	YES	DEPI Director	31 December 2015	The issue of the shortfall between voluntary contributions and cost of the two RCU offices has been presented to the Member States at the 16 th , 17 th and 18 th IGM. Since the 18 th IGM, this issue has become a central point of concern of the Member States and UNEP has submitted all the information and documentation necessary for Member States to fully understand the situation. It was a key agenda item for the 19 th IGM, which took place in October 2014, where Member States could not agree on a solution. The issue will be further discussed at the 2 nd Extraordinary (EO) IGM in March 2015 with a view to reaching agreement between member States and adoption of the relevant resolution/decision.
3	UNEP should take appropriate action to address the long outstanding pledges amounting to \$750,000.	Important	YES	DEPI Director	30 June 2016	UNEP will develop a working document for submission to the Member States at the 20 th IGM in

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 the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						2015, and propose the adoption of a decision/resolution on this issue by Member States.
4	UNEP, in collaboration with NOWPAP Member States, should establish operating reserves for the Support of the NOWPAP Action Plan trust fund.	Important	YES	DEPI Director	30 June 2016	UNEP submitted a draft set of Financial Rules and Procedures specific to NOWPAP as a working document at the 19 th IGM in October 2014 for approval by the Member States. This draft set of Financial Rules and Procedures contains the principles and modality for the establishment of an operating reserve in compliance with ST/AI/284. Further to a decision by the Member States it is expected to be approved following email consultations, either by correspondence before the 20 th IGM or at the 20 th IGM at the latest.
5	UNEP should communicate to Member States the need to develop performance indicators for the Regional Coordinating Unit.	Important	YES	DEPI Director	30 June 2016	UNEP will prepare a working document for the Member States consideration at the 20 th NOWPAP IGM in 2015, communicating the need to measure the performance of the RCU based on an agreed set of performance indicators and established baselines. The working document will include a proposal for Member States to adopt of a decision/resolution on this issue.
6	UNEP should ensure that Small Scale Funding Agreements used at the Regional	Important	YES	DEPI Director	Implemented	UNEP has issued instructions for immediate adherence of the

Management Response

Audit of the United Nations Environment Programme Northwest Pacific Action Plan Regional Coordinating Unit

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Coordinating Unit contain specific and measureable performance indicators to facilitate project performance evaluation and reporting.					NOWPAP to the template developed at UNEP corporate level, which includes the request for specific and measurable performance indicators.