



## INTERNAL AUDIT DIVISION

### REPORT 2015/058

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#### Audit of the United Nations Environment Programme Regional Office for Latin America and the Caribbean

Overall results relating to the effective implementation of the United Nations Environment Programme mandate in the region were initially assessed as partially satisfactory. Implementation of one important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY  
SATISFACTORY

22 June 2015  
Assignment No. AA2014/220/05

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# AUDIT REPORT

## Audit of the United Nations Environment Programme Regional Office for Latin America and the Caribbean

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Regional Office for Latin America and the Caribbean (ROLAC).
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. UNEP Governing Council decision 19/1 defined the role of UNEP as being the “leading global environmental authority that sets the global environmental agenda, that promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations System and that serves as an authoritative advocate for the global environment”.
4. ROLAC worked to serve the needs of 33 countries of the Latin America and Caribbean region with a population of about 588 million. According to approved programmes of work and budgets (2012-2013 and 2014-2015), UNEP had seven priority areas of work namely: (a) climate change, (b) disasters and conflicts; (c) ecosystem management; (d) environment governance; (e) chemicals and waste; (f) resource efficiency; and (g) environment under review. ROLAC implemented activities in these priority areas.
5. ROLAC total expenditure during the period January 2011 to September 2014 amounted to \$52 million. ROLAC structure had: its main office in Panama City; sub-regional offices in Southern Cone and the Caribbean; national offices in Brazil and Mexico; and programme/project offices in Haiti and the Dominican Republic. As at 30 November 2014, ROLAC had 41 staff and 19 consultants.
6. Comments provided by UNEP are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

7. 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 implementation of the UNEP mandate by ROLAC**.
8. OIOS included this audit in its 2014 work plan due to the risks associated with the implementation of the UNEP mandate by ROLAC.
9. The key controls tested for the audit were: (a) performance monitoring indicators and mechanisms; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that appropriate metrics are: (i) established to enable measurement of the efficiency and effectiveness of operations; and (ii) used to manage operations effectively.

(b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the ROLAC operations, including in areas such as financial management and procurement; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

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

11. OIOS conducted the audit from December 2014 to March 2015. The audit covered the period from January 2011 to October 2014 and was conducted at the UNEP Offices in Nairobi and at ROLAC in Panama City.

12. The audit team 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

13. The UNEP governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective implementation of the UNEP mandate by ROLAC**. OIOS made three recommendations to address issues identified in this audit. ROLAC prepared annual work plans to implement the UNEP programme of work. The Office performed key activities through partnerships that were generally established and managed in accordance with UNEP Partnership Policy and Procedures. Controls have been strengthened by refinement of success criteria for the goals in the ROLAC work plan to facilitate objective measurement and evaluation of performance and ensuring that funding agreements developed by ROLAC contain specific and measurable indicators to facilitate project performance monitoring and reporting. Work was in progress in reviewing significant unencumbered balances at ROLAC to ensure that activities agreed upon with stakeholders are fully implemented.

14. The initial rating is based on the assessment of key controls presented in Table 1 below. The final rating is **partially satisfactory** as one important recommendation remains in progress.

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<sup>1</sup> 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 implementation of the UNEP mandate by ROLAC	(a) Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### **A. Performance monitoring indicators and mechanisms**

#### Success criteria needed to be revised to enable objective assessment of performance

15. The stated purpose of work plans for ROLAC was to serve as a tool for staff to: (a) understand how the delivery of UNEP medium term strategy/programme of work cascaded down to the level of the Regional Office; and (b) prepare their individual work plans as part of the performance appraisal process.

16. OIOS observed that approximately 38 percent of the success criteria in the ROLAC work plan for 2014-2015 were not specific and measurable. In some cases, they were not defined. The success criteria mainly related to ROLAC contribution to UNEP-wide goals, environmental governance, and chemicals and waste.

17. ROLAC stated that as its work plan goals were mainly based on the UNEP programme of work, they were framed at a higher results-level for determining the overall outcomes to which ROLAC work contributed. UNEP Headquarters added that the performance indicators took into account various considerations, including stakeholders' input, which did not always result in specific indicators. OIOS is of the opinion that the performance indicators need to be set in a manner that enables assessment of ROLAC performance based on specific and measurable success criteria. Otherwise, it is not possible to evaluate the performance of ROLAC objectively, to ensure accountability.

**(1) UNEP should review the success criteria for the goals contained in ROLAC work plans in order to facilitate objective performance measurement and evaluation as well as to ensure accountability.**

*UNEP accepted recommendation 1 and stated that the recommendation had been implemented in the development of the 2015-2016 ROLAC work plan, which was approved by the UNEP Deputy Executive Director on 23 April 2015. The ROLAC work plan for 2015-2016 contained clear indicators to facilitate objective performance measurement and ensure accountability. Based on action taken by UNEP, recommendation 1 has been closed.*

## B. Regulatory framework

### There was need to identify specific expected results in partnership agreements

18. UNEP had promulgated “Partnership Policy and Procedures” which provided guidance on establishing partnerships. During the period under review, ROLAC had partnership agreements with about 150 organizations to whom it made a total disbursements of about \$35.4 million. A review of ten partnership agreements, against which ROLAC had disbursed \$12.7 million, showed that due diligence checks had been performed and documented, proposals for partnership were reviewed and approved by designated staff, and appropriate templates were used.

19. However, in six of the ten partnership agreements reviewed, expected results were not specific and measureable. For example, the agreements stated broad and/or general expected results such as: “to support the identification and strengthening of regional centres of excellence to promote cooperation, build capacities in countries and region, share knowledge and experiences, and facilitate dissemination”; “increased awareness on ozone layer protection and alternative technologies”; and “prevention of illegal trade in Ozone depleting substances”. These expected results/outputs were not measureable for performance evaluation.

20. The lack of specific performance indicators in agreements could result in the inability of ROLAC to objectively measure and monitor 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 the results to stakeholders.

**(2) UNEP should ensure that funding agreements developed by ROLAC contain specific and measureable indicators to facilitate project performance monitoring and reporting.**

*UNEP accepted recommendation 2 and stated that the recommendation had been implemented. The Regional Director issued a memorandum to all UNEP ROLAC staff on 10 April 2015 instructing them to ensure that indicators were carefully drafted for every agreement to be signed by ROLAC, including those that had been prepared by any Division at Headquarters. Based on the action taken by UNEP, recommendation 2 has been closed.*

### Cheques were signed by a staff member without the necessary delegation of authority

21. United Nations Financial Rule 104.4 states that the Under-Secretary-General for Management shall designate officials to whom signatory authority is delegated for the operation of United Nations bank accounts. Financial rule 104.5 states that bank signatory authority and responsibility is assigned on a personal basis and cannot be delegated.

22. OIOS reviewed all the cheques that were issued by ROLAC from 2012 to 2014 and identified two (in a total amount of \$5,335) that were signed by a staff member who did not have the necessary delegation of authority. Staff members signing bank cheques without the appropriate delegation of authority could result in losses.

23. ROLAC explained that the cheques were erroneously signed by a staff member who used to be a bank signatory up to 26 June 2012 when the delegation of authority was withdrawn by UNON at the request of ROLAC. ROLAC also stated that such instances will not take place in future due to the implementation of Umoja with effect from 1 June 2015, since ROLAC will enforce the electronic payment modality. In view of these explanations, OIOS does not make a recommendation in this area.

Significant unencumbered balances needed to be reviewed

24. ROLAC had significant unencumbered balances during 2011 to 2013, as shown in Table 2. Unencumbered balances represent funds allotted for implementing projects that were not disbursed or obligated by ROLAC, and therefore remained unutilized at the end of the period.

**Table 2: Significant unencumbered balances from 2011 to 2013 (in United States dollars)**

Area	2011	2012	2013
Biodiversity	8,549	1,227,614	1,883,741
Climate Change	788,150	782,797	2,749,210
Ecosystem Management	1,013,950	791,662	140,451
Ozone Action Branch	939,324	2,096,487	2,103,986
Resource Efficiency	32,711	774,895	1,663,911

25. The main factors that contributed to the significant unencumbered balances were as follows:
- (a) Multi-year projects were implemented in subsequent budget periods without affecting programme delivery;
  - (b) Delays in project implementation due to revision of project priorities and re-negotiation with donors;
  - (c) Delays in project implementation mostly caused by prolonged negotiations about the implementation arrangements and the specific roles of UNEP and implementing partners;
  - (d) Changes in project schedules with activities being shifted to latter periods, hence causing implementation delays and low delivery rate;
  - (e) Low implementation caused by loss of attention from key stakeholders due to other priorities;
  - (f) Delays in project delivery due to challenges in identification of key partners for project implementation;
  - (g) Organization structure changes with key partners adversely affecting project implementation; and
  - (h) Savings achieved as most activities were completed without using full allocations.
26. Significant unencumbered balances could indicate that planned activities have not been implemented. Non-implementation of activities agreed with stakeholders could result in reputational risks and adversely affect the Organization's ability to raise funds for other projects.

**(3) UNEP should review and address the causes of significant unencumbered balances at ROLAC to ensure that activities agreed upon with stakeholders are fully implemented.**

*UNEP accepted recommendation 3 and stated that it will be implemented by December 2015. Recommendation 3 remains open pending receipt of evidence that significant unencumbered balances have been reviewed to ensure that activities agreed upon with stakeholders are fully implemented.*

#### **IV. ACKNOWLEDGEMENT**

27. 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 Regional Office for Latin America and the Caribbean

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNEP should review the success criteria for the goals contained in ROLAC work plans in order to facilitate objective performance measurement and evaluation as well as to ensure accountability.	Important	C	Action completed.	Implemented
2	UNEP should ensure that funding agreements developed by ROLAC contain specific and measureable indicators to facilitate project performance monitoring and reporting.	Important	C	Action completed.	Implemented
3	UNEP should review and address the causes of significant unencumbered balances at ROLAC to ensure that activities agreed upon with stakeholders are fully implemented.	Important	O	Receipt of evidence that significant unencumbered balances have been reviewed to ensure that activities agreed upon with stakeholders are fully implemented.	31 December 2015

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNEP in response to recommendations.

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the United Nations Environment Programme Regional Office for Latin America and the Caribbean

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP should review the success criteria for the goals contained in ROLAC work plans in order to facilitate objective performance measurement and evaluation as well as to ensure accountability.	Important	Yes			This recommendation has been implemented in the development of the 201-2016 ROLAC work plan, which was approved by the UNEP Deputy Executive Director on 23 April 2015. The ROLAC work plan for 2015-2016 contains clear indicators to facilitate objective performance measurement and ensure accountability. UNEP kindly requests closure of this recommendation.
2	UNEP should ensure that funding agreements developed by ROLAC contain specific and measurable indicators to facilitate project performance monitoring and reporting.	Important	Yes			Implemented. The Regional Director issued a memorandum to all UNEP ROLAC staff on 10 April 2015 instructing them to take note of this recommendation and to ensure that from the date of the memorandum indicators are carefully drafted for every agreement to be signed by ROLAC, including those that have been prepared by any Division in HQ. Please find attached a copy of the mentioned memorandum. UNEP kindly requests closure of this recommendation.
3	UNEP should review and address the causes of significant unencumbered	Important	Yes	ROLAC Director	31/12/15	

<sup>1</sup> 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.

<sup>2</sup> 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 Regional Office for Latin America and the Caribbean

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	balances at ROLAC to ensure that activities agreed upon with partners and stakeholders are fully implemented.					