



INTERNAL AUDIT DIVISION

REPORT 2014/062

Audit of the United Nations Environment Programme Ozone Secretariat

Overall results relating to the provision of efficient and effective support services by the Ozone Secretariat for the implementation of the Vienna Convention and the Montreal Protocol were initially assessed as partially satisfactory. Implementation of one important recommendation remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

9 July 2014
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AUDIT REPORT

Audit of the United Nations Environment Programme Ozone Secretariat

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Ozone Secretariat.

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 Vienna Convention for the Protection of the Ozone Layer (the Convention), which entered into force on 22 September 1988, and the Montreal Protocol on Substances that Deplete the Ozone Layer (the Protocol) are dedicated to the protection of the earth's ozone layer. The Ozone Secretariat is the Secretariat for both the Convention and the Protocol. Based at UNEP offices in Nairobi (Kenya), the Secretariat functions in accordance with Article 7 of the Convention and Article 12 of the Protocol.

4. The main duties of the Secretariat include: servicing the conferences and meetings of the Parties to the Convention and the Protocol, related Working Groups and Committees, the Bureaux, and the Assessment Panels; arranging for the implementation of decisions resulting from these meetings; monitoring the implementation of the decisions of the Convention and the Protocol and reporting to the meetings of the Parties and to the Implementation Committee of the Protocol; representing the Convention and the Protocol in relevant international and regional meetings; receiving, analyzing, and providing to the Parties data and information on the production and consumption of ozone depleting substances (ODS); and providing information to governments, international organizations and individuals on various aspects of the protection of the ozone layer.

5. The Ozone Secretariat supported the implementation of the Convention and the Protocol by interacting with: the individual countries; the Multilateral Fund for the Implementation of the Montreal Protocol; and the Compliance Assistance Programme (CAP) global structure put in place by UNEP OzonAction Branch in Paris, to advise countries and report on their compliance.

6. The Ozone Secretariat was managing four Trust Funds that received either voluntary contributions or earmarked/counterpart contributions, as follows:

- The Trust Fund for the Vienna Convention for the Protection of the Ozone Layer (“VCL trust fund”) was established by the Controller in 1989 and was to be managed by UNEP in accordance with its rules. The approved biennial budget was \$1.8 million for 2010-2011 and \$1.3 million for 2012-2013.
- The Trust Fund for the Montreal Protocol on Substances that Deplete the Ozone Layer (“MPL trust fund”) was established by the Controller in 1989. The approved biennial budget was \$8.6 million for 2010-2011 and \$8.7 million for 2012-2013.
- The Earmarked/Counterpart Contributions Trust Fund - Support to Ozone Activities (“QOL trust fund”). Contributions stood at \$864,000 in 2010-2011 and \$500,000 in 2012-2013.

- The General Trust Fund for Research and Systematic Observations relevant to the Vienna Convention (“SOL trust fund”) was used to fund activities and projects for developing countries through the World Meteorological Organization and recorded contributions totaling \$78,000 in 2011 (allotments were made every three years in the year in which the meeting is held).

7. The total budgeted cost for staff in 2013 amounted to \$1.2 million for the MPL and \$510,000 for the VCL trust funds, representing respectively 30 and 75 per cent of their annual total budget. The Ozone Secretariat was headed by the Executive Secretary at D-2 level and had one Director at D-1 level, besides six Professional and 10 General Service staff.

8. Comments provided by UNEP are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

9. The audit was conducted to assess the adequacy and effectiveness of UNEP governance, risk management and control processes in providing reasonable assurance regarding the **provision of efficient and effective support services by the Ozone Secretariat for the implementation of the Vienna Convention and the Montreal Protocol**.

10. The audit was included in the 2013 internal audit work plan due to high operational and compliance risks in the delivery of support services for the implementation of the Vienna Convention and Montreal Protocol.

11. The key control tested for the audit was the 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 administrative secretariat support to the Convention and the Protocol; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

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

13. OIOS conducted this audit from December 2013 to April 2014. The audit covered the period from 1 January 2010 to 31 December 2013.

14. 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

15. In the opinion of OIOS, UNEP governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **provision of efficient and effective support services by the Ozone Secretariat for the implementation of the Vienna Convention and the Montreal Protocol**. The Ozone Secretariat’s budgets were regularly approved and the expenditures incurred were within the approved budget. As at 31 December 2013, the Secretariat had a sizeable amount of unpaid pledges relating to both the key funds (i.e., the MPL and VCL trust funds). Reserve and fund balances for the MPL and VCL trust funds were sufficient to cover operational requirements, but no working capital reserve had been established for the VCL trust fund, as required by

the Secretary-General’s bulletin ST/SGB/188 on “Establishment and management of trust funds”. There was also a need to ensure that proper documentation was maintained to support travel expenditures.

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 one important recommendation remains in progress.

Table 1: Assessment of key controls

| Business objective | Key control | Control objectives | | | |
|---|----------------------|------------------------------------|--|------------------------|---|
| | | Efficient and effective operations | Accurate financial and operational reporting | Safeguarding of assets | Compliance with mandates, regulations and rules |
| Provision of efficient and effective support services by the Ozone Secretariat for the implementation of the Vienna Convention and the Montreal Protocol | Regulatory framework | Satisfactory | Satisfactory | Satisfactory | Partially satisfactory |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

A. Regulatory framework

Expenditures of the Ozone Secretariat were within the approved budgets

17. The Convention’s budget was reviewed and approved every three years and the Protocol’s budget was reviewed and approved on a yearly basis. Expenditures for both the MPL and VCL trust funds were reported to the Parties on a yearly basis for both the Convention and the Protocol in the form of certified financial statements attached to the pre-session documents for the following year. Also, indicative expenditures for the first quarter of each year were submitted on the occasion of the Open Ended Working Group meeting in the first half of the following year. The approved budgets together with the latest expenditures reported to the Parties (as at 30 April 2013) are shown in Table 2. Expenditures were within the budgets for the period 2010 to April 2013.

Table 2: Approved budgets and actual expenditures as at 30 April 2013
(Amounts in \$)

| Trust Fund | Approved budgets | | | | Actual expenditures | | | |
|------------------|------------------|-----------|-----------|-----------|---------------------|-----------|-----------|-------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2010 | 2011 | 2012 | 2013 (January to April) |
| VCL | 635,311 | 1,122,557 | 639,879 | 650,993 | 575,690 | 967,041 | 435,673 | 455,693 |
| PSC | 82,590 | 145,932 | 83,184 | 84,629 | 74,833 | 125,715 | 56,637 | 59,240 |
| MPL | 4,385,613 | 4,279,416 | 4,354,657 | 4,198,935 | 4,090,753 | 3,822,372 | 3,982,240 | 3,715,115 |
| PSC ¹ | 570,130 | 556,324 | 566,105 | 545,862 | 531,798 | 496,908 | 517,691 | 482,587 |

Note 1: PSC – Programme Support Cost

18. The Division of Conference Services at the United Nations Office at Nairobi assisted the Ozone Secretariat in the organization and management of most meetings. Typical cost items were related to the payment of common services, conference services, and maintenance of a website. The Ozone Secretariat realized efficiencies through the organization of back to back meetings, appointment of common delegates for both the Convention and the Protocol, and sharing of three staff members within the Ozone Secretariat.

19. OIOS concluded that the controls in place for the approval of budgets and reporting of expenditures were adequate and functioning as intended.

Adequate funds were at hand despite long outstanding contributions

20. Pledged contributions should be received as soon as possible to allow the Secretariat to maintain adequate liquidity to conduct its business in accordance with the approved work plan and budget. Contributions receivable for the two main trust funds, i.e., the VCL and MPL trust funds, were \$790,000 and \$4.4 million respectively as at 31 December 2013. Unpaid pledges by the Parties to the VCL trust fund as at 31 December 2013 were around 122 per cent of the approved budget for 2013. Unpaid pledges by the Parties to the MPL trust fund as at 31 December 2013 were around 102 per cent of the budget approved for 2013. Out of these outstanding contributions pertaining to the VCL and MPL trust funds, 56 per cent and 38 per cent respectively were older than 24 months.

21. The Parties had agreed to maintain an operating cash reserve for only the MPL trust fund at 15 per cent of the annual budget and to draw down from unspent balances to reduce annual contributions payable in relation to approved budgets. The Parties also regularly authorized the Executive Secretary to enter into discussions with any party whose contributions were outstanding for two or more years to find a way forward and to report at the following meetings of the Parties on the outcome of the discussions. As at 31 December 2013, the operating cash reserve for the MPL trust fund was \$678,000 and total reserve and fund balances were \$8.2 million, which were adequate to cover for 23 months of operations at current rates of spending. For the VCL trust fund, the fund balance was \$3 million, which was adequate to cover for 45 months of operations.

22. OIOS concluded that despite the delay in receipt of contributions, the total reserve and fund balances for both the MPL and VCL trust funds were adequate to cover their operations.

There was no working capital reserve for the VCL trust fund

23. The Secretary-General's Bulletin ST/SGB/188 on "Establishment and management of trust funds" requires the establishment of a working capital reserve at the level of 15 per cent of the estimated annual budget expenditure. OIOS noted that such reserve had not been established for the VCL trust fund. Although the fund balance of \$3 million as at 31 December 2013 was adequate to cover 45 months of operations, this situation could change in the future in the event of delays in receipt of contributions or increase in obligations arising from operations. It is therefore prudent to establish the required working capital reserve.

(1) The Executive Secretary of the Ozone Secretariat should propose to the Parties of the Vienna Convention that a working capital reserve for the Vienna Convention trust fund is established in line with requirements of the Secretary-General's Bulletin on "Establishment and management of trust funds".

UNEP accepted recommendation 1 and stated that the Secretariat has informed the Parties of the recommendation in an Information Note to the thirty-fourth meeting of the Open Ended Working

Group scheduled for 14 to 18 July 2014. The Secretariat will include the reserve in the budget proposal for the revised 2014 budget and the 2015 to 2017 budget proposals to be approved at the 26th meeting of the Conference of Parties to be held from 17 to 21 November 2014. Recommendation 1 remains open pending receipt of evidence of submission of a proposal to the Parties to establish the working capital reserve for the VCL trust fund.

There was a need to ensure that proper documentation is maintained to support travel expenditures

24. Adequate documentation needs to be maintained in order to ensure transparency and accountability in the conduct of operations and activities. A review of 31 travel claims of staff, consultants and participants involving an expenditure of \$197,000 showed that in 15 cases the documentation available was inadequate. Due to inadequate filing procedures, the Secretariat was unable to provide key documents such as: (a) travel authorizations, ticket stubs and boarding passes to support travel claims that were certified and paid; and (b) alternative quotations to show that a competitive process had been followed for purchase of tickets. Failure to maintain an adequate audit trail for travel expenditure weakened accountability and increased the risk of financial loss.

(2) The Executive Secretary of the Ozone Secretariat should ensure that the Secretariat maintains case files with complete supporting documentation for travel expenditures.

UNEP accepted recommendation 2 and stated that procedures to ensure that travel expenditures are supported by complete case files were implemented as of January 2014. UNEP also provided documentation of sample cases for information. Based on the action taken by UNEP, recommendation 2 has been closed.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Environment Programme Ozone Secretariat

| Recom. no. | Recommendation | Critical ¹ / Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|--|---|----------------------|---|----------------------------------|
| 1 | The Executive Secretary of the Ozone Secretariat should propose to the Parties of the Vienna Convention that a working capital reserve for the Vienna Convention trust fund is established in line with requirements of the Secretary-General's Bulletin on "Establishment and management of trust funds". | Important | O | Evidence of submission of a proposal to the Parties of the Vienna Convention to establish a working capital reserve for the VCL trust fund. | November 2014 |
| 2 | The Executive Secretary of the Ozone Secretariat should ensure that the Secretariat maintains case files with complete supporting documentation for travel expenditures. | Important | C | Action completed | Implemented |

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.

³ C = closed, O = open

⁴ Date provided by UNEP in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the United Nations Environment Programme Ozone Secretariat

| Rec. no. | Recommendation | Critical¹/ Important² | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|-----------------|--|--|-------------------------------|--|---|--|
| 1 | The Executive Secretary of the Ozone Secretariat should propose to the Parties of the Vienna Convention that a working capital reserve for the Vienna Convention trust fund is established in line with requirements of the Secretary-General's Bulletin on "Establishment and management of trust funds". | Important | Yes | Executive Secretary, Ozone Secretariat | November 2014; subject to approval of the Parties to the Vienna Convention. | Recommendation is accepted. The Secretariat has informed the Parties of the recommendation in an Information Note to the thirty-fourth meeting of the Open Ended Working Group scheduled for 14 th to 18 th July 2014. The Secretariat will include the reserve in the budget proposal for the revised 2014 budget and the 2015 to 2017 budget proposals to be approved at the 26 th meeting of the Conference of Parties to be held from 17 th to 21 st November 2014. |
| 2 | The Executive Secretary of the Ozone Secretariat should ensure that the Secretariat maintains case files with complete supporting documentation for travel expenditures. | Important | Yes | Executive Secretary, Ozone Secretariat | January 2014. | Recommendation is accepted. As per paragraph 27 of the Draft Audit Report, procedures to ensure that travel expenditures are supported by complete case files were implemented as of January 2014. Ten sample cases are attached for your information. Also attached is the Travel Request Checklist for Travel of Staff, Procedures for Travel of Meeting Participants and Travel of co-chairs and members of Assessment Panel and Technical Options Committees. |

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.