OIOS

INTERNAL AUDIT DIVISION

REPORT 2016/130

Audit of United Nations Environment Programme Resource Efficiency Sub-programme

Controls relating to management of projects should be strengthened to increase the Sub-programme's effectiveness

7 November 2016
Assignment No. AA2016/220/01

Audit of United Nations Environment Programme
Resource Efficiency Sub-programme

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the United Nations Environment Programme (UNEP) Resource Efficiency Sub-programme. The audit covered the period from 1 January 2014 to 30 June 2016 and it included strategic planning and coordination, project management processes, monitoring and evaluation, project closure, partnership management, resource mobilization, financial reporting, and risk management processes.

The Resource Efficiency Sub-programme's activities relating to strategic planning, coordination and reporting were being implemented in accordance with the strategic framework and approved UNEP programme of work and budget for 2014-2015 and 2016-2017.

OIOS made six recommendations. To address issues identified in the audit, UNEP needed to:

- Establish funding thresholds for development and review of project documents.
- Maintain and periodically update the risk logs and report on the risk profile of its projects to senior management.
- Establish project evaluation plans at the project design stage and include the timelines for the evaluation in the project implementation plans for ease of tracking and accountability.
- Establish and implement guidelines for determining the mid points for projects whose durations have been extended to ensure that mandatory mid-term evaluations are planned for and conducted.
- Track expenditures against the project budgets, achievements, outputs and/or milestones.
- Require validation of the data relating to project performance recorded in the Programme Information Management System and reported in the related project reports.

UNEP accepted the recommendations and has initiated action to implement them.

CONTENTS

United Nations Environment Programme
Resource Efficiency Sub-programme

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations Environment Programme (UNEP) Resource Efficiency Sub-programme.

2.   The UNEP Governing Council's decision 19/1 defined the role of UNEP as the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system, and serves as an authoritative advocate for the global environment.

3.   According to its medium-term strategy for 2014-2017, UNEP focused on seven cross-cutting thematic priorities (also referred to as sub-programmes), as follows: climate change; disasters and conflicts; ecosystem management; environmental governance; harmful substances and hazardous waste (renamed chemicals and waste from 2014-15); resource efficiency and sustainable consumption and production; and environment under review (from the biennium 2014-2015).

4.   The objective of the Resource Efficiency Sub-programme is to promote and support the transition towards sustainable consumption and production, decoupling economic growth from unsustainable resource use and environmental impact, and to promote and assist in efforts towards patterns in which goods and services are increasingly produced, processed and consumed in a sustainable way in order to reduce environmental impact and contribute to the achievement of sustainable development while improving human well-being. For each thematic area, the medium-term strategy laid out the results that UNEP aimed to achieve.

5.   The Lead Director, who was also the Director of the Division of Technology, Industry and Economics, had the responsibility for the Resource Efficiency Sub-programme. According to the biennial programme of work and budget for 2014-2015 and 2016-2017, the Resource Efficiency Sub-programme had a budget of $77.3 million and $86.8 million respectively. The budget was financed by the Environment Fund ($94.3 million or 58 per cent), Regular Budget ($6.3 million or 4 per cent) and Extra Budget funding ($63.2 million or 38 per cent). An average of 123 posts were budgeted for the period January 2014 to June 2016, mainly in Early Warning and Assessment, Environmental Policy Implementation, Technology, Industry and Economics, Environmental Law and Conventions, and Communications and Public Information Divisions of UNEP.

6.   Comments provided by UNEP are incorporated in italics.

II.   AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7.   The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the Resource Efficiency Sub-programme.

8.   This audit was included in the OIOS 2016 risk-based work plan due to the risks related to the implementation of the Sub-programme and its impact on delivery of the UNEP mandate.

9.   OIOS conducted this audit from July to September 2016. The audit covered the period from 1 January 2014 to 30 June 2016. Based on an activity-level risk assessment, the audit covered higher and

medium risks in the Sub-programme, which included: strategic planning and coordination, partnership and resource management, risk management, and project management processes.

10.   The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data; and (d) judgmental sample testing of projects implemented under the Sub-programme.

III.   OVERALL CONCLUSION

11.   The Resource Efficiency Sub-programme's activities relating to strategic planning, coordination and reporting were being implemented in accordance with the strategic framework and approved UNEP programme of work and budget for 2014-2015 and 2016-2017. However, there was need to: (i) determine the thresholds for developing and reviewing project documents; (ii) maintain and update risk logs throughout the project cycle; (iii) establish and implement project evaluation plans; (iv) track expenditures against the budget and project deliverables; and (v) validate the reported outputs and accomplishments.

IV.   AUDIT RESULTS

A.   Strategic planning and coordination

Coordination of planning, monitoring and reporting of Sub-programme activities was adequate

12.   The UNEP Programme Manual requires that the Sub-programme Coordinator ensures coherence and coordination in monitoring and reporting of projects within the Sub-programme, and highlight relevant issues to the responsible supervisor. It further requires the Coordinator to assess each project's contribution towards overall delivery and achievement of the programme of work outputs and expected accomplishments.

13.   OIOS noted that the Sub-programme Coordinator: (i) developed a strategy and programme of work for the Sub-programme; (ii) identified appropriate organizations for establishing partnerships with them; (iii) coordinated a portfolio of projects that were relevant to achieving the results expected in the UNEP medium-term strategy and programme of work; and (iv) tracked and reported on the results of the Sub-programme within a broader global context. Under the leadership of UNEP Programme Strategy and Planning Team, Sub-programme Coordinators met regularly to agree and coordinate on the overall strategy for UNEP as a whole. OIOS therefore concluded that coordination of planning, monitoring and reporting of Sub-programme activities was adequate.

There was need to determine the qualifying project thresholds for development of project documents

14.   The UNEP Programme Manual requires: (i) development of a project document once a project design has been decided upon; (ii) indication of the project duration and budget; and (iii) indication of the logical flow of project elements towards a clearly specified result. The project document was to describe key issues on the delivery plan, budget, organization, risks, monitoring requirements, reporting and evaluation, with information uploaded in the Programme Information Management System (PIMS) to serve as a basis for monitoring project performance.

15.   OIOS review of 14 out of a total of 26 projects indicated that in three cases, even though they were reported as projects, they were in fact a cluster of small projects for which only one project document was prepared. Any additional projects could then be added to the cluster without modifying or

revising the project document, or subjecting them to management review and approval through the Project Review Committee. All the smaller projects (in most instances with funding of less than $100,000) were of different duration with different funding sources and donor requirements. Monitoring and reporting was consolidated at the cluster level. Some of the smaller projects that were closed had not been subjected to mid-term and terminal evaluations as required.

16. Within the Sub-programme, UNEP had such clustered projects that were not subject to the normal project initiation, review, approval and reporting processes as required by the UNEP Programme Manual. There were no clear guidelines, including minimum funding thresholds, to ensure that these projects conformed to the UNEP Programme Manual and related policy requirements. UNEP indicated that it was not economical to produce project documents for small projects and also independently subject these projects to the entire review, approval, implementation, monitoring, reporting and evaluation processes. Further, PIMS did not provide an alternative structure to manage and report on the clustered projects.

17. The visibility of the performance of individual projects was lost in the consolidation of clustered results. Also, the transaction costs of establishing the funding and issuing reports to donors could outweigh the benefits of these small projects. OIOS is of the view that UNEP needs to establish a threshold up to which small projects under a cluster would not require the development and review of project documents.

> **(1) UNEP should establish funding thresholds for development and review of project documents.**
>
> *UNEP accepted recommendation 1 and stated that it will establish funding thresholds for development and review of project documents.* Recommendation 1 remains open pending receipt of evidence of establishment of funding thresholds for development and review of project documents.

B.   Partnership and resource management

<u>Partnerships were established in accordance with policies and procedures but there was a need to address delays in clearing partnership proposals</u>

18. The Sub-programme had generally established and managed partnerships in accordance with the UNEP partnership policy and procedures dated 21 October 2011. Partnerships were established to support the implementation of activities contained in approved project documents.

19. OIOS review of 14 projects valued at $162 million out of a total of 26 projects valued at $190 million which were active during the audit period showed that UNEP had conducted and documented due diligence to identify the partners, reviewed proposals to select them, and used appropriate templates to establish the partnerships. In accordance with the signed agreements, UNEP paid partners in instalments after delivery of expected outputs, and submission of progress and financial reports. In addition, the Resource Efficiency Sub-programme maintained evidence of achievement of deliverables as reported by partners, and that project performance indicators were specific and measurable in all the partnership agreements reviewed. Therefore, OIOS concluded that the Sub-programme established its partnerships in accordance with applicable policies and procedures.

20.   However, there were delays of up to 36 months in clearing of partnership proposals. UNEP had established a Partnership Committee under Office for Operations to review and clear partnership proposals before agreements could be formalized. The Committee was supported by a secretariat which

met at least once a month to carry out its functions. UNEP acknowledged that the Partnership Committee secretariat had issues with the response times of the members which caused some exceptional delays in the past. Delays in clearing partnership proposals risked delaying the implementation of the programme of work, which could negatively impact the achievement of expected outputs and outcomes.

21.   In a previous OIOS report (2016/036 dated 29 April 2016) on an audit of UNEP Disasters and Conflict Sub-programme, OIOS had recommended that UNEP set up benchmarks and ensure timely review of project documents to facilitate timely implementation of projects. Since this recommendation is still under implementation, OIOS does not make an additional recommendation in the present report.

Actions were being taken to establish a resource mobilization strategy for the Sub-programme

22.   The UNEP Programme Manual of May 2013 requires the Sub-programme Coordinator, with the support of the Lead Director, to guide in the development and execution of a resource mobilization strategy. The Manual places emphasis on the need for a strategic approach to resource mobilization and the need for a cohesive working relationship between the different parties in fundraising, including divisions, branches and regional offices. These stakeholders were required to work closely with the Sub-programme Coordinator and Lead Director in the development of a resource mobilization strategy for the Sub-programme.

23.   The Resource Efficiency Sub-programme did not have a documented resource mobilization strategy and action plan to guide its fundraising activities. As a result, there was no cohesive approach to fundraising, including establishing an accountability framework for raising funds for projects. At the time of the audit, the Sub-programme had commenced the development of a resource mobilization strategy. Since UNEP had initiated actions in this regard, OIOS did not make a recommendation.

C.   Risk management

Project risks needed to be systematically identified, managed and reported throughout the project cycle

24.   The UNEP Programme Manual required project managers to analyze, monitor and manage project risks on a regular basis during the project cycle. This involved maintenance of risk logs as a basis for risk monitoring and management responses. Project managers were required to assess whether: (i) the identified risks had changed or become outdated; (ii) new risks had emerged; and (iii) the planned management responses needed to be modified.

25.   Whereas all the 14 project proposal documents reviewed captured the initial project risks and the required responses, the risks were not reported upon to senior management. Further, since risk logs were not maintained throughout the project life cycle, there was no assurance that risks were being systematically identified, emerging risks were being responded to, and that actions taken were periodically monitored.

26.   UNEP staff used PIMS to monitor project risks, challenges faced and corrective action to be taken during project implementation. PIMS had the potential to support risk management but the initial risks were not tracked and updated periodically. Further, PIMS was used more as a document repository and reporting tool, rather than for project risk management.

27.   Lack of updated risk logs may result in ineffective management of risks and ineffective or inefficient implementation of projects.

> **(2) UNEP should maintain and periodically update the risk logs and report on the risk profile of its projects to senior management.**
>
> *UNEP accepted recommendation 2 and stated that PIMS is being enhanced to include a more elaborated project risk assessment system in order to mitigate the issues identified.* Recommendation 2 remains open pending implementation of a risk log and evidence of periodic reporting of project risks to senior management.

D.   Project management

Project evaluations needed to be prioritized and conducted

28.   The UNEP Evaluation Policy requires that mid-term project evaluations or reviews be undertaken approximately half way through project implementation to assess whether a project is on track and determine any corrective actions required. A mid-term evaluation is mandatory for projects that extend for the duration of the medium-term strategy (four years) or longer. The policy further requires that terminal evaluations of projects be undertaken at their completion by independent evaluators contracted by the Evaluation Office to, among others, assess project performance and determine the outcomes/ results stemming from the project/activity cluster. These project level evaluations are required to feed into the higher level evaluation of expected accomplishments at the Sub-programme level.

29.   OIOS noted that of the 14 projects reviewed, six were of durations shorter than four years and were subjected to periodic extensions (some had as many as seven extensions), which took them beyond the four year threshold for mandatory mid-term evaluations. However, there was no clarity on how the mid-point for these projects would be determined in order to initiate the evaluations. Further, project evaluation plans and timelines were not included and budgeted for in project plans and were therefore not tracked or monitored.

30.   The lack of mid-term evaluations denied UNEP the opportunity to assess the progress of its projects and determine the corrective actions needed to address any problems in implementation.

> **(3) UNEP should establish project evaluation plans at the project design stage and include the timelines for the evaluation in the project implementation plans for ease of tracking and accountability.**
>
> *UNEP accepted recommendation 3 and stated that the project document template is being updated to incorporate more specific guidance and timelines on project evaluation plans.* Recommendation 3 remains open pending receipt of evidence that project evaluation plans have been included in project documents, with timelines.
>
> **(4) UNEP should establish and implement guidelines for determining the mid-points for projects whose durations have been extended to ensure that mandatory mid-term evaluations are planned for and conducted.**
>
> *UNEP accepted recommendation 4 and stated that the new evaluation policy (March 2016) establishes such guidelines, which are also captured in the new Programme Manual which is currently being reviewed for finalization. The recommendation will be considered implemented with the release of the new Programme Manual.* Recommendation 4 remains open pending receipt of evidence of issuance of guidelines for determining the mid-points for projects.

Project financial performance needed to be monitored and reported against budgets and deliverables

31.   The UNEP Programme Manual requires project managers to measure and monitor financial performance of the projects based on the planned budgets and the installment schedule of secured funding. It further requires project managers to analyze the gap between the actual expenditure and planned budget on a regular basis and review the expenditures against project performance.

32.   OIOS review of 14 projects valued at $162 million out of a total of 26 projects valued at $190 million showed that project managers did not regularly analyze and monitor financial performance. Further, project financial performance monitoring was neither set as an output nor built into the periodic reporting process to be tracked for compliance. This situation was attributed to lack of a framework for project managers to monitor and report on project financial performance against the budget and outputs.

33.   Monitoring the financial performance of projects is necessary to ensure accountability for resource management and alignment of expenditures with project accomplishments.

> **(5)   UNEP should track expenditures against the project budgets, achievements, outputs and/or milestones.**
>
> *UNEP accepted recommendation 5 and stated that information on expenditures against project budgets, and outputs will be accessible incrementally in a dashboard format on the SAP platform, which is managed by the Umoja teams in New York and Vienna.* Recommendation 5 remains open pending receipt of evidence that project expenditures are tracked against budgets, achievements, outputs and/or milestones.

There was a need to validate reported project accomplishments

34.   The UNEP Programme Manual requires semi-annual reporting on the accomplishment of the output and outcome indicators in the UNEP monitoring and reporting module in PIMS. This involved keeping evidence of accomplishments achieved as well as provision of explanations for variations. Based on the data and information maintained in PIMS, UNEP prepared an annual Programme Performance Report for the United Nations Environmental Assembly on the progress towards meeting the expected accomplishments outlined in the programme of work. At Divisional and Sub-programme level, the information was used to track the performance of the Sub-programme and related projects. The UNEP Monitoring Policy also required that Divisions and Regional Offices be responsible for the quality of their assessments at project level as well as sub-programme level.

35.   For the 14 projects reviewed by OIOS, there was documentary evidence supporting project performance results reflected in PIMS for the period January 2014 to June 2016. However, there was no evidence that the supporting documents were validated. In addition, there was no evidence that supervisors of project managers reviewed and validated the data input into PIMS. In 11 of the 14 projects reviewed, the information recorded in PIMS was not aligned to the expected accomplishments and output indicators. The UNEP Quality Assurance Section indicated that as at 31 August 2016, it had not conducted quality assurance on the Resource Efficiency Sub-programme due to resource constraints. Consequently, information documented and uploaded in PIMS was either inaccurate or incomplete.

36.   UNEP did not require validation of the information recorded in PIMS at the project level and reported in the related project reports. Absence of validation of information recorded in PIMS could adversely impact the accuracy, completeness and reliability of management information.

> **(6)** **UNEP should require validation of the data relating to project performance recorded in the Programme Information Management System and reported in the related project reports.**
>
> *UNEP accepted recommendation 6 and stated that PIMS is being enhanced to include regular data validation by the project manager's supervisor of project progress reporting undertaken by the respective project manager.* Recommendation 6 remains open pending evidence of validation of reported project performance data in PIMS.

V.   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*) Eleanor T. Burns
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Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations Environment Programme Resource Efficiency Sub-programme

Rec. no.	Recommendation	Critical[1]/ Important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
1	UNEP should establish funding thresholds for development and review of project documents.	Important	O	Evidence of funding thresholds established for development and review of project documents and their application to new projects	31 December 2017
2	UNEP should maintain and periodically update the risk logs and report on the risk profile of its projects to senior management.	Important	O	Implementation of a risk log and evidence of periodic projects' risk reporting to senior management.	31 December 2017
3	UNEP should establish project evaluation plans at the project design stage and include the timelines for the evaluation in the project implementation plans for ease of tracking and accountability.	Important	O	Evidence that project evaluation plans are included in project documents, with timelines, and that mid-term and terminal evaluations are conducted as required.	30 June 2017
4	UNEP should establish and implement guidelines for determining the mid-points for projects whose durations have been extended to ensure that mandatory mid-term evaluations are planned for and conducted.	Important	O	Issuance and implementation of guidelines for determining the mid-points for projects.	30 June 2017
5	UNEP should track expenditures against the project budgets, achievements, outputs and/or milestones.	Important	O	Evidence that project expenditures are tracked against budgets, achievements, outputs and/or milestones.	31 December 2018
6	UNEP should require validation of the data relating to project performance recorded in the Programme Information Management System and reported in the related project reports.	Important	O	Evidence of validation of reported project performance data in PIMS.	30 June 2017

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[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 UNEP in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of United Nations Environment Programme Resource Efficiency Sub-programme

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP should establish funding thresholds for development and review of project documents.	Important	Yes	Director, Strategic Programme and Policy Division	31.12. 2017	UNEP will establish funding thresholds for development and review of project documents
2	UNEP should maintain and periodically update the risk logs and report on the risk profile of its projects to senior management.	Important	Yes	Director, Strategic Programme and Policy Division	31.12. 2017	PIMS is being enhanced to include a more elaborated project risk assessment system in order to mitigate the issues identified.
3	UNEP should establish project evaluation plans at the project design stage and include the timelines for the evaluation in the project implementation plans for ease of tracking and accountability.	Important	Yes	Director, Evaluation Office	30.06.2017	The Project Document template is being updated to incorporate more specific guidance and timelines on project evaluation plans.
4	UNEP should establish and implement guidelines for determining the mid-points for projects whose durations have been extended to ensure that mandatory mid-term evaluations are planned for and conducted.	Important	Yes	Director, Evaluation Office	30.06.2017	The new evaluation policy (March 2016) establishes such guidelines, which are also captured in the new Programme Manual, which is currently being reviewed for finalization. This recommendation is to be considered implemented with the release of the new Programme Manual.
5	UNEP should track expenditures against the project budgets, achievements, outputs and/or milestones.	Important	Yes	Director, Strategic Programme and Policy	31.12.2018	Information on expenditures against project budgets and outputs will be accessible incrementally in a dashboard format on the HANA SAP

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[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.

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				Division (on the basis of information provided by Division and Regional Directors)		platform, which is managed by the UMOJA teams in New York and Vienna. This recommendation is to be considered implemented when UNEP releases the first set of projects that will enable HANA SAP to go live as regards the UNEP part of the platform.
6	UNEP should require validation of the data relating to project performance recorded in the Programme Information Management System and reported in the related project reports.	Important	Yes	Director, Strategic Programme and Policy Division	30.06.2017	PIMS is being enhanced to include regular data validation by the Project Manager Supervisor of project progress reporting undertaken by the respective Project Manager.