



## INTERNAL AUDIT DIVISION

### REPORT 2018/084

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Audit of the management of trust  
funds at the Economic Commission for  
Europe

Controls over management of trust funds  
needed to be strengthened

21 September 2018  
Assignment No. AG2018/720/01

# **Audit of the management of trust funds at the Economic Commission for Europe**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of trust funds at the Economic Commission for Europe (ECE). The objective of the audit was to assess the adequacy and effectiveness of internal controls over the management of trust funds at ECE. The audit covered the period January 2016 to December 2017 and reviewed: (i) governance arrangements; (ii) mainstreaming of Sustainable Development Goals (SDGs); (iii) management of projects; and (iv) regulatory framework.

The Executive Committee of ECE provided oversight of the projects funded from extrabudgetary sources. ECE had developed a risk register and initiated steps to mainstream SDGs and gender issues. However, controls in the management of trust funds needed to be strengthened.

OIOS made 11 recommendations. To address issues identified in the audit, ECE needed to:

- Review its resource mobilization strategy and multi-year plan and take appropriate steps such as: (i) incorporating measurable and quantifiable performance indicators in the strategy; (ii) instituting a process to track the progress achieved; and (iii) including the impact of resource mobilization activities in its annual report to the Executive Committee;
- Strengthen its due diligence process by incorporating procedures for engagement with non-governmental organizations and other entities as donors and partners;
- Take appropriate steps to update its policies and procedures relating to management of extrabudgetary resources with the requirement to mainstream SDGs in their activities;
- Establish a mechanism to consult available National Voluntary Reviews (NVR) of the country where projects are planned to be implemented; and encourage more Member States to participate in the NVR process to enhance project effectiveness;
- Include in the terms of reference for evaluations the need for evaluations to comply with the United Nations Evaluation Group's revised gender-related norms and standards;
- Develop a catalogue of technical cooperation services based on available technical expertise; and institute a project intake process to ensure that projects fall within the available expertise to further enhance the effectiveness of its technical cooperation activities;
- Take appropriate steps to ensure that indicators of achievement in project proposals are focused on outcomes;
- Resume lessons learned exercises based on the evaluations conducted; convey the results of the lessons learned exercise to the concerned divisions for making necessary adjustments in future project proposals; and include the lessons learned from evaluations in its annual report to the Executive Committee;
- Review the trust funds with low contributions and/or no activity and determine whether they can be closed and merged with the technical cooperation trust fund to improve trust fund management;
- Review the use of consultants and ensure that they are only hired to perform tasks that require specialized skills; and
- Ensure that consultants and contractors provide a statement of good health for self-certification and complete a beneficiary form.

ECE accepted the recommendations and has initiated action to implement them.

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# Audit of the management of trust funds at the Economic Commission for Europe

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of trust funds at the Economic Commission for Europe (ECE).

2. ECE was established on 28 March 1947 pursuant to the Economic and Social Council's resolution 36 (IV) to promote sustainable development and regional cooperation and integration through policy dialogue, normative work, and regional networks of experts. The membership of ECE included 56 countries in Europe, North America and Asia. ECE comprised of eight substantive divisions which were responsible for delivering its mandated programme of work under eight subprogrammes. The eight divisions were: (a) Environment; (b) Transport; (c) Statistics; (d) Economic Cooperation and Integration; (e) Sustainable Energy; (f) Trade; (g) Forestry and Timber; and (h) Housing, Land management and Population. ECE was also responsible for promoting technical cooperation with economies in transition to assist them in acceding to and implementing international conventions, norms and standards including policy advice, capacity-building and field projects.

3. During 2016-2017, ECE had 80 projects funded from extrabudgetary resources. The Executive Committee of ECE was responsible for approving any change in resources (both regular budget and extrabudgetary) materializing after the adoption of the programme budget by the General Assembly. Accordingly, the Executive Committee oversaw the management of projects funded from extrabudgetary sources including approval of individual project proposals except those already approved by Sectoral Committees or convention bodies as part of their work programmes.

4. ECE managed six trust funds with a total income of \$33 million in 2016-2017. Table 1 shows their related income and expenditure.

**Table 1: Income and expenditure of trust funds at ECE**

	Fund	Trust fund name	Income (\$)		Expenditure (\$)	
			2016	2017	2016	2017
1	ECE	Local Technical Co-operation Trust Fund <sup>1</sup>	10,764,743	16,160,862	10,269,558	10,875,397
2	LRA	Trust Fund for the Financing of the Implementation of the Convention on Long-Range Transboundary Air Pollution	3,057,142	3,045,936	3,350,842	2,973,067
3	EIA	Trust Fund for Environmental Performance Reviews and the "Environment for Europe"	109,368	400,530	265,995	95,829
4	EHA	Trust Fund on Human Settlements	15,371	35,604	106,711	119,354
5	LTA	Trust Fund for the ECE Study on Long-Term European Timber Trends and Prospects	1,737	1,692	78,016	72,754
6	EAA	United Nations Electronic Data Interchange for Administration, Commerce and Transport	636	623	12,001	10,269
	<b>Total</b>		<b>13,948,997</b>	<b>19,645,247</b>	<b>14,071,122</b>	<b>14,146,670</b>

<sup>1</sup> Includes the Transport International Routier Trust Fund (TIR) as a sub-project account

5. The Programme Management Unit (PMU) of ECE provided guidance and overall coordination of technical cooperation projects. PMU developed an internal procedural framework for management of projects funded from extrabudgetary sources and served as Chair and secretariat of the Working Group on Technical Cooperation.

6. The Executive Office provided administrative support to projects funded from extrabudgetary resources in the areas of budget, finance and human resources management. The Executive Office also deployed tools designed to enable programme managers to manage their projects effectively

7. Comments provided by ECE are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

8. The objective of the audit was to assess the adequacy and effectiveness of internal controls over management of trust funds at ECE.

9. This audit was included in the 2018 risk-based work plan of OIOS due to the risk that potential weaknesses in management of trust funds could adversely affect donor confidence and achievement of ECE's objectives.

10. OIOS conducted this audit in May and June 2018. The audit covered the period 1 January 2016 to 31 December 2017. The audit did not include the Transport International Routier project account, which OIOS is auditing separately. Based on an activity-level risk assessment, the audit covered risk areas in the management of trust funds, which included: (i) governance arrangements; (ii) mainstreaming of Sustainable Development Goals (SDGs); (iii) management of projects; and (iv) regulatory framework.

11. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of transactions. Using the stratified sampling method, OIOS selected for a detailed review a representative sample of 33 projects relating to six trust funds amounting to \$22 million out of 80 projects amounting to \$33 million. The audit also reviewed the activities performed by 43 consultants amounting to \$816,138 out of 267 consultants engaged during 2016-2017 with expenditure amounting to \$3.6 million.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

## **III. AUDIT RESULTS**

### **A. Governance arrangements**

#### Risk assessment process for trust funds was adequate

13. ECE had developed a risk register based on the Enterprise Risk Management principles and identified relevant key drivers, existing internal controls and risk responses. A risk treatment plan was prepared for each identified risk, indicating the person responsible for risk treatment, due dates and escalation process. OIOS concluded that the risk assessment process for trust funds at ECE was adequate.

### Need to include performance indicators in the resource mobilization strategy

14. ECE developed its first centralized resource mobilization strategy in September 2016 to identify the most effective ways to mobilize extrabudgetary resources for its mandated work support of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Plan. The strategy also outlined the roles of the stakeholders for its implementation. ECE developed a multi-year action plan with goals, actions, timing and responsibilities for resource mobilization. In November 2016, the multi-year action plan for resource mobilization was adopted by ECE senior management, outlining actions for each of the priority areas in the strategy. ECE presented its first annual report in March 2018 to the Executive Committee on implementation of the resource mobilization strategy. ECE stated that the centralized resource mobilization strategy was based on limited funding available for a dedicated, temporary staff which is no longer available.

15. ECE's annual report of March 2018 spelled out the resource mobilization work carried out in priority areas. However, it did not highlight the outcome or impact of the resource mobilization strategy. ECE reported that 61 donors made voluntary contributions in a total amount of \$14.2 million in 2016 and contributions from Member States decreased by 13.1 per cent compared to 2015 (from \$9.8 to \$8.5 million), followed by a 11.9 per cent increase from intergovernmental and non-governmental organizations (from \$4.5 to \$5 million). Further, during the period 2008-2016, the number of donors decreased from 80 to 61 largely because of the discontinuation of the Gas Centre which was supported by business sector entities. The report identified the need to broaden the donor base.

16. There was no indication in the report to show the linkage between change in income and resource mobilization activities undertaken. The resource mobilization strategy did not quantify performance indicators to measure the impact of resource mobilization activities. Consequently, their impact could not be assessed. ECE needed to review the resource mobilization strategy and multi-year plan and incorporate measurable/quantifiable performance indicators to enhance the impact of its resource mobilization activities.

**(1) ECE should review its resource mobilization strategy and multi-year plan and take appropriate steps such as: (i) incorporating measurable and quantifiable performance indicators in the strategy; (ii) instituting a process to track the progress achieved; and (iii) including the impact of resource mobilization activities in its annual report to the Executive Committee.**

*ECE accepted recommendation 1 and stated that it will initiate a review of the effectiveness of the current strategy, given that there are no dedicated resources for a centralized approach. This will determine the extent to which the recommendation will be articulated as presented. Recommendation 1 remains open pending receipt of documentation showing the measures taken to revise the resource mobilization strategy.*

### Need to strengthen due diligence procedures concerning engagement with NGOs and other entities

17. To implement its programme of work, ECE engaged with non-traditional entities such as non-governmental organizations (NGOs), universities, foundations, and the private sector. These entities engaged with ECE either as donors, partners without financial implications, or grantees. This effort was driven by the recognition by Member States in the 2030 Agenda for Sustainable Development that the SDGs could only be achieved by partnering with and mobilizing support from a wide range of entities including the private sector, international philanthropic organizations, and NGOs.

18. ECE had established due-diligence procedures for engaging with companies and other private sector organizations as donors and potential partners without financial implications. However, there was no indication of whether the existing due diligence procedures were applicable for ECE to engage with NGOs and other entities as donors or partners without financial implications, as shown in Table 2.

**Table 2: Due diligence procedures at ECE**

	Type of engagement	NGOs and other entities	Private Sector
1	Donor	Existing due diligence procedures did not include NGO and other entities	In September 2017, the Executive Secretary approved, and ECE submitted an informal document titled “Due diligence review of the private sector companies engaging with ECE” to the Executive Committee, for information.
2	Partner without financial implications	Existing due diligence procedures did not include NGO and other entities	In September 2017, ECE established a due diligence process for engaging with companies and other private sector organizations as potential partners without financial implications
3	Grantee	The due diligence checklist developed in 2016 was applied to all grantees including NGOs and other entities	Not applicable because private sector entities are not eligible to receive grants.

19. While acknowledging the due diligence procedures put in place by ECE, OIOS notes that there is need to establish procedures to ensure the integrity of ECE’s engagement with NGOs and other entities.

**(2) ECE should strengthen its due diligence process by incorporating procedures for engagement with NGOs and other entities as donors and partners.**

*ECE accepted recommendation 2 and stated that it will identify gaps in due diligence measures as suggested, while remaining cognizant of the level of risk and corresponding investment of resources. Recommendation 2 remains open pending receipt of the revised due diligence procedures that cover engagement with NGOs and other entities as donors and partners.*

## **B. Mainstreaming of SDGs**

Action had been initiated to mainstream SDGs in the programme of work

20. General Assembly resolution 70/1 defined 17 SDGs and 169 targets encapsulating in each goal the three development dimensions: economic, social and environmental. United Nations entities are expected to mainstream SDGs in their programme of work to effectively support Member States in their implementation.

21. ECE had initiated actions to mainstream SDGs in its programme of work. The ECE secretariat had identified nine SDGs where ECE had a comparative advantage. ECE organized the Regional Forum on Sustainable Development for the ECE region in 2017 and 2018 to review the implementation of the 2030 Agenda. At the sectoral level, ECE Environmental Performance Reviews integrated the review of relevant SDGs. ECE had organized expert meetings on statistics for SDGs. OIOS therefore concluded that ECE had initiated steps to mainstream SDGs in its programme of work.

### Need to update policies and procedures with the requirement to mainstream SDGs

22. Policies and procedures relating to the management of extrabudgetary resources had not been updated with the requirement to mainstream SDGs. Some of these were developed before the General Assembly's resolution 70/1. For example, ECE's technical cooperation strategy developed in April 2007 was not updated to include the requirement to mainstream SDGs in technical cooperation activities, even though PMU had implemented such a requirement in templates for project documents and approval forms for the Executive Committee. Although the directive on management of extrabudgetary resources and governance measures for the management of extrabudgetary contributions were developed in 2014 and revised in September 2016 and May 2017 respectively, these documents were also not updated to mainstream SDGs. ECE therefore needs to update its policies and procedures relating to management of extrabudgetary resources with the requirement to mainstream SDGs in their activities.

**(3) ECE should take appropriate steps to update its policies and procedures relating to management of extrabudgetary resources with the requirement to mainstream SDGs in their activities.**

*ECE accepted recommendation 3 and stated that it was presently reviewing policies and procedures accordingly, as part of the Executive Secretary's efforts for strengthening the alignment of the ECE work programme to the 2030 Agenda. Recommendation 3 remains open pending receipt of updated policies and procedures relating to the management of extrabudgetary resources to reflect the requirement to mainstream SDGs in their activities.*

### Need to consult National Voluntary Reviews when formulating technical cooperation projects

23. General Assembly resolution 70/1 encourages Member States to conduct regular and inclusive reviews of progress in implementing SDGs at the national and sub-national levels, which are country-led and country-driven.

24. National Voluntary Reviews (NVRs) serve as the basis for the High-Level Political Forum on Sustainable Development (HLPF) to review the progress on implementation of SDGs and facilitate the sharing of experiences, successes, challenges and lessons learned to accelerate the implementation of the 2030 Agenda. NVRs contain country-specific data on implementation of SDGs, besides best practices and lessons learned, which can be a valuable resource to consult while designing technical cooperation projects. Project managers at ECE were required to conduct situation analysis while preparing a project document during the project design stage. However, ECE was yet to establish a mechanism to consult available NVRs when formulating new projects in a country.

25. Out of 56 Member States of ECE, 22 had submitted NVRs in 2016 and 2017 to HLPF through the Department of Economic and Social Affairs (DESA). ECE needed to encourage more countries to participate in NVRs by developing and implementing an effective outreach plan and incorporating key messages and outcomes of available NVRs into the Commission's work programme. This would not only facilitate implementation of General Assembly resolution 70/1 but also enable ECE to enhance project effectiveness.

**(4) ECE should: (i) establish a mechanism to consult available National Voluntary Reviews (NVR) of the country where projects are planned to be implemented; and (ii) encourage more Member States to participate in the NVR process to enhance project effectiveness.**

*ECE accepted recommendation 4 and stated that it will consider the means for connecting the results of NVRs to its operational activities at the country level. Recommendation 4 remains open pending receipt of evidence of establishment of a mechanism to consult available NVRs and action taken to encourage more Member States to participate in the NVR process.*

ECE had initiated steps to mainstream gender in project activities

26. SDG 5 aims to achieve gender equality and empower all women and girls. To achieve this goal, ECE developed guidance notes in 2018 on gender mainstreaming, including standard templates and tools. The guidance stated that continuous monitoring should occur during programme implementation and also be an integral part of the programme evaluation. PMU updated the project document template to improve the analysis of gender aspects of projects and included a checklist of areas that projects should consider for effective gender mainstreaming. ECE had established a network of gender focal points to provide support activities to mainstreaming gender aspects of its work. ECE incorporated and implemented gender mainstreaming elements for all projects started in 2018.

Need to include gender-specific evaluation criteria in the terms and reference of external evaluations

27. One of the requirements in the United Nations System-Wide Action Plan to implement gender equality and empowerment of women was that evaluations should meet the United Nations Evaluation Group's (UNEG) gender-related norms and standards. UNEG had revised its norms and standards in 2016 to highlight the need for people-centred evaluation, and for evaluators to integrate universally recognized values and principles of human rights and gender equality into all stages of an evaluation.

28. According to the evaluation policy of ECE, projects funded from extrabudgetary resources with a budget at or above \$250,000 were subjected to evaluation by an external consultant. Although the terms of reference of independent evaluators stipulate that evaluations should comply with UNEG norms and standards, they did not specifically state that the evaluation should report compliance with UNEG's revised norms and standards related to gender.

**(5) ECE should include in the terms of reference for evaluations the need for evaluations to comply with the United Nations Evaluation Group's revised gender-related norms and standards.**

*ECE accepted recommendation 5 and stated that it had revised the template accordingly. Recommendation 5 remains open pending receipt of the revised template showing inclusion of a need for evaluations to comply with UNEG's gender-related norms and standards.*

## **C. Management of projects**

Need to identify technical cooperation activities where ECE has recognized expertise

29. The technical cooperation strategy of ECE emphasized that the Commission must be selective in its technical cooperation activities. According to the strategy, technical cooperation activities are guided

by principles such as linkage to ECE's normative work, selectivity, results orientation, demand-driven focus on countries with economies in transition, and cooperation and partnership with others. The principle of selectivity stressed the need to focus technical cooperation activities where ECE has recognized expertise. The strategy acknowledged that availability of in-house technical knowledge is of great value for ECE policy development and norm-setting work.

30. OIOS review of selected technical cooperation projects indicated that technical cooperation activities were conducted in broad thematic areas of ECE's programme of work such as capacity building, feasibility studies, supporting conventions, and environmental assessments. However, ECE did not establish an initial project intake process at the operational level to ensure that technical cooperation projects were selected based on the selectivity principle envisaged in the technical cooperation strategy. The annual report to the Executive Committee on technical cooperation activities did not indicate the basis for selection of technical cooperation projects. ECE stated that the selectivity principle in the technical cooperation strategy was applied to generic thematic areas of the programme of work but it did not conduct an exercise to identify specific technical areas/activities where ECE has in-house technical expertise. Since the technical cooperation activities/projects implemented by ECE were also implemented by other United Nations entities, it had to compete with other United Nations entities to secure extrabudgetary funding from the same donors, which could affect sustainability of its operations.

31. To mitigate the risk of dwindling donor contributions, ECE should take appropriate measures such as positioning itself as an entity with in-house technical expertise to implement specific and selective technical cooperation activities. Developing a catalogue of technical cooperation services based on the available technical expertise and instituting a project intake process to ensure that projects fall within the identified areas of expertise, may facilitate the project review process and enhance the sustainability of ECE's technical cooperation activities.

**(6) ECE should: (i) develop a catalogue of technical cooperation services based on available technical expertise; and (ii) institute a project intake process to ensure that projects fall within the available expertise to further enhance the effectiveness of its technical cooperation activities.**

*ECE accepted recommendation 6 and stated it will undertake an assessment of the in-house expertise and anticipated future needs from Member States for supporting the achievement of the SDGs in the 17 programme countries in the region. Recommendation 6 remains open pending receipt of documentation showing the steps taken to identify activities where ECE has recognized expertise.*

#### Need to ensure that indicators in project proposals are focused on outcomes

32. One of the guiding principles in the technical cooperation strategy was that the activities should be planned and implemented considering the need to maximize their impact on the national capacity of Member States with economies in transition. Project managers in ECE were required to indicate expected accomplishments and indicators of achievement in the project proposals. The ECE project document defined indicators of achievement as measures used to determine the extent to which the stated expected accomplishments have been achieved. Well-formulated indicators should answer the question "What is going to demonstrate that the expected accomplishment occurred?" and detail the extent to which the expected accomplishments have been achieved by clearly defined units of quantity, quality, and time.

33. OIOS review of a selected sample of projects indicated that expected accomplishments and indicators of achievement in the project proposals were output oriented but not outcome oriented. During interviews, many project managers were unable to explain clearly the expected outcome and impact of their projects. For example, after conducting a technical cooperation workshop in a member country with a

specific objective in mind, there was no evidence to show that an attempt was made to assure that the intended objectives of the workshop were achieved.

34. In May 2018, ECE published “Success stories in technical cooperation – towards the 2030 Agenda” to document the wide variety of technical cooperation work carried out by ECE and provided details of selected technical cooperation projects covering the overall objective, related SDGs, beneficiaries, problems addressed, main activities and main impact achieved. OIOS review of the description under “main impact achieved” for various projects in the publication indicated that except for projects 5 and 6 in Table 3, there was no indication of the measurable and quantifiable impact of ECE’s technical cooperation activities.

**Table 3: Impact of ECE’s technical cooperation activities**

	<b>Project title</b>	<b>Overall objective of the project</b>	<b>Main impact achieved</b>
1	Sustainable forest management in the Caucasus and Central Asia	Strengthening the national capacity of countries in the Caucasus and Central Asia to enhance the contribution of the forest sector to greener economies through sustainable forest development	The training workshops and coaching increased the capacity of countries to develop policies to enhance the contribution of the forest sector to greener economies.
2	Strengthening national capacities for sustainable housing and urban development in selected countries with economies in transition.	Strengthening national capacities for sustainable housing and urban development in selected countries with economies in transition.	The project strengthened the capacity of the beneficiary countries to develop policies for sustainable housing.
3	Strengthening cooperation on hydrology and environment between Tajikistan and Afghanistan in Amu-Darya	Strengthening cooperation on hydrology and environment between Tajikistan and Afghanistan in Amu-Darya.	The project continuously enabled long-term cooperation between Afghanistan and Tajikistan. It led to improved hydrological knowledge and observations in both countries and increased access to information about water resources.
4	Strengthening road safety management systems and improving road safety records in beneficiary countries	Strengthening road safety management systems and improving road safety records in beneficiary countries	Beneficiary countries used the recommendations to update the national road safety policy and management and initiate remedial actions in priority areas.
5	Promoting energy efficiency investments for climate change mitigation and sustainable development	Building capacity for development of energy efficiency investment projects	A pipeline of 32 viable energy efficiency projects is available to help countries attract investors and obtain financing. The project also led to direct funding of projects through connections made at its events and the establishment of a \$400 million dedicated fund for energy efficiency projects by the Latin American Development Bank.
6	Trade facilitation in Ukraine	Facilitate international trade in Ukraine	This project led to a 15 per cent decrease in waiting time for trucks to enter the port.

35. To ensure the relevance and effectiveness of its technical cooperation activities, ECE needs to ensure that measurable and quantifiable indicators of achievements are identified in project proposals, and a mechanism is established to track and report the impact of its technical cooperation projects.

**(7) ECE should: (i) take appropriate steps to ensure that indicators of achievement in project proposals are focused on outcomes; (ii) use appropriate tools to track the progress of outcomes; and (iii) include them in the annual report on technical cooperation activities to the Executive Committee.**

*ECE accepted recommendation 7 and stated that it will further build on recent efforts in line with the Executive Secretary's vision to measure and report on the impact of ECE's work, including in the area of technical cooperation. Recommendation 7 remains open pending receipt of evidence of indicators of achievement focused on outcomes and the tools used to track their progress.*

#### Need to resume lessons learned exercises sessions from the external evaluations

36. PMU was responsible for providing overall coordination of the programme planning, monitoring and evaluation of all ECE activities funded from regular and extra budgetary resources. This unit was responsible for dissemination and application of findings resulting from evaluations, including through regular briefings and workshops. ECE developed a sustainable funding mechanism to conduct evaluations by earmarking two per cent of high value project funds.

37. Based on the ECE evaluation policy, all projects funded from the United Nations Development Account and extrabudgetary projects with a budget at or above \$250,000 were subjected to evaluation by an external consultant. ECE developed an evaluation guide to support project managers to manage evaluations. ECE prepared evaluation plans biannually and submitted them to the Executive Committee for approval. During 2016-2017, 14 evaluation reports were issued.

38. During the review period, PMU did not organize regular briefings and workshops for dissemination and application of findings resulting from evaluations. ECE explained that the practice was discontinued due to internal staffing changes and extended staffing shortages. OIOS is of the view that PMU needed to resume the practice of conducting lessons learned exercises based on evaluation results and include them in its annual report to the Executive Committee.

**(8) ECE should: (i) resume lessons learned exercises based on the evaluations conducted; (ii) convey the results of the lessons learned exercises to the concerned divisions for making necessary adjustments in future project proposals; and (iii) include the lessons learned from evaluations in its annual report to the Executive Committee.**

*ECE accepted recommendation 8 and stated that the recent full recruitment of staff in PMU (2 August 2018) will enable the resumption of lessons learned exercises based on evaluations conducted. The results of these exercises are included in a chapter of the Annual Report on Evaluation to the Executive Committee. Recommendation 8 remains open pending receipt of evidence of resumption of lessons learned exercises and reporting to the Executive Committee.*

## **D. Regulatory framework**

#### Need to review trust funds with little activity and/or contributions

39. A memorandum dated 4 March 2015 from the Controller on converting and merging technical cooperation trust funds to general trust funds stated that the Organization should transition to a single trust fund in Umoja thereby removing the distinction between general and technical cooperation trust funds. The Controller's memorandum dated 31 August 2015 on policy guidance to facilitate closure of trust funds

stated that the migration to Umoja was leveraged to rationalize the numbers and types of trust funds to improve their management.

40. During the review period, out of six trust funds, only two trust funds had income over \$1 million. These two trust funds financed 73 projects out of 80 projects implemented by ECE. The remaining four trust funds had very limited income and financed one project each, as shown in Table 4.

**Table 4: ECE trust fund income and projects in 2016 and 2017**

	<b>Fund</b>	<b>Trust fund name</b>	<b>Income 2016 (\$)</b>	<b>Income 2017 (\$)</b>	<b>Number of ongoing projects</b>
1	ECE	Local Technical Cooperation Trust Fund	10,764,743	16,160,862	73
2	LRA	Trust Fund for the Financing of the Implementation of the Convention on Long-Range Transboundary Air Pollution (Project LRA-E908, & 2 sub-accounts: LRA-E907 & LRAE910)	3,057,142	3,045,936	3
3	EIA	Trust Fund for Environmental Performance Reviews and the "Environment for Europe"	109,368	400,530	1
4	EHA	Trust Fund on Human Settlements	15,371	35,604	1
5	LTA	Trust Fund for the ECE Study on Long-Term European Timber Trends and Prospects	1,737	1,692	1
6	EAA	United Nations Electronic Data Interchange for Administration, Commerce and Transport	636	623	1
	<b>Total</b>		<b>13,948,997</b>	<b>19,645,247</b>	<b>80</b>

41. Managing trust funds with low voluntary contributions may not be administratively efficient. ECE needed to review and take steps to either close or merge trust funds with low contributions with the local technical cooperation trust fund.

**(9) ECE should review the trust funds with low contributions and/or no activity and determine whether they can be closed and merged with the technical cooperation trust fund to improve trust fund management.**

*ECE accepted recommendation 9 and stated that it will conduct the review and take the necessary action to close or merge inactive trust funds as proposed. Recommendation 9 remains open pending receipt of results on the review of trust funds with low contributions and/or no activity.*

Need to strengthen controls over use of consultants

42. According to administrative instruction ST/AI/2013/3, a consultant is an individual who is a recognized authority or specialist in a specific field, engaged by the United Nations under a temporary contract in an advisory or consultative capacity to the Secretariat. A consultant must have special skills or knowledge not normally possessed by the regular staff of the Organization and for which there is no continuing need in the Secretariat. The functions of a consultant are results-oriented and normally involve analyzing problems, facilitating seminars or training courses, preparing documents for conferences and meetings or writing reports on the matters within their area of expertise on which their advice or assistance is sought.

43. ECE hired 267 consultants in 2016 and 2017 at a total cost of \$3.6 million. ECE implemented a Consultant and Individual Contractor (CIC) tracking tool on 1 January 2017 to enable tracking and management of internal processes for hiring consultants and individual contractors by each Division/Section. The tool was used to extract management reports and as an archive for contracts, terms

of reference, medical certificates, payments, personal history profiles, evaluation and other information. OIOS review of 43 consultants with expenditure amounting to \$816,138 showed the following:

(i) Need to ensure that consultants are used to obtain specialist skills

44. Out of 43 consultant files reviewed, 21 (49 per cent) did not have evidence of the consultants' specialist skills. Consultants were hired for tasks such as; (i) preparation, facilitation, provision of inputs to reporting and follow up to meetings; (ii) review and provision of substantive comments and edits for the report summarizing the outcomes of activities of an expert group; (iii) preparation, facilitation, provision of inputs to reporting and follow up to the second meeting; (iv) provision of substantive support to the lead consultant; and (v) carrying out preliminary research.

(ii) There was no evidence of knowledge transfer following extensive use of consultants

45. Divisions in ECE engaged specialist consultants for preparation of various reviews and publications every year. However, there was no mechanism to ensure that skills, experience and knowledge of specialist consultants were passed on to existing staff to develop in-house technical expertise.

(iii) Consultants did not provide health related information and beneficiary forms

46. According to ST/AI/2013/3, prior to the commencement of work, a consultant or individual contractor shall submit a statement of good health and take full responsibility for the accuracy of that statement. The contractor shall provide such a statement of good health and certification of the medical or health insurance as soon as practicable following the signature of the individual contract. Consultants were also required to complete a designation, change or revocation of beneficiary form.

47. OIOS review of 43 consultants showed that 15 consultants who had signed contracts did not provide a statement of good health and certification of the medical or health insurance. In addition, 16 consultants did not provide forms designating their beneficiaries in the event of their death.

(iv) Need to monitor delays in processing of payments to consultants

48. Consultant and contractor payments were required to be processed upon satisfactory completion of the tasks reflected in the terms of references and contracts. A review of a sample of 43 consultants showed that 10 consultants had remain unpaid for more than 90 days. In two cases, delays were attributable to issues related to project implementation and subsequently consultant deliverables. There were no clear patterns for the reasons for the delay in processing of payments to consultants. There was a need to institute a mechanism to monitor delays using the CIC tracking tool to ensure payments to consultants are processed in a timely manner.

**(10) ECE should: (i) review the use of consultants and ensure that they are only hired to perform tasks that require specialized skills; and (ii) include a knowledge transfer clause in the consultants' terms of reference, where applicable, to facilitate upgrading the technical skills of its staff.**

*ECE accepted recommendation 10 and stated that it will include additional requirements for project managers for self-reporting in the process for engaging consultants in ECE. This will include a clause on knowledge transfer as proposed by OIOS. Recommendation 10 remains open pending receipt of evidence showing the measures taken to ensure that consultants are used for specialist tasks; and a knowledge transfer clause has been included in their terms of reference.*

**(11) ECE should: (i) ensure that consultants and contractors provide a statement of good health for self-certification and complete a beneficiary form; and (ii) monitor and address delays in processing of payments to consultants.**

*ECE accepted recommendation 11 and stated that it will review and identify measures in CIC to address both elements of the recommendation. Recommendation 11 remains open pending receipt of documentation showing the measures taken to ensure that: contractors provide all required documentation; and their payments are processed in a timely manner.*

#### **IV. ACKNOWLEDGEMENT**

49. OIOS wishes to express its appreciation to the management and staff of ECE for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the management of trust funds at the Economic Commission for Europe

Rec. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	ECE should review its resource mobilization strategy and multi-year plan and take appropriate steps such as: (i) incorporating measurable and quantifiable performance indicators in the strategy; (ii) instituting a process to track the progress achieved; and (iii) including the impact of resource mobilization activities in its annual report to the Executive Committee.	Important	O	Receipt of documentation showing the measures taken to revise the resource mobilization strategy.	30/06/2019
2	ECE should strengthen its due diligence process by incorporating procedures for engagement with NGOs and other entities as donors and partners.	Important	O	Receipt of the revised due diligence procedures that cover engagement with NGOs and other entities as donors and partners.	30/06/2019
3	ECE should take appropriate steps to update its policies and procedures relating to management of extrabudgetary resources with the requirement to mainstream SDGs in their activities.	Important	O	Receipt of updated policies and procedures relating to the management of extrabudgetary resources to reflect the requirement to mainstream SDGs in their activities.	31/03/2019
4	ECE should: (i) establish a mechanism to consult available National Voluntary Reviews (NVR) of the country where projects are planned to be implemented; and (ii) encourage more Member States to participate in the NVR process to enhance project effectiveness.	Important	O	Receipt of evidence of establishment of a mechanism to consult available NVRs and action taken to encourage more Member States to participate in the NVR process.	30/06/2019
5	ECE should include in the terms of reference for evaluations the need for evaluations to comply with the United Nations Evaluation Group's revised gender-related norms and standards.	Important	O	Receipt of the revised template showing inclusion of a need for evaluations to comply with UNEG's gender-related norms and standards.	30/09/2018

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by ECE in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the management of trust funds at the Economic Commission for Europe

Rec. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
6	ECE should: (i) develop a catalogue of technical cooperation services based on available technical expertise; and (ii) institute a project intake process to ensure that projects fall within the available expertise to further enhance the effectiveness of its technical cooperation activities.	Important	O	Receipt of documentation showing the steps taken to identify activities where ECE has recognized expertise.	30/06/2019
7	ECE should: (i) take appropriate steps to ensure that indicators of achievement in project proposals are focused on outcomes; (ii) use appropriate tools to track the progress of outcomes; and (iii) include them in the annual report on technical cooperation activities to the Executive Committee.	Important	O	Receipt of evidence of indicators of achievement focused on outcomes and the tools used to track their progress.	30/06/2019
8	ECE should: (i) resume lessons learned exercises based on the evaluations conducted; (ii) convey the results of the lessons learned exercise to the concerned divisions for making necessary adjustments in future project proposals; and (iii) include the lessons learned from evaluations in its annual report to the Executive Committee.	Important	O	Receipt of evidence of resumption of lessons learned exercises and reporting to the Executive Committee.	31/03/2019
9	ECE should review the trust funds with low contributions and/or no activity and determine whether they can be closed and merged with the technical cooperation trust fund to improve trust fund management.	Important	O	Receipt of results on the review of trust funds with low contributions and/or no activity.	30/06/2019
10	ECE should: (i) review the use of consultants and ensure that they are only hired to perform tasks that require specialized skills; and (ii) include a knowledge transfer clause in the consultants' terms of reference, where applicable, to facilitate upgrading the technical skills of its staff.	Important	O	Receipt of evidence showing the measures taken to ensure that consultants are used for specialist tasks; and a knowledge transfer clause has been included in their terms of reference.	31/12/2018
11	ECE should: (i) ensure that consultants and contractors provide a statement of good health for self-certification and complete a beneficiary form;	Important	O	Receipt of documentation showing the measures taken to ensure that: contractors provide all	31/12/2018

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the management of trust funds at the Economic Commission for Europe

Rec. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
	and (ii) monitor and address delays in processing of payments to consultants.			required documentation; and their payments are processed in a timely manner.	

# **APPENDIX I**

## **Management Response**



NATIONS UNIES

COMMISSION ÉCONOMIQUE  
POUR L'EUROPE

ОБЪЕДИНЕННЫЕ НАЦИИ

ЕВРОПЕЙСКАЯ ЭКОНОМИЧЕСКАЯ  
КОМИССИЯ

UNITED NATIONS

ECONOMIC COMMISSION  
FOR EUROPE

MEMORANDUM

**CONFIDENTIAL**

To : Mr. Gurpur Kumar, Deputy Director  
Internal Audit Division, OIOS

19 September 2018

From : Olga Algayerova, Executive Secretary  
Economic Commission for Europe

cc.: Ms. Nicola Koch, Chef de Cabinet, ECE  
Mr. Michael Sylver, Executive Officer, ECE

Subject: **Draft report on the audit of the management of trust funds at the Economic Commission for Europe (Assignment No. AG2018/720/01)**

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1. I acknowledge the receipt of your memo dated 7 September 2018 regarding the Audit of the management of trust funds at the Economic Commission for Europe (Assignment No. AG2018/720/01)
2. The management response from the Economic Commission for Europe, with comments on the recommendations, together with the proposed timeframe for actions to address the recommendations, is provided herewith.
3. I would like to take this opportunity to thank OIOS for the professional, thorough, and informed manner in which the audit was conducted. I would like to express appreciation to the audit team and thank them for fruitful cooperation, and opportunities for ECE to strengthen its governance framework.

## Management Response

## Audit of the management of trust funds at the Economic Commission for Europe

Rec. no.	Recommendation	Critical1/ Important2	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ECE should review its resource mobilization strategy and multi-year plan and take appropriate steps such as: (i) incorporating measurable and quantifiable performance indicators in the strategy; (ii) instituting a process to track the progress achieved; and (iii) including the impact of resource mobilization activities in its annual report to the Executive Committee.	Important	Yes	OES	30/06/2019	ECE will initiate a review of the effectiveness of the current strategy, given that there are no dedicated resources for a centralized approach. This will determine the extent to which the proposed recommendation will be articulated as presented.
2	ECE should strengthen its due diligence process by incorporating procedures for engagement with NGOs and other entities as donors and partners.	Important	Yes	Executive Officer (OES)	30/06/2019	ECE will identify gaps in due diligence measures as suggested, while remaining cognizant of the level of risk and corresponding investment of resources.
3	ECE should take appropriate steps to update its policies and procedures relating to management of extrabudgetary resources with the requirement to mainstream SDGs in their activities.	Important	Yes	Chief, Programme Management Unit (PMU)	31/03/2019	ECE is presently reviewing policies and procedures accordingly, as part of the Executive Secretary's efforts for strengthening the alignment of the ECE work programme to the 2030 Agenda.
4	ECE should: (i) establish a mechanism to consult available National Voluntary Reviews (NVR) of the country where projects are planned to be implemented; and (ii) encourage more Member States to participate in the NVR process to enhance project effectiveness.	Important	Yes	Chief, Programme Management Unit (PMU)	30/06/2019	ECE will consider the means for connecting the results of NVRs to ECE operational activities at the country level.

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of the management of trust funds at the Economic Commission for Europe

5	ECE should include in the terms of reference for evaluations the need for evaluations to comply with the United Nations Evaluation Group's revised gender-related norms and standards.	Important	Yes	Chief, Programme Management Unit (PMU)	30/09/2018	ECE has revised the template accordingly.
6	ECE should: (i) develop a catalogue of technical cooperation services based on available technical expertise; and (ii) institute a project intake process to ensure that projects fall within the available expertise to further enhance the effectiveness of its technical cooperation activities.	Important	Yes	Chief, Programme Management Unit (PMU)	30/06/2019	ECE will review and undertake an assessment of the in-house expertise and anticipated future needs from member States for supporting the achievement of the SDGs in the 17 programme countries in the region.
7	ECE should: (i) take appropriate steps to ensure that indicators of achievement in project proposals are focused on outcomes; (ii) use appropriate tools to track the progress of outcomes; and (iii) include them in the annual report on technical cooperation activities to the Executive Committee.	Important	Yes	Chief, Programme Management Unit (PMU)	30/06/2019	ECE will further build on recent efforts in line with the Executive Secretary's vision to measure and report on the impact of ECE's work, including in the area of technical cooperation.
8	ECE should: (i) resume lessons learned exercises based on the evaluations conducted; (ii) convey the results of the lessons learned exercise to the concerned divisions for making necessary adjustments in future project proposals; and (iii) include the lessons learned from evaluations in its annual report to the Executive Committee.	Important	Yes	Chief, Programme Management Unit (PMU)	31/03/2019	ECE confirms that the recent full recruitment of staff in the PMU (2 August 2018) will enable the resumption of lessons learned exercises based on evaluations conducted. The results of these exercises is included in a chapter of the Annual Report on Evaluation to the Executive Committee (the first issued for 2017).
9	ECE should review the trust funds with low contributions and/or no activity and determine whether they can be closed and merged with the technical cooperation trust fund to improve trust fund management.	Important	Yes	Executive Officer (OES)	30/06/2019	ECE will conduct the review and take the necessary action to close or merge inactive trust funds as proposed.
10	ECE should: (i) review the use of consultants and ensure that they are only hired to perform tasks that require specialized skills; and (ii) include a knowledge transfer clause in the consultants' terms of reference, where applicable, to facilitate upgrading the technical skills of its staff.	Important	Yes	Executive Officer (OES)	31/12/2018	ECE will include additional requirements for project managers for self-reporting in the process for engaging consultants in ECE. This will include a clause on knowledge transfer as proposed by OIOS.

**Management Response**

**Audit of the management of trust funds at the Economic Commission for Europe**

11	ECE should: (i) ensure that consultants and contractors provide a statement of good health for self-certification and complete a beneficiary form; and (ii) monitor and address delays in processing of payments to consultants.	Important	Yes	Executive Officer (OES)	31/12/2018	ECE will review and identify measures in the Consultants and Individual Contractor Tool (CIC) to address both elements of OIOS proposal.
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