



## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/084**

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#### **Audit of the Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change**

**Overall results relating to the effective management of the Finance, Technology and Capacity-building programme were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**09 October 2013  
Assignment No. AA2013/241/01**

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# AUDIT REPORT

## Audit of the Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Finance, Technology and Capacity-building (FTC) programme at the United Nations Framework Convention on Climate Change (UNFCCC).
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. The FTC programme was one of the substantive programmes of the UNFCCC Secretariat that had the overall purpose of providing administrative and technical support to the Conference of the Parties based on mandates contained in several Articles of the Convention and its Kyoto Protocol as well as decisions and conclusions of the Subsidiary Bodies established thereunder. The key mandates of the FTC programme were reflected in the following three sub-programme objectives:
  - a. To support the intergovernmental process with regard to the provision of financial resources to developing country Parties for adaptation and mitigation;
  - b. To support and enhance cooperation among the Parties and relevant organizations on the research, development, demonstration, deployment, diffusion, and transfer of technologies for adaptation and mitigation; and
  - c. To enhance the capacity of the Parties, and education, training and public awareness activities of the Parties, in particular developing country Parties, for their active engagement and participation in implementing the Convention and its Kyoto Protocol.
4. Activities of the FTC programme were driven by the Conference of the Parties and Subsidiary Bodies' decisions. UNFCCC revised its programme structures in 2011 to maximize synergy and coherence of its functions and to provide more focused support to the adaptation and mitigation efforts undertaken by the developing countries, including measurement, reporting and verification of support provided. The revised programme structures were also intended to maximize the use of resources with new and evolving requirements and served as the basis for the budget and work programme for 2012-2013.
5. The FTC programme was headed by a Programme Coordinator at D-1 level who reported to the Executive Secretary. However, the post was vacant since June 2012 and recruitment was on-going at the time of audit in May 2013. As of February 2013, the FTC programme had 29 posts funded from the core budget and supplementary fund, of which 22 were filled. There were also 10 consultants whose contracts were on-going while 20 consultants contracted in 2012 had completed their contracts as of February 2013.
6. Table 1 shows details of the FTC programme's budget, contributions and expenditures from 1 January 2010 to 31 January 2013.

**Table 1: FTC programme budget, contributions and expenditures  
for the period January 2010 to 31 January 2013**

<b>Particulars</b>	<b>Core Budget</b>	<b>Supplementary Funds</b>	<b>Total</b>
	<b>(In thousands of US Dollars)</b>		
<b>Biennium 2010-2011</b>			
Core budget/contributions	6,860	7,352	14,212
Expenditures	6,628	3,870	10,498
Net excess (shortfall) of income over expenditures	232	3,482	3,714
Percentage of expenditures over budget/income	97%	53%	74%
<b>1 January 2012 - 31 January 2013</b>			
Core budget/contributions	7,116	11,129	18,541
Expenditures	3,278	4,781	8,273
Net excess (shortfall) of income over expenditures	3,838	6,348	10,268
Percentage of expenditures over budget/income	46%	43%	45%

7. Comments provided by UNFCCC are incorporated in *italics*.

## **II. OBJECTIVE AND SCOPE**

8. The audit was conducted to assess the adequacy and effectiveness of UNFCCC governance, risk management and control processes in providing reasonable assurance regarding **the effective management of the FTC programme's administrative and technical support to the Conference of the Parties**.

9. The audit was included in the 2013 OIOS risk-based work plan because of the risks associated with significant changes in the UNFCCC programme structure that affected the FTC programme, which is an essential function of UNFCCC.

10. The key controls tested for the audit were: (a) coordinated management mechanisms; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Coordinated management mechanisms** - controls that provide reasonable assurance that potential overlaps in the delivery of the FTC programme are mitigated, and that issues affecting or involving other United Nations partners and actors are identified, discussed and resolved appropriately and timely.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the FTC programme; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

11. The key controls were assessed for the control objectives shown in Table 2.

12. OIOS conducted this audit from 18 March to 27 May 2013. The audit covered the period from January 2011 to February 2013.

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. In OIOS’ opinion, the UNFCCC governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding **the effective management of the FTC programme’s administrative and technical support to the Conference of the Parties**. OIOS made three recommendations to address the issues identified in the audit. Controls relating to coordinated management mechanisms were generally satisfactory to ensure: support to the Parties; and effective collaboration with other United Nations entities, international agencies and partners/alliances. Controls relating to regulatory framework needed to be strengthened by: (a) establishing guidelines or procedures to report unspent funds to donors and obtain their authorization to reallocate the unspent balances; (b) ensuring that project reports are reviewed and endorsed timely and fund utilization reports are submitted to donors within the agreed timeframes; and (c) ensuring that proposed project budgets provide realistic estimates based on needs assessment of project activities, more reliable estimation of project requirements, and clear timelines for implementing project activities. UNFCCC accepted two recommendations and is in the process of implementing them. However, UNFCCC did not accept one important recommendation. OIOS has reviewed the rationale provided by UNFCCC for not accepting the recommendation, and the associated residual risk, and closed the recommendation without implementation.

15. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

**Table 2: 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
<b>Effective management of the FTC programme’s administrative and technical support to the Conference of the Parties</b>	(a) Coordinated management mechanisms	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

#### A. Coordinated management mechanisms

Collaboration arrangements with other United Nations entities, international agencies and partners were generally satisfactory

16. In accordance with the various decisions of the Conference of the Parties and Subsidiary Bodies, UNFCCC engaged in inter-agency cooperation and collaboration activities with other United Nations

entities and international organizations, convention secretariats, private sector, and intergovernmental organizations. This was done to: (a) mobilize financial resources, international cooperation on technology development and transfer, and capacity-building; and (b) provide education, training and public awareness to enable enhanced action by the Parties relating to climate change.

17. UNFCCC usually employed an informal approach in coordinating with its partner agencies and only one coordination arrangement was formalized between UNFCCC and the International Energy Agency on 3 September 2012. However, alternative mechanisms were in place to ensure effective coordination of activities between UNFCCC and its collaborating partners. These included regular coordination meetings (face to face, video conferencing, other forms of communication), joint retreats, and mapping out work linkages between UNFCCC and its partners. UNFCCC prepared and submitted to the Subsidiary Body for Scientific and Technological Advice at its 36<sup>th</sup> session, held on 14 to 25 May 2012, a summary of cooperation activities with United Nations entities and intergovernmental organizations that enhanced and contributed to the work of the Convention. Terms of reference were established for the alliance on climate change education, training and public awareness.

18. The FTC programme's mandate included providing administrative and technical support to committees created by the Parties, such as the Standing Committee on Finance, and the Technology Executive Committee. The Committees also established collaboration arrangements within and outside the Convention, to ensure coherence of work. In May 2012, a task force was created to link the UNFCCC institutional architecture to harmonize mandates and work plans, and to streamline the operational procedures for the Parties to obtain information and support from various institutions under the climate change regime. OIOS assessed that the collaboration arrangements were adequate and functioning satisfactorily.

#### Mechanisms established to ensure support to the Parties were generally satisfactory

19. Guided by the mandates received from the Parties either through the Conference of the Parties or Subsidiary Bodies' meetings, the FTC programme outlined its activities and functions in the biennium budget work programmes and in subsequent annual or semi-annual work plans prepared by the FTC sub-programmes and Units under the Office of the Coordinator. The annual or semi-annual work plans detailed planned activities, deadlines or milestones, and staff responsible (lead and support persons) for each set of activities. The progress in implementation of the work plan was monitored and followed up through team meetings, bilateral discussions and exchange of emails. There were also bilateral discussions between the FTC programme manager and the Executive Secretary. With respect to the committees supported by the FTC programme, relevant work plans were prepared for the committees with detailed activities and target outcomes. OIOS assessed that these mechanisms were adequate and functioning satisfactorily.

## **B. Regulatory framework**

#### Need for guidelines on unspent balances

20. While some donor agreements did not require UNFCCC to return any unspent balances from their contributions, they were not very specific about the projects or activities for which these unspent funds could be used. Hence, the FTC programme requested Administrative Services to reallocate the unspent balances without the prior approval of donors, when the proposed activities pertaining to new projects were related to completed projects. In these cases, the Programme Planning and Budget Unit (PPBU) compared the activities of completed projects with the new projects to determine whether the activities were related. However, some agreements specified the projects or activities within a project that the

donors were funding. In such cases, it was necessary to maintain records of project expenditures for each donor in order to track the unspent contributions. There were no guidelines or procedures to report the unspent balances to donors and obtain their authorization to reallocate the funds at the beginning of each budget period to ensure regularity, transparency and accountability.

**(1) UNFCCC should establish guidelines or procedures to report unspent project funds to donors and obtain their authorization to reallocate the funds to other projects.**

*UNFCCC accepted recommendation 1 and stated that the Financial Resources Management Unit (FRMU) has drafted guidelines in this regard in collaboration with programmes and plans to submit to the Management Subcommittee in the fourth quarter of 2013 for implementation by 1 January 2014. Recommendation 1 remains open pending receipt of evidence that guidelines have been established to report project expenditures to donors and obtain their authorization to reallocate unspent balances to other projects.*

Need to ensure timely reporting of funds utilization to donors

21. The guidelines on management of trust fund for supplementary activities (AG/2008/2) require programme managers to submit project progress or completion reports to PPBU by end of February or within two months of completion of projects that run less than a full biennium. The guidelines also require that the review of the reports by PPBU and subsequent endorsement by the Coordinator of Administrative Services should be completed within one week of receipt of the reports. The FTC programme generally submitted progress and completion reports timely. However, in seven out of eight cases reviewed, project reports were not endorsed by PPBU within the deadline prescribed. PPBU attributed this to inadequate staffing.

22. OIOS review of donor agreements pertaining to nine projects showed that some donors required UNFCCC to report within a specific period of time on how their contributions were utilized. According to AG/2008/2, PPBU in collaboration with programme managers is responsible for coordinating the reporting to donors on how contributions have been spent. Deadlines for reports should be monitored by both PPBU and programme managers and should be strictly adhered to at all times. Out of nine donor agreements that required submission of fund utilization reports within specified periods, UNFCCC delayed submitting reports to donors in four instances during the period under review. PPBU attributed the delays to three factors namely: inadequate staffing in PPBU; the need to improve collaboration between PPBU and programme managers; and lack of a mechanism to efficiently track expenditures by donor. PPBU stated that in line with the lean process currently implemented by UNFCCC, a workshop on trust fund management was held on 8 to 10 May 2013 to streamline and improve the processes and to establish additional mechanisms and guidelines, where appropriate.

23. Delays in submitting reports to donors may negatively impact the reputation of UNFCCC and impair the trust and confidence of donors in its ability to effectively manage and account for voluntary contributions. Timely submission of reports would enhance transparency and accountability.

**(2) UNFCCC should ensure that project reports are reviewed and endorsed timely; and fund utilization reports are submitted to donors within the agreed timeframes.**

*UNFCCC accepted recommendation 2 and stated that the FTC Programme Administrative Team (PAT) together with other programme teams met with FRMU to discuss on the draft guidelines entailing two internal control measures: timely submission of reports from programme to FRMU, and timely submission of reports from FRMU to the donors. As a result, FRMU is reviewing the comments and finalizing the guidelines for submission to the Management Subcommittee during the fourth quarter of*

2013 for implementation by the first quarter of 2014. Recommendation 2 remains open pending receipt of: (a) evidence that guidelines to improve timeliness of reporting have been established; and (b) copy of a sample report submitted to donor(s) in accordance with the established guidelines.

Need to ensure that budget estimates are more realistic

24. More than 60 per cent of funding for FTC programme activities came from supplementary funds. Based on the completion reports reviewed, unspent balances ranged from 23 to 74 per cent of the income for each project. Table 1 above shows that the percentage of unspent budget/income for supplementary funds for 2010-2011 was 53 per cent and 43 per cent for the period 1 January 2012 to 31 January 2013. Explanations for these variances, as indicated in completion reports, included the following: actual requirements were not forecasted; proposed activities were carried out using existing core resources and savings; activities initially foreseen in the project proposal did not take place; planned workshops were not held; actual expenditures on operating expenses and conference-related items were lower than expected; and the mandate of programme activities was not extended to enable utilization of funds. In some cases, higher than expected contributions were received for certain projects.

25. Considering that project proposals were used in campaigning for funds from prospective donors, the reasons cited for large unspent project funds could discourage donors from funding prospective activities, as donors could get the impression that the FTC programme has sufficient funds, or that it may have insufficient capacity to utilize funds. Improved budgetary processes including needs assessment, more reliable estimation of requirements, and clear timelines for implementation of project activities could enable realistic estimation of funding requirements, enhance project monitoring, and ensure more effective implementation of planned activities.

**(3) UNFCCC should ensure that proposed project budgets provide realistic estimates based on needs assessments, more reliable estimation of project requirements, and clear timelines for implementing project activities.**

*UNFCCC did not accept recommendation 3 stating that it does not deem that its current practices for budgeting for supplementary funded projects significantly increase risks to the organization. UNFCCC develops its budget projections based on available information at the time the budget is prepared. Projects are then adjusted depending on funding availability or not commenced should funds not be provided. Timelines are established and continuously revised depending on availability of supplementary funds. While OIOS takes note of these explanations, the fact remains that a significant percentage of the budget/income for supplementary funds remained unspent, which increased the risk that donors could be discouraged from providing funds for future UNFCCC activities. This risk needs to be more effectively managed by improving current budgetary practices along the lines recommended. OIOS has reviewed the rationale provided by UNFCCC for not accepting the recommendation, and the associated residual risk, and closed the recommendation without implementation.*

#### IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the Management and staff of UNFCCC 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 Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

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	UNFCCC should establish guidelines or procedures to report unspent project funds to donors and obtain their authorization to reallocate the funds to other projects.	Important	O	Receipt of copy of guidelines established to report project expenditures to donors and obtain their authorization to reallocate unspent balances to other projects.	31 January 2014
2	UNFCCC should ensure that project reports are reviewed and endorsed timely; and fund utilization reports are submitted to donors within the agreed timeframes.	Important	O	Receipt of: (a) copy of guidelines established to improve timeliness of reporting; and (b) copy of a sample report submitted to donor(s) in accordance with the established guidelines.	31 March 2014
3	UNFCCC should ensure that proposed project budgets provide realistic estimates based on needs assessments, more reliable estimation of project requirements, and clear timelines for implementing project activities.	Important	C	UNFCCC did not accept this recommendation. OIOS has reviewed the rationale provided by UNFCCC for not accepting the recommendation, and the associated residual risk, and closed the recommendation without implementation.	

<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 UNFCC in response to recommendations.

# **APPENDIX I**

## **Management Response**

## MANAGEMENT RESPONSE

## Audit of the Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNFCCC should establish guidelines or procedures to report unspent project funds to donors and obtain their authorization to reallocate the funds to other projects.	Important	Yes	Chief, FRMU	31/01/2014	<p>23/09/13: FRMU has drafted the guidelines in this regard in collaboration with programmes and plans to submit to the Management Subcommittee in Q 4 2013 for implementation by January 2014.</p> <p>15/08/13: UNFCCC explained at the exit conference meeting that the practice that is followed by all programmes throughout the secretariat (including FTC), is to report back to donors on funds spent (not only on unspent funds) if a contribution agreement has been concluded between the secretariat and the Party concerned. If an agreement has not been concluded and funds are unspent, authorization is obtained from AS/PPBU to utilize these unspent funds either within the same project if this is continuing into a new biennium, or to a project substantively linked to the original project that funds were contributed towards. It is planned that FRMU will prepare guidelines in this regard in</p>

<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 Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						collaboration with programmes for implementation by 1 January 2014.
2	UNFCCC should ensure that project reports are reviewed and endorsed timely; and fund utilization reports are submitted to donors within the agreed timeframes.	Important	Yes	FTC Coordinator and Chief, FRMU	31/03/14	<p>23/09/13: FTC Programme administrative team (PAT) together with other programme teams met with FRMU to discuss on the draft guidelines entailing two internal control measures: timely submission of reports from programme to FRMU, and timely submission of reports from FRMU to the donors on 12 Sept 2013. As a result, FRMU is reviewing the comments and finalizing the guidelines for submission to the Management subcommittee during Q 4 2013 for implementation by Q 1 2014.</p> <p>15/08/13: The board of auditors has observed this recommendation during the interim audit in April for the period 1 Jan. – 31 Dec. 2012. This led to the establishment of a workout group in May of 2013 to analyze the problem and propose solutions. Two key areas identified for improvement during the workout session were roles and responsibilities of programme and Administrative Services staff with regards to donor reporting and more detailed guidelines on preparation of narrative and financial</p>

## MANAGEMENT RESPONSE

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Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						reports related to donors. Both of the above two guidelines have been completed in draft form and have been sent out to programmes for comment as of 13 August 2013. It is expected that both sets of guidelines will help improve timeliness of reporting. It is expected that the detailed guidelines entailing two internal control measures: timely submission of reports from programme to FRMU, and timely submission of reports from FRMU to the donors will be approved during 4Q 2103. In addition, FRMU has compiled a detailed status of donor reports which is expected to be sent out monthly beginning in October. This is also expected to raise awareness and improve donor reporting.
3	UNFCCC should ensure that proposed project budgets provide realistic estimates based on needs assessments, more reliable estimation of project requirements, and clear timelines for implementing project activities.	Important	No			23/09/13: UNFCCC does not deem that its current practices for budgeting for supplementary funded project significantly increase risks to the organization. As explained in our comments of 15/8/2003, UNFCCC develops its budget projections based on available information at the time the budget is prepared. Projects are then adjusted depending on funding availability or not commenced should

## MANAGEMENT RESPONSE

## Audit of the Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

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						<p>funds not be provided. Timelines are established and continuously revised depending on availability of supplementary funds.</p> <p>15/08/13: The programme budget, including resources required for supplementary projects, is done well in advance of the period it covers. As a consequence, UNFCCC provides a 'best guess' on activities and resources required to undertake these activities based on mandates they expect to come out of meetings of the SBs and COP. This sometimes results in an overestimation of requirements or, in some cases, and under estimation of requirements, which requires remedial action on the part of UNFCCC in terms of fund-raising and/or utilization of funds that have already been contributed. Some of the factors that result in an underspend on supplementary activities include (1) mandates and activities initially foreseen were not required; (2) core resources have been used to supplement voluntary contributions to provide a better balance of fund usage; (3) as a result of efficiency gains (e.g. by holding</p>

## MANAGEMENT RESPONSE

## Audit of the Finance, Technology and Capacity-building programme at the United Nations Framework Convention on Climate Change

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						workshops in Bonn instead of locations away from Bonn or utilizing existing staff to take on more instead of recruiting) savings have been made; and (4) funds have not come in a predictable manner, which has meant it has been difficult to implement activities in a timely manner due to this uncertainty. All programme budget submissions and project proposals are done in collaboration with colleagues in AS/PPBU and explained in some detail, including requirements and resource needs, before finalizing and formally being sent out. Again, FTC follows the practice that is employed throughout the secretariat and is appreciative of the advice and guidance given by AS/PPBU staff. UNFCCC tries to ensure that budgets are prepared as accurately as possible. As explained above, the budgeting cycle/process requires that estimations are used based on the data/information which is available at the time the budgets are made.