



INTERNAL AUDIT DIVISION

OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

Audit of UNEP Financial Management

16 November 2007

Assignment No. AA2006/220/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE
OIOS · BSCI

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

DATE: 16 November 2007

REFERENCE: AUD-(07- 00752)

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AA2006/220/01 – Audit of UNEP Financial Management**
OBJET:

1. I am pleased to present the report on the above-mentioned audit, which was conducted between September 2006 and July 2007.
2. Based on your comments, we are pleased to inform you that we will close recommendations 5, 8, 10 and 12 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1. Please note that in accordance with OIOS' procedures, we have referred the matter of the gifts and donations received by the Office of the Executive Director (OED) to the OIOS Investigations Division for review.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 2, 3, 5, 7, 11, 13 and 14) in its annual report to the General Assembly and semi-annual report to the Secretary-General.
4. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

cc: Mr. T. Kapiga, Officer in Charge, UNEP Corporate Services Section
Mr. D. Hastie, Chief, UNON Budget and Financial Management Services
Ms. K. Autere, UNEP Audit Focal Point
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors
Mr. J. Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Christopher Bagot, Acting Service Chief, Nairobi Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

CONTACT INFORMATION

DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

ACTING CHIEF, NAIROBI AUDIT SERVICE:

Christopher F. Bagot: Tel: +254.20.762.4097, Fax: +254.20.762.4125,
e-mail: christopher.bagot@unon.org

EXECUTIVE SUMMARY

Audit of UNEP Financial Management

OIOS conducted an audit of UNEP Financial Management from September 2006 to July 2007. The main objective of the audit was to assess the efficiency and effectiveness of arrangements for UNEP financial administration. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The overall conclusion was that arrangements for the financial administration of UNEP appeared satisfactory and OIOS was pleased to note that efforts were underway to examine where improvements could be made. However, OIOS was concerned at the absence of a senior manager assigned with overall responsibility and accountability for UNEP financial management. Whilst UNEP has indicated that its Corporate Services Section has responsibility for financial management, it has not indicated whether the head of this unit has overall responsibility and accountability for UNEP financial management.

Governance

To ensure that its financial texts remain in line with developments within the United Nations, UNEP will submit a revised version of its financial text for approval at its next Governing Council (GC) in 2009.

UNEP had an adequate mechanism in place to monitor and report on the status of all types of GC decisions for which feedback was required, and has agreed to strengthen this mechanism to enable it to easily track all extant decisions and to trace the evolution of decisions over time to demonstrate the alignment between activities and decisions.

Regular Budget (RB)

To ensure compliance with General Assembly resolution 2997 (XXVII) on use of RB funds, OIOS recommended, and UNEP has agreed, to undertake an analysis of activities which should be funded from the RB, for consideration by its next GC.

The Environment Fund

There were adequate arrangements in place over the Environment Fund, with the exception of the need for guidelines to provide better transparency and accountability over the use of Reserves.

Trust Funds

Adequate mechanisms for establishing trust funds were in place. However, UNEP lacked satisfactory procedures for timely closing of inactive trust funds. Furthermore, UNEP needs to clarify and formalise its current practice of issuing allotments based on pledges in order to mitigate risk of financial losses. Additionally, UNEP should clarify its position with respect to

ST/AI/286 “Programme Support Accounts” and whether it will establish its own policies and procedures over the Trust Fund Support Account. UNEP agreed to take action on these areas but commented, on the issue of pledges, that it considered that it had an adequate mechanism in place that only needs to be strengthened and rigorously enforced.

Cash Management

Adequate arrangements were in place for control over cash management with the exception of controls over gifts and donations received by the Office of the Executive Director (OED). The former Executive Director had received monies for engagements which in the opinion of OIOS should have been treated as miscellaneous income to the Environment Fund in accordance with UNEP Financial Rule 205.1. OIOS recommended the development of procedures to guide OED on the proper accounting for and utilization of donations for which no specific purpose has been designated. UNEP took action to address these issues and in accordance with OIOS’ procedures, we have referred this matter to the OIOS Investigations Division for review.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Financial Administration between September 2006 and July 2007.

2. Between 1998 and 2007, UNEP financial management was outsourced to UNON, who prepared the budget, handled financial transactions and prepared the accounts. As discussed further in the report, UNEP decided to transfer some of these functions back to UNEP and this was still ongoing at the time of issuing the final report.

3. Table 1 below depicts UNEP's approved budget for the biennia 2004 - 2005 and 2006 - 2007. This only relates to UNEP core activities and does not include the resources for which UNEP has administrative responsibility.

Table 1: UNEP Environment Fund and programme resources for the biennia 2004-2005 and 2006-2007 (in millions of dollars)

Source of funding	2004-2005	2006-2007
UN Regular Budget	10.5	10.5
Environment Fund	130.0	144.0
Trust Funds	78.5	66.3
Trust Funds Support account	19.4	24.8
Earmarked Contributions	25.0	45.0
Totals	263.4	290.6

4. Comments made by UNEP are shown in *italics*.

II. AUDIT OBJECTIVES

5. The overall objective of the audit was to assess the efficiency and effectiveness of arrangements for financial management of UNEP. This included:

- (a) Assessing whether UNEP had provided UNON with adequate guidance and support for carrying out financial management on its behalf;
- (b) Assessing the internal controls and procedures for financial management;
- (c) Assessing compliance with United Nations Regulations and Rules and UNEP rules; and
- (d) Assessing the integrity of data for management decision-making.

III. AUDIT SCOPE AND METHODOLOGY

6. OIOS focused on the arrangements put in place by UNEP for financial management and the audit covered financial activities occurring in the period January 2004 to December 2006. The audit included a review and risk

assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

7. The following aspects of financial management, which are common to all organizations serviced by UNON, were dealt with in the UNON Financial Management report (AA2006/211/01):

- Delegation of authority for financial matters
- Policies and procedures
- Receipt of funds
- Investments
- Expenditure control
- Corporate credit cards
- Accruals based accounting
- Accounts receivable
- Inter Office Vouchers.

8. The review of organizational structure was restricted to the adequacy of arrangements put in place for effecting the transfer of functions from UNON to UNEP. Furthermore, the audit did not review the financial statements, which are audited separately by the Board of Auditors.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Governance

Approval of financial decisions

9. Adequate arrangements were in place for approval of financial decisions. UNEP Governing Council (GC), the policy-making organ of UNEP, approves resolutions on UNEP's financial matters, taking into account General Assembly (GA) resolutions, which govern the financial administration of UNEP.

UNEP financial texts

10. The extrabudgetary funds of UNEP which are contained in the Environment Fund are governed by a set of legislative and financial texts, which are based on the United Nations Regulations and Rules and approved by the Governing Council. The current set of texts was approved in 2003, but does not take account of the changes in the United Nations Financial Regulations and Rules which occurred in 2003. In its audit of the establishment and administration of UNEP World Conservation and Monitoring Centre (WCMC) (AA2001/05/02 – August 2002) OIOS recommended that UNEP review and revise certain of its financial rules with respect to the authority of the UNEP Executive Director. OIOS therefore expected UNEP to review the new Financial Regulations and Rules and assess their impact on its own Financial Texts. This matter was discussed by the UNEP Committee of Permanent Representatives

(CPR) in the run up to the UNEP GC held in February 2007. It was agreed that rather than issue a change to one rule, UNEP would undertake a comprehensive review of its financial rules taking into account the move by the United Nations to adopt International Public Sector Accounting Standards (IPSAS). A revised set of financial rules will be presented to the next UNEP GC in 2009. The WCMC recommendation has been closed and no additional action is recommended.

Tracking and reporting on the status of UNEP Governing Council financial decisions

11. The Office of the Executive Director (OED), UNEP has responsibility for tracking and reporting to the CPR on implementation of GC decisions in accordance with the role and purpose of the CPR as stated in UNEP GC 19/32 of 4 April 1997 paragraph 7 (a). The UNEP Secretariat for Governing Bodies (SGB) does this on behalf of OED and reports quarterly to the CPR on the status of decisions.

12. OIOS reviewed the arrangements for handling GC financial decisions and concluded that UNEP had an adequate mechanism in place to monitor and report on the status of all the types of GC decisions where there was a requirement to report back to the GC. Once a decision had been reported back to the GC, regardless of whether the decision remained in force, it was no longer reported or filed in a database for easy retrieval and reference. It was therefore not possible to easily access a list of all extant GC resolutions or to track the evolution of decisions. In the opinion of OIOS, the absence of a database of resolutions still in force reduces the ability of UNEP management to demonstrate that all its activities are supported by GC resolutions. For instance, the status of the following financial decisions was unclear:

- **GC 3 Decision 42 (III) Level of the financial reserve:** The GC decided that the level of the financial reserve should for each year be equivalent to approximately eight per cent of the approved volume of expenditures for that year.
- **GC 11 Decision 11/10 The Environment Fund:** The GC endorsed the recommendation that the Environment Fund's input in staff time financed from the programme and programme support costs budget should be regarded as sufficient contribution by the Environment Fund for purposes of accepting counterpart funds for projects under the provisions of rule 204.1 of the Financial Rules of the Fund.

Recommendation 1

(1) To facilitate ease of tracking of extant Governing Council (GC) resolutions and to improve UNEP's ability to demonstrate activities are supported by GC decisions, UNEP should enhance its existing repository to include all extant resolutions and an archive of resolutions which have been superseded or cancelled.

13. *UNEP accepted recommendation 1 and stated that the establishment of a database for tracking UNEP Governing Council decisions is included in the discussions with the Committee of the Permanent Representatives on the reporting requirements. Recommendation 1 remains open pending notification of the implementation of a repository to include all extant decisions and an archive of resolutions which have been superseded or cancelled.*

Financial reporting to UNEP CPR

14. The CPR was provided with quarterly reports on budget implementation and financial status. OIOS confirmed the adequacy of the current arrangements for the provision of the information and noted no problems with completeness and accuracy.

Transfer of financial functions from UNON

15. In the UNEP Inspection conducted in 2000 OIOS recommended that “management of the Environmental Fund by the United Nations Office at Nairobi (UNON) needs to be reviewed and collaboration between UNON and UNEP programme managers should be enhanced. In this regard a small task force should be constituted to identify whether and how the management of UNON affects workflow and which areas may be improved” (A/54-817-UNEP Inspection SP-99-002-08). In late 2006, UNEP decided to transfer back to its administration, financial functions which had been undertaken by UNON. Whilst OIOS is pleased to note that action has been taken, it is concerned that this exercise was not guided by agreed terms of reference setting out who should be involved or an analysis of functions, roles and responsibilities which would be transferred. The transfer is well advanced and OIOS agrees with UNEP there is limited value in raising a recommendation on this matter, but it remains concerned about how UNEP will be able to demonstrate the cost effectiveness of the move and that functions have only been transferred where it is more efficient for them to be carried out in UNEP. Of more concern is that the move is taking place in the absence of a senior manager assigned with overall responsibility and accountability for UNEP financial management. Consequently, it is unclear who has responsibility for what and how UNEP intends to manage its finances and what role it wants UNON to play.

Recommendation 2

(2) UNEP should appoint a senior manager with responsibility for financial management and identify the respective roles and responsibilities of this individual and UNON for financial matters.

16. *UNEP accepted recommendation 2 and stated that the responsibility for financial management in UNEP is vested in Corporate Services Section (CSS). UNEP is in the process of detailing the roles and responsibilities. Recommendation 2 remains open pending confirmation that a senior manager has been appointed with responsibility and accountability for UNEP financial*

management. This should include identification of the respective roles and responsibilities of this individual and UNON for financial matters.

B. Regular Budget (RB)

General Assembly (GA) resolution 2997 on the use of RB by UNEP

17. GA resolution 2997 (XXVII) states that the costs of servicing the GC are to be borne by the RB. However, the cost of servicing the GC is not fully funded from the RB. For instance, for GC 23 (Nairobi, 21-25 February 2005) approximately \$600,000 was funded from the Environment Fund. UNEP has no mechanism to identify the funding required for the GC, which could be used as a basis for seeking additional funding from the GA. In the absence of such documentation, it is not clear how UNEP can demonstrate the efficiency or the effectiveness of the current RB resources allocated.

18. GA Resolution 2997 (XXVII) also decided that a small Secretariat should be established in the United Nations to serve as a focal point for environmental action and co-ordination within the United Nations system and that the costs should be borne by the RB. It also made it clear that operational programme costs, programme support and administrative costs of the Environment Fund should be borne by the Environment Fund. UNEP has no mechanism in place to identify which posts or activities would be covered by this and thus eligible for RB funding. According to the 2006-07 budget, \$2.8 million of the RB was allocated to policy making organs and management and administration including the Office of the Executive Director, \$6.2 million was budgeted for operational divisions and \$1.5 million was budgeted for programme support, which included Office of the Deputy Executive Director, Programme Coordination and Management Unit and Evaluation and Oversight Unit. The basis for this use of the RB funds was unclear.

Recommendation 3

(3) UNEP should undertake an analysis of what Governing Council (GC) and UNEP activities should be funded by the Regular Budget (RB), in line with the General Assembly (GA) resolution 2997 (XXVII) and produce a paper for consideration by the next GC in 2009 to ensure compliance with the GA resolution regulating the use of RB funds within UNEP.

19. *UNEP accepted recommendation 3 and stated that keeping in mind that the RB provides less than five per cent of UNEP's funding, an analysis on the use of RB will be conducted and provided to the Senior Management. Consideration will be given on whether it is necessary to refer the matter to the GC. Recommendation 3 remains open pending receipt of a paper for consideration by the next GC in 2009 on an analysis of what GC and UNEP activities should be funded by the RB.*

The United Nations Scientific Committee on the Effects of Atomic Radiation (UNSCEAR)

20. Approximately \$1 million from the RB is spent each biennium on UNSCEAR, which is based in Vienna and is operating from the same premises as the International Atomic Energy Agency. UNSCEAR has been operating under the umbrella of UNEP since the inception of UNEP in 1972 but there has been no review on whether this function is within the UNEP mandate and should remain there. The General Assembly in its Resolution 61/109 of 14 December 2006 urged UNEP “to continue providing support for the effective conduct of the work of the Scientific Committee” and “to review and strengthen the present funding of the Scientific Committee”. In view of this resolution, OIOS is not making any recommendation.

Budget arrangements

21. OIOS confirmed the adequacy of the arrangements for the preparation and approval of the budget, which involved full consultation with the CPR and were conducted in accordance with United Nations and UNEP regulations and rules.

C. The Environment Fund

Charges to the Environment Fund operational programme costs

22. OIOS reviewed a sample totalling \$4.3 million out of \$77 million total disbursements in 2005 and found they were properly certified, approved by the authorized officials and supported by adequate supporting documentation.

Environment Fund financial reserve and programme reserve

23. In accordance with UNEP Financial Rule 209.2, a financial reserve has been established to guarantee the financial liquidity and integrity of the Environment Fund, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the GC. The approved financial reserve balance remained unchanged during the biennia 2004 - 2005 and 2006 - 2007 at \$10 million. Since its 19th session (February 1997), the GC has reiterated its call to the Executive Director “to increase further the level of the financial reserve to \$20 million as and when carry-over resources become available over and above those needed to implement the programme approved for the biennia 2004–2005 and 2006–2007”. However due to lack of available resources the reserve was never increased. No charges were made to the financial reserve during the biennia 2004 - 2005 and 2006 - 2007.

24. In accordance with UNEP Financial Rule 209.3, a Fund programme reserve has been established to meet unforeseen needs, to finance unanticipated projects and to serve such other purposes as may be determined from time to time by the GC. The programme reserve has been set at \$5 million and \$6 million respectively for the biennia 2004 - 2005 and 2006 - 2007 as approved by the GC. A total of \$3.8 million was used during 2004 - 2005. OIOS reviewed two

transactions totalling \$420,000. For one transaction, OIOS was provided with a handwritten note by the Executive Director, UNEP as the only documentation supporting a grant of \$220,000 to the Secretariat of Stockholm Convention out of the Environment Fund Programme reserve fund. Whilst appreciating that the Executive Director has the sole authority to allocate funds from both reserves OIOS is of the view that the note was not adequate supporting documentation for the allocation of a grant since it lacked the rationale for the grant allocation and its intended use. The second transaction for \$200,000 related to a Memorandum of Understanding with UNEP World Conservation Monitoring Centre (WCMC). OIOS was only provided with documentation relating to the transfer of expenditures from the reserve fund to the Environment Fund. It was unclear whether the allocation of funds out of the programme reserve qualified as unforeseen and/or unanticipated needs which are the purposes for which the reserve was set up for by the GC. OIOS did not find any policy or procedures governing the reserve under which to conclude whether the allocations were valid charges to the programme reserve. OIOS is of the opinion that current arrangements need to be strengthened to improve transparency and accountability.

Recommendation 4

(4) UNEP should establish guidelines covering: (i) the approval process for the allocation of funds out of the programme reserve; (ii) the criteria and basis for any allocation; (iii) documentation requirements for applying for funds from the reserve including the intended use and justification for the need; and (iv) reporting arrangements to the Committee of Permanent Representatives to strengthen transparency and accountability of the use of UNEP Reserves.

25. *UNEP accepted recommendation 4 and stated that it will establish the required guidelines and give consideration to the need for reporting to CPR. Recommendation 4 remains open pending receipt of guidelines on the allocation of funds from the programme reserve.*

Transfer of expenditures

26. Transfer of expenditures may be required to correct the allocation of expenditures to the proper source of funds or projects. Transfers were initiated by fund management officers within the Fund Management Section and processed by the Project Accounts Unit (PAU) of Budget and Financial Management Service (BFMS). This separation of duties was a good internal control which ensured an independent validation of the appropriateness of any transfer while reducing the risk of errors and irregularities. However, the separation of duties was not working as effectively as OIOS would have expected. While reviewing 2006 transfers, OIOS noted no formal explanation or justification supporting the request for transfers, which would provide a basis for PAU to validate the transfers. This gave the impression that PAU was providing no effective oversight and was just processing transfers as instructed by fund

managers. The failure to provide effective oversight circumvented the control benefit from the separation of duties. PAU informed OIOS that in late 2006 fund managers were instructed to provide PAU with an explanation for transfers. Whilst appreciating the steps taken during the audit to strengthen controls, there was no evidence that PAU was enforcing the instructions as OIOS observed cases where there was no justification supporting the transfer request. OIOS is therefore concerned that PAU may not be capable of carrying out the task entrusted to it.

Recommendation 5

(5) UNEP should discuss with UNON how to improve the accountability of the Project Accounts Unit for reviewing and ensuring the adequacy of documentation provided by fund managers to support expenditure transfers and ensure that transfer of expenditures are appropriate and justified.

27. *UNEP accepted recommendation 5 and confirmed that the responsibility to authorize transfers rests with the Chief of CSS in UNEP, who bears the final responsibility for actions taken in respect of expenditures. S/he is in a better position than PAU to evaluate the extent of any errors made regarding programmatic needs being addressed by the transfers. Based on the action taken by UNEP, recommendation 5 has been closed.*

D. Trust Funds

Mechanisms for establishing trust funds

28. The authority to establish trust funds is vested in the General Assembly or the Secretary General. With regard to the trust funds managed by UNEP, the Secretary General has delegated the authority to establish (and close) trust funds to Executive Director, UNEP, who in turn delegated his authority to the UNEP Deputy Executive Director in August 1998.

29. In January 2000, BFMS issued guidelines for the establishment and management of UNEP Trust Funds. The guidelines were in line with ST/AI/284 (General Trust Funds), ST/SGB/188 (establishment and Management of Trust Funds) and ST/AI/285 (technical Cooperation Trust Funds) with the exception of guidelines on operating reserve as discussed below. OIOS reviewed a sample of 12 trust funds and noted that all were properly authorized.

Trust Fund terms of reference and expenditures

30. OIOS confirmed the existence of terms of reference for trust funds that included key clauses such as purpose, magnitude of funds, duration, programme support costs charges and audit requirements. The trust funds reviewed all conformed to the terms of reference and the expenditures were in accordance with the terms of reference.

Operating reserves

31. ST/AI/284 requires that an operating reserve is normally established for each trust fund at a constant level of 15 per cent of estimated annual planned expenditures to cover shortfalls and to meet the final expenditures under the trust fund, including liquidating liabilities. UNEP is exempt from this rule and had established its own guidelines that did not make clear when and in what circumstances an operating reserve may be required for a trust fund. As such operating reserves are not usually created, thereby exposing UNEP to the risk of having to cover shortfalls or other liabilities when a fund is closed. OIOS agrees with UNEP that such a reserve may not be practical or cost effective for small scale trust operations and operating reserves may not be appropriate or necessary for fully funded technical cooperation trust funds.

Recommendation 6

(6) UNEP should amend its guidelines to explain when and under what circumstances an operating reserve should be created in accordance with ST/AI/284, to reduce the risk of financial liabilities arising out of the final expenditures when closing a trust fund. This could form part of the revised UNEP Financial Rules.

32. *UNEP accepted recommendation 6 and stated that it will give consideration to including amended guidelines in the UNEP Financial Rules. Recommendation 6 remains open pending receipt of approved revised UNEP Financial Rules.*

Closing Trust Funds

33. OIOS agrees with UNEP that closing of trust funds requires time for consulting with the donors and collecting all the management reports from the project implementers. However, UNEP lacked controls to ensure that trust funds were closed in a timely manner:

- Trust funds authorised for closure in 2000 by the GC decision 23/4 were still open, including some which are still active (see Annex 2); and
- Dormant trust funds had not been presented for closure (see Annex 3).

34. UNEP needs to introduce measures that will result in the timely closure of trust funds by ensuring a table is kept showing for each trust fund, details of: the actions required for closure; a description of when and in what circumstances a trust fund should be presented to the UNEP Governing Council for closure; who is responsible for closure; and, who is responsible for monitoring and ensuring that closure occurs in a timely manner. Consideration should also be given to stipulating timelines within which final activities of a trust fund should be completed. This information should form part of the quarterly reporting to the Committee of Permanent Representatives to facilitate the timely closure of trust funds.

Recommendation 7

(7) UNEP should strengthen the current arrangements for monitoring and reporting the status of trust funds authorized for closure, to the Committee of Permanent Representatives.

35. *UNEP accepted recommendation 7 and stated that it is already working on a database for trust funds. As regards the quarterly reporting to CPR, UNEP already provides this information covering a range of issues including any trust funds established or closed during the reporting period. Recommendation 7 remains open pending receipt of documentation showing the arrangements made for monitoring and reporting on trust funds authorized for closure.*

Disbursements made on pledges

36. With respect to a Technical Cooperation Trust Fund in Support of the UNEPnet Implementation Centre (completed in 2003), OIOS noted that UNEP intends to absorb a \$418,000 deficit. Allotments were based on pledges while the actual donations received were below expectations due to unfavourable foreign exchange fluctuations. Since expenditures were incurred based on allotments, the trust funds recorded deficit due to over-expenditures. Timely corrective actions could have reduced the size of deficit. A deficit of approximately \$65,000 was reflected in the certified financial statements in the second year of operation of the trust fund, but no corrective action was taken. The over-expenditure increased each year resulting in a cumulative deficit of \$418,000 in the fifth and final year. OIOS acknowledges that it only encountered one instance of this condition but is concerned at the lack of controls to detect the problem at an early stage and the lack of policy to prevent making allotments based on pledges.

Recommendation 8

(8) UNEP should prevent over-expenditures by establishing mechanisms such as tracking negative changes in resources and early identification and action on over-expenditures in order to prevent financial losses arising from trust fund allotments based on pledges.

37. *UNEP stated that it agrees with the principle of the recommendation but does not accept it because the Corporate Services Section has confirmed that UNEP already has a mechanism in place of controlling the allotments within allocations issued from available resources and updated from time to time.*

(i) The mechanism in place serves the same purpose and only needs to be strengthened and rigorously enforced. As noted in paragraph 29 above, the UNEP guidelines for the establishment and management of trust funds are in line with, among others, ST/SGB/188. Of relevance here is the spending authority outlined in paragraph 40 of ST/SGB/188. In UNEP's case the authorization is in the form of allocations issued by

the Executive Director or her/his authorized designee, currently the Chief of BFMS but this should change to the Chief of CSS.

(ii) CSS also maintains a status table that provides timely and accurate information on the status of resources, allocations, and planned and approved budgetary commitments for each trust fund. All spending proposals have to be cross checked against the table. Unfortunately in the case of the trust fund referred to in paragraph 36, for some unknown reason, this was not done and that's the reason we propose to strengthen and enforce the existing system as it has adequate controls instead of creating a new one.

38. Based on these explanations, recommendation 8 has been closed.

E. Trust Fund Support Account

Support Account charges

39. The trust fund support account income was generated from the 13 per cent administrative overhead charge levied to trust funds based on their actual expenditures, in accordance with the United Nations Regulations and Rules. Where a lower percentage was charged, this was done within the authority of Executive Director, UNEP.

40. OIOS reviewed a sample of 17 transactions totalling \$4.6 million to determine whether charges to the Trust Fund Support Account were in support of activities for which trust funds were set up. OIOS concluded that the charges were directly or indirectly supporting trust funds.

41. ST/AI/286 "Programme Support Accounts" is the applicable United Nations rule on trust fund support account. Whilst in the cases reviewed UNEP had followed ST/AI/286, it has an exemption from this rule and OIOS is of the opinion that there should therefore be some documentation stating that UNEP has elected to follow the ST/AI/286 in its entirety or to explain when and in what circumstances it may not be applied. In the event of the latter option, UNEP should outline policies and procedures governing (i) the basis for determining the level of the operational reserve, (ii) the basis for determining the allocation of common charges to Support Account and (iii) requirements and guidelines for regular and timely oversight and monitoring.

Recommendation 9

(9) UNEP should ensure that expenditures charged to the Trust Fund Support Account are only those supporting activities for which the contributing trust funds were set up and that the level of its operational reserve is adequate. UNEP should state in its revised financial texts whether it will comply with the requirements of ST/AI/286 "Programme Support Accounts" or establish its own policies and procedures.

42. *UNEP accepted recommendation 9 and stated that it will review the various options taking into account past experiences in order to arrive at the most appropriate decision especially considering its position within the UN family.* Recommendation 9 remains open pending receipt of revised financial text on UNEP's position with respect to ST/AI/286 on "Programme Support Accounts" or documentation of the relevant policies and procedures.

Support Account operational reserve

43. The Trust Fund Support Account maintains an operational reserve of \$2 million. This operational reserve is required to protect against unforeseen shortfalls in receipt of pledges, inflation and currency adjustments or to liquidate legal obligations in the event of abrupt terminations of activities financed from the Trust Fund Support Account. With approved budgets for the Trust Fund Support Account of \$19.4 million and \$24.8 million respectively for the biennia 2004 - 2005 and 2006 - 2007, the operational reserve stands at approximately 21 per cent and 16 per cent of the respective annual budgets. Thus the current level of \$2 million is within acceptable range of the 20 per cent of the estimated annual program support income recommended by ST/AI/286 "Programme Support Accounts".

F. Cash Management

Bank Signatories Responsibilities

44. OIOS noted that bank signatories were advised of their responsibilities when their role is approved. However, discussions with some UNEP bank signatories revealed that not all signatories were fully aware or fully understood all of their responsibilities as outlined in Rule 104.5 of the United Nations Financial Regulations and Rules. UNON accepted a recommendation as part of the audit of UNON financial management (AA2006/211/01) to strengthen existing procedures by providing training to all new signatories about their responsibilities. No further action is recommended.

Bank Reconciliations

45. OIOS noted that bank reconciliations were performed on a regular and timely basis and found no issue with the reconciling items.

Use of imprest accounts by the Division of Technology, Industry and Economics (DTIE)

46. According to Financial Rule 105.6, "Approving Officers are supposed to approve entry into accounts of obligations and expenditures relating to contracts, agreements, purchase orders and other forms of undertaking after verifying that they are in order and have been certified by a duly designated certifying officer. Approving officers are also responsible for approving the making of payments once they have ensured that they are properly due, confirming that the necessary services, supplies or equipment have been received in accordance with the

contract, agreement, purchase order or other form of undertaking by which they were ordered. Approving Officers must maintain detailed records and must be prepared to submit any supporting documents, explanations and justifications requested by the Under-Secretary-General for Management.”

47. UNON Treasury is required to approve disbursements from a local account maintained by DTIE, which in the opinion of OIOS is not in accordance with Financial Rule 105.6. This arises because DTIE is not following the usual practice of using the UNEP account in New York for transactions other than local deposits and disbursements. Its local imprest account is being used as its main account, which is not in line with the rationale for its establishment.

Recommendation 10

(10) UNEP should ensure compliance with United Nations Financial Rule 105.6 requiring approving officers to have full documentation to support their work, and to ensure that the local imprest account is used for its intended purpose. UNEP should require its Division of Technology, Industry and Economics to only use its imprest account for local imprest payments and all other deposits and disbursements should be made through the central UNEP account, where appropriate oversight can be exercised.

48. *UNEP accepted recommendation 10 and stated that it has been immediately implemented.* Based on the action taken by UNEP, recommendation 10 has been closed.

G. Earmarked Contributions

49. For the biennium 2004 - 2005 earmarked contributions amounted to approximately \$45 million. OIOS conducted a sample check of three project expenditures and confirmed that earmarked contributions were spent on the intended purpose.

H. Cash gifts to the Former Executive Director of UNEP

Approval to receive a cash gift

50. The former Executive Director, UNEP received money on an *ad hoc* basis as gifts/donations/honorarium for his speeches to various institutions/organizations amounting to approximately \$21,400 between July 2002 and May 2005. However, evidence was not produced for review whether any approval was obtained from the Secretary General prior to accepting the fees as provided for in section 4 of ST/AI/2000/13, which states that prior authorization is required to engage in acts such as issuance of statements to the press, radio, or other agencies of public information, and acceptance of speaking engagements. Furthermore, Regulation 1.2 (j) and (l) of the Staff Rules states that no staff member shall accept any honour, decoration, favour, gift or

remuneration from any Government/non-governmental source without first obtaining the approval of the Secretary-General.

Recommendation 11

(11) UNEP should request UNON to issue a bulletin to staff reminding them of the provisions of section 4 of ST/AI/2000/13 and Regulation 1.2 (j) and (l) of the Staff Rules on Outside activities and Honours, gifts or remuneration respectively.

51. *UNEP accepted recommendation 11 and stated that UNON has agreed to implement this recommendation.* Recommendation 11 remains open pending receipt of a copy of the bulletin to staff reminding them of the provisions of section 4 of ST/AI/2000/13 and Regulation 1.2.

Treatment of cash gifts

52. The treatment of cash gifts was inconsistent with United Nations Financial Rule 103.4 that states "(a) in cases other than those approved by the General Assembly, the receipt of any voluntary contribution, gift or donation to be administered by the United Nations requires the approval of the Under-Secretary-General for Management, (b) voluntary contributions, gifts or donations which directly or indirectly involve additional financial liability for the Organization may be accepted only with the approval of the General Assembly, and (c) gifts or donations are to be defined and administered as voluntary contributions". In addition, Regulation 3.14 of the United Nations Financial Rules states that "moneys accepted in respect of which no purpose is specified shall be treated as miscellaneous income and reported as gifts in the accounts of the financial period". In the case of UNEP, their financial rule 205.1 states that "miscellaneous income comprises all income to the fund other than voluntary and earmarked contributions, direct refunds of expenditure and revenue derived from the staff assessment fund". UNON recorded the cash gifts referred to above as earmarked contribution and established a trust fund for spending the funds. However, UNEP could provide no documentation supporting treatment of the cash gifts in this manner. Under UNEP's own financial rules this is clearly miscellaneous income. Therefore, the remaining balance of approximately \$3,500 should be reported and classified in the UNEP's accounts as miscellaneous income.

Recommendations 12 and 13

UNEP should:

(12) Issue a memorandum to approving, certifying and accounting officers reminding and reinforcing the observance of the applicable United Nations and UNEP rules to ensure proper accounting and utilization of donations received, for which no specific purpose has been designated.

(13) Treat the remaining balance of the honoraria received by its former Executive Director as miscellaneous income to the Environment Fund in accordance with UNEP Financial Rule 205.1.

53. *UNEP accepted recommendation 12 and stated that it has been immediately implemented.* Based on the action taken by UNEP, recommendation 12 has been closed.

54. *UNEP agreed to transfer the remaining balance of the honoraria to the miscellaneous income of the Environment Fund.* Recommendation 13 remains open pending receipt of documentation showing that the remaining balance of approximately \$3,500 has been transferred to miscellaneous income.

Use of cash gifts

55. As stated above, the cash gifts received by the former Executive Director, UNEP were miscellaneous income and should have been treated as such in the accounts of UNEP, or authority requested from the Controller for an alternative classification. UNEP made no such requests and the Executive Director used the funds to make *ad hoc* contributions of approximately \$10,000 to various charitable institutions between November 2002 and December 2005 while about \$6,600 was used to finance costs of his farewell parties in April 2006. Despite the fact that there are no financial rules governing the use UNEP made of these funds, UNON informed OIOS that these payments were certified at the request of the Office of the former Executive Director UNEP/Director General UNON.

56. Monies were earmarked and allotments issued by UNEP in the Costed Workplan of the Division of Policy Development and Law (DPDL). However OIOS notes that the expenditures were for activities not in conformity with the divisional programme of work or UNEP mandate.

57. In response to being alerted about the internal control weakness by OIOS, UNEP undertook an internal review to ascertain the seriousness of the control breakdown. This review concluded that lack of knowledge of the rules was the key contributory factor to the breakdown and not a deliberate intention to circumvent the rules and controls. They indicated that (i) all the cash gifts were accounted for in the books of UNEP; and, (ii) there were a number of cases where the Executive Director was offered fees but which he either declined or sought the approval of the Secretary General. In accordance with OIOS' procedures, we have referred this matter to the OIOS Investigations Division for review.

Recommendation 14

(14) UNEP should develop specific procedures on how to handle miscellaneous honoraria to staff, with clear roles and responsibilities between the staff of the Office of Executive Director UNEP, UNON senior management and Fund

officers. The procedures should be supported by adequate communication and training.

58. *UNEP accepted recommendation 13 and stated that UNEP will develop procedures and organize the training whenever necessary.* Recommendation 13 remains open pending receipt of documentation indicating procedures have been developed to guide staff on how to treat miscellaneous honoraria and outlining the roles and responsibilities of all parties concerned.

I. Roles and Responsibilities for UNEP Financial Management

59. According to ST/SGB/1999/21 on the organization of the Secretariat of UNEP, the Executive Director, UNEP is responsible for the administration of the Environment Fund, under the authority and policy guidance of the GC. ST/SGB/2000/13 on the organization of UNON however specifies that UNON is responsible for managing and controlling all regular and extra budgetary funds of UNEP and provides financial services to UNEP. There is no documentation clarifying the roles and responsibilities between UNON and UNEP in respect to UNEP financial administration. A recommendation to clarify the respective roles and responsibilities for performing budgetary and financial functions between UNEP and UNON was issued as part of the audit of UNON financial management (AA2006/211/01) and as such no recommendation is raised here.

J. Financial Reporting to UNEP Management

60. In a prior audit of one of the UNEP's Divisions, OIOS raised the following recommendation that is still open at the time of this audit: "To ensure that UNEP divisions have the management information needed to properly monitor and control administrative activities, the UNEP Executive Director should establish a task force to: (i) analyse and define UNEP's requirements for administrative management information (ii) coordinate with UNON to establish a mechanism for ensuring that the data is developed and collected in a timely and efficient manner, and (iii) implement procedures for ensuring that only properly authorised, accurate and complete data is captured" (AA2002/05/01/002 – audit of Division of Early Warning and Assessment, September 2003). OIOS was pleased to note that progress had been made with respect to provision of financial management information and that a comprehensive range of reports was available to UNEP and that there was an ongoing dialogue between UNEP and UNON to further improve information, especially with respect to the linkage with the Programme of Work. No additional recommendations are therefore proposed in this area and OIOS urges UNEP to finalise implementation of the open recommendation.

V. ACKNOWLEDGEMENT

61. We wish to express our appreciation to the Management and staff of the UNON and the UNEP for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Receipt of notification of implementation of repository to include all extant decisions and an archive of resolutions which have been superseded or cancelled.	Not provided
2	O	Receipt of confirmation that a senior manager has been appointed with responsibility and accountability for UNEP financial management. This should include identification of the respective roles and responsibilities of this individual and UNON for financial matters.	Not provided
3	O	Receipt of a paper for consideration by the next GC in 2009 on an analysis of what Governing Council (GC) and UNEP activities should be funded by the RB.	Not provided
4	O	Receipt of guidelines on the allocation of funds from programme reserve.	Not provided
5	C	Completed.	Implemented
6	O	Receipt of approved revised UNEP Financial Rules.	30-09-08
7	O	Receipt of documentation showing the arrangements made for monitoring and reporting on trust funds authorized for closure.	30-09-08
8	C	None.	Implemented
9	O	Receipt of revised financial text on UNEP's position with respect to ST/AI/286 on "Programme Support Accounts" or documentation of the relevant policies and procedures.	Not provided
10	C	Completed.	Implemented
11	O	Receipt of a copy of the bulletin to staff reminding them of the provisions of section 4 of ST/AI/2000/13 and Regulation 1.2.	Not provided
12	C	Completed.	Implemented
13	O	Receipt of documentation showing that the remaining balance of approximately \$3,500 has been transferred to miscellaneous income	Not provided
14	O	Receipt of documentation indicating procedures have been developed to guide staff on how to treat miscellaneous honoraria and outlining the roles and responsibilities of all parties concerned.	30-08-08

1. C = closed, O = open

2. Date provided by UNEP in response to recommendations.

TRUST FUND CLOSED BY GOVERNING COUNCIL

OIOS noted with concern that the implementation of Governing Council decisions regarding closure of certain trust funds took unnecessarily long. For instance during the 20th Governing Council session held in February 1999, Decision 20/34 on management of Trust funds and counterpart contributions noted and approved the closure of selected trust funds subject to completion of their activities and clearance of all financial implications before the twenty first session of the Governing Council. However among the trust funds recommended for closure the following were still open at the time of our audit in February 2007. Although the trust funds have completed their activities, some have unspent balances whose use for other purposes is still being negotiated by UNEP with the respective donors

Title of Trust Fund	Unspent Balance as at Feb.07 (\$)
Regional Trust Fund for the Protection and Development of Marine Environment and Coastal Areas of Bahrain, Islamic Republic of Iran, Iraq, Kuwait, Oman, Saudi Arabia and the United Arab Emirates (K1)	-
Technical Cooperation Trust Fund to Assist Developing Countries to Take Action in Accordance with Agenda 21 (ASL)	144,000
Technical Cooperation Trust Fund to provide consultancies to developing Countries (CDL)	4,000
Technical Cooperation Trust Fund for activities in developing countries on environmental Awareness and Machinery (EML)	208,000
Technical Cooperation Trust to Develop and Coordinate the implementation of the Plan for the Survey, Assessment and dealing with the Consequences of Environmental Damage Caused by Conflict between Kuwait and Iraq (KAL)	-
Technical Cooperation Trust Fund to Assist Developing Countries to Take Action for the Protection of the Ozone Layer under the Vienna Convention and the Montreal Protocol (VML).	419,000
Total	\$775,000

Similarly the following trust funds, which were ordered closed during the 21st session, held in February 2001 were still open at the time of the audit. The trust funds have completed their activities but still carry unspent balances which are being discussed with the donors about their further use for other purposes.

Title of Trust Fund	Unspent Balance as at Feb.07 (\$)
General trust fund in support of the UNEP/UN HABITAT Balkans Task force on environment and Human settlements (BL)	212,000
Technical Cooperation Trust Fund in SUPPORT OF THE Network for Environmental Training at tertiary Level in Asia and the Pacific (DNL)	1,000
Technical Cooperation Trust Fund to promote Technical Cooperation and Assistance in Industrial, Environmental and Raw Material Management (MH)	80,000
Total	\$293,000

During the 23rd session, which was held in February 2005, out of a total of twenty-three trust funds recommended for closure only five have been closed as of July 2006. This is in spite of the fact that

Decision 23/4 on Administrative and other budgetary matters made a proposal to reduce the number of trust funds in support of the programme of work of the United Nations Environment Programme.

DORMANT TRUST FUNDS

The following trust funds were dormant because their activities were completed during the years indicated but were still open at the time of the audit with the following balances and had not been presented to UNEP GC for closure:

Title of Trust Fund	Balance (\$)
INFOTERRA Technical Cooperation Trust Fund (2000) (ITL)	-
Technical Cooperation Trust Fund to Assist the implementation of Agenda 21 in Europe and to strengthen the Pan European Environmental Cooperation (2001) (AHL)	50,000
Technical cooperation Trust Fund to assist the international agricultural research centre of the consultative group on international agricultural research (2001) (CGL)	4,000
Technical Cooperation Trust Fund for the provision of a senior programme officer to the UNEP/GPA Office in the Hague (2002) (FGL)	100,000
General Trust Fund to Support the Activities of the Open-Ended Intergovernmental Group of Ministers or Their Representatives on International Environmental Governance, Including the Participation of Developing Countries (2003) (IGL)	-
Technical Cooperation Trust Fund in Support of the UNEPnet Implementation Centre (2003) (ANL)	(418,000)
General Trust Fund for the Clean-up of Environmental Hotspots following the Kosovo conflicts and preparation of guidelines on assessment and remedial measures for post conflict environmental damages (2004) (BKL)	673,000
Technical cooperation Trust Fund in support of UNEP's Implementation of Enabling and Pioneering Environmental Projects (2004) (KTL)	-
Technical Cooperation Trust Fund for the Promotion of Cleaner Production Investments in Developing Countries (2004) (GTL)	395,000
Technical Cooperation Trust Fund for the provision of a Senior Technical Cooperation Advisory/Liaison Officer in Brussels (2004) (BNL)	(69,000)
Technical Cooperation Trust Fund to Support the UNEP Executive Director's Implementation of Personnel Reforms in the UNEP Secretariat (2004) (PUL)	-
Special Purpose Trust Fund for Provision of a Professional Officer to UNEP/SBC (2004) (SNL)	(1,000)
Technical Cooperation Trust Fund for Provision of Junior professional Officers (Financed by the Government of Austria) (2004) (TAL)	119,000

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: UNEP Financial Management

(AA2006/220/01)

	1	2	3	4	5
	Very Poor	Poor	Satisfactory	Good	Excellent
By checking the appropriate box, please rate:					
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed Survey as soon as possible to: Mr. Dagfinn Knutsen, Acting Director, Internal Audit Division, OIOS, Room DC2-518, United Nations, New York, NY 10017. You can also send it via e-mail (knutsen2@un.org) or by fax (+1-212-963-2185).