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Item 14 (b) of the provisional agenda

Administrative, financial and institutional matters

Budget performance for the biennium 2008–2009

Budget performance for the biennium 2008–2009

Note by the Executive Secretary

**Report by the United Nations Office of Internal Oversight Services
on the internal audit programme of work**

1. Upon a recommendation by the United Nations Board of Auditors, the secretariat arranged for internal audit services with the Office of Internal Oversight Services (OIOS) in 2006, following which the latter conducted a detailed risk assessment of the main areas of the secretariat's operations.
2. The report is a summary of the work undertaken by OIOS during the 12 months ending 30 September 2008. The full text of the report is attached as an annex and reproduced as received, without formal editing.
3. The Subsidiary Body for Implementation is invited to take note of the information contained in the report. It may also wish to propose appropriate actions, which may be included in draft decisions on administrative and financial matters for adoption by the Conference of the Parties at its fourteenth session and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session.

INTERNAL AUDIT DIVISION, OIOS

**REPORT ON THE INTERNAL AUDIT PROGRAMME OF WORK FOR THE
UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE**

Annex

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INTERNAL AUDIT DIVISION, OIOS

REPORT ON THE INTERNAL AUDIT PROGRAMME OF WORK FOR THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) was established by General Assembly resolution 48/218B of 29 July 1994 to enhance oversight in the United Nations. OIOS is operationally independent and assists the Secretary-General of the United Nations in fulfilling his internal oversight responsibilities through internal audit, monitoring, inspection, evaluation and investigation.
2. According to United Nations Financial Regulation 5.15, OIOS is mandated to conduct independent internal audits of all activities governed by the Financial Regulations. Further, the financial procedures of the United Nations Framework Convention on Climate Change (UNFCCC) also stipulate that the accounts and financial management of all its funds “shall be subject to the internal and external audit process of the United Nations”.
3. OIOS conducts its internal audits in accordance with the International Standards for the Professional Practice of Internal Auditing and operates in accordance with the provisions of General Assembly resolutions 48/218B, 54/244 and 59/272.
4. In 2006, the UNFCCC Secretariat signed a Memorandum of Understanding (MOU) with OIOS for the provision of internal audit services, under which UNFCCC bears 75 per cent of the cost of one resident auditor’s post, with the remaining 25 percent being borne by the United Nations Convention to Combat Desertification (UNCCD). The resident auditor, who is an OIOS staff member appointed under OIOS’ appointment procedures, provides internal audit services to UNFCCC and UNCCD and is co-located with the staff of the organizations.
5. The present report provides an overview of internal audit activities during the period 1 August 2007 to 30 September 2008. It is submitted in conformity with the MOU, where it was agreed that, in consultation with the Executive Secretary, OIOS would prepare an annual report on internal audit activities for submission to the meeting of the Conference of the Parties.

II. AUDIT RESULTS AND RELATED ACTIVITIES

A. Risk assessment

6. Upon establishment of the audit position, OIOS conducted a risk assessment in August 2007 in accordance with the International Standards for the Professional Practice of Internal Auditing, which requires the development of risk based work plans. The risk assessment was conducted with the cooperation and active involvement of the UNFCCC Secretariat. The risk assessment involved 14 workshops and interviews with the key managers and staff in each programme of the Secretariat.
7. The objectives of the risk assessment were to:
 - Assist the UNFCCC Secretariat in identifying the risks facing the organization. The Secretariat was also invited to make use of the results to establish its own risk management framework; and
 - Enable OIOS to develop a risk-based audit work plan for the period 2008 to 2011.

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8. The risk assessment assessed the likelihood of a risk as likely, possible or remote, and the impact of the risk as high, medium, or low. The results were recorded in a risk assessment report, which was issued to UNFCCC on 16 November 2007. A summary of the results is shown in Annex 1.

9. Based on the risk assessment results, OIOS identified 16 audit assignments in all. With the current resources, it would take approximately 7 years to conduct all the identified assignments. OIOS prioritized the assignments based on the current level of resources and accordingly developed the 2008 audit work plan for UNFCCC.

B. Work plan for 2008

10. The audit assignments planned for 2008 were discussed with UNFCCC senior management, and three audit assignments were identified for the year. The status of these three assignments as at 30 September 2008 is shown in Table 1. Audit activities for 2009 and beyond are discussed in the last section of the present report.

Table 1: Status of 2008 work plan as at 30 September 2008

Assignment title	Status
Audit of the arrangements for implementation of the Clean Development Mechanism by UNFCCC	Final report will be issued by 15 November 2008
Audit of conference and documents management in UNFCCC	Audit is in progress. Final report is expected to be issued by 31 March 2009
Audit of information and communication technology governance and security management in UNFCCC	Scheduled to start during the 4th quarter of 2008

C. Audit of arrangements for implementation of the Clean Development Mechanism (CDM) by UNFCCC

11. OIOS conducted an audit of the adequacy of arrangements put in place by the UNFCCC Secretariat for CDM implementation. The objectives were to assess:

- a. The existing governance structures and the role of the UNFCCC Secretariat in these structures;
- b. The adequacy of internal arrangements put in place by the Secretariat in the implementation of CDM; and
- c. The adequacy of internal arrangements put in place by the UNFCCC Secretariat in accreditation and performance of operational entities.

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12. The overall conclusion was that the UNFCCC Secretariat needs to strengthen existing arrangements for implementing CDM by:

- Developing a mechanism to consolidate in a single document the evolving role of the Secretariat;
- Developing effective tools to mitigate the reputational risks arising out of possible conflict of interest situations concerning the duties performed by members of the Executive Board and the Secretariat's staff;
- Strengthening the existing CDM review mechanisms by establishing a sub-committee/expert group to provide advice on financial and budgetary matters relating to the approximately \$20 million fee-based annual income;
- Improving the effectiveness of CDM staff by establishing a training plan based on individual needs assessment;
- Putting in place post-employment restrictions for staff performing highly critical functions and who have access to sensitive market information, in order to enhance protection of confidential information;
- Developing policies and procedures, as well as standard operating manuals, in order to ensure consistency and provide guidance, and also enhance accountability and internal control;
- Establishing a mechanism to monitor outstanding receivables relating to CDM fee-based income. Outstanding invoices for registration fees amounting to \$885,000 were yet to be collected from the CDM project participants; and
- Fully instituting a mechanism to monitor the timelines for various activities in the accreditation process. The UNFCCC Secretariat has initiated a project to develop an electronic workflow system to address this issue.

13. The UNFCCC Secretariat has initiated action to implement OIOS' recommendations pertaining to the above areas.

D. Cooperation and coordination

14. During the period, OIOS held regular meetings with the Executive Secretary and key staff to keep them informed of audit activities and to seek their input and views on the work undertaken. To gain better insight into the working of UNFCCC, OIOS also attended the Subsidiary Body for Implementation (SBI) panel meetings held in Bonn during June 2008.

15. OIOS coordinated its UNFCCC audit activities with the Board of Auditors (BOA) and the Joint Inspection Unit (JIU) to ensure that there was no overlap or duplication of effort. BOA and JIU were regularly notified of the audits at the planning stage and were provided with copies all OIOS audit reports.

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16. OIOS did not experience any restrictions on the scope of its internal audit activities during the reporting period. OIOS did not receive from UNFCCC any formal requests for advisory services during the period.

III. STRENGTHENING OVERSIGHT

A. Strengthening internal oversight in UNFCCC

17. Current arrangements for provision of oversight services are contained in a Memorandum of Understanding between OIOS and UNFCCC. Currently, OIOS is discussing with UNFCCC the renewal of the MOU and the creation of an internal audit charter as recommended by the International Standards for the Professional Practice of Internal Auditing, which OIOS follows. These standards stipulate that the purpose, authority, and responsibility of the internal audit activity should be formally defined in the charter and approved by the Governing Bodies.

18. The risk assessment conducted by OIOS in 2007 identified 16 areas for audit (Annex 2) that will require around 1,000 days of audit effort. With existing resources (75 per cent of one professional auditor at P-4 level), it will take around seven years to cover all these areas. OIOS is of the opinion that all high and medium risk areas should be audited once in a four-year period and to achieve this, UNFCCC should consider providing additional resources. Therefore, OIOS will propose to the UNFCCC Secretariat that funds be provided for an additional auditor at the P-3 level, and that the funding of the P-4 post be increased from the existing 75 per cent to 100 per cent.

B. OIOS initiatives

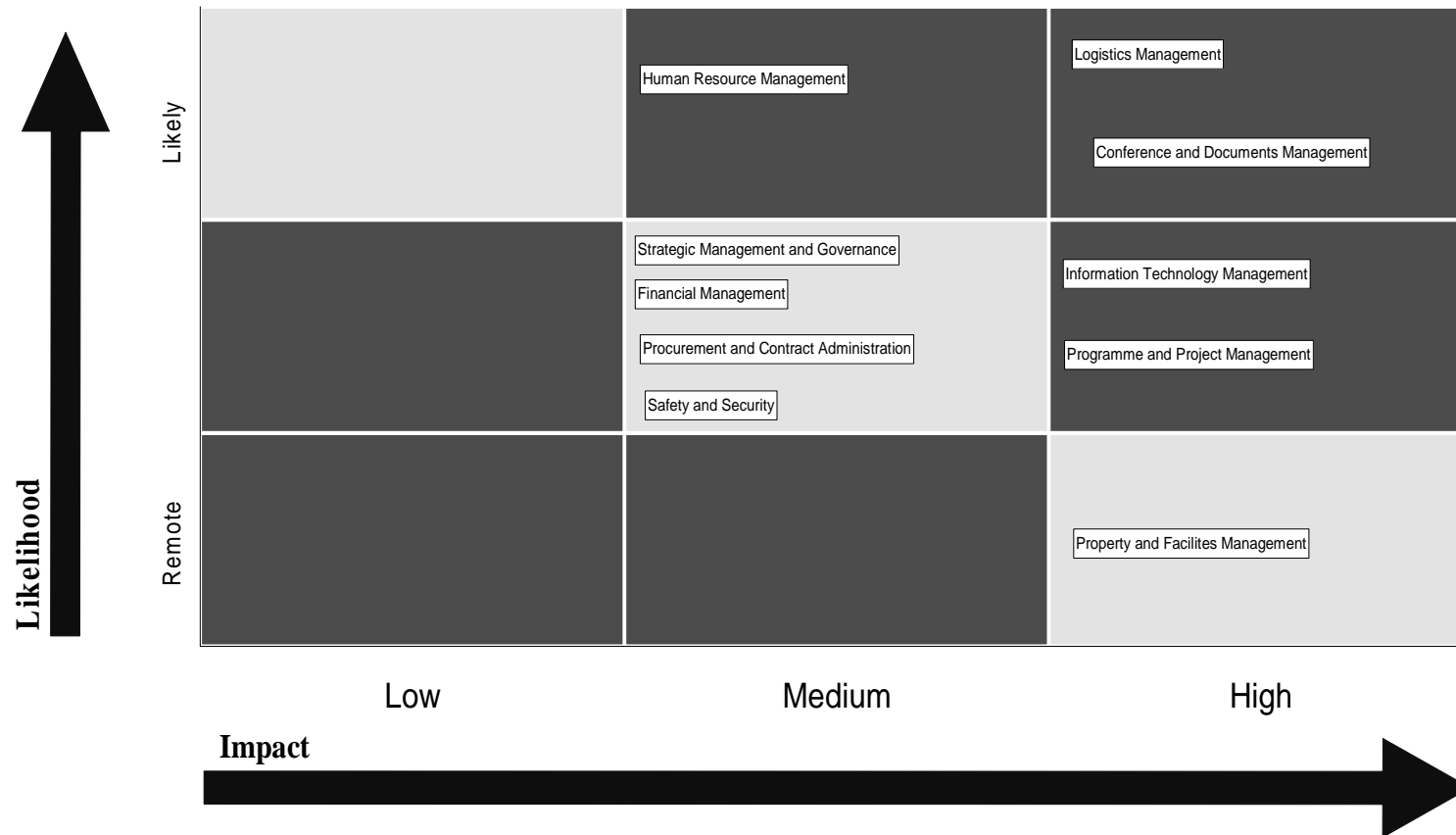
19. As part of its efforts to improve the audit process, and in response to the recommendations made by the BOA and an independent quality assurance review, OIOS has embarked on a number of improvement initiatives, which included:

- a. Enhancing and upgrading the “Issue Track” recommendation monitoring system to make it a web-based system that can be accessed and updated by UNFCCC on a continuous basis;
- b. Comprehensively revising the Internal Audit Manual and developing supplementary guidance to provide auditors with appropriate tools in key areas such as information and communications technology;
- c. Establishing a quality assurance and improvement programme to enhance compliance with the International Standards for the Professional Practice of Internal Auditing; and
- d. Developing the minimum training standards for OIOS’ audit staff and assessing individual training needs in conjunction with the 2007-2008 performance evaluation cycle.

IV. ACKNOWLEDGEMENT

20. OIOS wishes to express its appreciation for the cooperation extended to the auditor by the UNFCCC Secretariat during the reporting period (July 2007 to September 2008) and looks forward to strengthening this cooperation in the future.

Summary of UNFCCC risk assessment

RISK SUMMARY PROFILE (Focus Area)

UNFCCC audits identified from the risk assessment

Focus area	Assignment title	Days
Information Technology Management	Audit of ICT governance and security management	60
Programme and Project Management	Audit of arrangements for implementation of Clean Development Mechanism in UNFCCC	80
Conference and Documents Management	Audit of conference and documents management in UNFCCC	60
Strategic Management and Governance	Audit of governance in UNFCCC (including management oversight arrangements, organization structure, and linkages with the overall governance structure)	80
Human Resources Management	Audit of recruitment and training of staff and consultants in UNFCCC	60
Strategic Management and Governance	Audit of strategic management for the implementation of the UNFCCC mandate (including strategic planning and monitoring and institutional linkage with other UN entities)	80
Financial Management	Audit of financial management in UNFCCC	60
Human Resources Management	Audit of staff entitlements and allowances in UNFCCC	40
Procurement and Contract Administration	Audit of procurement management in UNFCCC	60
Logistics Management	Audit of travel of UNFCCC staff (including travel in connection with COP and other meetings)	40
Programme and Project Management	Audit of the management and implementation of the International Transaction Log in UNFCCC	60
Programme and Project Management	Audit of Legal Affairs Programme in UNFCCC	40
Programme and Project Management	Audit of the Financial and Technical Support Programme in UNFCCC	60
Property and Facilities Management	Audit of property management in UNFCCC	40
Programme and Project Management	Audit of Adaptation, Technology and Science Programme in UNFCCC	40
Information Technology Management	Audit of ICT strategic planning and management	40
