



**Office of Internal Oversight Services
Internal Audit Division II**

AUD: UNEP (051/2005)

7 September 2005

TO: Dr. Klaus Töpfer, Executive Director
United Nations Environmental Programme (UNEP)

FROM: Egbert C. Kaltenbach, Director
Internal Audit Division
Office of Internal Oversight Services (OIOS)

SUBJECT: **Audit of UNEP's International Environmental Technology Centre
(AA2005/220/02)**

1. I am pleased to submit the final report on the audit of UNEP's International Environmental Technology Centre (IETC), which was conducted in Osaka and Shiga, Japan in March and April 2005, by Mr. Obin Silungwe and Ms. Jaydene Kana. A draft of the report was shared with Mr. P. Bakken, Officer-in-Charge, International Environmental Technology Centre and Ms. M. Barbut, Director, Division of Technology, Industry and Economics (DTIE) in July 2005, whose comments, which were received in August 2005, are reflected in the attached final report, in italics.

2. I am pleased to note that most of the audit recommendations contained in this final Audit Report have been accepted and that IETC and DTIE have initiated their implementation. The table in paragraph 71 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 1, 2, 3, 6, and 7, which OIOS considers to be of critical importance.

3. I would appreciate if you could provide Mr. C. F. Bagot with an update on the status of implementation of the audit recommendations not later than 30 November 2005. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.

4. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me.

5. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the audit team.

Attachments: final report and client satisfaction survey form

cc: Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors (by e-mail)
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Office of Internal Oversight Services
Internal Audit Division II

Audit Report

**Audit of UNEP's International Environmental Technology Centre
(AA2005/220/02)**

Report Date: 7 September 2005

**Auditors: Obin Silungwe
Jaydene Kana**



**Office of Internal Oversight Services
Internal Audit Division II**

Audit of UNEP's International Environmental Technology Centre
(AA2005/220/02)

EXECUTIVE SUMMARY

Between March and April 2005, OIOS conducted an audit of UNEP's International Environmental Technology Centre (IETC) at Osaka, Japan. The audit followed up on the previous audit conducted in 1999 (AA1999/55/7). OIOS is pleased to note an improvement in performance established by the current IETC management, however, the proposals below would further enhance the effectiveness of IETC's operations.

UNEP has accepted most of the recommendations made and has initiated action in the majority of the areas identified. OIOS is pleased with progress made.

Organisation structure and functions

- Develop a clear and transparent statement of objectives for each part of the IETC structure, including properly defined roles and responsibilities linking the activities of each part of the IETC structure to its mandate; and
- Determine and document the delegation of authority with respect to IETC's administrative matters such as Finance (Budgets, Budget Revisions, Corporate Contracts, Memoranda of Understanding and Procurement) and Human Resources (Recruitment of Fixed Term and Temporary Staff, Contract Extensions, Post Classifications and Special Service Agreements).

Work programme planning, monitoring and reporting

- Ensure that all IETC staff members involved in Project Formulation, Approving, Monitoring and Evaluation are provided training and copies of the guidance documents in this respect, namely, the UNEP Project Formulation, Approval, Monitoring and Evaluation Manual and ST/SGB/2000/8 - Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation; and
- Develop a system to allow IETC Programme Managers to monitor and report against activities carried out not just at the individual activity and DTIE level, but the IETC level also.

Co-operation with UN-Habitat

- Co-operate with UN-Habitat with respect to developing a new work programme as declared in UN-Habitat Governing Council HSP/GC/20/10 – Joint progress report of the Executive Directors of the United Nations Human Settlements Programme and the United Nations Environment Programme.

Administration

- Develop a system to track the expiry dates of Memoranda of Understanding to ensure that they are amended or extended before expiry;
- Develop a report to the Executive Director, UNEP outlining the inadequacy of current IETC

staffing to provide adequate administration services;

- Obtain the UNON staffing table on at least a quarterly basis, reconcile the information with that held by DTIE and IETC and advise UNON if there are any discrepancies;
- Develop and implement a formal training plan at the IETC level and a development plan at an individual level in each staff member's PAS;
- Utilise UNON/IC/2002/3 – Official hours of work, compensation for overtime and night differential - to develop and distribute procedures pertinent to local conditions in Japan;
- Co-ordinate with Information Technology Service, UNON to increase the access points and performance of the IMIS through CITRIX system introduced in November 2004 to facilitate the self-processing of IETC's financial transactions;
- Obtain the minimum number of quotations in accordance with the UN Procurement Manual, or provide sufficient evidence to support why the minimum number of quotations were not obtained;
- Ensure all assets provided by the Global Environment Centre Foundation (GEC) and by the International Lake Environment Committee Foundation (ILEC) are separately identified in the IETC asset register and all IETC assets to be disposed of are properly approved by the Property Survey Board, UNON; and
- Co-ordinate with the designated Security Official for Japan to ensure IETC complies with the Minimum Operating Security Standards (MOSS) as detailed by the Department of Safety and Security.

September 2005

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I. INTRODUCTION

1. In March and April 2005, OIOS conducted an audit of UNEP's International Environmental Technology Centre (IETC), in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The UNEP Governing Council inaugurated IETC in October 1992. IETC opened its first office in Osaka City in April 1994. A second office was opened in the Shiga Prefecture in March 1995. In 1998, IETC became a branch of UNEP's Division of Technology, Industry and Economics (DTIE) and is fully backstopped by the main DTIE office in Paris.
3. IETC's mandate is to promote the application of Environmentally Sound Technologies (ESTs) to address urban environmental problems such as sewage, air pollution, solid waste, noise, and the need to manage freshwater.
4. IETC is funded from two main sources:

| Year | Government of Japan Technical Cooperation Trust Fund – US\$ | UNEP Environment Fund – US\$ |
|------|---|------------------------------|
| 2001 | 1,911,000 | 547,730 |
| 2002 | 1,500,000 | 473,072 |
| 2003 | 500,000 | 1,000,204 |
| 2004 | 1,900,000 | 577,499 |

5. During the biennium 2004-2005, IETC received US\$11 million from UNDG Iraq Trust Fund earmarked by the Government of Japan for the project Support for Environment Management of the Iraqi Marshland. In addition IETC received US\$210,000 for promoting and establish new networks using the ESTIS (Environmentally Sound Technology Information System), a multi-language, Information System (IS) management tool, developed by IETC to assist the transfer of Environmentally Sound Technologies (EST).
6. During the 2004-2005 biennium, Executive Director, UNEP launched a revitalisation exercise aimed at integrating IETC into the overall priorities and work of UNEP, to focus more on programme and project implementation and to take advantage of the geographical location and experiences in various environmental areas already implemented or under implementation in Japan. Furthermore, the exercise aimed to enhance IETC's activities' added value and it's complementarity with other DTIE branches. This exercise was ongoing at the time of the audit.
7. Preliminary results of the revitalisation exercise, have adjusted IETC's main activities, which are now based on a three-legged strategy:
 - a) Water and sanitation (globally);
 - b) Disaster management and preparedness (globally); and
 - c) Production and consumption with emphasis on waste/3R (Asia/Pacific region).
8. The adjustment of the main activities also comes with a shift in the main operational structure from an academic focus to more implementation of projects, with national governments, private sector and civil society as the main partners.

9. While the change of main activities has gone smoothly, the workload has been very heavy during the 2004-05 biennium, partly since a significant portion of available resources have been used to implement a major project in the Iraqi Marshland and partly because IETC has had a key role in the overall UNEP preparations for two major international conferences in Japan related to disaster preparedness (Kobe, January 2005) and the G8 3R conference (Tokyo, April 2005).
10. IETC's activities are supported and augmented by the expertise of two Japanese foundations in accordance with the terms set out in two Memoranda of Understanding (MOU) signed in August 1994.
11. The Osaka-based Global Environment Centre Foundation (GEC) provides the expertise it has developed in urban environmental challenges such as air pollution, solid waste/sewage management and noise abatement.
12. The International Lake Environment Committee Foundation (ILEC) at Shiga provides the expertise it has developed in environmentally sustainable management of the world's lakes and reservoirs.
13. At the time of the audit the approved staffing table for IETC was a D-1 (currently an Officer-in-Charge at the D-1 level) supported by eight Professional (P) staff, one temporary staff (L Post) and seven General Service (GS) staff.
14. OIOS previously audited IETC in December 1999 (AA1999/02/07). The findings and recommendations were reviewed as part of this audit and any issues, which were still open, are discussed further in the body of the report. OIOS also followed up on relevant recommendations raised in its audit of UNEP Division of Technology, Industry and Economics (AA2003/02/03) carried out in 2003.
15. A draft of the report was shared with Mr. P. Bakken, Officer-in-Charge, IETC and Ms. M. Barbut, Director, Division of Technology, Industry and Economics (DTIE) in July 2005, whose comments, which were received in August 2005, are reflected in this final report, in italics.
16. UNEP has accepted most of the recommendations made and is in the process of implementing them.

II. AUDIT OBJECTIVES

17. The overall objective of the audit was to advise Executive Director, UNEP on the adequacy of administrative arrangements for coordinating IETC activities. This involved assessing whether:
- a) The governance framework provided IETC adequate guidance and support for the definition and execution of its responsibilities;
 - b) IETC management had established adequate mechanisms to ensure that it understood and was only executing activities in support of its mandate; and
 - c) The internal control systems for managing the structure programme and resources were adequate and were operated in compliance with

III. AUDIT SCOPE AND METHODOLOGY

18. The audit embraced activities for the period from January 2002 to December 2004 (and early 2005 where necessary). It was carried out in Nairobi and Japan and involved staff of IETC, UNEP and UNON. The audit activities involved interviewing staff and reviewing available documentation.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Host Country Agreement (HCA)

(a) International Advisory Board

19. Article IV of the HCA states, "For the purpose of advising on the activities of the Centre, an international advisory board (IAB) shall be established, which will meet at least once a year." IETC has established the IAB, which currently houses 31 members. However, the IAB last met in December 2003 and there were no meetings scheduled for neither 2004 nor 2005.

20. Although the requirements of Article IV of the HCA have not been complied with, discussions with IETC management reveal that the IAB structure and meetings schedule will be reviewed as part of the IETC revitalisation exercise and as such, no recommendation is made.

B. Organisation structure and functions

(a) Delegation of authority for administration

21. The previous OIOS audit (AA/1999/55/7) noted that IETC only had a verbal understanding with UNON and DTIE regarding its delegated authority in the following administrative areas: preparing travel actions, procurement of goods and services, recruitment of consultants and individual contractors, and recruitment of temporary staff.

22. The current audit identified the following Memoranda concerning the delegation of authority to IETC for administrative areas:

- a) From the UNEP Executive Director dated 2 October 2003, the DTIE Director was delegated authority covering: recruitment of consultants and individual contractors up to end of 2004; travel; hospitality; and Memoranda of understanding (MOUs) and Letters of agreement (LOAs).
- b) From the UNON Chief of the Division of Administrative Services dated 15 October 2003, the Director of IETC was delegated authority for procurement.

23. The Memorandum from the UNEP Executive Director dated 2 October 2003 granted the authority in relation to recruitment of consultants and individual

contractors “up to the end of 2004”. Whilst IETC was continuing with the prior delegation in this regard OIOS is of the opinion that further clarification should be sought to confirm whether the arrangements are still valid and should obtain documentation to that effect.

Recommendation:

To ensure that IETC can be held accountable for administrative actions undertaken, the Office of the Executive Director, UNEP in conjunction with the Division of Administrative Services, UNON, Division of Technology, Industry and Economics and the International Environmental Technology Centre (IETC) should review and issue a statement of delegation of authority to IETC with respect to administrative matters (Rec. 01).

24. *UNEP commented that the Executive Director granted the authority to Director, DTIE in his memorandum dated 15 June 2005, which states that Chiefs of outposted DTIE Units need to obtain approval of the Director. Such authority covers: recruitment of consultants and individual contractor up to six months, travel, for all DTIE staff, hospitality, MOUs and LOAs, to receive contributions on the imprest accounts, to decide on the short-list of candidates for P posts and approval of L posts up to L-3 level on counterpart contributions. Therefore, UNEP disagreed with the recommendation to issue a statement on delegation of authority to IETC with respect to administrative matters. Moreover, DTIE pointed out that all the requested approvals on any of the above-mentioned issues are obtained from the DTIE Director within three days. OIOS appreciates the clarification and the issuance of a statement on delegated authority covering DTIE and its outposted offices. The memorandum referred to does not mention procurement and as such OIOS is not in a position to close the recommendation until it receives clarification on what, if any, written delegation of authority will be given to IETC for procurement matters.*

(b) Structure of IETC

25. There was no clear and transparent statement of objectives for each part of the IETC structure, including properly defined roles and responsibilities. IETC stated that the revitalisation exercise should include a review of the current structure and the linkages between the activities of each part of the structure and the IETC mandate.

Recommendation:

To clearly define the International Environmental Technology Centre (IETC) structure and its relationship to IETC's activities and mandate, IETC should undertake a review of the current structure as part of the revitalisation exercise, and prepare a report for consideration by Executive Director, UNEP outlining the revised structure with clear and transparent statements of objectives for each part, including properly defined roles and responsibilities and linkages between the activities and the mandate (Rec. 02).

26. UNEP commented that the recommendation would be implemented before the end of 2005. OIOS thanks UNEP for the prompt action taken and will close the

recommendation upon receipt of a copy of the report outlining the revised structure of IETC with clear and transparent statements of objectives for each part, including properly defined roles and responsibilities and linkages between the activities and the mandate.

(c) Reporting lines

27. According to the 2004 UNEP Operational Manual, the IETC Director reports to the Director, DTIE who then reports to the Executive Director, UNEP. OIOS were pleased to note that the reporting lines were clear and being followed.

**C. Memoranda of understanding, letters of agreement, contracts
with other organisations (programmatic)**

(a) Memoranda of understanding/letters of agreement

28. IETC issued more than 30 MOUs worth approximately US\$1million between January 2002 and the date of the audit. The audit team reviewed twelve MOUs worth approximately US\$565,000 and noted that IETC had made good progress in improving the formulation of MOUs issued from the 2002-2003 period to the 2004-2005 period with the following two exceptions:

- a) There was no system to track the expiry dates of MOUs to ensure that they were amended or extended before expiry; and
- b) The MOU template utilised by IETC per IC/UNON/2002/07 – Guidelines for Memorandum of Understanding (MOU) and Letters of Agreement (LOA) did not take into account rights of audit access to the project documents for OIOS or the requirement of an audit certificate on the project financial statement. OIOS has issued a note to the Director, Division of Administrative Services, UNON requesting changes to be made and as such, no recommendation is made in this respect.

29. *UNEP commented that DTIE Paris had put in place a system to track the expiry dates of MOUs as well as a complete management system of projects which allows DTIE to track, date of project approval, donors, contributions, pledges, travel, etc. The Information Technology Officer based in IETC will be transferred to Paris, effective 1 October, to provide this kind of support to all DTIE offices.* In view of this additional information, OIOS does not propose any recommendation.

(b) Contracts with other organisations

30. IETC issued more than 20 contracts with other Organizations worth approximately \$565,000 from January 2002 to the date of the audit. The audit team reviewed four contracts worth approximately US\$209,000 and was pleased to note that IETC has made good progress in improving the formulation of contracts with other Organizations issued from the 2002-2003 period to the 2004-2005 period. For example, in 2002, IETC entered into a corporate contract for approximately US\$58,000. OIOS noted travel expenditure of approximately US\$26,000 in relation to the same contract resulting in a contract total of approximately US\$84,000. OIOS was concerned at the lack of documentation to justify the total amount expended on

this contract but were pleased to note no such instances in the review of contracts from 2003 onwards, due to the controls implemented by the Officer-in-Charge and as such, no recommendation is made.

D. Provision of services (non-programmatic)

(a) United Nations Office for Project Services (UNOPS)

31. OIOS noted that there is no detailed analysis within the Memorandum of Understanding dated 12 February 2001 between UNEP and the United Nations Office for Project Services (UNOPS), to stipulate the responsibilities to UNEP agencies contracting UNOPS to perform administrative services for project execution.

32. As a result, the administrative services offered by UNOPS to IETC with respect to the execution of the Support for Environment Management of the Iraqi Marshlands Project (the Project) are not sufficiently clarified.

Recommendation:

To enable UNEP to hold the United Nations Office of Project Services (UNOPS) accountable for administrative work it does on its behalf, the Executive Director of UNEP should review and revise the existing MOU with UNOPS to clarify the nature and type of administrative services UNOPS is required to provide for UNEP project activities (Rec. 03).

33. At the time of issuing this report a response had not yet been received on this recommendation, which is therefore kept open pending clarification from UNEP whether it will revise the existing MOU with UNOPS to clarify the nature and type of administrative services UNOPS is required to provide for UNEP project activities.

E. Work programme planning, monitoring and reporting

(a) Planning

34. In contrast to the process used to develop the submission to DTIE for IETC's 2004-2005 Programme of Work (POW), IETC utilised a more systematic approach in developing the 2006-2007 POW whereby programme managers were afforded a more active role in contributing to the POW presented to DTIE, for inclusion in their submission to UNEP Headquarters. However, the effectiveness of this process was diminished as some of the IETC staff members involved were not aware of the basic documents to be utilised for this process, such as the guidance provided by the UNEP Project Formulation, Approval, Monitoring and Evaluation Manual (UNEP Project Manual) and ST/SGB/2000/8 - Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation.

Recommendation:

To ensure that planning of the International Environmental Technology Centre's (IETC) Programme of Work is carried out in

accordance with UNEP and UN planning guidance, IETC should ensure that all IETC staff members involved in Project Formulation, Approving, Monitoring and Evaluation are provided training and copies of the guidance documents in this respect, namely, the UNEP Project Formulation, Approval, Monitoring and Evaluation Manual and ST/SGB/2000/8 - Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation (Rec. 04).

35. *UNEP commented that the recommendation was accepted and the documents had been made available to IETC staff.* OIOS thanks UNEP for the prompt action taken and will close the recommendation upon notification of what training will be provided to IETC staff.

(b) Monitoring and reporting

36. OIOS noted that at an individual activity level and the DTIE activity level, with respect to the POW, monitoring and reporting is carried out on a regular basis by IETC Programme Managers via the Integrated Monitoring and Documentation Information System (IMDIS). However, at the IETC level, there were no tools or systems available for IETC Programme Managers to monitor and report against the activities carried out.

Recommendation:

To improve Management Information available at a Divisional Level, International Environmental Technology Centre (IETC) should liaise with Office of Deputy Executive Director, UNEP, and Division of Administrative Services, UNON to seek guidance of what systems could be developed to allow IETC Programme Managers to monitor and report against activities carried out at an IETC level (Rec. 05).

37. *UNEP commented that consultations would be concluded by the end of 2005.* OIOS thanks UNEP for the prompt action taken and will close the recommendation upon notification of the outcome of the discussions on what systems could be developed to allow IETC Programme Managers to monitor and report against activities carried out at an IETC level.

(c) Project administration

38. IETC's current administrative infrastructure is better geared to service the administration for running the office than providing financial assistance and information to Programme Managers with respect to activities in the POW. This was evidenced by IETC Programme Managers experiencing difficulties in tracking the funds expended on IETC activities.

Recommendation:

To ensure International Environmental Technology Centre (IETC) Programme Managers are provided with adequate project

administration assistance, IETC, as part of the revitalisation exercise should prepare a report for consideration by the Executive Director, UNEP outlining the inadequacy of current staffing to ensure there are adequate administrative resources to cover both the administration for running the IETC office and the provision of financial assistance and information to Programme Managers for the activities within the Programme of Work (Rec. 06).

39. *UNEP disagreed with the recommendation and pointed out that three staff, one Professional and two General Services, were enough for the current workload in the office. With IMIS implementation in Osaka and Shiga the Programme Managers have a better, easier and more accurate access to Crystal reports which would allow them to get the necessary financial information on the POW.* OIOS appreciates the clarification but is of the opinion that a formal analysis is required to establish whether the current staffing is sufficient to cope with both office and programmatic support. OIOS will close the recommendation upon clarification whether DTIE intends to carry out a formal study to establish whether the current staffing is sufficient to cope with office and programmatic support envisaged in the short to medium term.

(d) Co-operation with UN-Habitat

40. The Joint progress report of the Executive Directors of the United Nations Human Settlements Programme and the United Nations Environment Programme, submitted to the UN-Habitat Governing Council (HSP/GC/20/10), states that the UNEP IETC in Japan is developing a new work programme and initial contacts have been established between the centre and the UN-Habitat Regional Office for Asia and the Pacific to explore new areas of increased cooperation.

41. IETC advised OIOS that to date, work between UNEP IETC and UN-Habitat has not been initiated with respect to developing a new work programme.

Recommendation:

To improve co-operation between the International Environmental Technology Centre (IETC) and the United Nations Human Settlements Programme Regional Office for Asia and the Pacific (UN-Habitat ROAP) as outlined in HSP/GC/20/10 – Joint progress report of the Executive Directors of the UN-Habitat and United Nations Environment Programme, IETC should produce a report for Executive Director, UNEP outlining which elements of the Programme of Work will be done in consultation with UN-Habitat (Rec. 07).

42. *UNEP accepted the recommendation and informed that discussions between UN-Habitat Fukuoka office and IETC had already been held and that a progress report should be ready by the first quarter of 2006.* OIOS appreciates the update and will close the recommendation upon receipt of a copy of a progress report outlining which elements of the Programme of Work will be done in consultation with UN-Habitat.

F. Human resource management

(a) Staffing table

43. There was no regular reconciliation between the IETC staffing table records held by IETC, DTIE and Human Resources Management Service (HRMS), UNON. Consequently, OIOS noted discrepancies in the total number of posts encumbered and vacant. Encumbered posts per IETC were 17, 15 per DTIE and 20 per HRMS, UNON. With respect to vacant posts, IETC depicted 6, DTIE 4 and HRMS, UNON 3. UNEP commented DTIE would request HRMS before the end of 2005 to provide all branches of DTIE with their respective staffing tables on a monthly basis. In view of this information no recommendation is raised.

(b) Training

44. Whilst appreciating the positive development of carrying out a training needs assessment in the 2004-05 biennium, IETC did not utilise these results nor did they undertake a similar assessment for the 2006-07 biennium. The results of these assessments should be used to develop and implement a training plan at the IETC level and a development plan in staff members PAS at an individual level.

Recommendation:

To ensure the results of the training needs assessment are utilised, the Director, International Environmental Technology Centre (IETC) should review and allocate resources to develop and implement an IETC training plan and reflecting individual needs in the development plan of each staff member's PAS (Rec. 08).

45. *UNEP agreed with the need of training not only for IETC staff, but for all UNEP staff, but DTIE disagreed on the way to develop and implement a training plan. DTIE cannot accept the use of counterpart funds for this purpose. The funds should come from other sources, i.e. overhead costs.* OIOS appreciates the clarification and will close the recommendation upon receipt of a training plan together with details of how the training will be funded.

(c) Compensation for overtime

46. OIOS reviewed CTO and overtime records maintained by IETC and were satisfied that they were kept in accordance with ST/AI/1999/13 - Recording of Attendance and Leave. However, procedures could be enhanced by:

- a) Adapting UNON/IC/2002/3 – Official hours of work, overtime, compensatory time off and night differential guidelines for IETC conditions, including a definition of working hours to determine when staff are accumulating CTO or overtime; and
- b) Distributing these guidelines to all IETC staff.

Recommendation:

To ensure International Environmental Technology Centre (IETC) staff members are provided with appropriate procedures to follow with respect to earning, approving and payment of compensation for overtime and night

differential, IETC should review the guidance issued by UNON in respect of compensation for overtime and leave and adapt these to the prevailing local conditions in Japan (Rec. 09).

47. *UNEP commented that the recommendation would be implemented before the end of 2005.* OIOS notes the response and will close the recommendation upon receipt of a copy of guidelines dealing with overtime of IETC staff.

G. Special Service Agreements

48. IETC used more than 60 Special Service Agreements (SSA) to remunerate consultants and individual contractors costing approximately US\$430,000 from January 2002 to the date of the audit. The audit team reviewed 8 consultant and 5 individual contractor agreements entered into by IETC and noted that IETC had made good progress in improving the formulation of agreements issued from the 2002-2003 period to the 2004-2005 period. For example, OIOS reviewed 5 SSA entered into by IETC in 2002 and were concerned with the lack of documentation to justify whether the SSA was compensated in accordance with Office of Human Resources Management (OHRM) guidelines. OIOS is pleased to note no further instances from 2004 onwards due to the controls implemented by the Officer-in-Charge.

49. To further enhance arrangements and ensure full compliance with ST/AI/1999/7 – Consultants and Individual Contractors IETC should:

- a) Confirm the credentials of selected candidates; and
- b) Obtain a good health statement from the candidate.

50. A number of recommendations of this type have already been raised with UNEP. As the Office of the Deputy Executive Director, UNEP is currently developing a checklist to be circulated to all UNEP offices, no recommendation is raised.

H. Financial Management

(a) Voluntary contributions

51. A review conducted by UNEP Evaluation and Oversight Unit in October 1998 expressed concerns that IETC was too heavily reliant on funding from the Japanese Government. Consequently, the previous audit, AA/1999/55/7/004, noted that IETC should formulate a strategy annually for seeking new funding. OIOS observed that in the last two biennia, IETC has received additional funding from the Dutch Government, which has been increasing gradually from approximately US\$91,000 in 2003 to US\$110,000 in 2005. IETC also received US\$11 million from the UNDG Iraq Trust Fund earmarked by the Government of Japan for the project Support for Environment Management of the Iraqi Marshlands Project. Furthermore, IETC management confirmed that they are actively taking part in the overall UNEP resource mobilization strategy, which is ongoing. As such OIOS is satisfied that the previous audit recommendation has been closed.

(b) Accuracy and completeness of financial information/reporting

52. Previous OIOS audit AA/1999/55/7/015 and 016 recommended that UNEP in conjunction with DTIE and UNON should:

- a) Develop procedures for reconciling the local IETC accounts with the UN accounts on a monthly basis; and
- b) Re-evaluate the need for annual visits to UNON to reconcile financial data; if procedures requiring regular reconciliation of account data throughout the year are implemented.

53. The introduction of the Integrated Management Information System (IMIS) through CITRIX in November 2004 eliminated the need for a regular reconciliation of accounts and resulted in a reduction in the number of visits to Nairobi. As such, OIOS has closed these prior audit recommendations. However, OIOS noted that IETC had an insufficient number of access points when compared to their user needs. As a result, only three staff members can access IMIS through CITRIX at any given time and the system performance deteriorates at certain times of the day. UNEP commented that work was underway to address the issue, and consequently OIOS is not raising any recommendation.

(c) Bank signatories

54. OIOS observed that none of the current bank signatories have been approved by the designated official, the Director, Division of Administrative Services, UNON. IETC management took immediate action during the course of the audit to request approval of IETC's current signatories and as such, no recommendation is made.

(d) Bank charges

55. As IETC were paying an average of 23,000 Japanese Yen (JPY) per month for bank charges (approximately US\$230), they conducted a survey in 2001 of UN organisations in Japan and found that at least seven of these organisations did not pay bank charges due to a waiver provided by their various banks. UNEP commented that UN agencies in Japan pay standard bank charges (either for residential or non-residential) when making wire transfers while not paying the basic charges for the maintenance of the account. IETC does not differ from this, but has taken steps to do more payments on-line, and thereby reducing the fees. In view of this information OIOS is not raising any recommendation.

(e) Petty cash

56. OIOS noted that the current petty cash balances of JPY150,000 (approximately US\$1,500) in the Osaka Office and JPY50,000 (approximately US\$500) in the Shiga Office were too high, and should reflect the average monthly petty cash payments of JPY40,000 and JPY10,000 for Osaka and Shiga Offices respectively.

Recommendation:

To minimize the risk of loss, International Environmental Technology Centre (IETC) should reduce the petty cash held by the Osaka and Shiga Offices to reflect the average monthly petty cash payments and replenish the balances on a monthly basis (Rec. 10).

57. *UNEP commented that the recommendation would be implemented before the end of 2005.* OIOS notes the response and will close the recommendation upon notification of the new petty cash levels implemented for Osaka and Shiga, and details of arrangements for replenishment.

I. Procurement

(a) Number of quotations

58. IETC issued more than 300 purchase orders worth approximately US\$425,000 from January 2002 to the date of the audit. The audit team reviewed 13 items procured by IETC at a value of approximately US\$125,000 and assessed the administrative arrangements as adequate, with the following exception. IETC had not obtained a sufficient number of quotations in accordance with the UN Procurement Manual, paragraph 9.3.4 for following reasons, IETC:

- a) only considered vendors in close proximity to where a service was delivered, impacting both on cost and ability to demonstrate that all vendors who had the capability to supply the services were considered; and
- b) conducted procurement in a short time frame, impacting on its ability to obtain the minimum required number of vendor quotations.

59. *UNEP commented that procedures are now in place to ensure either the minimum number of quotations is obtained for each item procured or to provide sufficient evidence to support why the minimal number of quotations was not obtained.* In view of this additional information, no recommendation is being raised.

(b) Receiving and inspection

60. Previous audit AA/1999/55/7/020 recommended that IETC should issue instructions requiring inspection and receiving reports to be prepared on delivery of goods to avoid discrepancies against purchase orders.

61. OIOS noted for 5 of the 13 items reviewed between January 2002 and the date of the audit, an inspection and receiving report was not prepared. However, OIOS noted that the introduction of IMIS through CITRIX enables IETC to create an electronic inspection and receiving report. For all items tested since the introduction of this system at IETC, no exceptions were noted and as such, no recommendation is raised. As such, OIOS is satisfied that the previous audit recommendation has been closed.

J. Asset management

62. In July 2003, IETC conducted a physical inventory of all assets and noted the following:

- a) some items were disposed without proper approval from the Property Survey Board (PSB), UNON;
- b) some items were duplicated on the IETC inventory list;

- c) some items were missing from the IETC premises or unserviceable; and
- d) items provided by GEC and ILEC were not separately identified in the consolidated inventory list.

Recommendations:

International Environmental Technology Centre (IETC) should compile a list of missing or unserviceable items and request the Property Survey Board, UNON to provide authorisation to write off and/or dispose of these items (Rec. 11).

IETC should identify in the consolidated inventory list, assets that belong to GEC and ILEC and prepare a report to update GEC and ILEC of any changes in the status of their assets as required by Article 6 of the respective Memoranda of Understanding (Rec. 12).

63. *UNEP commented that the recommendations would be implemented by the first quarter in 2006.* OIOS notes the response and will:

- a. Close recommendation 11 upon receipt of a copy of the paper sent to Property Service Board (PSB) together with comments of PSB.
- b. Close recommendation 12 upon receipt of a copy of the report to update GEC and ILEC of any changes in the status of their assets as required by Article 6 of the respective Memoranda of Understanding.

64. In order to improve control over inventory even further, the Director, IETC should implement procedures to identify all inventory located in each IETC office which is signed by the office occupier to attest ownership and accountability for the property in their possession.

Recommendation:

International Environmental Technology Centre (IETC) should introduce inventory lists in all IETC offices, which should be signed by officers occupying the offices attesting to ownership and accountability for the property in their possession (Rec. 13).

65. *UNEP commented that the recommendation would be implemented by the first quarter in 2006.* OIOS notes the response and will close the recommendation upon notification of the introduction of inventory lists in all IETC offices, which are signed by officers occupying the offices attesting to ownership and accountability for the property in their possession.

K. Information and Communications Technology (ICT)

66. IETC has achieved tremendous progress in public information sharing by developing a Web based tool for information transfer and knowledge management called Environmentally Sound Technology Information System (ESTIS). Through ESTIS organisations, projects, communities and individuals have access to a cost-effective internet-based tool, which enables them to share information on EST.

67. Furthermore, OIOS was pleased to note that IETC has implemented an effective and efficient Information Technology infrastructure that affords effective backup and recovery procedures, support and maintenance and as such, no recommendation is raised.

L. Security and safety

68. The Rector of the United Nations University (UNU) in Tokyo is the designated Security Official for Japan. The Officer-in-Charge, IETC advised that there is currently no country security plan for Japan, however the UN Security Management Team for Japan is currently developing a security risk management report.

69. The following security enhancements have been undertaken by IETC:

- a) Purchase of satellite phones for Osaka and Shiga Offices and the installation of shatter-proof windows in offices facing car parks;
- b) Meeting with the Ministry of Foreign Affairs, Japan and the Osaka and Shiga police which culminated in increased patrols around the IETC offices and residential areas of senior staff members;
- c) Completion by all staff members of the UN Security training; and
- d) Increased access control to the premises for UN staff members through the issuance of ground passes. However OIOS were concerned that visitors were not required to present identity documents even though they were registered and given temporary passes.

Recommendation:

To ensure that the International Environmental Technology Centre (IETC) complies with the Minimum Operating Security Standards (MOSS) as detailed by the Department of Safety and Security, IETC should obtain written guidance from the Designated Official (DO) for Japan on what IETC must do to achieve full compliance and request official recognition from DSS, via the DO for Japan, after these requirements are implemented (Rec. 14).

70. *UNEP commented that the recommendation would be implemented by the end of 2005.* OIOS notes the response and will close the recommendation upon confirmation that IETC is MOSS compliant.

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

71. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

| Recommendation No. | Action Required |
|--------------------|--|
| Rec. 01 | Clarification on what, if any, written delegation of authority |

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| | will be given to IETC for procurement matters. |
| Rec. 02 | Receipt of a copy of the report outlining the revised structure of IETC with clear and transparent statements of objectives for each part, including properly defined roles and responsibilities and linkages between the activities and the mandate. |
| Rec. 03 | Clarification from UNEP whether it will revise the existing MOU with UNOPS to clarify the nature and type of administrative services UNOPS is required to provide for UNEP project activities. |
| Rec. 04 | Notification of what training will be provided to IETC staff. |
| Rec. 05 | Notification of the outcome of the discussions on what systems could be developed to allow IETC Programme Managers to monitor and report against activities carried out at an IETC level. |
| Rec. 06 | Clarification whether DTIE will carry out a formal study to establish whether the current staffing is sufficient to cope with office and programmatic support envisaged in the short to medium term. |
| Rec. 07 | Receipt of a copy of a progress report outlining which elements of the Programme of Work will be done in consultation with UN-Habitat. |
| Rec. 08 | Receipt of a training plan together with details of how the training will be funded. |
| Rec. 09 | Receipt of a copy of guidelines dealing with overtime of IETC staff. |
| Rec. 10 | Notification of the new petty cash levels implemented for Osaka and Shiga, and details of arrangements for replenishment. |
| Rec. 11 | Receipt of a copy of the paper sent to Property Service Board (PSB) together with comments of PSB. |
| Rec. 12 | Receipt of a copy of the report to update GEC and ILEC of any changes in the status of their assets as required by Article 6 of the respective Memoranda of Understanding. |
| Rec. 13 | Notification of the introduction of inventory lists in all IETC offices, which are signed by officers occupying the offices attesting to ownership and accountability for the property in their possession. |
| Rec. 14 | Confirmation that IETC is MOSS compliant. |

VI. ACKNOWLEDGEMENT

72. I wish to express my appreciation for the assistance and cooperation extended to the audit team by the management and staff of IETC, UNEP and UNON.

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