



INTERNAL AUDIT DIVISION

REPORT 2015/117

Audit of financial management at the United Nations Convention to Combat Desertification

Overall results relating to the effectiveness of financial management were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

12 October 2015
Assignment No. AA2015/242/01

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AUDIT REPORT

Audit of financial management at the United Nations Convention to Combat Desertification

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial management at the United Nations Convention to Combat Desertification (UNCCD).
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. Established in 1994, UNCCD is the sole legally binding international agreement linking environment and development to sustainable land management. Desertification was identified as one of the greatest challenges to sustainable development during the 1992 Rio Earth Summit.
4. The Convention addresses arid, semi-arid and dry sub-humid areas (dry lands) where some of the most vulnerable ecosystems and peoples can be found. The 196 Parties to the Convention worked together to improve the living conditions for people in dry lands, to maintain and restore land and soil productivity, and to mitigate the effects of drought. According to the UNCCD strategy (2008-2018), the specific goals for the Parties were "to forge a global partnership to reverse and prevent desertification/land degradation and to mitigate the effects of drought in affected areas in order to support poverty reduction and environmental sustainability". UNCCD implemented five programmes as follows: (a) Advocacy, awareness raising and education; (b) Policy framework; (c) Science, technology and knowledge; (d) Capacity-building; and (e) Financing and technology transfer.
5. UNCCD expenditure for the 2012-2013 biennium was \$32.6 million and for the year 2014, the expenditure amounted to \$19.9 million. UNCCD operated seven trust funds: (a) Trust Fund for the Core Budget of UNCCD; (b) Trust Fund for Participation of Representatives of Eligible Parties in Sessions of the UNCCD Conference; (c) Trust Fund for Voluntary Financing of Activities under UNCCD; (d) Trust Fund for Convention Events Organized by the UNCCD Secretariat (the Bonn Fund); (e) Special Account for Programme Support Costs; (f) UNCCD cost recovery under Host Country Agreement; and (g) Global Mechanism Trust Fund. The United Nations Office at Geneva (UNOG) provided treasury services to UNCCD and procurement services were provided by the United Nations Framework Convention on Climate Change (UNFCCC).
6. The UNCCD Secretariat based in Bonn, Germany facilitated cooperation between developed and developing countries, particularly around knowledge and technology transfer for sustainable land management. During 2012 to 2014, the staffing strength of UNCCD comprised 45 staff members.
7. Comments provided by UNCCD are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of UNCCD governance, risk management and control processes in providing reasonable assurance regarding the **effectiveness of financial management at UNCCD**.

9. The audit was included in the OIOS 2015 internal audit work plan for UNCCD in view of the risk that ineffective financial management could undermine the implementation of the Convention's activities.

10. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the provision of efficient and effective financial management support to the Convention; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial information.

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

12. OIOS conducted the audit at the UNCCD Secretariat in Bonn, Germany from July to August 2015. The audit covered the period from January 2012 to December 2014 and covered financial performance, trust fund management, delegation of authority, resource mobilization and banking arrangements.

13. 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

14. The UNCCD governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effectiveness of financial management at UNCCD**. OIOS made four recommendations to address issues identified in the audit. Administrative arrangements between UNCCD and the United Nations Secretariat were outdated and needed to be updated. Three out of the seven trust funds operated by UNCCD had negative reserve fund balances as at 31 December 2014, which adversely affected the financial strength of the trust funds and could impair the Convention's ability to implement priority activities. Additionally, there was need for UNCCD to: (a) actively pursue unpaid contributions; and (b) develop policies and procedures for the engagement of partners.

15. The overall rating was based on the assessment of the key control presented in Table 1 below. The final overall rating is partially satisfactory as implementation of four 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 control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effectiveness of financial management at UNCCD	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Administrative arrangements between the United Nations Secretariat and the Convention needed to be updated

16. General Assembly resolution 52/198 endorsed the institutional linkage between UNCCD and the United Nations. Pursuant to this resolution, the Under-Secretary-General for Management, by a memorandum dated 22 April 1998 to the Executive Secretary of the then Interim Secretariat of UNCCD, defined the administrative arrangements between the United Nations Secretariat and UNCCD. The memorandum established the arrangements for personnel, financial and common support services for the period 1999-2000 and defined the responsibilities of UNCCD and the United Nations Secretariat. These arrangements were to be reviewed in the year 2000 to make appropriate modifications as considered necessary by both parties. The Executive Secretary reported to the Secretary-General on administrative and financial issues through the Under-Secretary-General for Management.

17. At the time of the audit (August 2015), there was no evidence that the administrative arrangements had been reviewed and updated. In the meantime, the UNCCD Secretariat had evolved and adopted new administrative arrangements that rendered the 1998 arrangements outdated, as indicated by the following:

- (a) UNOG was to provide financial and common services to UNCCD. However, UNOG only provided treasury services to UNCCD.
- (b) UNOG was to handle all procurement transactions over \$50,000 on behalf of UNCCD. In practice, UNFCCC provided procurement services to UNCCD.
- (c) UNOG was to provide conference services to the sessions of the Conference of the Parties and its subsidiary bodies. In practice, the UNCCD Secretariat provided conference services for these meetings.
- (d) UNCCD was to consult UNOG on the level of fees to pay for consultancy services. There was no evidence that UNCCD consulted UNOG on this matter.

18. Furthermore, there was no clarity on the delegation of authority from the United Nations Secretariat and/or the Conference of the Parties to the Executive Secretary of UNCCD to clarify responsibilities and accountabilities.

19. Outdated administrative arrangements between the United Nations Secretariat and UNCCD could result in dilution of accountability in the performance of assigned responsibilities.

(1) UNCCD should, in coordination with the Department of Management, review and update the administrative arrangements between the UNCCD Secretariat and the United Nations Secretariat to clarify mutual expectations and responsibilities.

UNCCD accepted recommendation 1 and stated that this matter was planned to be addressed following the implementation of Umoja, as the business process may change in the new system. The Department of Management concurred and stated that it remains available to work together with UNCCD to address the administrative arrangements and delegation of authority going forward. Recommendation 1 remains open pending receipt of the updated administrative arrangements between the UNCCD Secretariat and the United Nations Secretariat.

Measures were needed to strengthen the financial position of certain trust funds

20. Adequate fund and reserve balances are required in order to implement priority activities and maintain the financial position of trust funds.

21. As at 31 December 2014, three out of seven trust funds operated by UNCCD had negative reserve fund balances (see Table 2 below).

Table 2: Financial position of UNCCD trust funds for the period 2012 to 2014 (amounts in \$)

Trust fund	2012 – 2013		2014	
	Net excess/ (shortfall) of income over expenditure for the biennium	Total reserves and fund balances as at 31 December 2013	Net excess/ (shortfall) of income over expenditure for the year ending 31 December 2014	Total reserves and fund balances as at 31 December 2014
Trust Fund for the Core Budget of UNCCD	(1,733,643)	(1,647,475)	(220,291)	(5,813,039)
Trust Fund for Convention Events Organized by the UNCCD Secretariat	(79,649)	(502,960)	160,616	(576,942)
Special Account for UNCCD Programme Support Costs	(1,602,098)	102,428	(955,862)	(1,870,122)

22. UNCCD explained that the negative financial positions were mainly a result of recognition and accrual of staff end-of-service and post-retirement benefits that had not been previously accounted for. These benefits mainly comprised after-service health insurance, repatriation costs and commutation of unused vacation days. In addition, foreign exchange fluctuations contributed to the adverse financial position as the United States Dollar had strengthened against the Euro.

23. Negative reserve and fund balances could weaken the financial position of UNCCD and result in the Convention's inability to implement priority activities.

(2) UNCCD should take remedial measures to address the adverse balances relating to the Trust Fund for the Core Budget of UNCCD, Trust Fund for Convention Events Organized by the UNCCD Secretariat, and the Special Account for UNCCD Programme Support Costs.

UNCCD accepted recommendation 2 and stated that the adverse balances were due to the recording of non-cash expenses such as depreciation, provision for doubtful debts, loss on foreign exchange, and after-service health insurance, in compliance with the International Public Sector Accounting Standards. Liabilities related to after-service health insurance were addressed to the Conference of the Parties in 2012 with no decision taken by the Parties. Recommendation 2 remains open pending receipt of evidence that remedial action has been taken to address the adverse balances relating to trust funds.

Unpaid contributions needed to be pursued

24. The Parties, in Decision 10/COP.11, requested the Executive Secretary to continue to report on the implementation of arrangements regarding outstanding contributions. UNCCD followed up on unpaid contributions and published the status of contributions on its web site on a monthly basis. UNCCD also reported the status of contributions at Bureau meetings and bilateral meetings.

25. A significant amount of contributions remained unpaid to the Trust Fund for the Core Budget of UNCCD. Contributions amounting to Euro 2,411,787 relating to the period from 2008 to 2014 had not been paid by the Parties by 31 December 2014. This was composed of Euro 758,729 for 2008-2009; Euro 134,604 for 2010-2011; Euro 751,436 for 2012-2013; and Euro 767,018 for 2014. In addition, there was \$866,375 uncollected for the period 1999-2007.

26. Unpaid pledges adversely affect the financial strength of the trust funds and could impair the Convention's ability to implement its activities.

(3) UNCCD should actively pursue the unpaid contributions to the Trust Fund for the Core Budget of UNCCD.

UNCCD accepted recommendation 3 and stated that it will continue its efforts to collect the outstanding contributions. Recommendation 3 remains open pending receipt of evidence that the issue of unpaid contributions has been appropriately addressed.

Policies and procedures for partnerships needed to be developed

27. Policies and procedures provide the necessary strategic and operational direction for identification of partners, due diligence and vetting of partners, and transparency in selection of partners. Policies and procedures should also indicate oversight mechanisms and modalities to ensure the delivery of agreed services before full payment, and performance evaluation.

28. UNCCD entered into partnerships with government, non-government and international organizations to implement its activities. These included resource mobilization, joint implementation of activities, provision of technical assistance, awareness-raising projects, and promotion of new approaches to entrepreneurship that positively impact the environment. However, UNCCD had not developed policies and procedures to guide its engagements with partners.

29. UNCCD explained that it relied on United Nations regulations and rules in its engagement of partners. While these regulations and rules provide guidance on procurement of commercially available

goods and services, they do not provide adequate guidance and safeguards on the engagement of partners. The lack of policies and procedures on engagement with partners could pose risks to the Organization's reputation since potential engagement with an inappropriate partner might not be detected and addressed.

(4) UNCCD should develop appropriate policies and procedures for partnerships.

UNCCD accepted recommendation 4 and stated that it had a document titled "Guide to Build Partnerships". OIOS review of this document indicated that it was too general and lacked the required specificity, criteria and procedures to serve as a framework for effectively managing partnerships. Recommendation 4 remains open pending receipt of UNCCD policies and procedures for partnerships.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General, Acting Head
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of financial management at the United Nations Convention to Combat Desertification

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNCCD should, in coordination with the Department of Management, review and update the administrative arrangements between the UNCCD Secretariat and the United Nations Secretariat to clarify mutual expectations and responsibilities.	Important	O	Receipt of the updated administrative arrangements between the UNCCD Secretariat and the United Nations Secretariat.	31 December 2016
2	UNCCD should take remedial measures to address the adverse balances relating to the Trust Fund for the Core Budget of UNCCD, Trust Fund for Convention Events Organized by the UNCCD Secretariat, and the Special Account for UNCCD Programme Support Costs.	Important	O	Receipt of evidence that remedial action has been taken to address the adverse balances relating to trust funds.	31 December 2017
3	UNCCD should actively pursue the unpaid contributions to the Trust Fund for the Core Budget of UNCCD.	Important	O	Receipt of evidence that the issue of unpaid contributions has been appropriately addressed.	31 December 2016
4	UNCCD should develop appropriate policies and procedures for partnerships.	Important	O	Receipt of UNCCD policies and procedures for partnerships.	31 July 2016

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

³ C = closed, O = open

⁴ Date provided by UNCCD in response to recommendations.

APPENDIX I

Management Response

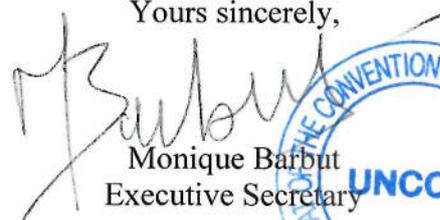
28 September 2015

Dear Mr. Kumar,

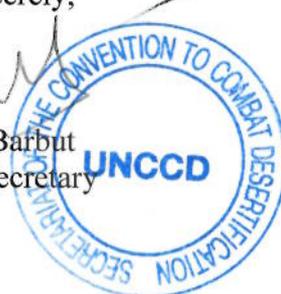
In reference to your letter of 14 September 2015 (IAD: 15-00569), I would like to thank you for the information contained in the draft report on an audit of financial management at the United Nations Convention to Combat Desertification (UNCCD) (Assignment No. AA2015/242/01), which I believe will guide the secretariat in improving its financial operations. As I understand that the Administrative Services unit of the UNCCD secretariat has already provided feedback and comments to this report, I wish to confirm that I have nothing further to add.

In closing, I would like to take this opportunity to thank you and, through you, the Internal Audit Division of the Office of Internal Oversight Services for your assistance to the UNCCD and I look forward to working with you in the future.

Yours sincerely,



Monique Barbut
Executive Secretary



Mr. Gurpur N. Kumar
Deputy Director
Internal Audit Division
Office of Internal Oversight Services

Management Response

Audit of financial management at the United Nations Convention to Combat Desertification

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNCCD should, in coordination with the Department of Management, review and update the administrative arrangements between the UNCCD Secretariat and the United Nations Secretariat to clarify mutual expectations and responsibilities.	Important	Yes	Head of Administrative Services	December 2016	
2	UNCCD should take remedial measures to address the adverse balances relating to the Trust Fund for the Core Budget of UNCCD, Trust Fund for Convention Events Organized by the UNCCD Secretariat, and the Special Account for UNCCD Programme Support Costs.	Important	Yes	Head of Administrative Services	December 2017	
3	UNCCD should actively pursue the unpaid contributions to the trust fund for the core budget of UNCCD.	Important	Yes	Head of Administrative Services	December 2016	
4	UNCCD should develop appropriate policies and procedures for partnerships.	Important	Yes	Head of Administrative Services	July 2016	

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.