



INTERNAL AUDIT DIVISION

REPORT 2014/102

Audit of the United Nations Environment Programme Mediterranean Action Plan for the Barcelona Convention

Overall results relating to the efficient and effective management of the operations of the Mediterranean Action Plan were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

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CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. OBJECTIVE AND SCOPE	2-3
III. AUDIT RESULTS	3-7
A. Regulatory framework	4-7
B. Performance monitoring indicators and mechanisms	7
IV. ACKNOWLEDGEMENT	7
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of the United Nations Environment Programme Mediterranean Action Plan for the Barcelona Convention

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Mediterranean Action Plan (MAP) for the Barcelona Convention.

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. In 1995, the Contracting Parties (COP) comprising 22 countries adopted the Action Plan for the Protection of the Marine Environment and the Sustainable Development of the Coastal Areas of the Mediterranean (MAP - Phase II) to replace the MAP of 1975. At the same time, the COP adopted an amended version of the Barcelona Convention of 1976, which was renamed as the Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean. The COP decides on MAP strategies, budget and programme at the biennial Ministerial level meetings. It appoints focal points to review the progress of work and ensure the implementation of recommendations at the national level. A rotating Bureau of six representatives of the COP guides and advises the MAP Secretariat, administered by UNEP, in the interim period between the biennial meetings.

4. The COP designated UNEP as the organization responsible for carrying out the secretariat functions for the Convention and as the overall Coordinator of the activities agreed upon within the framework of MAP. Accordingly, the MAP Secretariat was established in 1980 and has been hosted by the Government of Greece in Athens since 1982. Six Regional Activity Centres supported the implementation of the MAP programme of work approved by the COP and accounted for about 50 percent of MAP activities and resources. Regional Activity Centres had different legal status ranging from government agencies to non-governmental organizations.

5. As at 31 December 2013, the MAP Secretariat had 13 Professional posts, including two at the Director level, and 11 General Service posts. Recruitment for two Professional and one General Service posts was temporarily frozen after the retirement of the incumbents. Personnel of Regional Activity Centres were not UNEP staff members.

6. MAP had a 5 year programme of work covering the period 2010-2014, which was further extended by the decision of the COP up to 2015. MAP activities were primarily financed by the COP through their assessed contributions to the Trust Fund for the Protection of the Mediterranean Sea against Pollution (the "MEL trust fund"). Other main sources of core funding to support specific projects and activities include voluntary contributions from the European Union (the "QML trust fund"); and the Government of Greece support to the Mediterranean Action Plan (the "CAL trust fund"). Actual income and expenditures for the biennia 2010-2011 and 2012-2013 are presented in Table 1 below.

Table 1: Income and expenditures for the biennia 2010-2011 and 2102-2013 (amounts in \$)

Trust Fund	2010-2011			2012-2013		
	Income	Expenditures	Surplus/deficit	Income	Expenditures	Surplus/deficit
MEL	14,703,138	13,831,237	871,901	14,433,578	8,889,101	5,444,447
QML	4,285,932	4,450,357	-164,425*	3,598,649	4,979,142	-1,380,493*
CAL	815,607	760,332	55,275	781,928	606,031	175,897

Source: UNEP Financial statements

Note *: Part of the expenditures incurred in 2010-2011 and 2012-2013 under QML relate to income received in 2009, mostly to do with co-finance from the Global Environmental Facility Partnership project (see paragraph 7 below). Due to delayed project initiation, there was a time gap between receipt of income and the actual implementation.

7. In addition, MAP received other funds, including from the Global Environment Facility (GEF) which financed two multi-year projects in which UNEP was the Implementing Agent and MAP was the Executing Agent. These projects were: (a) the Strategic Partnership for the Mediterranean Sea Large Marine Ecosystem – Regional Component: Implementation of agreed actions for the protection of the environmental resources of the Mediterranean Sea and its coastal areas (Project 4A05); and (b) the Integration of climatic variability and change into national strategies to implement the Integrated Coastal Zone Management Protocol in the Mediterranean (Project 4B32). Expenditures for each project during the period 2010 to 2013 totaled \$7.7 million and \$1 million respectively, as indicated in Table 2.

Table 2: GEF project expenditures during the period 2010 to 2013 (amounts in \$)

Project	2010	2011	2012	2013	Total
4A05	1,539,919	999,194	1,680,795	3,552,230	7,772,138
4B32	0	0	12,863	1,042,940	1,055,803

Source: Integrated Management Information System, March 2014

8. Comments provided by UNEP are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

9. The was conducted to assess the adequacy and effectiveness of UNEP governance, risk management and control processes in providing reasonable assurance regarding **the efficient and effective management of the operations of MAP for the Barcelona Convention**.

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 management of MAP operations.

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 efficient and effective management of operations of MAP; (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 performance metrics are: (i) established and appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) prepared in compliance with rules and are properly reported on; and (iii) used to manage operations effectively.

12. The key controls were assessed for the control objectives shown in Table 3. Certain control objectives (shown in Table 3 as “Not assessed”) were not relevant to the scope defined for this audit.

13. OIOS conducted the audit from March to June 2014. The audit covered the period from 1 January 2010 to 31 December 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. UNEP governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **efficient and effective management of the operations of MAP for the Barcelona Convention**. OIOS made three recommendations to address issues identified in the audit. As at 31 December 2009, MAP had recorded accumulated deficits of \$4.5 million (Euro 3 million) and \$0.6 million from the MEL and CAL trust funds, respectively, by borrowing from the common cash pool. In 2010, MAP together with UNEP prepared a deficit recovery plan and adopted a number of measures to improve controls on budgeting and expenditures which resulted in the elimination of the accumulated deficit by 31 December 2013. Project documents adequately defined performance metrics and MAP regularly reported on achievements. However, UNEP needed to: (a) clarify the basis for allocating exchange losses to the MEL trust fund; (b) ensure timely reporting of in-kind co-funding for the GEF project 4B32; and (c) strengthen business continuity and disaster recovery to safeguard critical data.

16. The initial overall rating was based on the assessment of key controls presented in Table 3 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist 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.

Table 3: 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
Efficient and effective management of the operations of MAP for the Barcelona Convention	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Performance monitoring indicators and mechanisms	Satisfactory	Satisfactory	Not assessed	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

MAP had eliminated the accumulated deficit

17. The Secretary-General’s Bulletin on “Establishment and management of trust funds” defines the responsibilities and modalities for the management and use of trust funds. The administrative instruction on “General Trust Funds” defines the requirements for reporting income and expenditures relating to the trust funds.

18. As at 31 December 2009, MAP had recorded accumulated deficits of \$4.5 million (Euro 3 million) and \$0.6 million from the MEL and CAL trust funds, respectively. These were generated by overstatement of income for both the trust funds, and creation of allotments for amounts higher than the actual income. Subsequent over-expenditures were funded by borrowing from the common cash pool. The third fund, QML, presented a positive balance of \$3.2 million. The overall deficit for the three funds as at 31 December 2009 was \$1.8 million. In 2010, MAP together with UNEP prepared a deficit recovery plan and adopted a number of measures to improve controls on budgeting and expenditures to ensure income was correctly stated and to recover the deficit.

19. As at 31 December 2013, the draft financial statement for UNEP reported a total closing fund balance of \$2.7 million for the three trust funds (MEL, QML and CAL) as shown in Table 4.

Table 4: Provisional closing trust fund balances as at 31 December 2013 (amounts in \$’000)

Trust Fund	Opening fund balance as at 1 January 2012	Cumulative income	Cumulative expenditures	Adjustments, transfers	Provisional closing fund balance as at 31 December 2013
MEL	(1,667)	14,481	(10,262)	54	2,606
QML	2,471	3,599	(5,567)	(10)	493
CAL	(548)	782	(616)	(1)	(383)
Total	256	18,862	(16,445)	43	2,716

20. OIOS concluded that the recovery plan was working satisfactorily and had led to a positive balance of \$2.7 million as at 31 December 2013.

Basis for allocating exchange losses to the MEL trust fund was unclear

21. Currency risk is the risk that the value of investments denominated in non-United States dollars will fluctuate due to changes in foreign exchange rates. In 2004, the COP adopted the Euro as the currency of MAP and started to budget and record all their transactions in this currency.

22. United Nations accounts and financial statements are produced in United States dollars but MAP contributions are denominated in Euros and expenditures were incurred in both currencies. Accumulated exchange losses of \$0.5 million from the investment pool had been allocated to the MEL trust fund as part of the end-of-year adjustment to the accounts. However, no explanation was provided by UNEP and the United Nations Office at Nairobi (UNON) to MAP concerning the amount of resources invested that generated such loss. UNON explained that the losses were determined based on an allocation procedure implemented by UNEP Finance Office. There was no response from the UNEP Finance Office to OIOS request asking for the basis for allocation.

23. Lack of transparency on criteria for allocation of exchange gains and losses to the MEL fund may result in concealment of real losses and inability to determine the true financial position of the trust fund.

(1) UNEP should provide MAP with adequate information on the nature of the end-of-year adjustment and basis for allocating currency exchange losses from pooled operations.

UNEP accepted recommendation 1 and stated that the end of year adjustment related to exchange losses occasioned as a result of the weakening of the Euro. In prior biennia when the Euro was strong, exchange gains were credited to respective funds. When the trend reversed, the exchange losses had to be borne by the funds based on proportionate share of the loss. The adjustment did not exceed the credits previously received. Recommendation 1 remains open pending receipt of evidence that UNEP has provided MAP with adequate information on basis for allocation of currency exchange losses and related end of year adjustments.

There were delays in reporting of in-kind co-funding for GEF project 4B32

24. According to the project document, annual financial reports submitted to the Project Steering Committee needed to include cash and in-kind co-funding for partners for the 12 months period starting in June every year.

25. OIOS reviewed project documents and meeting minutes of the Project Steering Committee to identify milestones and indicators, and confirm relevance of the data reported. Procedures to receive and collate reporting from other implementing partners and ensure timely and accurate reporting to donors and UNEP Headquarters were generally working as intended, and reports were timely submitted. However, MAP did not submit a report for the cash and in-kind co-funding for the GEF project 4B32 for the period July 2012 to June 2013 as required by the funding agreement. The project budget exceeded \$50 million and GEF contributed over 75 per cent of the project costs.

26. MAP indicated that non-compliance with reporting requirements was due to delays in report submission by partners whose reports account for a large proportion of the overall co-funding budget. MAP was following up but information had not yet been received at the time of this audit. The delays in receiving partner reports prevented MAP from finalizing the report to the Steering Committee.

27. Given the significant proportion of co-funding in the overall project budget, failure to meet reporting obligations by MAP could potentially lead to loss of donor confidence and adversely affect its ability to raise funds for projects.

(2) UNEP should ensure that MAP follows up with its partners to obtain all the information needed to meet the donor reporting requirements.

UNEP accepted recommendation 2 and stated that a draft co-finance report for the GEF project was compiled in September 2014 and incorporated into the draft 2013-2014 Project Implementation Review which is under review by the UNEP Division of Environmental Policy Implementation. A copy of the co-finance report will be provided to OIOS upon finalization. Recommendation 2 remains open pending receipt of evidence that donor reporting requirements have been fully met.

Management of advances to partners was generally satisfactory

28. Project agreements and legal instruments with individual partners defined the modalities for fund disbursements, reporting and oversight requirements.

29. OIOS reviewed a sample of 40 miscellaneous obligations (with a cumulative value of \$17.8 million) relating to advances to partners during the period. These obligations pertained to transfer of funds to partner organizations, including MAP Regional Activity Centres and other United Nations agencies, funds and programmes and non-governmental organizations, to enable them implement the approved programme of work of MAP. Disbursement of the initial instalment was made on signing of related project documents or relevant legal instruments with partners. Subsequent disbursements were made conditional on the submission of a request for payment supported by reports on the use of previous instalments and justification for any variance in expenditures versus approved and/or revised budgets. MAP certified requests for advance cash disbursements to partners and UNON disbursed the cash advance.

30. Documentation related to requests and disbursements was regularly obtained and filed. MAP reviewed the reasonableness of the levels of expenditures reported and their alignment with the approved budget. UNEP provided documentation to show that it had procedures in place to verify the accuracy of expenditures reported. Partners generally complied with the requirement to submit annual audited financial statements which UNEP used as part of its review and oversight functions.

31. Based on the documentation provided by UNEP, OIOS concluded that the management of advances to partners was generally satisfactory.

Need to strengthen the information system and business continuity for safeguarding of critical data

32. The Secretary-General's report A/62/477 on "Information and communications technology security, disaster recovery and business continuity for the United Nations" provides a common operational framework for business resilience in the Secretariat encompassing disaster recovery (data backup) and business continuity (redundancy).

33. As part of the deficit recovery plan and following the re-profiling of the office, the MAP Coordinator decided to outsource the information and communications technology (ICT) support services to a vendor while maintaining control of major decisions on the purchase of hardware and software. The deficit recovery measures restricted the expenditure on ICT support services to communications (fixed and mobile telephone lines), whereas investments in hardware and software were frozen. No provision

had been made for investment in additional servers to provide for redundancy in case of a major system failure. Similarly, no precautionary measures were in place to safeguard critical and historical data.

34. At the time of the audit, the server had broken down, bringing the operations to a halt for six days. During this period, communication was intermittent and no access was available to email and institutional data. While eventually the vendor managed to recover the data, this incident highlighted the need for adopting measures to ensure that adequate systems were in place to ensure operability and data recovery. As a quick measure, management approved the purchase of additional equipment to provide the necessary system redundancy. However, MAP had never developed or implemented a policy and related procedures to ensure adequate system redundancy and data backup as envisaged in the Secretary-General's report. While the issue had been tabled several times, management did little to provide the required resources to address the situation.

(3) UNEP should ensure that MAP develops appropriate policies and procedures and also allocates the resources required for ensuring business continuity and disaster recovery.

UNEP accepted recommendation 3 and stated that a business continuity and disaster recovery plan will be developed in consultation with Office of Operations. A visit of the Information and Communication Technology Unit Chief to MAP in November is already planned to initiate the work. Recommendation 3 remains open pending receipt of evidence that appropriate policies and procedures are in place and adequate resources have been allocated for ensuring business continuity and disaster recovery.

B. Performance monitoring indicators and mechanisms

Project documents adequately defined performance metrics and Mediterranean Action Plan regularly reported on achievements

35. MAP output and related performance indicators were defined in the programme of work and budget documents as submitted to the COP for approval, as well as in the individual project documents for each component approved by UNEP. MAP regularly reported its achievements to the COP based on these metrics. In the case of the two GEF projects reviewed, the project document included an elaborate logical framework with hierarchy of results structured per component, as well as targets and verification methods. They included a monitoring and evaluation plan and clear reporting requirements in line with GEF standards. The Project Management Unit was required to produce periodic and final substantive and financial reports to the Project Steering Committee. MAP reported regularly to the Steering Committee in accordance with those requirements and metrics with the exception of the co-financing report for 2012-2013 (addressed by recommendation 2 above).

36. OIOS therefore concluded that the performance monitoring indicators and mechanisms for MAP were generally satisfactory.

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.

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

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Environment Programme Mediterranean Action Plan for the Barcelona Convention

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNEP should provide MAP with adequate information on the nature of the end-of-year adjustment and basis for allocating currency exchange losses from pooled operations.	Important	O	Receipt of evidence that UNEP has provided MAP with adequate information on basis for allocation of currency exchange losses and related end of year adjustments.	31 August 2014
2	UNEP should ensure that MAP follows up with its partners to obtain all the information needed to meet the donor reporting requirements.	Important	O	Receipt of evidence that donor reporting requirements have been fully met.	30 June 2015
3	UNEP should ensure that MAP develops appropriate policies and procedures and also allocates the resources required for ensuring business continuity and disaster recovery.	Important	O	Receipt of evidence that appropriate policies and procedures are in place and adequate resources have been allocated for ensuring business continuity and disaster recovery.	31 December 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 UNEP in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the United Nations Environment Programme Mediterranean Action Plan for the Barcelona Convention

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP should provide MAP with adequate information on the nature of the end-of-year adjustment and basis for allocating currency exchange losses from pooled operations.	Important	Yes	Chief, Resources Management OfO	31 August 2014	The end of year adjustment relates to exchange losses occasioned as a result of weakening of the Euro. In prior biennia when the Euro was strong, exchange gains were credited to respective funds. When the trends reversed, the exchange losses had to be borne by the funds based on proportionate share of the loss. The adjustment did not exceed the credits previous received.
2	UNEP should ensure that MAP follows up with its partners to obtain all the information needed to meet the donor reporting requirements.	Important	Yes	Coordinator MAP	30 June 2015	A draft co-finance report for the GEF project was compiled in September 2014 and incorporated into the draft 2013-2014 Project Implementation Review which is under review by UNEP DEPI. A copy of the co-finance report will be provided to OIOS upon finalization
3	UNEP should ensure that MAP develops appropriate policies and procedures and also allocates the resources required for ensuring business continuity and disaster recovery.	Important	Yes	Coordinator MAP	31 Dec 2015	A business continuity and disaster recovery plans will be developed in consultation with OfO A visit of the ICTU Chief to MAP in November is already planned to initiate the work

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.