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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Eighty-eighth Meeting  
Montreal, 15-19 November 2021<sup>1</sup>

**Addendum**

**SECRETARIAT ACTIVITIES**

**Audit of the Multilateral Fund by the Office of Internal Oversight Services (OIOS)**

**Background**

1. As part of standard exit procedures put in place by the two former Chief Officers of the Multilateral Fund, the Chief Officer requested UNEP to conduct, prior to his departure on retirement, an audit of the Fund Secretariat, in its role of facilitating the work of the Executive Committee. Upon this request, the Office of Internal Oversight Services (OIOS) conducted an audit of the Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol (“the Fund Secretariat”), covering the period from January 2018 to December 2020. The objective of the audit, as per OIOS, was to assess the adequacy and effectiveness of governance, risk management and control processes for the provision of services by the Fund Secretariat. It covered risk areas relating to: strategic planning, performance management, and financial management.

2. The audit was conducted from January to May 2021. The methodology used included interviews with key personnel; review of relevant documentation; analytical review of data from Umoja;<sup>2</sup> and sample testing of transactions. Due to constraints imposed by the COVID-19 pandemic, the audit team was unable to travel to Montreal, Canada, the seat of the Fund Secretariat. Therefore, the team relied on information and documentation provided by the Fund Secretariat, in addition to data in Umoja, and a number of online meetings. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

**Results of the audit**

3. At the conclusion of the audit, OIOS made the following six recommendations, classified as

<sup>1</sup> Online meetings and an intersessional approval process will be held in November and December 2021 due to coronavirus disease (COVID-19)

<sup>2</sup> The Enterprise Resource Planning System of the United Nations.

“important”<sup>3</sup> that would need to be addressed by the Fund Secretariat (five recommendations) and UNEP as the Treasurer of the Multilateral Fund (one recommendation):

- (a) Bring to the attention of the Executive Committee the need to further enhance performance indicators that measure the achievement of outcomes of its gender mainstreaming activities;
- (b) Bring to the attention of the Executive Committee the need to develop an enterprise risk management framework for more effective identification, assessment, and management of risks;
- (c) Bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues;
- (d) Remind implementing agencies to ensure compliance with the Executive Committee’s decisions on project completion and reporting;
- (e) Implement its action plan to address the delays in financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee; and
- (f) Develop an action plan to address the long-outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them.

4. After careful consideration of the recommendations and further discussions with the audit team, the Chief Officer, on behalf of the Fund Secretariat, accepted the recommendations from the auditors, provided comments and indicated that by 31 December 2021 all six recommendations would be addressed.

5. The report of the Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol is attached to the present document.

**Actions taken to address the audit recommendations**

6. Table 1 presents, for each of the six recommendations, comments to OIOS by the Fund Secretariat (for recommendations 1 to 5) and the Treasurer (for recommendation 6), the action that has been taken since the finalization of the audit and relevant dates. In line with the established procedures, the Fund Secretariat will inform UNEP of the implementation of the recommendations for it to formally request their closure by OIOS.

**Table 1. Comments and actions taken on the recommendations of the OIOS report**

| Recommendation   | Comments and actions taken  |
|--|---|
| <p><i>1. The Fund Secretariat should bring to the attention of the Executive Committee the need to further enhance the performance indicators that measure the achievement of outcomes of its gender mainstreaming activities.</i></p> | <p>During the period of the audit, the Fund Secretariat informed the auditors that the policy on gender mainstreaming for Multilateral Fund-supported projects was approved by the Executive Committee at its 84<sup>th</sup> meeting. Immediately after the adoption of the policy, all projects submitted from the 85<sup>th</sup> meeting onwards have included a reference to the implementation of the gender policy, including, in several cases, indicators and outcomes of the activities being proposed as well as achievements in line with the gender policy. After considering this</p> |

<sup>3</sup> According to the OIOS classification, “Important recommendations” address those risk issues that require timely management attention; failure to take action could have a high or moderate adverse impact on the Organization. “Critical recommendations” address those risk issues that require immediate management attention; failure to take action could have a critical or significant adverse impact on the Organization.

| Recommendation   | Comments and actions taken  |
|--|---|
|  | <p>information, the auditors considered it relevant to maintain Recommendation 1 in their report.</p> <p>In addressing Recommendation 1, on 12 November 2021 the Fund Secretariat sent an official communication to the bilateral and implementing agencies, informing them of the need to further enhance the performance indicators that measure the achievement of outcomes of gender mainstreaming activities and to report as per the indicators in future project proposals.</p> <p>The Executive Committee may also wish to note that in line with decision 84/92(e), the Secretariat will review the implementation of the operational policy on gender mainstreaming and will prepare a report for consideration by the 89<sup>th</sup> meeting. The report will refer to performance indicators used by the agencies that measure the achievement of outcomes of gender mainstreaming activities in project proposals.</p>  |
| <p><i>2. The Fund Secretariat should bring to the attention of the Executive Committee the need to develop an enterprise risk management framework for more effective identification, assessment, and management of risks.</i></p>                 | <p>During the period of the audit, the Fund Secretariat informed the auditors that it had consulted the implementing agencies on whether they had an operational enterprise risk management (ERM) framework in place; the agencies confirmed that they have in place and apply their own ERM frameworks.</p> <p>The Executive Committee may wish to note that UNEP is currently implementing its plan for the development of an ERM<sup>4</sup> framework in line with the UN-Secretariat Enterprise Risk Management and Internal Control Policy and Framework as adopted by the Secretary-General in May 2011, according to which ERM is linked with the accountability framework, the internal control framework, delegation of authority and results-based management.</p> <p>In addressing Recommendation 2, the Fund Secretariat will follow relevant UNEP policies and arrangements on this matter, including the designation of two staff members as ERM focal points.</p>   |
| <p><i>3. The Fund Secretariat should bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues.</i></p> | <p>During the period of the audit, the Fund Secretariat informed the auditors that the causes for delays in project implementation were continuously brought to the attention of the Executive Committee in <i>inter alia</i> the following meeting documents:</p> <ul style="list-style-type: none"> <li>• Report on projects with specific reporting requirements, which presents the reasons for delays and proposes corrective actions by the Governments of the countries concerned and/or the bilateral and implementing agencies;</li> <li>• Tranche implementation delays, which presents an analysis of each of the tranches of multi-year agreement projects that are due but not submitted to the meeting concerned, the reasons for the delays, the impact on compliance with the countries' obligations under the Montreal Protocol, and corrective actions;</li> <li>• Progress reports, during the preparation of which the Secretariat discusses each project with implementation delays in detail with the relevant agency, and proposes corrective measures.</li> </ul> |

<sup>4</sup> ERM facilitates effective strategic decision-making as it provides management with the tools to fully understand the root causes of risk and design response strategies. ERM has emerged as a structured and disciplined approach aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties an organization faces as it pursues its objectives.

| Recommendation   | Comments and actions taken   |
|--|--|
|  | <p>After considering the information contained in the above-mentioned documents, the auditors considered it relevant to maintain Recommendation 3 in their report.</p> <p>In addressing Recommendation 3, on 12 November 2021 the Fund Secretariat sent an official communication to the bilateral and implementing agencies requesting them to expand further on the analysis of root causes for delays in project implementation and provide further evidence that action is being taken to address the systematic issues. These actions will be reflected in the relevant meeting documents addressing delays in project implementation.</p>  |
| <p><i>4. The Fund Secretariat should remind implementing agencies to further enhance compliance with the Executive Committee's decisions on project completion and reporting.</i></p>                              | <p>During the period of the audit, the Fund Secretariat informed the auditors that prior to each meeting of the Executive Committee, the Fund Secretariat hosts inter-agency coordination meetings (IACMs) with the bilateral and implementing agencies. During these meetings, extensive discussions are held addressing relevant matters, including the status of project completion and reporting.</p> <p>As a result of the discussions with bilateral and implementing agencies, the number of outstanding reports has been reduced (i.e., only 9 reports outstanding for multi-year projects out of the 208 that have been completed; only 3 reports outstanding for individual projects out of 1,856 that have been completed; and 13 reports outstanding for non-investment projects out of 1,234 that have been completed).</p> <p>After considering this information, the auditors considered it relevant to maintain Recommendation 4 in their report.</p> <p>In addressing Recommendation 4, on 12 November 2021 the Fund Secretariat sent an official communication to the bilateral and implementing agencies reminding them of the need to further enhance compliance with the Executive Committee's decisions on project completion and reporting.</p> <p>The Executive Committee may also wish to note that the Fund Secretariat will continue discussing this matter with bilateral and implementing agencies during the IACMs and when discussing relevant meeting documents.</p> |
| <p><i>5. The Fund Secretariat should implement the elements of the action plan to address the delays in financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee.</i></p> | <p>During the period of the audit, the Fund Secretariat informed the auditors that the elements of an action plan to address closure of projects have been in place since the 28<sup>th</sup> meeting, and have been implemented since then. Specifically:</p> <ul style="list-style-type: none"> <li>• Operationally completed projects are closely monitored until the projects are financially closed and balances are returned to the Multilateral Fund;</li> <li>• For projects whose financial closure has gone beyond the twelve-month limit, the Fund Secretariat discusses with the relevant agency the reasons for such delays and agrees on a completion date, and informs the Executive Committee accordingly; and</li> <li>• A report on balances and availability of resources, providing information on the financial closure and the return of funds from completed projects, is submitted at each meeting of the Executive Committee.</li> </ul> <p>In their report, the auditors mentioned that the Fund Secretariat noted that the issue of financial closure of projects is a major concern for the Executive Committee. Therefore, several specific decisions had been adopted by the Executive Committee. The Fund Secretariat has held</p>  |

| Recommendation   | Comments and actions taken   |
|--|--|
|  | <p>regular discussions with bilateral and implementing agencies and developed an action plan so that projects that have been completed can be financially closed. As a result of these efforts, a total of US \$32.1 million has been returned to the Multilateral Fund since 2018. These funds have been reprogrammed for additional phase-out activities in Article 5 countries.</p> <p>After considering this information, the auditors considered it relevant to maintain Recommendation 5 in their report.</p> <p>In addressing Recommendation 5, on 12 November 2021 the Fund Secretariat sent an official communication to the bilateral and implementing agencies reminding them to rigorously implement all the elements of the action plan in place since the 28<sup>th</sup> meeting and adhering to all subsequent decisions, and to financially close all project no later than the twelve-month limit stipulated by the Executive Committee.</p> |
| <p>6. <i>UNEP should develop an action plan to address the long-outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them.</i></p> | <p>In addressing Recommendation 6, the Treasurer informed that it has been working closely with the United Nations Office at Nairobi and the UN Headquarters to offset <i>long-outstanding advances</i> from 2015 onwards, against annual expense reports received from the implementing agencies. This exercise will also cover the one-off adjustment made in 2015, to rectify the expense record of some agencies when they converted from the United Nations System Accounting Standards (UNSAS) to the International Public Sector Accounting Standards (IPSAS).</p>  |

## Recommendation

7. The Executive Committee may wish:

- (a) To note the report of the audit by the United Nations Environment Programme Secretariat of the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No. AA2021-220-01) conducted by the Office of Internal Oversight Services (OIOS), as attached to document UNEP/OzL.Pro/ExCom/88/2/Add.1;
- (b) To note that the Fund Secretariat and the Treasurer had taken specific actions to address the six recommendations contained in the report mentioned in sub-paragraph (a) above;
- (c) To request the Fund Secretariat, the Treasurer and the bilateral and implementing agencies to implement the recommendations made by OIOS and to include information in that regard in the relevant meeting documents; and
- (d) To request the Fund Secretariat to communicate to OIOS, through the Executive Director of UNEP, that the Executive Committee has given due consideration to the recommendations contained in the OIOS report, and noted the actions that the Fund Secretariat, the Treasurer and the bilateral and implementing agencies had taken to address them.

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Inger Andersen, Executive Director  
A: United Nations Environment Programme

DATE: 29 October 2021

REFERENCE: OIOS-2021-01593

THROUGH: *for* Fatoumata Ndiaye, Under-Secretary-General  
for Internal Oversight Services

FROM: Eleanor T. Burns, Director  
DE: Internal Audit Division, OIOS

SUBJECT: **Report 2021/049 on an audit of the United Nations Environment Programme Secretariat for  
OBJET: the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No.  
AA2021-220-01)**

1. Please find attached the final report on the above-mentioned audit.
2. Kindly note that OIOS will follow up on the progress made to implement its recommendations and will regularly report on the status of implementation through its online dashboard, as well as through annual and other reports to the Secretary-General and the General Assembly.
3. Please also note that OIOS will post a complete version of the final report on its website 30 days after its issuance in line with General Assembly resolution 69/253.
4. OIOS wishes to express its appreciation to the management and staff of UNEP for the assistance and cooperation extended to the auditors during this assignment.

cc: Ms. Joyce Msuya, UNEP  
Mr. Eduardo Ganem, UNEP  
Mr. Arnold Kreilhuber, UNEP  
Ms. Sonja Leighton-Kone, UNEP  
Ms. Elisabeth Turnbull Brown, UNEP  
Ms. Anjana Das, United Nations Board of Auditors  
Mr. Uren Pillay, Joint Inspection Unit  
Mr. Moses Bamuwamye, IAAC  
Mr. Zachary Ikiara, DMSPC



## **INTERNAL AUDIT DIVISION**

### **REPORT 2021/049**

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#### **Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol**

**The audit indicated that some controls over  
project management need to be strengthened**

**29 October 2021**

**Assignment No. AA2021-220-01**

# **Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol (hereafter referred to as “the Fund Secretariat”). The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over the provision of services by the Fund Secretariat. The audit covered the period from January 2018 to December 2020 and included a review of: (a) strategic planning and performance management; and (b) financial management.

The audit indicated that some controls over project management need to be strengthened.

OIOS made six recommendations. To address the issues identified in the audit, the Fund Secretariat and UNEP needed to:

- Bring to the attention of the Executive Committee the need to further enhance performance indicators that measure the achievement of outcomes of its gender mainstreaming activities;
- Bring to the attention of the Executive Committee the need to develop an enterprise risk management framework for more effective identification, assessment, and management of risks;
- Bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues;
- Remind implementing agencies to ensure compliance with the Executive Committee’s decisions on project completion and reporting;
- Implement its action plan to address the delays in financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee; and
- Develop an action plan to address the long outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them.

The Fund Secretariat and UNEP accepted the recommendations and have undertaken to implement them.

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# **Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Environment Programme (UNEP) Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol (hereafter referred to as “the Fund Secretariat”).
2. The “Montreal Protocol on Substances that Deplete the Ozone Layer” is a global agreement to protect the Earth’s ozone layer by phasing out both the production and consumption of chemicals (ozone-depleting substances) that deplete it. The Parties to the Montreal Protocol (the Parties) signed the landmark agreement in 1987 and it entered into force in 1989. In 2016, the Parties agreed to control an additional group of chemicals with high-global warming values even though they were not ozone depleting.
3. The Parties established a mechanism, which includes the Multilateral Fund, for the purposes of providing financial and technical co-operation, including the transfer of technologies, to Article 5 countries (developing countries) to allow their compliance with the control measures set out in the Montreal Protocol following an agreed schedule.
4. The Multilateral Fund operates under the authority of the Parties who decide on its overall policies. The key elements of the Fund are: (a) the Parties; (b) Executive Committee; (c) Fund Secretariat; (d) implementing agencies; and (e) the Treasurer.
5. The Executive Committee is established to develop and monitor the implementation of specific operational policies, guidelines, and administrative arrangements, including the disbursement of resources, for the purpose of achieving the objectives of the Multilateral Fund. It is comprised of members from seven non-Article 5 countries and seven Article 5 countries. It reports every year to the Meeting of the Parties.
6. The Fund Secretariat, which is administratively linked to UNEP and located in Montreal, is headed by the Chief Officer who reports to the Executive Committee. The Fund Secretariat assists the Executive Committee in the discharge of its functions.
7. The Multilateral Fund’s activities are implemented by four implementing agencies and a few bilateral agencies. The implementing agencies were the United Nations Development Programme, the United Nations Industrial Development Organization, the World Bank, and UNEP.
8. During the period 2018-2019, the Executive Committee approved 498 projects with a total budget of \$177.9 million. The project activities included preparatory work, investments, technical assistance, and training.
9. The Fund Secretariat’s budget was about \$7.5 million per year during 2018 to 2020. As of 31 December 2019, it had 14 professional staff including the Chief Officer (D-2), and 10 General Service staff.
10. Comments provided by the Fund Secretariat and UNEP are incorporated in italics.

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

11. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over the provision of services by the Fund Secretariat.
12. This audit was included in the 2021 risk-based work plan of OIOS due to the risk that potential control weaknesses in the provision of services by the Fund Secretariat could have an adverse impact on the achievement of its objectives.
13. OIOS conducted this audit from January to May 2021. The audit covered the period from January 2018 to December 2020. Based on an activity-level risk assessment, the audit covered risk areas relating to: (a) strategic planning and performance management; and (b) financial management.
14. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data from Umoja; and (d) sample testing of transactions. Due to the COVID-19 pandemic, the audit team was unable to travel to Canada. Therefore, the team relied on information and documentation provided by the Fund Secretariat, in addition to data in Umoja.
15. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

## **III. AUDIT RESULTS**

### **A. Strategic planning and performance management**

#### Results-based business plans were developed and monitored

16. The Multilateral Fund's strategic planning framework involves preparation of three-year rolling business plans to achieve specific results in support of the Montreal Protocol. The business plans, containing work plans and budgets, had Specific, Measurable, Achievable, Realistic, and Time-bound (SMART) performance indicators and targets. The targets were agreed between the Fund Secretariat and implementing agencies after several discussions. The performance indicators covered planning, implementation, and administrative activities.
17. Annually, implementing agencies prepared progress reports that compared actual performance with the targets agreed in business plans. The Fund Secretariat consolidated the progress reports and forwarded them to the Executive Committee for consideration, approval and follow up action where necessary. Such action included recommendations for more efficient and effective project implementation as well as addressing emerging challenges.

#### Impact of gender mainstreaming needs to be assessed

18. The Multilateral Fund promoted gender mainstreaming in projects that it funded. According to its operational policy, a gender-sensitive approach should be applied in the design and implementation of Multilateral Fund-supported projects. Also, the reporting, monitoring and evaluation systems should include tracking of results of gender-mainstreaming activities.
19. To facilitate gender mainstreaming, the Multilateral Fund identified priority areas and related performance indicators such as the following:

- (a) Number of specific gender assessments undertaken;
- (b) Number of trainings focusing on gender issues;
- (c) Number of reports/knowledge products prepared that include reflections on gender;
- (d) Number of gender-specific project content disseminated; and
- (e) Number of specific events that focused on gender within the context of Fund-supported projects.

20. These performance indicators were useful for tracking activities to be undertaken, as well as the related outputs. However, they did not include specific and measurable indicators of results to be achieved upon completion of the planned activities. An example of measurable indicators could be the proportion of women involved in the Multilateral Fund's projects. Without specific indicators of outcomes, the Multilateral Fund would be unable to assess the impact of its gender mainstreaming activities.

**(1) The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to further enhance the performance indicators that measure the achievement of outcomes of its gender mainstreaming activities.**

*The Fund Secretariat accepted recommendation 1 and stated that the operational policy on gender mainstreaming for Multilateral Fund-supported projects was approved by the Executive Committee at its 84th meeting (November 2019). Immediately after the adoption of the policy, all projects submitted from the 85th meeting onwards have included reference to the implementation of the gender policy including, in several cases, indicators and outcomes of the activities being proposed as well as achievements, in line with the gender policy. In addressing this recommendation, the Secretariat will inform the bilateral and implementing agencies of the need to further enhance performance indicators that measure the achievement of outcomes of gender mainstreaming activities in future project proposals. Recommendation 1 remains open pending receipt of evidence that the Fund Secretariat has brought to the attention of the Executive Committee the need to further enhance performance indicators for gender mainstreaming activities.*

#### Need to develop risk management framework

21. In the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat (ST/IC/2016/25), enterprise risk management (ERM) is defined as a comprehensive process designed to identify, assess and respond to risks, including fraudulent acts, that could affect the ability of the Secretariat to effectively achieve its mandates and objectives.

22. According to ST/IC/2016/25, every manager is responsible for identifying and mitigating the risks that might affect the operations under his or her responsibility. Systematic fraud risk assessments should be undertaken in accordance with the Secretariat's ERM and internal control policy and methodology. Such analysis should include known fraud risk factors, potential fraud schemes, control gaps, red flag identification and mapping.

23. There was no evidence that the Fund Secretariat had developed a formal framework for ERM. The Fund Secretariat received confirmation from implementing agencies A and B that they used ERM frameworks, while agency C was in the process of developing an ERM framework. There was no indication whether agency D had ERM in place.

24. The Fund Secretariat manages significant financial resources and is exposed to various risks. Therefore, development of an ERM framework is essential to strengthen its capacity to identify, assess, and manage risks.

**(2) The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to develop an enterprise risk management framework for more effective identification, assessment, and management of risks.**

*The Fund Secretariat accepted recommendation 2 and stated that it will be part of the UNEP enterprise risk management roll-out and will follow relevant policies and arrangements on this matter. Recommendation 2 remains open receipt of evidence that the Fund Secretariat has brought to the attention of the Executive Committee the need to develop an ERM framework.*

#### Evaluation work plans were prepared and monitored

25. The Senior Monitoring and Evaluation Officer of the Multilateral Fund conducted evaluation activities in accordance with approved work plans. At the time of the audit, 4 out of 5 (80 per cent) and 1 out of 4 (25 per cent) of evaluations planned for 2019 and 2020, respectively, had been completed. The Fund Secretariat presented the evaluation reports to the Executive Committee and the reports were available to stakeholders on the Multilateral Fund's website. The Executive Committee monitored the implementation of the evaluation work plans and used evaluation reports to inform its decisions.

### **B. Financial management**

#### Contributions from parties were generally collected in a timely manner

26. UNEP provided treasury services to the Fund in accordance with the agreement signed with the Executive Committee. Key services included collection of contributions and pledges from Parties, disbursement of funds to implementing partners, maintenance of financial records, and annual reporting to the Executive Committee.

27. Generally, non-Article 5 Parties remitted contributions to the Multilateral Fund on time. According to the Treasurer's report on status of contributions and disbursements, as of 31 December 2019, \$483.4 million out of \$497.4 million (or 97 per cent) of the total pledges for 2018 to 2020 had been received. Notably, by that date, 40 non-Article 5 Parties had already paid 96 per cent of their 2020 dues.

28. Nevertheless, some contributions had remained outstanding for a long time. For the period 1991 to 2020, a total of \$154.5 million in contributions was outstanding. This was mainly owed by certain Countries with Economies in Transition that had not settled \$127.7 million (or 83 per cent of outstanding contributions). The Executive Committee decided to pursue the matter through discussions and meetings of the Parties.

#### Need for root cause analysis of delays in project implementation

29. The annual consolidated progress reports to the Executive Committee highlight projects with implementation delays. There were delays in project completion averaging 22 months as of 31 December 2019. As of that date, there were 770 delayed projects with 94 projects subject to cancellation. The average delays per agency were 38 months for agency A, 15 months for agency B, 19 months for agency C, and 26 months for agency D.

30. According to the progress reports for the period 2016 to 2019, projects were delayed during each year due to the following reasons:

- (a) Agreements had not been signed.
- (b) A national ozone officer was not in place.
- (c) Lack of financial progress reports.
- (d) Delayed procurement process.
- (e) Lack of availability of alternative technologies in local markets.
- (f) Security related issues at the country level.
- (g) Low disbursement rates of approved funds.
- (h) Required an extension of planned completion dates.

31. The progress reports did not provide root cause analysis for the delays recurring each year, or the actions taken to prevent recurrence. Furthermore, even though the COVID-19 pandemic broke out worldwide only in early 2020, an implementing agency attributed delays in the implementation of four projects in 2019 to the pandemic.

32. The current delays of 38 months or three years for agency A and 26 months or two years for agency D appear to be high. The Fund Secretariat needs to conduct a more systematic analysis of the underlying root causes for the delays to enable prevention of such delays in future.

**(3) The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues.**

*The Fund Secretariat accepted recommendation 3 and noted that causes for delays in project implementation were continuously brought to the attention of the Executive Committee in the meeting documents. In addressing this recommendation, the Fund Secretariat will continue working with bilateral and implementing agencies to expand further on the root cause for delays in project implementation and provide further evidence that actions are being taken to address the systemic issues. These actions will be reflected in the relevant meeting documents addressing delays in project implementation. Recommendation 3 remains open pending receipt of evidence of root cause analysis and actions taken to address the systemic issues.*

Need to finalize project completion reports in a timely manner

33. The Executive Committee, in its 24<sup>th</sup> meeting of 16 May 1998, decided that implementing agencies submit project completion reports (PCR) six months after the completion of projects. PCRs, including lessons learned, were to be available online on the Fund’s website. OIOS noted the following:

- (a) Out of 2,973 completed investment projects, PCRs for 1,143 projects (or 38 per cent) were not available on the Fund’s website at the time of the audit. Consequently, important information such as lessons learned were not accessible online.
- (b) PCRs for 43 projects remained outstanding for between 2 and 17 years after the actual completion date.

34. Non-completion or lengthy delays in completion of PCRs could impair the effectiveness of performance reporting and oversight.

**(4) The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should remind implementing agencies to ensure compliance with the Executive Committee’s decisions on project completion and reporting.**

*The Fund Secretariat accepted recommendation 4 and stated that twice a year (prior to each of the two annual meetings of the Executive Committee), the Secretariat hosts inter-agency coordination meetings (IACMs) with the bilateral and implementing agencies. The Secretariat's discussions with the agencies on this matter had resulted in the completion of projects and submission of relevant reports, reducing the number of outstanding reports (For example: only 9 reports for multi-year projects out of 208 that have been completed remain outstanding; only 3 for individual projects out of 1,856 that have been completed remain outstanding; and 13 for non-investment projects out of 1,234 that have been completed remain outstanding). In addressing this recommendation, the Secretariat will continue discussing this matter with bilateral and implementing agencies during the IACMs and when discussing relevant documents to be submitted for consideration by the Executive Committee, will remind them of the need to further enhance compliance with the Executive Committee's decisions on project completion and reporting. Recommendation 4 remains open pending receipt of evidence that the Fund Secretariat has reminded implementing agencies to enhance compliance with the Executive Committee's decisions on project completion and reporting.*

#### Need to address delays in financial closure of projects

35. According to Executive Committee decisions, implementing agencies should financially close projects within 12 months after their operational closure.

36. There were delays ranging from one to ten years in financial closure of projects. As many as 253 out of 753 projects (33 per cent) that were financially completed in 2018 and 2019 exceeded the 12-month target for closure. On average, projects took about 24 months to be financially closed after their operational completion. Annual progress reports to the Executive Committee did not include reasons for the delays and mitigation actions taken.

37. The Fund Secretariat noted that the issue of financial closure of projects is a major concern for the Executive Committee. Therefore, several specific decisions have been adopted by the Committee and the Fund Secretariat has regular discussion with bilateral and implementing agencies and developed an action plan so that projects that have been completed can be financially closed. As a result of these efforts, a total of \$32.1 million has been returned by the agencies to the Multilateral Fund since 2018. These funds have been reprogrammed for additional phase-out activities in Article 5 countries.

**(5) The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should implement its action plan to address the delays in financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee.**

*The Fund Secretariat accepted recommendation 5 and noted that an action plan has been in place since the 28th meeting, and the following elements have been implemented since then: (a) operationally completed projects are closely monitored until they are financially closed and balances are returned to the Fund; (b) for projects whose financial closure has gone beyond the twelve-month limit, the Secretariat discusses with the relevant agency the reasons for such delays and agrees on a completion date and informs the Executive Committee accordingly; (c) at each meeting of the Executive Committee the Secretariat presents a report on balances and availability of resources, providing information on the financial closure and the return of funds of completed projects. As a result, since the inception of the Multilateral Fund, \$423.4 million has been returned as balances from completed projects. In addressing this recommendation, the Secretariat will continue working with the bilateral and implementing agencies on this matter, remind them of the action plan in place, and reiterate the need for strict compliance with it. Recommendation 5 remains open pending receipt*

of evidence that the Secretariat has implemented its action plan to address the delays in financial closure of projects.

Need to address long outstanding advances

38. The Multilateral Fund had significant long outstanding advances amounting to \$224 million as of 31 December 2020 according to data extracted from Umoja (see Table 1 below).

**Table 1: Long outstanding advances in Umoja as of 31 December 2020**

| Category/ Year                | 2019<br>(\$)        | 2018<br>(\$)      | 2017<br>(\$)      | 2016<br>(\$)      | 2015<br>(\$)       | Total<br>(\$)      |
|-------------------------------|---------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| Implementing partners         | (10,553,068)        | 53,750,806        | 41,060,727        | 29,777,468        | 110,413,583        | <b>224,449,516</b> |
| Other payables                | (328,337)           |                   |                   | (48,873)          |                    | <b>(377,210)</b>   |
| Staff and individual advances | 623                 |                   | 2,857             |                   |                    | <b>3,480</b>       |
| <b>Totals</b>                 | <b>(10,880,783)</b> | <b>53,750,806</b> | <b>41,063,584</b> | <b>29,728,595</b> | <b>110,413,583</b> | <b>224,075,785</b> |

39. During the audit, UNEP, as the Treasurer, undertook to liaise with the United Nations Office at Nairobi to obtain details of these advances and act accordingly.

**(6) UNEP should develop an action plan to address the long outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them.**

*UNEP accepted recommendation 6 and stated that the Treasurer is closely working with the United Nations Office at Nairobi and United Nations Headquarters to offset old advances against annual expense reports received from the implementing agencies. This will cover a one-off adjustment made in 2015 to rectify the expense records of some implementing agencies when they converted from United Nations System Accounting Standards to International Public Sector Accounting Standards. Recommendation 6 remains open pending receipt of evidence that long outstanding advances have been reviewed and addressed appropriately.*

Agency support costs were paid in accordance with Executive Committee decisions

40. As of 31 December 2019, the Executive Committee had approved payment of agency support costs totaling \$384 million. OIOS' review showed that for 2018 and 2019, the Multilateral Fund paid agency support costs of \$119 million to implementing agencies in accordance with Executive Committee decisions. The Executive Committee had approved an amount of \$124 million for the agencies, and the Treasurer retained \$5 million for adjustments such as interest earned on funds kept by the agencies.

Five-year lease of office premises was entered into in 2019

41. Lease of office premises for the Fund Secretariat was the most significant procurement activity undertaken during the period under review. The lease was for up to Canadian Dollars 8.8 million (about \$7.4 million) for a period of five years, with an option for a five-year extension up to 31 December 2029. The Headquarters Committee on Contracts approved the lease on 20 September 2019.

#### **IV. ACKNOWLEDGEMENT**

42. OIOS wishes to express its appreciation to the management and staff of UNEP 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 United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation   | Critical/<br>Important <sup>2</sup> | C/<br>O <sup>3</sup> | Actions needed to close recommendation  | Implementation date <sup>4</sup> |
|----------|--|-------------------------------------|----------------------|---|----------------------------------|
| 1        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to further enhance the performance indicators that measure the achievement of outcomes of its gender mainstreaming activities.             | Important                           | O                    | Receipt of evidence that the Fund Secretariat has brought to the attention of the Executive Committee the need to further enhance performance indicators for gender mainstreaming activities. | 31 December 2021                 |
| 2        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to develop an enterprise risk management framework for more effective identification, assessment, and management of risks.                 | Important                           | O                    | Receipt of evidence that the Fund Secretariat has brought to the attention of the Executive Committee the need to develop an ERM framework.   | 31 December 2021                 |
| 3        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues. | Important                           | O                    | Receipt of evidence of root cause analysis and actions taken to address the systemic issues.  | 31 December 2021                 |
| 4        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should remind implementing agencies to ensure compliance with the Executive Committee's decisions on project completion and reporting.   | Important                           | O                    | Receipt of evidence that the Fund Secretariat has reminded implementing agencies to enhance compliance with the Executive Committee's decisions on project completion and reporting.          | 31 December 2021                 |
| 5        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should implement its action plan to address the delays in  | Important                           | O                    | Receipt of evidence that the Secretariat has implemented its action plan to address the delays in financial closure of projects.  | 31 December 2021                 |

<sup>1</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>2</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

<sup>3</sup> Please note the value C denotes closed recommendations whereas O refers to open recommendations.

<sup>4</sup> Date provided by UNEP and the Fund Secretariat in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

|   |  |           |   |  |                  |
|---|--|-----------|---|--|------------------|
| 6 | financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee. UNEP should develop an action plan to address the long outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them. | Important | O | Receipt of evidence that long outstanding advances have been reviewed and addressed appropriately. | 31 December 2021 |
|---|--|-----------|---|--|------------------|

# **APPENDIX I**

## **Management Response**

## Memorandum

To: **Ms. Eleanor T. Burns,**  
**Director, Internal Audit Division**  
**Office of Internal Oversight Services**

Date **22 October 2021**

From: **Inger Andersen**   
**Executive Director, United Nations Environment  
Programme (UNEP)**

Reference **UNE-2021-01997-  
MLF**

Subject: **Draft report on an audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No. AA2021-220-01)**

1. This memo refers to the draft report on an audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol (Assignment No. AA2021-220-01).
2. Management has reviewed the draft report and I am happy to say that all recommendations are accepted.
3. Please find attached the Management Response (Appendix I) for you to include in the final draft of the report.
4. The Management Response includes an action plan with target dates and the titles of the individuals responsible for implementing the recommendations.

Management Response

Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation   | Critical/ <sup>1</sup> Important <sup>2</sup> | Accepted? (Yes/No) | Title of responsible individual              | Implementation date | Client comments  |
|----------|--|---|--------------------|--|---------------------|--|
| 1        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to further enhance the performance indicators that measure the achievement of outcomes of its gender mainstreaming activities. | Important                                     | Yes                | Chief Officer, Multilateral Fund Secretariat | 31 December 2021    | The operational policy on gender mainstreaming for Multilateral Fund-supported projects was approved by the Executive Committee at its 84 <sup>th</sup> meeting (November 2019). Immediately after the adoption of the policy, all projects submitted from the 85 <sup>th</sup> meeting onwards have included reference to the implementation of the gender policy including, in several cases, indicators and outcomes of the activities being proposed as well as achievements, in line with the gender policy.<br>In addressing this recommendation, the Secretariat will inform the bilateral and implementing agencies of the need to further enhance performance indicators that measure the achievement of outcomes of gender mainstreaming activities in future project proposals. |
| 2        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need to develop   | Important                                     | Yes                | Chief Officer, Multilateral Fund Secretariat | 31 December 2021    | The Secretariat is part of UNEP enterprise risk management roll-out and will follow relevant policies and arrangements on this matter.   |

<sup>1</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>2</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Management Response

Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation   | Critical/<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual              | Implementation date | Client comments  |
|----------|--|-------------------------------------|-----------------------|--|---------------------|--|
| 3        | <p>an enterprise risk management framework for more effective identification, assessment, and management of risks.</p> <p>The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should bring to the attention of the Executive Committee the need for more effective analysis of root causes for delays in project implementation and take corrective action to address the systemic issues.</p> | Important                           | Yes                   | Chief Officer, Multilateral Fund Secretariat | 31 December 2021    | <p>The Secretariat notes that it cannot be responsible for the implementation of the enterprise risk management and the implementing agencies and the Treasurer (i.e., UNDP, UNEP as implementing agency and as Treasurer, UNIDO and the World Bank). During the period when the audit was being conducted, the Secretariat consulted with the implementing agencies on this matter and confirmed that they have in place and apply their own enterprise risk management, in accordance with the UN/ other relevant rules and procedures.</p> <p>The Secretariat notes that causes for delays in project implementation are continuously brought to the attention of the Executive Committee in <i>inter alia</i> the following meeting documents:</p> <ul style="list-style-type: none"> <li>• “Report on projects with specific reporting requirements”, which presents the reasons for delays and proposes corrective actions by the Governments of the countries concerned and/or the bilateral and implementing agencies;</li> <li>• “Tranche implementation delays”, which presents an analysis of each of the tranches of multi-year</li> </ul> |

Management Response

Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation  | Critical/<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual              | Implementation date | Client comments   |
|----------|---|-------------------------------------|-----------------------|--|---------------------|---|
| 4        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should remind implementing agencies to further enhance compliance with the Executive Committee's decisions on project completion and reporting. | Important                           | Yes                   | Chief Officer, Multilateral Fund Secretariat | 31 December 2021    | <p>agreement projects that are due but not submitted to the meeting concerned, the reasons for the delays, the impact on compliance with the countries' obligations under the Montreal Protocol, and corrective actions;</p> <ul style="list-style-type: none"> <li>• "Progress reports", during preparation of which, the Secretariat discusses each project with implementation delays in detail with the relevant agency, and proposes corrective measures.</li> </ul> <p>In addressing this recommendation, the Secretariat will continue working with bilateral and implementing agencies to expand further on the root cause for delays in project implementation and provide further evidence that actions are being taken to address the systemic issues. These actions will be reflected in the relevant meeting documents addressing delays in project implementation.</p> <p>Twice a year (prior to each of the two annual meetings of the Executive Committee), the Secretariat hosts inter-agency coordination meetings (IACMs) with the bilateral and implementing agencies. During these meetings, extensive discussions are</p> |

Management Response

Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation   | Critical/<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual | Implementation date | Client comments   |
|----------|--|-------------------------------------|-----------------------|---------------------------------|---------------------|---|
| 5        | The Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol should implement the elements of | Important                           | Yes                   | Chief Officer, Multilateral     | 31 December 2021    | held addressing relevant matters, including status of project completion and reporting. The Secretariat's discussions with the agencies on this matter, has resulted in the completion of projects and submission of relevant reports, reducing the number of outstanding reports (i.e., only 9 reports for multi-year projects out of 208 that have been completed, remain outstanding; only 3 for individual projects out of 1,856 that have been completed, remain outstanding; and 13 for non-investment projects out of 1,234 that have been completed, remain outstanding). In addressing this recommendation, the Secretariat will continue discussing this matter with bilateral and implementing agencies during the IACMs and when discussing relevant documents to be submitted for consideration by the Executive Committee, will remind them of the need to further enhance compliance with the Executive Committee's decisions on project completion and reporting. The Secretariat notes that the elements of an action plan has been in |

**APPENDIX I**

**Management Response**

**Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol**

| Rec. no. | Recommendation   | Critical/<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual | Implementation date | Client comments   |
|----------|--|-------------------------------------|-----------------------|---------------------------------|---------------------|---|
|          | <p>the action plan to address the delays in financial closure of projects beyond the twelve-month limit stipulated by the Executive Committee.</p> |                                     |                       | <p>Fund Secretariat</p>         |                     | <p>place since the 28<sup>th</sup> meeting, and have been implemented since then:</p> <ul style="list-style-type: none"> <li>• Operational completed projects are closely monitored until the projects are financially closed and balances are returned to the Fund.</li> <li>• For projects whose financial closure has gone beyond the twelve-month limit, the Secretariat discusses with the relevant agency the reasons for such delays and agrees on a completion date, and informs the Executive Committee accordingly.</li> <li>• At each meeting of the Executive Committee the Secretariat presents a report on balances and availability of resources, providing information on the financial closure and the return of funds of completed projects.</li> </ul> <p>As a result, since the inception of the Multilateral Fund, US \$423,436,408 has been returned as balances from completed projects.</p> <p>In addressing this recommendation, the Secretariat will continue working with the bilateral and implementing agencies on this matter, remind them of the action plan in place, and reiterate the need for strict compliance with it.</p> |

Management Response

Audit of the United Nations Environment Programme Secretariat for the Multilateral Fund for the Implementation of the Montreal Protocol

| Rec. no. | Recommendation   | Critical/<br>Important <sup>2</sup> | Accepted?<br>(Yes/No) | Title of responsible individual           | Implementation date     | Client comments  |
|----------|--|-------------------------------------|-----------------------|---|-------------------------|--|
| 6        | <p>UNEP should develop an action plan to address the long outstanding advances relating to the Multilateral Fund for the Implementation of the Montreal Protocol and resolve them.</p> | <p>Important</p>                    | <p>Yes</p>            | <p>Treasurer of the Multilateral Fund</p> | <p>31 December 2021</p> | <p>The Treasurer is closely working with UNON/UNHQ to offset old advances from 2015 onwards, against annual expense reports received from Implementing Agencies. This will also cover the one-off adjustment made in 2015, to rectify the expense record of some IAs when they converted from UNSAS to IPSAS. It does not; however, affect the reconciliation exercise of both the “Progress report” prepared by the Secretariat, as well as the reconciliation between the Treasurer and the Implementing Agencies. The progress of this exercise shall be reported before the end of 2021.</p> |