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INTEROFFICE MEMORANDUM

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OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

CONFIDENTIAL

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

DATE 20 March 2012

REFERENCE: IAD: 12- 00207

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment no. AA2011/220/05 – Audit of the Secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)**

Overall results relating to the effective administrative management by UNEP of the CITES Secretariat were partially satisfactory

1. Attached please find the final report on the above-mentioned audit.
2. Annex I shows the status of recommendations.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly. OIOS will also report to the Secretary-General quarterly for critical recommendations and annually for important recommendations.

cc: Mr. John Scanlon, Secretary-General, CITES
Ms. Amina Mohamed, Deputy Executive Director, UNEP
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Ms. Anjana Das, Executive Secretary, UN Board of Auditors
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INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the Secretariat of the
Convention on International Trade in
Endangered Species of Wild Fauna and
Flora (CITES)

Overall results relating to the effective
administrative management by UNEP of the
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AUDIT REPORT

Audit of the Secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in Geneva, Switzerland.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. CITES is an international agreement between governments that entered into force in July 1975 and had a membership of 175 Parties by May 2011. CITES vision statement is to “Conserve biodiversity and contribute to its sustainable use by ensuring that no species of wild fauna or flora becomes or remains subject to unsustainable exploitation through international trade, thereby contributing to the significant reduction of the rate of biodiversity loss”. The United Nations Environment Programme (UNEP) administers the CITES Secretariat, which is located in Geneva, Switzerland. The functions of the CITES Secretariat are spelt out in Article XII of the Text of the Convention and the Secretariat reports to a Conference of the Parties (COP) and its Standing Committee.
4. The COP has developed a Strategic Vision for the period 2008 to 2013 with three broad goals: Goal 1: Ensure compliance with and implementation and enforcement of the Convention; Goal 2: Secure the necessary financial resources and means for the operation and implementation of the Convention; and Goal 3: Contribute to significantly reducing the rate of biodiversity loss by ensuring that CITES and other multilateral instruments and processes are coherent and mutually supportive. The COP requested the CITES Secretariat to develop a programme of work for 2008 to 2013 that is consistent with this vision.
5. The CITES Secretariat is funded by: (a) the Trust Fund for CITES which receives assessed contributions based on an adjusted United Nations scale of contributions; and (b) external funds voluntarily contributed for earmarked projects. The combined expenditures for years ended 2008 to 2010 averaged \$8.5 million per year.
6. Comments provided by UNEP are incorporated in *italics*.

OBJECTIVE AND SCOPE

7. The audit of the Secretariat of CITES was conducted to assess the adequacy and effectiveness of the Secretariat’s governance, risk management and control processes in providing reasonable assurance regarding **the effective administrative management by UNEP of the CITES Secretariat**.
8. This audit was performed at the request of UNEP to review a number of Multilateral Environmental Agreements to provide assurance that controls in place were working effectively.

9. The key controls tested for the audit were: (a) mandates and delegation of authority; (b) performance monitoring; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Mandates and delegation of authority** – controls that provide reasonable assurance on the clarity of the authority, roles and responsibilities of CITES and other United Nations entities involved in providing services to ensure efficient and effective programme delivery;

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

(c) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures exist in the CITES Secretariat to guide the operations of the activity/programme in areas such as budget and finance, information and communication technology, and procurement.

10. The key controls were assessed for the control objective shown in Table 1.

11. OIOS conducted this audit from 29 April 2011 to 27 July 2011. The audit covered the period from 1 January 2008 to 31 December 2010.

12. OIOS conducted an activity-level risk assessment to identify and evaluate specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

AUDIT RESULTS

13. In OIOS' opinion, the CITES Secretariat governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding **the effective administrative management by UNEP of the CITES Secretariat**.

14. The overall rating is based on the assessment of key controls presented in Table 1 below. Overall, UNEP provided clear delegation of authority for administrative activities to the Secretary-General of the CITES Secretariat, which defined the authority, roles and responsibilities of the Secretariat. The CITES Secretariat had relevant performance metrics which it monitored and reported on. Budget preparation and reporting of income and expenditure to the COP were effective. UNEP was reviewing the services provided by the United Nations Office at Nairobi (UNON), the United Nations Office at Geneva (UNOG) and the UNEP Administrative Services Centre for Europe in order to determine cost-effective service delivery. The CITES Secretariat did not, however, develop a strategy to address the emerging trend of mismatch between income and expenditure.

Table 1: Assessment of key controls

	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective administrative management by UNEP of CITES Secretariat	(a) Mandates and delegation of authority	Partially satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Performance monitoring	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

Mandates and delegation of authority

Need to streamline the provision of administrative services

15. UNEP provided the CITES Secretariat with clear delegation of authority. The Executive Director of UNEP and the Secretary-General of CITES signed the delegation of authority on administrative and financial matters effective 1 October 2010 which covered the accountability context, authority and responsibilities, programme management, financial resources management, and human resources management. Furthermore, at the time of the audit, the agreement between the CITES Standing Committee and the Executive Director of UNEP dated 20 June 1997 was being revised into a Memorandum of Understanding (MOU) between the two parties.

16. The CITES Secretariat was insourcing financial and human resource administration services selectively from UNON and UNOG, but did not use services provided by the Administrative Services Centre for Europe (UNEP/ASC), an additional organizational unit created by UNEP and located in Geneva specifically to provide administrative services to its European operations. The availability of multiple service providers in the absence of a comparative analysis of costs and benefits could lead to inefficiencies and waste of resources.

17. UNEP explained that the Executive Director of UNEP worked with the Secretary-General of CITES to identify the most efficient means of providing administrative support to the Convention. In this regard, UNEP had reviewed the services provided by UNON and UNOG, starting with human resources administration, and was already analyzing conditions under which most of these services could be transferred to UNON based on a cost-benefit analysis.

18. The CITES Secretariat stated that it did not use UNEP/ASC because it was able to obtain faster service directly from UNON and UNOG. Two other conventions administered by UNEP in Geneva, namely the Secretariat of the Basel Convention and the Stockholm and Rotterdam Convention, also stated that they hardly used UNEP/ASC.

(1) The Executive Director of UNEP should conduct a cost-benefit analysis of services provided by the UNEP Administrative Services Centre for Europe (UNEP/ASC) in relation to those provided by UNON and UNOG in order to rationalize the investment in the Centre.

UNEP accepted recommendation 1 and stated that it has already initiated a cost benefit analysis of services provided by the UNEP/ASC as compared to various other options and noted that UNEP/ASC did not compete with UNON and UNOG for provision of services but complemented them. The analysis would be finalized in early 2012 and lead to a streamlined structure of ASC as part of UNEP's Office of Operations by 30 June 2012. Recommendation 1 remains open pending receipt of the cost benefit analysis of services provided by the various entities.

Performance monitoring

Monitoring and reporting on programme implementation was effective

19. The CITES Secretariat established programmes of work that were consistent with the CITES Strategic Vision and Article XII of the Convention. The goals and objectives in the costed programme of work for the triennium 2009 to 2011 were consistent with those in the CITES Strategic Vision. Activities and expected outputs were developed, prioritized and costed and the source of financing identified (trust fund or external funds). This was in line with the COP's request, adopted at the 14th meeting, to ensure that its programme of work for the period 2008 to 2013 supports the implementation of the CITES Strategic Vision 2008-2013.

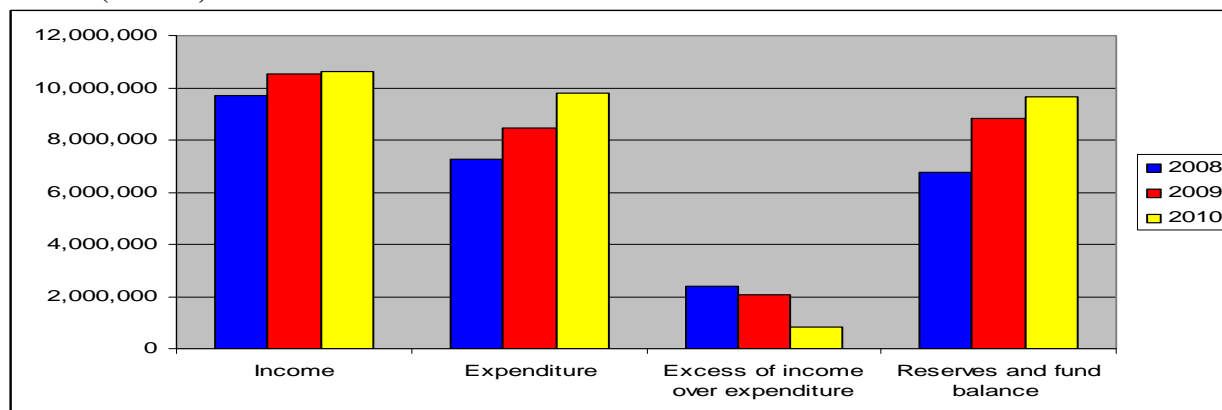
20. The CITES Secretariat had established effective systems for tracking, and monitoring implementation of decisions and reporting results to the COP and its Standing Committee, Animals Committee or Plants Committee as requested. For example, once the COP makes a resolution, the CITES Secretariat allocates the primary responsibility to appropriate teams, who implement the decisions and report to the relevant Standing Committee on the agreed dates. These procedures were functioning satisfactorily.

Regulatory framework

Expenditure within budget limits but income not increasing proportionately with expenditure

21. The CITES Secretariat kept its Trust Fund expenditure within the limits authorized by the COP from 2008 to 2010. However, during the same period, CITES Secretariat's overall income increased only by 9.5 per cent, while expenditure increased by 34.4 per cent, as shown in Graph 1.

Graph 1: CITES overall income, expenditures, reserve and fund balances for the years ended 2008 to 2010 (in USD)



22. The CITES Secretariat attributed the increase in expenditure to the increasing requests of the COP for Secretariat activities without proportionate increases in the level of resources available to fund the activities. In an effort to control expenditure, the CITES Secretariat reduced its staffing level, but this resulted in challenges to the remaining staff in coping with the additional workload. To manage this situation, the Secretariat needed to bring to the attention of the COP the emerging trend and develop appropriate financing solutions.

(2) The Secretary-General of the CITES Secretariat should, in collaboration with the Conference of the Parties, develop a strategy to address the emerging trend of mismatch between income and expenditure.

The CITES Secretariat accepted recommendation 2 and stated that the recommendation would be raised with the Finance and Budget Subcommittee (FBSC) of the CITES Standing Committee as part of the review on budget proposals. The Secretariat noted that in response to its paper to the 61st Meeting of the CITES Standing Committee on Access to Finance, including the Global Environment Facility (GEF) Funding, the Standing Committee requested the FBSC to establish an inter-sessional working group on access to finance, including GEF funding. This will be reported to the 62nd meeting of the Standing Committee. Recommendation 2 remains open pending receipt of the strategy developed by the CITES Secretariat and/or relevant reports of the FBSC and Conference of the Parties.

Guidance needed for management of reserves

23. The COP requested the Secretariat to maintain a cash operating reserve of \$700,000 or more for the triennium 2009-2011 (Conf. 14.1) and at least 15 percent of the average annual budget at the commencement of each year for the biennium 2012-2013 (Conf. 15.1).

24. The Secretariat maintained the required minimum cash balances of \$700,000 for the period 2008 to 2010 as requested by the COP. However, there are no guidelines for constituting, utilizing and reporting on reserves. There is also no upper limit for cash reserves beyond which balances could be deemed excessive. The CITES Secretariat had cash and reserve balances of an average of \$8.4 million for the two trust funds operated by CITES. The CITES Secretariat maintained cash investments which averaged \$3 million per month during the period 2008 to 2010. The Secretariat could seek clarification from the COP on the need to define upper limits for the reserve to prevent the Secretariat from holding


excessive cash positions which could otherwise be used for furthering CITES' programme delivery. This could be part of the reserve management guidelines.

(3) The Secretary-General of the CITES Secretariat should seek guidance from the Conference of the Parties on the appropriate level of reserves to be maintained.

The CITES Secretariat accepted recommendation 3 and stated that the issue would be raised with the FBSC of the Standing Committee as part of the review of budget proposals by 31 July 2012. Recommendation 3 remains open pending receipt of relevant reports of the CITES Secretariat, FBSC or Conference of the Parties.

ACKNOWLEDGEMENT

25. OIOS wishes to express its appreciation to the Management and staff of the CITES Secretariat and UNEP for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of the Secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The Executive Director of UNEP should conduct a cost-benefit analysis of services provided by the UNEP Administrative Services Centre for Europe (UNEP/ASC) in relation to those provided by UNON and UNOG in order to rationalize the investment in the centre.	Operational	Important	O	Finalization of a cost benefits analysis and streamlining of ASC as part of the Office of Operations.	30 June 2012
2	The Secretary-General of the CITES Secretariat should, in collaboration with the Conference of the Parties, develop a strategy to address the emerging trend of mismatch between income and expenditure.	Financial	Important	O	Finalization of a financial strategy document which addresses the mismatch between the level of income and rising expenditure.	31 July 2012
3	The Secretary-General of the CITES Secretariat, should seek guidance from the Conference of the Parties on the appropriate level of reserves to be maintained.	Operational	Important	O	Finalization of guidelines for the management of the reserves.	31 July 2012

1. C = closed, O = open

2. Date provided by UNEP in response to recommendations.