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INTEROFFICE MEMORANDUM

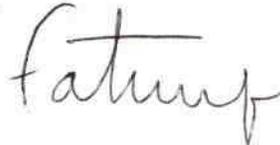
MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Achim Steiner, Executive Director  
A: United Nations Environment Programme

DATE: 6 September 2011

FROM: Fatoumata Ndiaye, Director  
DE: Internal Audit Division, OIOS



REFERENCE: IAD: 11- 00555

SUBJECT: **Assignment No. AA2010/220/05 – Audit of the financial performance of the UNEP**  
OBJET: **Mediterranean Action Plan**

**Overall results relating to the financial management of trust funds were unsatisfactory**

1. Attached please find the final report on the above-mentioned audit.
2. Annex-I shows the status of recommendations. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and to the Secretary-General, quarterly for critical recommendations (No.7) and annually for important recommendations (Nos. 1 - 6, 8, and 9).
3. Please note that under General Assembly resolution 59/272, a Member State may request that the final audit report be made available. Also, note that pursuant to General Assembly resolution 64/263, OIOS will include the complete management response as an appendix to the present report.
4. We wish to express our appreciation to the management and staff of UNEP for the assistance and cooperation extended to the auditors during the assignment.

cc: Ms. Maria Luisa Silva Mejias, Executive Secretary and Coordinator, UNEP/MAP  
Mr. Michele Candotti, Chief of the Executive Office, UNEP  
Mr. Ibrahim Thiaw, Director, Division of Environmental Policy Implementation, UNEP  
Ms. Sahle-Work Zewde, Director-General, UNON  
Mr. Alexander Barabanov, Director of Administrative Services, UNON  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Rohan Wijeratne, Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Moses Bamuwanye, Executive Secretary, IAAC  
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS  
Ms. Corazon C. Chavez, Chief, Nairobi Audit Service, OIOS  
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

# **AUDIT REPORT**

## **Audit of the financial performance of the UNEP Mediterranean Action Plan**

### **BACKGROUND**

The Barcelona Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean (the Convention) has 21 countries and the European Union as Contracting Parties (COP). The main objectives of the Convention are to: (a) assess and control marine pollution; (b) ensure sustainable management of natural marine and coastal resources; (c) integrate the environment in social and economic development; (d) protect the marine environment and coastal zones through prevention and reduction of pollution, and as far as possible, elimination of pollution, whether land or sea-based; (e) protect the natural and cultural heritage; (f) strengthen solidarity among Mediterranean coastal States; and (g) contribute to improvement of the quality of life. The COP decides on Mediterranean Action Plan (MAP) strategies, budget and programmes.

The COP designated the United Nations Environment Programme (UNEP) as the organization responsible for carrying out the secretariat functions for the Convention. The MAP Secretariat (UNEP/MAP) was established in 1980 and is hosted by the Government of Greece in Athens. In 2010, the Athens Office had eight Professional and seventeen General Service posts. Additional support was provided by the personnel of the six Regional Activity Centres (RACs). The RACs are responsible for supporting the implementation of MAP's work programme and account for about 50 percent of MAP's activities and resources.

MAP's activities are primarily financed by the COP through their contributions to the Trust Fund for the Protection of the Mediterranean Sea Against Pollution (MTF: UN fund code MEL). Other main sources of funding to support specific projects and activities include voluntary contributions from the European Union (UN fund code QML); the Government of Greece Support of the Mediterranean Action Plan (UN fund code CAL); and the Global Environment Facility (GEF) which implements joint projects with MAP. In 2004, the COP adopted the Euro as the currency of MAP and started to budget and to record their transactions in this currency. The MAP budget for biennium 2010-2011 as presented to the COP was estimated at around €15.7 million.

In November 2010, the Bureau of the COP, in its 71st meeting, took note of the MAP financial situation as indicated in document UNEP/BUR/71/Inf.3, the explanation by the Secretariat (UNEP HQ and Coordinating Unit), including the presentation made by UNEP HQ and decided to request OIOS to conduct an audit of the financial management of the MTF and the other extra budgetary funds for the period 2002-2009, according to the Terms of Reference provided in Annex II.

### **OBJECTIVE AND SCOPE**

The audit was conducted to assess whether UNEP/MAP effectively implemented adequate risk management, control and governance processes to provide reasonable assurance regarding the financial management of the trust funds in support of MAP activities. The key controls tested for the audit included those related to: (a) risk management and financial forecasting; and (b) regulatory framework. The audit covered UNEP/MAP activities related to the two key controls during the period 2002-2011 and took into consideration the terms of reference provided by the Bureau of the Contracting Parties to the Barcelona Convention in its 71st meeting.

## AUDIT RESULTS

In OIOS' opinion, UNEP's risk management, control and governance processes examined were **unsatisfactory** to provide reasonable assurance regarding the financial management of trust funds supporting implementation of MAP activities.

The budget proposals presented to the COP for the period 1994 to 2011 included overestimations of income due to inclusion of inappropriate sources of income, which remained undetected because of non-involvement of the UNEP Headquarters in the budget preparation, review and clearance processes before the proposals were presented to the COP. Controls over creation of allotments and monitoring of inter-fund borrowing positions were inadequate, which resulted in negative fund balances totaling \$5.1 million for the MEL and CAL trust funds as at the end of the biennium 2009. The deficit was funded through inter-fund borrowings, which stood at over \$5.9 million as at 31 December 2009 for the two trust funds. The QML fund had a positive fund balance of \$3.2 and a positive inter-fund position of \$2.3 million. With regard to accounting systems, UNEP and UNON did not have appropriate tools to record and report on financial transactions made in Euros.

### **Significant adjustments to the proposed 2010-2011 projected income are required**

The budget proposals presented to the COP for the period 1994 to 2011 included overestimations of income due to inclusion of inappropriate sources of income. This resulted in negative closing fund balances of \$4,508,000 and \$603,000 on the trust fund for the Protection of the Mediterranean Sea Against Pollution (MEL) and on the Support of the Mediterranean Action Plan by the Government of Greece (CAL) respectively at the end of biennium 2009. However, European Union's Support for the Mediterranean Action Plan (QML) had a positive position of \$3,237,717 as at 31 December 2009.

**(1) The Executive Director of UNEP should ensure that MAP budget proposals are corrected to reflect income projections accurately.**

*UNEP accepted recommendation 1 and stated that UNEP had already revised income projections and had taken a number of immediate measures to limit expenditure within the revised income projections. Based on the actions taken by UNEP, recommendation 1 is closed.*

### **Need to strengthen MAP budget preparation process**

The MAP budget was prepared by UNEP/MAP and approved by the COP every biennium. UNEP Headquarters was not involved during the budget preparation, review and clearance prior to its submission to the COP for approval. Therefore, an opportunity was lost for review, validation of the draft budget, and input by the UNEP HQ, which resulted in non-detection of irregularities in the budgets.

**(2) The Executive Director of UNEP should involve UNEP Headquarters in reviewing and clearing draft budget proposals for UNEP/MAP prior to their submission to the Contracting Parties for approval.**

*UNEP accepted recommendation 2 and stated that the Executive Director had extended the standing instructions that all budget proposals for MEAs have to be reviewed and endorsed by UNEP Headquarters prior to submission to the COP, and to the Regional Seas Programmes including MAP. To further strengthen this process, UNEP has established the position of Senior Trust Fund Manager within the Corporate Services Section, while more detailed budget and allotment approval procedures are being finalized. Based on the action taken by UNEP, recommendation 2 is closed.*

**(3) The Executive Director of UNEP should determine accountability of UNEP/MAP Administrative and Fund Management Officers for the preparation of the inappropriate budget proposals and the UNEP/MAP Coordinators for inability to detect the inappropriateness of budget proposals that were presented to Contracting Parties for the budget period 1994 to 2011.**

*UNEP accepted recommendation 3 and stated that a panel of qualified UN staff will be established by the Executive Director to review the budget proposals and provide findings and recommendations on possible negligence by any of the actors involved. The Executive Director will advise the COP and OIOS of the outcome of the review and further corrective action to be taken by 30 March 2012. Recommendation 3 remains open pending receipt of the Executive Director's advice on outcome of the review by the panel and further corrective action to be taken.*

#### **Allotments not supported by actual receipts of income**

After the COP approved the budget, UNEP created allotments for project without adequate controls to phase the allotments in line with actual budgeted income received. This resulted in UNEP/MAP spending funds it did not have. The deficit was funded through inter-fund borrowing that stood at \$5.9 million for the MEL and CAL, while the QML had a positive position of \$2.3 million as at 31 December 2009.

**(4) The Executive Director of UNEP should request the Contracting Parties to reimburse funds spent on project activities approved by the Parties but not funded because of over-estimation of income in the budget proposals.**

*UNEP accepted recommendation 4 and stated that the adoption of a budget based on an over-estimation of income had led to the implementation of more programme activities than actual funding allowed which resulted in the financial deficit. UNEP has already presented initial scenarios for deficit recovery to the Bureau of the Barcelona Convention in November 2010, and is in the process of developing more elaborate scenarios for deficit recovery for review by the Extraordinary Meeting of the Bureau later this year and approval by the COP at its next session. Recommendation 4 remains open pending receipt of a decision by the Extraordinary Meeting of the Bureau on the deficit recovery.*

**(5) The Executive Director of UNEP should establish adequate controls for the creation of allotments to ensure commitments do not exceed available resources.**

*UNEP accepted recommendation 5 and stated that UNEP was developing detailed budget and allotment procedures and that all allotments would be cleared with the Corporate Services Section prior to entering into the Integrated Management Information System (IMIS). Recommendation 5 remains open pending OIOS receipt of copies of the budgeting and allotment procedures once developed.*

**(6) The Executive Director of UNEP should determine accountability of UNEP staff for the creation of inappropriate allotments to fund MAP activities and for inability to detect the inappropriateness of allotments.**

*UNEP accepted recommendation 6 and stated that a panel of qualified UN staff would be established by the Executive Director to review the allotments issued and provide findings and recommendations on possible negligence by any of the actors involved. The Executive Director would advise the COP and OIOS of the outcome of the review and further corrective action to be taken by 30 March 2012. Recommendation 6 remains open pending receipt of the Executive Director's advice on outcome of the review by the panel and further action to be taken.*

**Responsibilities of UNEP and UNON for monitoring borrowings between UNEP-administered funds need to be clarified**

The roles and responsibilities of UNEP and UNON regarding financial management of MAP were not clear, which resulted in poor accountability in the provision of financial management services, and contributed to excessive inter-fund borrowing.

**(7) The Executive Director of UNEP should clearly define and agree with the Director-General of UNON what services, and related responsibility, UNON should be providing to UNEP Offices Away from Headquarters (OAH), such as UNEP/MAP in this case, in order to enhance accountability.**

*UNEP accepted recommendation 7 and stated that UNEP would engage in high-level consultations with UNON and the Department of Management to delineate the exact definitions of delegation of authority and responsibility between UNEP and UNON on financial and all other administrative matters, including Human Resources. Recommendation 7 remains open pending receipt of the outcome of consultations between UNEP, the Department of Management, and UNON on the exact definitions of delegation of authority and responsibility between UNEP and UNON on financial and all other administrative matters.*

**Controls over management of cash advances to Regional Activity Centres need improvement**

UNEP had outstanding advances to RACs and UNEP/MAP amounting to the equivalent of about \$3.4 million and \$2.6 million as at 31 December 2009 and 31 December 2010. This was due to inconsistency in the application of controls over disbursement and liquidation of advances. In addition, there were discrepancies, equivalent to \$1million, in outstanding balances between RACs' records and those of UNEP.

**(8) The Executive Director of UNEP should review the existing mechanism for monitoring and management of advances to ensure that no new advances are made until the previous ones have been fully justified and recorded in the accounting system.**

*UNEP accepted recommendation 8 and stated that UNEP issued instructions on 26 July 2011 to the RAC that no new cash advances would be paid until the previous ones have been reported and approved. In addition, the obligation of cash advances and recording of expenditures in IMIS has been decentralized to the UNEP/MAP in order to speed up the process of obligating and recording of expenditures, whilst at the same time assuring a higher level of accuracy by having a single entry point of recording data. Based on the action taken by UNEP, recommendation 8 is closed.*

**(9) The Executive Director of UNEP should ensure that UNEP undertakes a full review of its actual outstanding advances for each Regional Activity Centre and take corrective actions on inaccuracies.**

*UNEP accepted recommendation 9 and stated UNEP had already made substantial progress in the reduction of outstanding advances. UNEP, in cooperation with the RAC and UNON would undertake a further detailed review of outstanding advances and take corrective actions with regards to inaccuracies relating to currencies, programme support costs and exchange rate differences by 29 February 2012. Recommendation 9 remains open pending receipt of confirmation that UNEP has completed the detailed review of outstanding advances and taken corrective actions accordingly.*

#### **ACKNOWLEDGEMENT**

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