

AUDIT
OF THE
CONTRIBUTIONS TO THE
SECRETARIAT OF THE UNITED NATIONS
CONVENTION ON BIOLOGICAL DIVERSITY (CBD)

December 2002

Audit Division (SIV)

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EXECUTIVE SUMMARY

The Internal Audit Division (SIV) undertook an audit of the Contributions to the Secretariat of the United Nations (UN) Convention on Biological Diversity (CBD) as part of its review of Departmental Grants and Contributions. The scope of the audit focussed on the Environmental Relations Division's (AER) management of these contribution arrangements. The Audit Team did not audit the Secretariat itself, but rather AER's efforts to manage this contribution program in accordance with Treasury Board and Departmental Policy.

Overall, we found that AER has taken reasonable steps to manage DFAIT's relationship with the CBD. AER, however, needs to exercise its authority to request audit reports prepared by the UN Board of External Auditors. Although appropriate steps are taken to monitor the Secretariat's activities and the use of contribution funds, audit reports would provide additional assurance that funds have been used as intended.

RECOMMENDATION STATUS

There was a total of four recommendations in this report for which the Division is responsible for their implementation. The current status finds that the Division has implemented two of these recommendations while two are in the process of being implemented.

SCOPE, OBJECTIVES AND METHODOLOGY

1.1 Scope

1.1.1 This audit focussed on the Environmental Relations Division's (AER) management of the Contributions to the UN Secretariat of the CBD. The Audit Team did not audit the Secretariat itself, but rather AER's efforts to manage this contribution program in accordance with Treasury Board and Departmental Policy.

1.1.2 The primary focus of the audit was on the three contribution agreements in effect during fiscal year 2000-01. This audit examined AER's practices in accordance with the revised Treasury Board Policy on Transfer Payments, which came into effect on June 1, 2000.

1.2 Objectives

1.2.1 The objectives of this audit were to review AER's practices and controls in place for the management of the CBD contribution program as well as to identify potential improvements that would assist the Division in its administrative and operational frameworks surrounding this program. AER's practices were reviewed to ensure:

- Contribution agreements were justified under appropriate authorities;
- Contribution agreements were prepared in accordance with DFAIT's Policy on Transfer Payments;
- Payments were in compliance with Treasury Board approved Terms and Conditions;
- Funds paid out were spent by the Secretariat as intended and prudently; and,
- Value-for-money was received through project monitoring and examination of final reports.

1.3 Methodology

1.3.1 To undertake this audit, relevant program documentation was reviewed and personnel in AER, the Area Management Office, Supplier Accounts and Program Analysis were interviewed.

OVERVIEW

2.1.1 The Convention on Biological Diversity came into effect in December 1993, pursuant to an agreement reached at the United Nations Conference of Environment and Development in Rio de Janeiro. At that time, 168 nations were signatories to the Convention. The three main objectives of this Convention are:

- the conservation of biological diversity;
- the sustainable use of biological resources; and,
- the equitable sharing of benefits derived from the use of genetic resources.

2.1.2 The Conference of the Parties (COP) is the governing body of the Convention. It meets periodically to advance implementation of the Convention through its decisions, including approval of activities for which DFAIT provides discretionary contributions.

2.1.3 The Secretariat of the Convention on Biological Diversity was established under Article 24 of the Convention. Its functions are:

- “To arrange for and service meetings of the Conference of the Parties provided for in Article 23;
- To perform the functions assigned to it by any protocol;
- To prepare reports on the execution of its functions under this Convention and present them to the Conference of the Parties;
- To coordinate with other relevant international bodies and, in particular to enter into such administrative and contractual arrangements as may be required for the effective discharge of its functions; and,
- To perform such other functions as may be determined by the Conference of the Parties.”¹

2.1.4 The Secretariat is administered by the United Nations Environmental Program (UNEP). The Secretariat is financed through contributions made to its three trust funds:

- “BY” Trust Fund: General Trust Fund for the Convention. Represents the Secretariat’s major source of funding and is comprised of assessed contributions from Parties, in accordance with the UN scales of assessment.
- “BE” Trust Fund: Discretionary contributions in support of approved activities under the Convention (as approved by the COP).

¹The *Convention on Biological Diversity*, Article 24.

- “BZ” Trust Fund: Discretionary contributions to facilitate participation of Parties in the Convention Process (mostly travel costs).

DFAIT's contributions to the Secretariat are paid through the UNEP.

OBSERVATIONS AND RECOMMENDATIONS

3.1.1. AER makes use of two Treasury Board authorities in fulfilment of DFAIT's obligations under the Convention on Biological Diversity. These authorities are reflected under two Funds; T602 and T689.

3.2 Fund T602

3.2.1 The first authority which AER uses for annual payments is TB^{***}, which pertains to DFAIT's authority "to make contributions to international environmental programs, initiatives, organizations and international secretariats administering environmental agreements to which Canada is a party, or which support Canadian foreign policy environmental objectives"². Under this authority, AER makes, inter alia, payments to cover Canada's annual voluntary contribution. The Secretariat determines each country's annual fee. This annual contribution is paid under Fund T602 (International Environmental Agreements). Canada's share is approximately three percent of the total assessment. AER was not required to produce a contribution agreement in this instance, due to the nature of the contribution.

3.2.2 The Audit Team examined the authority under which US\$49,500 was provided to the Secretariat to convene the First Ad Hoc Technical Expert Group on Forest Biological Diversity. This amount was for the support of on-going activities and was made under T602 (International Environmental Agreements) to support Canadian foreign policy objectives, consistent with the relevant TB Authority.

3.2.3 Upon project completion, the Secretariat submitted its final deliverables including: a final financial statement and narrative report as required in the agreement. The financial statement identified total incurred costs of US\$17,767. As per terms of agreement, the recipient is required to return to the Receiver General of Canada funds which are not disbursed or accounted for, unless the funds can be accounted for under a different but related project. AER informed the Audit Team that it is working with the Secretariat to clarify the status of any unspent funds.

Recommendation for AER

3.2.4 AER should clarify the status of any unspent funds to ensure that they are directed to different but related projects as allowed under the authority before initiating recovery of the potential overpayment to the Secretariat.

²Treasury Board submission ***

AER Response

3.2.4 AER will seek information on the unspent funds to which the audit report makes reference and ensure they are being used appropriately, as per this recommendation. AER will ensure this approach is taken in following up on future ad hoc contributions.

3.3 Fund T689

3.3.1 In keeping with Canada's special responsibilities as the host country of the Secretariat of the Convention a US\$400,000 contribution agreement was signed to provide financial assistance for the on-going activities of the Secretariat, to support approved activities in the implementation of the Convention during the period January to March 2001.

3.3.2 For this contribution, AER uses the second Treasury Board authority which is comprised of two components. DFAIT provided the Secretariat with a one-time contribution of \$200,000 in 1995-96 to assist with the physical relocation of the Secretariat from Geneva to Montreal. The second component is DFAIT's authority to make contribution payments of US\$800,000 per calendar year to the Secretariat in support of its on-going activities, in particular, to cover the cost of participation and travel of other member states. These contributions are paid under Fund T689 (Permanent Secretariat of the UN Convention on Biological Diversity).

3.3.3 The Audit Team observed that DFAIT made only one payment of US\$400,000 to the Secretariat in 2000/01. In the same year, \$400,000 was transferred to T602, under the International Environment Program authority. Although the transfer did not exceed the authority of T602, there was no documentation on file explaining the \$400,000 transfer to T602.

Recommendation for AER

3.3.4 AER should ensure that all authority shortfalls and subsequent transfers to other authorities are fully documented and placed on file.

AER's Response

3.3.4 AER will continue to work closely with EAM and SMP, as appropriate, to ensure all transactions are properly documented. The Department will need to continue to demonstrate flexibility to ensure that the fact its budget year is not coterminous with that of the Secretariat does not result in funding shortfalls for the Secretariat.

3.4 Contribution Agreements

3.4.1 Both contribution agreements negotiated in 2000-01 met the basic requirements as per the new Policy on Grants and Contributions, with the one exception - the right of the Department to undertake an audit was not identified. For discretionary contributions to the Secretariat, ambiguity exists regarding the ability to exercise the audit provisions. It is important, however, to identify the dilemma between the Department and UN organizations, in terms of audit. Given the numerous member countries in these organizations, it is difficult for the Department to undertake an audit, without the support of other members. The Treasury Board's requirement to incorporate a clause indicating the Department's right to audit conflicts with the UN's practice on audits. This practice consists of audits being prepared by the UN Board of External Auditors. Canada is not specifically consulted by the UN on the scope of examination, relevance, objectives, reporting requirements or results of UN audits. However, it is our understanding that the reliability and integrity of the data will be consistent with the standards maintained by the UN in its financial managing and audit process.

3.4.2 The Secretariat has been subject to at least two audits by the UN Board of External Auditors, however, AER has not requested copies. These reports would provide AER with an assessment of the reliability and integrity of the financial information and provide an additional assurance that funds have been used as intended. While the Secretariat provides details on expenditures, there are no receipts to substantiate amounts shown. Reviewing independent audit reports would provide assurance regarding the integrity of financial claims for reimbursement of costs.

Recommendation for AER

3.4.3 AER should request audit reports prepared by the UN Board of External Auditors.

AER's response

3.4.3 AER will request reports on the audits prepared to date by the UN Board of External Auditors and will further request that the Secretariat make future such reports available in a timely manner.

3.5 Monitoring and Reporting

3.5.1 Departmental monitoring of results achieved under the contribution agreements is carried out in part through DFAIT's representation at funded activities, after which a report is prepared on the content of the activity. Also the Deputy Director and Program Manager of AER attend the COP meetings. COP meets every second year to review budgets, to ascertain whether or not activities took place in accordance with expectations and to ensure funding to the recipient is used for agreed purposes.

A report is prepared by the COP outlining the findings and the decisions made by member countries. Departmental representatives also prepare a report and debrief before and after the COP meetings, providing AER with appropriate monitoring to sustain program accountability.

3.5.2 The Secretariat provides AER with final reports including a detailed expenditure report as well as a substantive report as outlined in each contribution agreement. AER reviews the reports and ensures funds have been spent in accordance with the agreement. In one instance, the final narrative report prepared by the Secretariat identified member countries having provided funding for the conference, one of which being Canada. However, in the final report, Canada's financial contribution was excluded and the Program Manager did not bring this omission to the attention of the Secretariat. AER needs to follow up on these reports with the Secretariat when warranted.

Recommendation for AER

3.5.3 **AER should follow up on project reports when the need arises.**

AER Response

3.5.3 **AER will continue to monitor project reports and ensure action is taken where necessary.**