



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Comprehensive audit of UNECE

Overall results relating to the effective management of UNECE programme activities were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

11 June 2012

Assignment No. AN2011/720/01

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AUDIT REPORT

Comprehensive audit of the United Nations Economic Commission for Europe

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted a comprehensive audit of the United Nations Economic Commission for Europe (UNECE).

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. UNECE was established on 28 March 1947 pursuant to the United Nations (UN) Economic and Social Council (ECOSOC) resolution 36 (IV). UNECE's original terms of reference were established to assist countries devastated by the World War II by: (a) initiating and participating in measures for the economic reconstruction of Europe; and (b) undertaking or commissioning economic studies and collecting statistical data. Presently, as indicated in its 2012-2013 Strategic Framework (A/65/6: Prog. 16), UNECE's overall objectives are to: (a) foster economic integration at the sub-regional and regional levels; (b) promote the regional implementation of internationally agreed development goals, including the Millennium Development Goals; and (c) support regional sustainable development by contributing to bridging economic, social, and environmental gaps among its member countries and sub-regions. UNECE has 56 Member States. By its convening power, UNECE strives to generate multilateral dialogue, knowledge-sharing, and networking at the regional level, and to promote intra-regional and inter-regional cooperation through collaboration with other organizations.

4. UNECE comprises the Commission, an intergovernmental body, the Member States and their representatives, and the UNECE secretariat. The UNECE secretariat is headed by an Executive Secretary who focuses on building consensus among various actors and stakeholders at all levels regarding the agenda of UNECE, and the Chairman of the Commission is responsible for multilateral diplomacy at the United Nations and other international organizations. The intergovernmental body is headed by the Executive Committee (EXCOM) and comprises eight sectoral committees. The secretariat supports the Executive Secretary in the day-to day management of UNECE. Organizationally, the secretariat comprises six divisions, an executive office, and four administrative support units. Table 1 summarizes the secretariat's regular and extra-budgetary resources, and related posts for the biennia 2008-2009 and 2010-2011.

Table 1: Resource requirements in US\$

| Funding | Resources | | | |
|----------------------------|---------------------|------------|---------------------|------------|
| | 2008-2009 | | 2010-2011 | |
| | Expenditures (\$) | Posts* | Appropriation (\$) | Posts |
| Regular budget | 63,728,600 | 199 | 65,547,100 | 200 |
| Extra-budgetary (estimate) | 25,651,500 | 25 | 31,736,400 | 24 |
| Total | \$89,380,100 | 224 | \$97,283,500 | 224 |

Source: A/66/6 (Sect. 20)

*A/64/6 (Sect. 19)

5. The programme support component, as described in the budget fascicle (A/64/6 (Sect. 19)), comprises the Executive Office and the Information Systems Unit. Unlike the practice in the other regional commissions, UNECE's programme budget does not include resources for its administration, conferences and general services. The resources associated with these services are administered by the United Nations Office at Geneva (UNOG) and are consolidated under Section 28E, Administration, Geneva, in respect of administration and general services, and under Section 2, General Assembly and Economic and Social Council affairs and conference management.

6. Comments provided by UNECE are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The comprehensive audit of UNECE was conducted to assess the adequacy and effectiveness of UNECE's governance, risk management and control processes in providing reasonable assurance regarding **the effective management of programme activities**.

8. The key controls tested for the audit were: (a) risk management and strategic planning mechanisms; (b) performance monitoring indicators and mechanisms; (c) integrated programmatic and financial management reporting systems; (d) mandates and delegation of authority systems; and (e) coordinated management mechanisms. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Risk management and strategic planning mechanisms** – controls that provide reasonable assurance that risks relating to an activity are identified and assessed, and that action is taken to mitigate or anticipate risks.

(b) **Performance monitoring indicators and mechanisms** – controls that provide reasonable assurance that metrics are established on when and how programme activities are performed, and that the activities are carried out in accordance with the metrics.

(c) **Integrated programmatic and financial management reporting systems** – controls that provide reasonable assurance that a system exists to report programme performance, including its financial performance with accuracy, completeness and in a timely manner.

(d) **Mandates and delegation of authority system** – controls that provide reasonable assurance on the clarity of the authority, roles and responsibilities of the audited entity and other departments, UN or other entities involved in a programme to ensure effective and efficient programme delivery.

(e) **Coordinated management mechanisms** – controls that provide reasonable assurance that potential overlaps in the performance of a function or the delivery of a programme are mitigated, and that issues affecting or involving other UN partners and actors are identified, discussed and resolved in a timely manner and at the appropriate forum.

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

10. OIOS conducted this audit from 26 July to 19 August 2011. The audit covered the 2008-2009 and 2010-2011 biennia.

11. 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

12. UNECE's governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **the effective management of programme activities**. OIOS made three recommendations to address issues identified in the audit. UNECE's internal controls and practices have generally been effective in mitigating adverse risks regarding strategic planning processes, coordination with partners, implementation of programmes, and financial and substantive reporting. However, in managing its projects, UNECE lacked formal procedures to ensure that unspent funds are re-programmed or returned to donors. The terms of reference governing the UNECE Grants Committee were unclear regarding the tenure of its members and the designation of alternate members. An alternate to the Executive Officer proposed by UNECE for certifying delegation of authority was not cleared by the UN Controller, as required by the ST/SGB/2005/7. UNECE accepted and was taking steps to address the recommendations.

13. 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 three important recommendations remain 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 |
| Effective programme management | (a) Risk management and strategic planning mechanisms | Satisfactory | Satisfactory | Satisfactory | Satisfactory |
| | (b) Performance monitoring indicators and mechanisms | Satisfactory | Satisfactory | Satisfactory | Satisfactory |
| | (c) Integrated programmatic and financial management reporting system | Partially Satisfactory | Partially Satisfactory | Partially Satisfactory | Partially Satisfactory |
| | (d) Mandates and delegation of authority system | Partially satisfactory | Partially Satisfactory | Partially Satisfactory | Partially satisfactory |
| | (e) Coordinated management mechanisms | Satisfactory | Satisfactory | Satisfactory | Satisfactory |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

A. Risk management and strategic planning mechanisms

UNECE risk management activities were adequate

14. UNECE conducts biennial risk assessments in conjunction with the programme planning process to better integrate risk assessments with the risk-based management of the programme, enabling the Commission to more effectively respond to the request of Member States "to encourage programme managers while preparing the programme plan, to take fully into account the obstacles, challenges, lessons learned and unmet goals encountered in the previous biennium" (General Assembly resolution 64/247).

15. UNECE and the Commission have been able to continuously adapt the UNECE mandate to the political and economic environment of the region to address the needs of its Member States. UNECE's mandate from its inception in 1947 to present has supported cooperation among its Member States. The Commission instituted progressive reform of its programme of work both in 1997 and 2005 to address the emerging needs of its Member States. The aims of the reforms were two-fold: (a) to sharpen the focus of UNECE on the normative work (development of legal instruments, norms, and standards), and (b) to better respond to the needs of countries with economies in transition, in particular those countries in Eastern Europe, the Caucasus, and Central Asia. As a result of these reforms, the development of adoption/accession, and implementation of international standards has been strengthened, particularly by countries with economies in transition, which were provided tailored technical assistance and policy advice by UNECE. In turn, increased national capacity of UNECE Member States has contributed to enhancement of regional/subregional cooperation and integration.

16. *UNECE indicated that it is aware of the Secretariat's initiatives on enterprise risk management (ERM) and can consider integrating relevant elements of the ERM process into its risk management framework, in accordance with its own priorities and subject to availability of resources.*

Strategic planning is effective and is strengthened by UNECE's oversight bodies

17. Strategic planning processes were generally satisfactory. Biennial work planning methods and practices were in line with ST/SGB/2000/8, "Regulations and Rules on the Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation", including preparation of the strategic framework and proposed programme budget. In addition, each sub-programme prepares a biennial work plan detailing the specific activities that support the objectives and expected outcomes, as well as the budget implication.

18. *UNECE explained that determination of its programme objectives is an interactive process, resulting in a programme of work driven by the Member States. Strategic planning is undertaken in consultation with the governing bodies, which includes the Commission, the Executive Committee, and eight sectoral committees related to the respective sub-programmes. To provide guidance to UNECE on planning and implementation of the programme of work, the Commission meets every two years, the Executive Committee several times a year and Sectoral Committees annually. In 2011, the Commission started a review of the UNECE 2005 reform that will continue through 2012. The outcome of the review will be submitted for approval by the Commission in 2013. UNECE management's discussions with selected Member States confirmed the Member States' keen interest to have direct involvement in periodically reviewing the mandate and/or focus of the work of UNECE. OIOS assessed that controls over strategic planning in UNECE were adequate.*

B. Performance monitoring indicators and mechanisms

Performance indicators were established and evaluations adequately carried out

19. In accordance with its evaluation policy, UNECE conducts (a) biennial performance assessments of its sub-programmes, and (b) self-evaluations of activities/cluster of activities of the sub-programmes. For the biennium 2008-2009, each sub-programme completed at least one self-evaluation. For the biennia 2008-2009 and 2010-2011, all UNECE sub-programmes carried out biennial performance assessments and self-evaluations. During the same period, UNECE conducted 11 external evaluations and 13 self-evaluations of its technical cooperation projects. The Commission also regularly reviews the relevance, effectiveness, and efficiency of UNECE's work. For example, in 2005, the Commission undertook a major review of UNECE's mandate, which resulted in a more focused programme of work. Later, in 2011, the Commission requested EXCOM, its intersessional governing body, to undertake a comprehensive review of the 2005 reform, and further assess the continued relevance and effectiveness of the UNECE mandate. *UNECE advised that the review of the 2005 reform by EXCOM would be completed by end of 2012.* Based on the existing review process of programme performance by the governing bodies, OIOS assessed that the UNECE internal controls over programme performance were adequate.

C. Integrated programmatic and financial management reporting system

Integrated programmatic reporting in UNECE was adequate

20. Internally, the UNECE division heads report to the Executive Secretary on their sub-programme activities in the Directors' meetings held twice a month. Minutes of meetings provide a record of management decisions taken with respect to current activities, changes in policies and procedures, and any other relevant business pertaining to the UNECE programme of work. Programmatic reporting is undertaken effectively in the following ways: (a) annual reporting to the Executive Committee; (b) regular reports of the Secretary-General to ECOSOC and the General Assembly; (c) reports on funding for development cooperation to OECD; and (d) donor reports as required by relevant agreements. OIOS assessed that controls over integrated programmatic reporting in UNECE were adequate.

Unspent balances of operationally completed technical cooperation projects were not disposed of

21. UNECE managed a portfolio of 64 projects with total allocations of about \$17.3 million. The portfolio includes 20 operationally completed projects, which had a cumulative unspent balance of about \$111,785, the largest being \$44,555, with some dating back two years or more. According to agreements with donors, these unspent balances from operationally-completed projects are either returned to donors or re-programmed into new projects. Despite the relatively small amount of unspent balance, UNECE should consider reviewing annually the financial status of operationally completed projects and consult with donors to re-programme or refund the unspent balances. *UNECE stated that its Executive Office (EO) has reviewed the status of completed projects as of 31 December 2011, and has written to donors (where agreements exist) requesting their confirmation of the use of unspent balances by 1 March 2012. UNECE also indicated that EO will: (a) update guidelines for future donor agreements and for action regarding the use of unspent balances; and (b) review, from 1 January 2012, the status of all operational projects twice a year to determine whether projects are ongoing or completed.* In view of the action taken by UNECE, OIOS did not make a recommendation.

The terms of reference of the Grants Committee in UNECE requires review

22. UNECE made grants totaling about \$1 million for the current biennium to implementing partners for technical cooperation activities related to its mandate and work programmes. The Grants Committee, in accordance with its terms of reference issued in 2003, reviews proposals and makes recommendations to the Executive Secretary on providing grants to recipient non-profit organizations or institutions. The Committee, however, has: (a) no specific tenure provisions in its terms of reference; and (b) no designation of its alternate members. Furthermore, the Director of a substantive division could be serving as a member or chairperson over the grants applications of his/her own Division, potentially constituting a conflict of interest situation. For example, 35 of the 57 grants approved in 2010 were submitted by the Environment Division whose Director was the chairperson of the Committee. In OIOS' opinion, this situation could constitute a conflict of interest on the part of the chairperson. In such cases, UNECE needs to consider designating a substitute chairperson. The terms of reference of the Grants Committee need to be strengthened to ensure clear references to term limits and designation of alternate members.

(1) UNECE should review the Terms of Reference of the Grants Committee and ensure: (a) establishing tenure limits for its members; (b) designating alternate members; and (c) avoiding potential for any conflicts of interest in decisions affecting grants related to any member's substantive division, including the chairperson.

UNECE accepted recommendation 1 and stated that the terms of reference of the Grants Committee are currently being reviewed internally and the final version will be sent to the Controller's Office for approval. The composition of the Grants Committee has been reviewed. A new Chairperson and members and their alternates were appointed for a one-year period in January 2012. Recommendation 1 remains open pending receipt of the revised and approved Terms of Reference of the Grants Committee.

D. Mandates and delegation of authority system

An alternate to the Executive Officer proposed by UNECE for the Delegation of Authority was not cleared by the UN Controller, as required by the ST/SGB/2005/7

23. As per the UN Financial Regulations and Rules, officials with financial delegation of authority may assign alternates to exercise the authority, provided that they remain accountable for the appropriate use of the authority, and that the alternates must work in their immediate office and have been cleared to perform significant financial management functions, in accordance with ST/SGB/2005/7. The alternate to the Executive Officer had not been cleared by the Office of the Controller to perform significant financial management functions, and was not part of the UNECE Executive Office.

(2) The UNECE Executive Officer should ensure that the designation of the alternate has been cleared by the Office of the Controller to perform significant financial management functions as required by the ST/SGB/2005/7.

UNECE accepted recommendation 2 and stated that a memorandum proposing a newly appointed Administrative Officer as an alternate to the Executive Officer for the Delegated Authority was sent to the Controller on 27 March 2012. Recommendation 2 remains open pending appointment of the designated alternate certifying officer for the UNECE accounts.

ST/SGB/2008/9 was not revised to formalize the organizational changes

24. ST/SGB/2008/9 “Organization of the Secretariat of the Economic Commission for Europe”, dated 27 June 2008 is the latest Secretary-General’s Bulletin establishing the organizational structure of UNECE. In order to increase synergies and optimize its resources, UNECE carried out a restructuring in December 2010. The organizational restructuring included the following changes:

- Consolidation of the Population Activities Unit into the Statistics Division from the Environment Division;
- Migration of the Housing and Land Management Unit to the Trade and Timber Division from the Environment Division;
- Merger of the Technical Cooperation Unit with the Programme Planning, Monitoring and Evaluation Unit, creating the new Programme Management Unit; and
- Creation within the Office of the Executive Secretary the Development Policies and Cross-Sectoral Coordination Unit.

25. However, ST/SGB/2008/9 had not been amended to reflect these changes.

(3) UNECE should update ST/SGB/2008/9 to incorporate the new changes in its organizational structure.

UNECE accepted recommendation 3 and stated that it is updating ST/SGB/2008/9 to reflect changes to the organizational structure and, upon the appointment of a new Executive Secretary, will send the revised version of the ST/SGB to the Department of Management for approval. Recommendation 3 remains open pending completion of the revised and approved ST/SGB.

E. Coordinated management mechanisms

UNECE practices effective coordination activities

26. In December 2010, UNECE reorganized its divisions to foster and enhance the natural synergies among its sub-programmes. Inter-divisional coordination took place at the Directors’ meetings held twice a month, which provided a forum for collective decision-making and for divisions to collaborate and share their work programmes, planned activities, results, best practices, and experiences. UNECE also coordinated its work with other regional commissions, UN departments, funds and programmes, and the specialized agencies, as well as international, regional and sub-regional organizations through existing coordination tools, instruments, mechanisms and processes such as the United Nations Development Assistance Framework (UNDAF) at the country level, Regional Directors Team and Regional Coordination Mechanism (RDT/RCM) at the regional level, the Executive Committee for Economic and Social Affairs (EC-ESA) and the UN Chief Executive Board (CEB) Inter-agency on Trade and Productive Capacity at the global level.

27. OIOS assessed that the existing coordinated management mechanisms in UNECE were adequate.

IV. ACKNOWLEDGEMENT

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

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STATUS OF AUDIT RECOMMENDATIONS

Comprehensive audit of UNECE

| Recom. no. | Recommendation | Critical / important ² | C/O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------|--------------------------------------------------------------------------------------|----------------------------------|
| 1 | UNECE should review the Terms of Reference of the Grants Committee and ensure: (a) establishing tenure limits for its members; (b) designating alternate members; and (c) avoiding potential for any conflicts of interest in decisions affecting grants related to any member's substantive division, including the chairperson. | Important | O | Submission of the revised and approved terms of reference of the Grants Committee. | 31 December 2012 |
| 2 | The UNECE Executive Officer should ensure that the designation of the alternate has been cleared by the Office of the Controller to perform significant financial management functions as required by the ST/SGB/2005/7. | Important | O | Appointment of the designated alternative certifying officer for the UNECE accounts. | 30 June 2012 |
| 3 | UNECE should update ST/SGB/2008/9 to incorporate the new changes in its organizational structure. | Important | O | Completion of the revised and approved ST/SGB. | 31 December 2012 |

1 Critical recommendations address significant and/or pervasive deficiency or weakness 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 UNECE in response to recommendations.