



INTERNAL AUDIT DIVISION

REPORT 2015/035

Audit of the United Nations University
Institute for Integrated Management of
Material Fluxes and of Resources

Overall results relating to the effective management of the Institute's operations were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

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AUDIT REPORT

Audit of the United Nations University Institute for Integrated Management of Material Fluxes and of Resources

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations University Institute for Integrated Management of Material Fluxes and of Resources (UNU-FLORES) in Dresden, Federal Republic of Germany.
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. UNU-FLORES was established by the United Nations University (UNU) Council at its fifty-sixth session in December 2009 as a research and training programme of the University. It became operational in December 2012. At the 60th Council meeting of UNU in November 2013, the UNU Council approved the establishment of an Operating Unit of UNU-FLORES in a developing country. UNU-FLORES is comprised of the following academic units: Water Resources Management; Waste Management and Soil and Land use Management; Systems and Flux Analysis considering global change assessment; and, Capacity Development and Governance.
4. UNU-FLORES income for the biennium 2012-2013 amounted to \$3.4 million and expenditures were in the amount of \$1.6 million. UNU-FLORES approved budget for the biennium 2014-2015 was \$5.2 million, and as of August 2014, expenditures amounted to \$1.8 million. UNU-FLORES staffing included seven fixed term staff members: the Director, five Academic Officers, and a Finance and Administration Officer. They were supported by six individuals on Personnel Service Agreements, one PhD candidate, one Junior Fellow, one Consultant and two Interns working in Dresden, as well as five home-based consultants.
5. UNU had signed memoranda of understanding (MOUs) with the Federal Ministry for Education and Research of Germany, the Free State of Saxony, the Technical University of Dresden and the respective Ministry and Partner University in a developing country.
6. Comments provided by UNU-FLORES are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNU governance, risk management and control processes in providing reasonable assurance regarding **the effective management of UNU-FLORES operations**.
8. The audit was included in the 2014 OIOS work plan for UNU due to the risk that potential weaknesses in management of operations could prevent UNU-FLORES from achieving its objectives.

9. The key controls tested for the audit were: (a) strategic planning and risk assessment; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic planning and risk assessment** - controls that provide reasonable assurance that strategic planning mechanisms are in place and implemented effectively, and that risks to achievement of objectives are assessed and appropriately mitigated.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the activities of UNU-FLORES in the areas of human resources management, administration and financial management, procurement and asset management; (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 this audit from October 2014 to January 2015. The audit covered the period from December 2012 to September 2014.

12. 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

13. The UNU-FLORES governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of UNU-FLORES operations**. OIOS made three recommendations to address issues identified in the audit.

14. Strategic planning and risk assessment was rated as partially satisfactory because there was a need to undertake a risk assessment in accordance with the United Nations guidance on enterprise risk management. There was also a need to reinforce relations with the developing country Partner University and create an Operating Unit.

15. In the area of regulatory framework, the delegation of authority system was functioning satisfactorily. However, UNU-FLORES needed to automate the segregation of duties in procurement.

16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two 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 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 UNU-FLORES operations	(a) Strategic planning and risk assessment	Partially satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Strategic planning and risk assessment

Need to undertake a risk assessment in accordance with the United Nations guidance on enterprise risk management

17. The United Nations Enterprise Risk Management and Internal Control Policy adopted in May 2011 requires Risk and Internal Control Focal Points in Departments and Offices to customize the Secretariat-wide Risk Universe to reflect the risks relevant to their entities and to monitor the effectiveness of risk management and internal control measures.

18. Although the UNU-FLORES strategic plan for 2014-2018 included an analysis of its strengths, weaknesses, opportunities and threats (SWOT analysis), key risks and mitigation measures were not identified. The institute was yet to conduct a comprehensive risk assessment. OIOS was informed that UNU-FLORES was planning to start this exercise. The institute stated that although UNU had created a quality assurance framework covering the academic aspect of its projects, corporate guidelines on Enterprise Risk Management had not yet been developed.

(1) UNU-FLORES should, in consultation with UNU in Tokyo, undertake a risk assessment using the guidance provided by the United Nations Secretariat.

UNU-FLORES accepted recommendation 1 and stated that it will develop a local Enterprise Risk Management with guidance and assistance from UNU Centre. Recommendation 1 remains open pending receipt of evidence that UNU-FLORES has undertaken a risk assessment in accordance with the guidance provided by the United Nations Secretariat.

Fundraising activities had improved at the Institute

19. The strategic plan of UNU-FLORES included the strategic goal of fundraising. However, UNU-FLORES had not established an endowment fund as envisioned in the UNU strategic plan for 2015-2019. UNU-FLORES had also not prepared a fundraising action plan with the support of relevant headquarters entities as required by the UNU office-wide centralized system of fundraising for field offices. Out of funding requests made during 2012-2014, which amounted to \$3.3 million, only \$146,000 had been confirmed as of November 2014. Further, external funding for a research project was received only in one case, although the plan was to receive external funding for all the nine projects. If UNU-FLORES

does not receive enough supplementary funding from external sources, its long term sustainability may be at risk.

20. UNU-FLORES took corrective action to address the deficiencies. In November 2014 it developed a fundraising strategy. In addition, in March 2015, it approached a donor with a proposal to create an endowment fund. In February 2015, UNU-FLORES held a workshop on writing of funding proposals and planned to conduct another workshop on proposal development in May 2015. In view of the actions already taken by UNU-FLORES, no recommendation was made.

Need to reinforce relations with the Institute's Partner University

21. Based on an internal impact assessment by UNU which indicated an imbalance in the locations of available knowledge and the biggest needs for it, UNU proposed to establish a partnership with a university in one of the developing countries. In December 2012, an MOU was signed by the Ministry for Science and Technology of the host developing country, the Partner University and UNU covering the period of one year up to December 2013. In November 2013, the 60th Council of UNU approved the establishment of an Operating Unit of UNU-FLORES in one of the developing countries, planned to take place by the end of 2014.

22. The plan was to launch the Operating Unit in 2014 after signing the Funding and Location Agreement and extending the present MOU. However, these plans were yet to materialize. Discussions with the host country and Partner University had also not been concluded. The host country contribution of \$150,000 that was expected in the first semester of 2014 had not been received. The premises had been identified and a security assessment carried out, but recommendations made to ensure the premises complied with the United Nations' Minimum Operating Security Standards (MOSS) had not been addressed. UNU-FLORES had also not established a contingency plan in case difficulties in the creation of the Operating Unit persist. Establishing an Operating Unit as approved by the UNU Council would increase opportunities for UNU-FLORES to establish strong partnerships in developing countries.

(2) UNU-FLORES, with the support of UNU in Tokyo, should conclude discussions with the respective Ministry and Partner University, including operational, financial and security elements, as soon as possible or seek alternative ways to establish strong partnerships in developing countries.

UNU-FLORES accepted recommendation 2 and stated that with the support from UNU in Tokyo, it was making every effort to realize the meeting with the respective Ministry and Partner University to conclude discussions. Based on the result of the conclusion which will be made during the above mentioned meeting, UNU will seek alternative ways if needed. Recommendation 2 remains open pending conclusion of discussions with the Government of the host country and the Partner University on the creation of the Operating Unit.

B. Regulatory framework

The delegation of authority system was functioning satisfactorily

23. The authority for disbursement of funds was held at the UNU Centre in Kuala Lumpur. The certifying officer and approving officer had delegation of authority from the Office of Programme Planning, Budget and Accounts (OPPBA) at United Nations Headquarters. The Director of Administration at UNU headquarters had also delegated authority for petty cash management to the Manager of the Office of the Director in writing. Similarly, as per the UNU-FLORES Statute, the UNU

Rector had delegated authority to the UNU-FLORES Director with regard to the direction, organization, administration and programmes of UNU-FLORES.

24. The Finance and Administration Officer prepared payment vouchers, purchase orders and requisitions and submitted them for approval to the Director. Once approved, the documents were sent to the UNU Centre in Kuala Lumpur for further review by the procurement officer and the approving officer prior to the authorization of the payment and the release of funds.

25. The recruitment process at UNU-FLORES also involved approvals by the UNU Centre in Kuala Lumpur at various stages, such as issuing the terms of reference for a vacancy, and submission of the selection and interview reports for review and recommendation by the Central Review Bodies, wherever applicable.

26. Based on the above, OIOS concluded that the delegation of authority system at UNU-FLORES was functioning satisfactorily.

Need to automate the segregation of duties in procurement

27. The United Nations Procurement Manual provides guidance on procurement policies, procedures and practices for personnel involved in the procurement and acquisition processes. It requires that procurement personnel complete the mandatory procurement training and also the financial disclosure forms.

28. During the period under review, UNU-FLORES entered into six contracts over \$4,000 amounting to \$214,176. OIOS review of the procurement process for the contracts showed that the needs were clearly identified, and the technical and commercial evaluations were performed as required. Additionally, the contracts were approved by the appropriate authority. When there was an exception to competitive bidding, the reason was properly documented. The institute had also evaluated the performance of vendors for all contracts over \$4,000.

29. However, the Finance and Administration Officer had access rights to create, modify and approve purchase orders in Atlas, the enterprise resource planning system of UNU, which was contrary to the principle of segregation of duties. UNU-FLORES had identified the issue and requested the Atlas security team to address it. UNU-FLORES stated that pending the technical resolution of this issue, there were internal controls outside of Atlas to ensure segregation of duties in the creation/modification and approval of purchase orders.

(3) UNU-FLORES should follow up with the UNU Centre in Kuala Lumpur and ensure that appropriate changes are made by the Atlas security team to achieve segregation of duties in procurement functions.

UNU-FLORES accepted recommendation 3 and stated that it had implemented proper segregation of duties regarding the procurement process. The changes implemented in Atlas were made and went live on 17 April 2015. Based on action taken by UNU, recommendation 3 has been closed.

IV. ACKNOWLEDGEMENT

30. OIOS wishes to express its appreciation to the Management and staff of UNU 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 University Institute for Integrated Management of Material Fluxes and of Resources

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNU-FLORES should, in consultation with UNU in Tokyo, undertake a risk assessment using the guidance provided by the United Nations Secretariat.	Important	O	Submission to OIOS of evidence that UNU-FLORES has undertaken a risk assessment in accordance with the guidance provided by the United Nations Secretariat.	31 December 2015
2	UNU-FLORES, with the support of UNU in Tokyo, should conclude discussions with the respective Ministry and Partner University, including operational, financial and security elements, as soon as possible or seek alternative ways to establish strong partnerships in developing countries.	Important	O	Conclusion of discussions with the Government of the host country and the Partner University on the creation of the Operating Unit.	31 March 2016
3	UNU-FLORES should follow up with the UNU Centre in Kuala Lumpur and ensure that appropriate changes are made by the Atlas security team to achieve segregation of duties in procurement functions.	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 UNU in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the United Nations University Institute for Integrated Management of Material Fluxes and of Resources

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNU-FLORES should, in consultation with UNU in Tokyo, undertake a risk assessment using the guidance provided by the United Nations Secretariat.	Important	YES	Director of UNU- FLORES	31/12/2015	UNU-FLORES will develop a local ERM, with guidance and assistance from the UNU Centre.
2	UNU-FLORES, with the support of UNU in Tokyo, should conclude discussions with the respective Ministry and Partner University, including operational, financial and security elements, as soon as possible or seek alternative ways to establish strong partnerships in developing countries.	Important	YES	Director of UNU- FLORES	31/03/2016	With the support from UNU in Tokyo, UNU-FLORES is making every effort to realize the meeting with the respective Ministry and Partner university to conclude discussions. Based on the result of the conclusion which will be made during the above mentioned meeting, UNU will seek alternative ways if needed.
3	UNU-FLORES should follow up with the UNU Centre in Kuala Lumpur and ensure that appropriate changes are made by the Atlas security team to achieve segregation of duties in procurement functions.	Important	YES	Director of UNU- FLORES	17/04/2015	UNU has implemented proper segregation of duties regarding the procurement process. Self-approval of requisitions and purchase orders has been restricted. The changes implemented in ATLAS were made and went live on 17 April 2015. The recommendation should be removed.

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.