UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

PERFORMANCE AUDIT

OF

UNDP'S ENGAGEMENT

WITH

THE GREEN CLIMATE FUND

Report No. 1998

Issue Date: 19 October 2018

Table of Contents

Empowered lives.
Resilient nations.

Report on the Performance Audit of UNDP's Engagement with the Green Climate Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP's Engagement with the Green Climate Fund (the Engagement) from 18 June to 15 August 2018. The audit aimed to assess the effectiveness of UNDP's management and implementation of the Green Climate Fund (GCF) portfolio, including portfolio performance, organizational structure, support and oversight.

The audit covered the activities of the Engagement's portfolio from 1 January 2015 to 30 June 2018. The Engagement recorded programme and management expenses of approximately $20.5 million. This was the first audit of the Engagement.

Performance auditing is an independent examination of a programme, function, operation, project, or the management systems and procedures of an entity, to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Engagement as **satisfactory,** which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Good practices

(a) The UNDP Global Environment Finance Unit (UNDP-GEF) developed the Project Information System (PIMS+), to help the Unit in providing oversight, tracking key project milestones, and ensuring compliance with the requirements of the respective Vertical Funds, including the GCF.

(b) The Bureau for Policy and Programme Support team developed a set of 17 questions, which was used to evaluate the implementing partners' capacity to implement the GCF-funded projects.

Key recommendations: Total = **4**, high priority = **1**

For the high (critical) priority recommendation, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Slow GCF project implementation (Issue 4)	The pace of the implementation of the fully funded projects had been slower than originally anticipated and as outlined in annual work plans. The audit team noted that while funds had been disbursed by the GCF to UNDP, the implementation of these projects had been minimal, while in some cases, no expenses had been incurred as of late October 2018. Through discussions with the Bureau for Policy and Programme Support and Country Offices, as well as a review of the 2017 Annual Performance Reports, the following were noted as underlying reasons for the slow implementation: (a) absence of operational assessment of Country Offices; and (b) delays in establishing the Project Management Units.

Recommendation 4: The Bureau for Policy and Programme Support should work with the Regional Bureaux to improve the management of the GCF-funded projects by: (a) reviewing and fast-tracking the Readiness Projects[1]; and (b) assessing the Country Offices' operational and technical capacity and tracking the staffing of the Project Management Units.

Management comments and action plan

The Director of the Bureau for Policy and Programme Support accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

[1] The Readiness Project builds countries' capacity to access the GCF, through preparing countries to plan for, manage, disburse and monitor climate financing.

I. About the Engagement

Vertical Funds are non-core funds that are earmarked for a single area of development and governed by steering committees, which decide on funding portfolios and allocation criteria. The main Vertical Funds include the Global Environment Facility, Global Fund, Multilateral Fund for the Implementation of the Montreal Protocol, and the Green Climate Fund (GCF). Contributions to Vertical Funds totalled approximately $879 million in 2016, accounting for approximately 18 percent of total contributions to UNDP.[2]

The GCF is a fund established within the framework of the United Nations Framework Convention on Climate Change to assist developing countries in adaptation and mitigation practices to counter climate change. The GCF Secretariat is based in the Republic of Korea and is governed by a Board of 24 members. The GCF continues to grow as the largest international climate fund that helps developing countries to respond to climate change.

UNDP is one of the first entities accredited by the GCF and considered as a key partner. UNDP's accreditation was granted in March 2015. UNDP and the GCF entered into an Accreditation Master Agreement in August 2016. The Accreditation Master Agreement is the central instrument that sets out the basic terms and conditions when using GCF resources. One aspect of the GCF is the Readiness Project.

In September 2016, UNDP and the GCF signed the Framework Readiness and Preparation Support Grant Agreement, which governs UNDP's engagement with those countries that have selected UNDP as a delivery partner for various GCF-funded climate Readiness Project activities. At the time of the audit, GCF and Preparatory Support grants had been approved by the GCF for 20 countries supported by UNDP. National Adaptation Plan grants had been approved by the GCF for six countries. The National Adaptation Plan provides a continuous, progressive and iterative process which follows a country-driven, gender-sensitive, participatory and fully transparent approach.

In UNDP, the global environmental Vertical Funds are administered by the UNDP-Global Environment Finance Unit (UNDP-GEF) in the Sustainable Development Cluster of the Bureau for Policy and Programme Support (BPPS).

II. Audit Objectives

The objective of the audit was to examine the effectiveness of UNDP's Engagement with the GCF, including portfolio performance, organizational structure, support and oversight.

To form a conclusion, the audit aimed to answer the following questions:

Question 1: Has UNDP established adequate governance structures to manage the GCF portfolio?

1.1 Has BPPS established an appropriate governance structure, guidance, and technical support to ensure successful implementation of the GCF portfolio?
1.2 Have Regional Bureaux provided effective support, in consultation with BPPS, to Country Offices and implemented appropriate controls to mitigate risks associated with the implementation of GCF projects?
1.3 Have Country Offices established adequate governance, risk management and control systems to effectively implement the GCF projects?

[2] UNDP Funding Compendium, 2016

Question 2: Was UNDP delivering on its projects and commitments to the GCF Secretariat in terms of reporting, achieving the portfolio objectives, and meeting partners' expectations?

2.1 To what extent is the progress in project implementation aligned to the agreed work plans?
2.2 To what extent is reporting to the GCF timely and of quality?
2.3 To what extent are the results achieved meeting the National Designated Authorities' expectations?

III. Audit Methodology

The audit mainly built on document reviews, interviews, and written inquiries. The audit team held discussions with all 5 Regional Bureaux, 9 selected Country Offices, and Regional Technical Advisors in all 5 Regional Hubs. Further, the audit team sent out a questionnaire to the 17 Country Offices implementing GCF projects, and to their national counterparts (17 National Designated Authorities).

Question 1 was addressed through a systematic review of the management structure, interactions between BPPS, Regional Bureaux, and Country Offices. This was complemented with interviews with key staff.

Question 2 was addressed through analysis of the progress made in the implementation of the GCF projects, including through interviews and surveys to National Designated Authorities and UNDP Country Offices.

The audit team reviewed the various Project Documents and available monitoring reports. This was complemented with interviews with project staff. The audit team did not visit any Country Offices or Regional Hubs, as the projects were in the early phases of implementation.

IV. Audit Criteria

The main audit criteria for this audit were the Financing Agreements and the related standard operating procedures (SOPs). Further, in order to form a conclusion against the audit objectives, the following high-level criteria were adopted.

<u>Question 1: Has UNDP established adequate governance structures to manage the GCF portfolio?</u>

- Per the UNDP Accountability Framework, responsibilities and accountabilities should be consistent, clearly defined, and formally delegated.

- The Regional Bureaux terms of reference, following the structural review, provide for an enhanced oversight role across all aspects of Country Office programmatic and operational activities. Regional Bureaux are expected to: (1) support Country Offices to implement corporate financial policies; (2) act as the first point of contact to provide Country Office financial advisory services; and (3) provide coordination for more complex Bureau for Management Services financial advisory to Country Offices, as needed.

- The UNDP policy on enterprise risk management outlines the objectives of UNDP's enterprise risk management system and the details of the enterprise risk management process.

- Section 4 of the UNDP Strategic Plan 2014-17 emphasizes the need for cooperation with emerging partners to "advance on shared goals."

- In the funding proposal, UNDP stated that it will perform monitoring and reporting throughout the reporting period in accordance with the Accreditation Master Agreement and that UNDP has the country presence and capacity to perform such functions. Generally, key technical resources are available at both the Regional Hub and Headquarters levels.

- The Operational Guide of the Internal Control Framework for UNDP sets out requirements for ownership of controls and segregaton of duties.

- The Programme and Project Management (PPM) section of the 'UNDP Programme and Operations Policies and Procedures' (intiating a project) sets out risk management requirements: "Risk is a major factor to be considered in designing and managing any project. Risks must be identified, assessed and prioritized. The possible actions to deal with these risks need to be considered and an appropriate action plan needs to be developed. Once the Project ID has been created in Atlas (enterprise resource planning system of UNDP), the risks should be recorded in the Atlas Project Management module. The risk log should be maintained and updated as required in Atlas for the duration of the project."

<u>Question 2: Was UNDP delivering on its projects and commitments to the GCF Secretariat in terms of reporting, achieving of the portfolio objectives, and meeting partners' expectations?</u>

- The Accreditation Master Agreement states that where the Accredited Entity is not the Executing Entity, the Accredited Entity shall:

  (a) Maintain and comply with an adequate system to monitor the performance of the Executing Entity and assure regular reporting from them in the Subsidiary Agreement (referred to as the Project Document in UNDP).
  (b) Assess through appropriate due diligence processes the integrity and capacity of each Executing Entity to implement the relevant Funded Activity, and report thereon, and make such assessments available to the GCF upon request, and select each Executing Entity based on a positive assessment of that Executing Entity's capacity to carry out the Funded Activity that is being assigned to it and in a transparent documented manner.
  (c) Seek remedies under the relevant Subsidiary Agreement for breach, nonperformance or default by an Executing Entity, or if provided under a Funded Activity Agreement, allow the GCF to exercise its step-in rights to seek remedies.

- According to UNDP's Accountability Framework, managers are accountable for achieving corporate goals across units, irrespective of their functional positions. Authorities, responsibilities and accountabilities should be clearly defined, formally delegated and consistent. The successful implementation delivery of UNDP services for each function and their respective sub-functions requires an integrated contribution from every Bureau, with close collaboration among them. The Bureaux should define the clearly established prioritization of these tasks and include staff under a matrix reporting line to multiple managers.

- According to the PPM section of the 'UNDP Programme and Operations Policies and Procedures' (implementing a project) monitoring is one of the most important responsibilities of the Project Manager. Regular progress reporting to the Project Board should take place. Also, as a minimum and on annual basis, UNDP must perform the following monitoring activities: field visits, annual review report, and annual project review.

- According to the standard language used in the funding proposal, UNDP's monitoring and evaluation reporting includes lessons learned as a specific section of evaluation reports. As there will be two interim reports and one final evaluation report, the lessons learned will be included therein and disseminated globally on the UNDP Evaluation Resource Centre website. Further, UNDP has oversight roles in relation to reporting and knowledge management. The Project Manager is responsible for day-to-day management and decision-making for his/her project component, as well as monitoring materialized co-finance and reporting on this at project Sub-Board meetings.

The 'UNDP Programme and Operations Policies and Procedures' will be used for specific audit criteria where relevant.

V. Good Practices

OAI identified good practices, as follows:

- UNDP-GEF developed the Project Information System (PIMS+), to help the Unit in providing oversight, tracking key project milestones, and ensuring compliance with the requirements of the respective Vertical Funds, including the GCF.

- The BPPS team developed a set of 17 questions, which was used to evaluate the implementing partners' capacity to implement the GCF-funded projects.

VI. Audit Results

Satisfactory performance was noted in the following areas:

- BPPS established an appropriate governance structure, which provided advice, support, and guidance to Country Offices and Bureaux in accessing GCF funding. BPPS also developed strategic relations with the GCF Secretariat, which helped address emerging issues and challenges faced by Country Offices when implementing GCF projects.

- The Regional Bureaux provided, in coordination with BPPS, effective support to Country Offices.

- UNDP-GEF submitted Annual Performance Reports for the 11 projects within the time-frame prescribed in the Accreditation Master Agreement.

- The National Designated Authorities were satisfied with their interactions and work with UNDP.

OAI made one recommendation ranked high (critical) and three recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the office and are not included in this report.

High priority recommendation:
(a) Improve on the management of the GCF-funded projects (Recommendation 4).

Medium priority recommendations, arranged according to significance:
(a) Collate, aggregate, track and report on GCF-related risks to the UNDP Risk Committee (Recommendation 1).
(b) Improve project initiation processes (Recommendation 2)

(c) Enhance quality assurance (Recommendation 3).
The detailed assessment is presented below, per audit area:

Question 1: Has UNDP established adequate governance structures to manage the GCF portfolio?

UNDP established the UNDP-GEF with the objective to help countries access environmental finance for sustainable development. The unit was designated as the UNDP Focal Point for the GCF by an Executive Group decision of 28 February 2014 and provided programming and implementation support services to countries in five thematic areas: (i) sustainable management of biodiversity and ecosystems; (ii) sustainable, affordable and accessible energy services; (iii) scaling up climate change adaptation and mitigation; (iv) sustainable management of chemicals and waste; and (v) improved water and ocean governance.

UNDP-GEF served as the major conduit of finance for implementing the four environmental outputs in the Strategic Plan as noted in the Mid-term Review of the UNDP Strategic Plan.

1.1 Has BPPS established an appropriate governance structure, guidance, and technical support to ensure successful implementation of the GCF portfolio?

The audit team concluded that BPPS was able to establish a good governance structure, able to advise, support, and guide Country Offices and Bureaux in accessing GCF funding and developed strategic relations with the GCF Secretariat, which led to good communication and advice to Country Offices on challenges and opportunities. This ensured that UNDP was positioned to be a key player in the implementation of the GCF portfolio.

In March 2018, UNDP-GEF presented to UNDP's Organizational Performance Group a review of its portfolio implementation and risk management as at December 2017. During this presentation, the team identified new opportunities, challenges and risks including updates on the new GCF policy on the Accredited Entity fees and guidance on the eligible project management cost.

However, the audit team identified some issues, which may impact UNDP's engagement with the GCF as follows:

Issue 1 Need for a mechanism to aggregate and escalate GCF-related risks

The UNDP enterprise risk management policy sets out the objectives of UNDP's enterprise risk management system and the details of the enterprise risk management process. The Risk Committee is charged with the responsibility of reviewing and analysing the aggregated risk log (and escalated risks) on a regular basis with the purpose of identifying strategic risks and issues that require the attention of Executive Group though its annual UNDP risk report. Further, the 'UNDP Programme and Operations Policies and Procedures' prescribe the process of initiating a project where it sets out risk management requirements: "Risk is a major factor to be considered in designing and managing any project."

According to the 'UNDP-GEF business plan for FY 2014-2018 (2017 Review Portfolio Implementation and Risk Management)', UNDP-GEF identified eight risks associated with the partnership with GCF. Though UNDP-GEF made a presentation of the GCF-related risks to the Organizational Performance Group, a similar presentation was not made to the UNDP Risk Committee, as per the UNDP enterprise risk management policy.

Further, there was no defined mechanism of identifying, aggregating, and escalating the GCF-funded project-related risks to the corporate risk register while at the same time aligning this process to the GCF's risk guidelines and compliance assessments for funding proposals.

For example, the audit team considered that co-financing was a major risk across the entire GCF portfolio because funds did not flow through UNDP accounts. However, UNDP was held responsible for the successful implementation of projects, including components that would be co-financed. In one project in Mauritius, $37.9 million of the total project budget of $191.4 million would be funded by a development agency through a loan. At the time of the audit, UNDP was unable to confirm that the loan agreement had been signed. The audit team acknowledged that the signing of the loan agreement was not within the control of UNDP; however, UNDP might be held accountable for the delays in the implementation of the project activities.

The absence of a corporate mechanism to aggregate, track and report on the emerging risks associated with developing and implementing GCF-funded projects may expose UNDP to possible reputational risks or financial losses should the risks materialize.

Priority	Medium (Important)

Recommendation 1:

The Bureau for Policy and Programme Support should collate, aggregate, track and report on GCF-related risks to the UNDP Risk Committee in line with the requirements of the UNDP Enterprise Risk Management Policy.

Management action plan:

In accordance with the guidance and directives of the new enterprise risk management policy (2018), UNDP-GEF (Bureau for Policy and Programme Support) is the ‘second line of defense’ for addressing risks in all GCF projects and as such the Bureau’s role is to be “responsible for risk oversight, monitoring and technical support.” Since all current GCF projects are Country Office projects, the primary risk owner and manager of “project risks” for a given GCF project (including as it relates to ensuring that the project risk log is updated and managed – see response to Issue 3) are the relevant Resident Representatives/Heads of Office and the appropriate Regional Bureau.

Under the new ERM, UNDP’s Risk Committee is responsible for corporate risk reporting to the Executive Group on a bi-annual basis. To address this recommendation, in addition to the annual meeting for the Organizational Performance Group, the Bureau for Policy and Programme Support will make an annual presentation to the UNDP Risk Committee specifically devoted to “GCF-related risks.” This presentation will be based on the aggregation and analysis of all project-related risk logs managed by Country Offices that are implementing GCF-funded projects.

Estimated completion date March 2019

Issue 2 <u>Inefficient project initiation processes impacting project implementation</u>

A review of the process of preparation of the fully funded proposal indicated that there were duplicate processes, particularly regarding the Local Project Appraisal Committee (LPAC) meeting and the preparation of the Project Document.

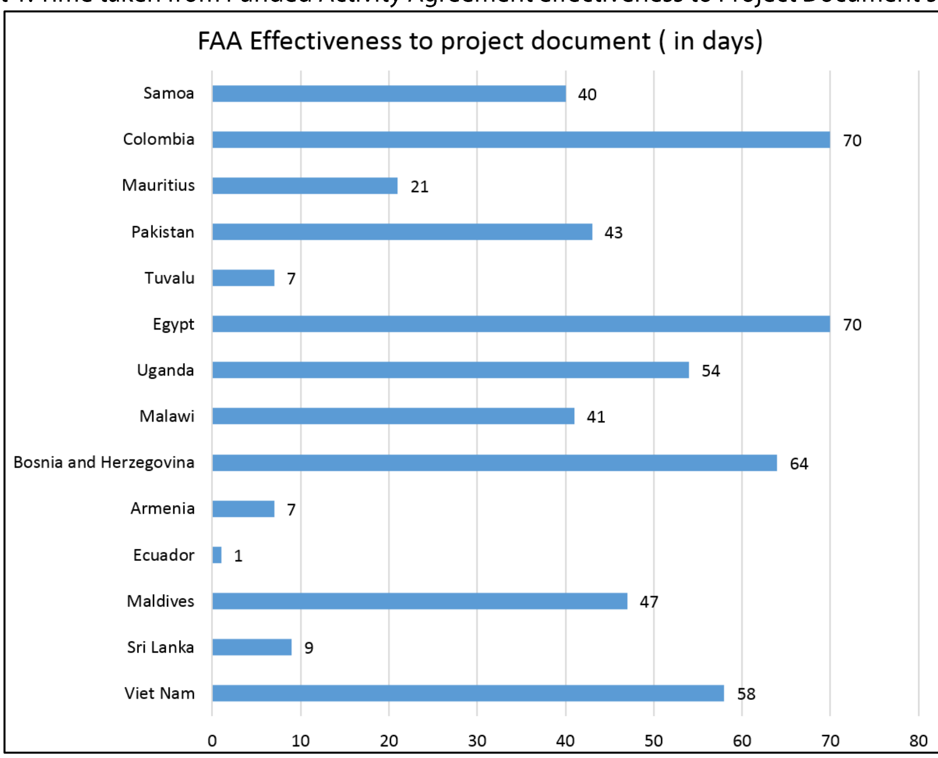
The process of developing a GCF-funded proposal was cumbersome and time consuming, as it involved both UNDP, the National Designated Authority, and the responsible government line ministries. The audit team noted that the following processes could be streamlined to bring about efficiency in the proposal development and project implementation phases of the GCF-funded projects.

a) Inefficiencies in the preparation of Project Documents

The audit team was informed that the Country Offices were taking the lead in preparing the UNDP Project Document (in line with the annotated template for GCF funded projects) and working closely with the Regional Technical Advisors to finalize it. The finalization of this document happened in parallel to the preparation of the Funded Activity Agreement schedules.

In line with the GCF guidelines, the project commenced on the date of signing of the certificate of the Funded Activity Agreement. However, this date was different from the date of signature of the Project Document between UNDP and the Government. The audit team noted that in some cases, there were delays of more than 70 days between the signature of the Funded Activity Agreement and the Project Document (see below chart).

Chart 1: Time taken from Funded Activity Agreement effectiveness to Project Document signature[3]



Source: OAI

Subsequent to the audit, BPPS indicated that the date of Funded Activity Agreement effectiveness and the date of the Project Document cannot be perfectly aligned. The notice of Funded Activity Agreement effectiveness is issued by the GCF Secretariat. As per advice from UNDP Legal Office, the Project Document could not be signed until UNDP-GEF received the legal evidence of the donor providing the funds, which was the Notice of Funded

[3] The Bangladesh, Georgia and Zambia projects are yet to receive the Funded Activity Agreement effectiveness hence they have been excluded from this analysis.

Activity Agreement effectiveness. Therefore, the Funded Activity Agreement effectiveness (the start of project implementation for GCF) must come before signing of the GCF Project Document.

Inefficient processes may lead to delays in the start of project implementation, thus impacting UNDP's reputation.

Priority	Medium (Important)
Recommendation 2: The Bureau for Policy and Programme Support should improve the project initiation processes by requiring that the Project Documents are prepared in advance so that they are ready for signature by the government counterparts as soon as the GCF Secretariat has approved and signed the Funded Activity Agreement.	
Management action plan: Similarly, in the new post-approval SOPs it is required that Project Document development begins immediately after Board approval of the funding proposal and that the Project Document is prepared and finalized concurrently with the negotiation and finalization of the Funded Activity Agreement. It is targeted that the signing of the Project Document happens no later than one month after Funded Activity Agreement effectiveness (the executed Funded Activity Agreement is attached an annex to the signed Project Document). **Estimated completion date:** The recommendation has already been addressed in the latest updated post-approval SOPs (to be released October 2018).	
OAI Response OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

1.2 Have Regional Bureaux provided effective support, in consultation with BPPS, to Country Offices and implemented appropriate controls to mitigate risks associated with the implementation of GCF projects?

The Regional Bureaux worked closely with the UNDP-GEF team to support Country Offices. The GCF Regional Technical Advisors who are BPPS outposted staff to the Regional Hubs provided guidance on GCF issues to Country Offices assisted with the tracking of GCF projects and directed Country Offices' requests for assistance or queries to the appropriate individuals within the UNDP-GEF team.

The Regional Bureau for Asia and the Pacific established a Project Implementation Support Unit (PISU) to help the Country Offices under its purview to implement the GCF-funded projects. The successes realized by PISU led the Regional Bureau for Africa to explore options on how to deploy a similar configuration at the Regional Hub to facilitate the implementation of the GCF-funded projects in the region. The remaining Regional Bureaux relied on the expertise of the Regional Technical Advisors who are core to the functioning of the Regional Hubs to support Country Offices.

Moreover, UNDP-GEF held annual regional meetings with the Regional Bureaux/Hubs to discuss progress, programming and troubleshooting issues.

1.3 Have Country Offices established adequate governance structures, risk management and control systems to effectively implement GCF projects?

Based on discussions with nine Country Offices and five Regional Technical Advisors from the Regional Hubs as well as documents reviewed, there was technical capacity in each Country Office for managing GCF projects. Each Country Office had a focal point who managed the project and worked along with the project management team and a Regional Technical Advisor. However, the Country Offices were still in the process of establishing operational capacity as well as Project Management Units for implementing the projects (see Issue 4).

The Country Office team was responsible for leading the preparation of the UNDP Project Document (in line with the template) and worked with the Regional Technical Advisors to finalize it.

OAI identified the following issues:

Issue 3 Inadequate quality assurance

According to the PPM, quality assurance strengthens and enables the achievement of results as well as improves the effectiveness and efficiency of development. It further states that where projects do not meet the quality standards for programming, management actions to improve quality must be recorded in quality assurance reports and addressed by targeted deadlines. If UNDP cannot resolve the issue, adequate management justification must be recorded. If appropriate action has not been taken by the time the project is rated again, the project may be suspended by the Programme Manager until the issue is resolved.

The audit team noted the following issues regarding the quality assurance of the GCF projects:

- No quality assurance was completed and/or updated in the corporate planning system at the design phase in 5 of the 17 projects. The PPM outlines the main procedures required in completing quality assurance on a project.

- The implementation stage of quality assessment was incomplete for 9 of the 17 projects. These projects were in Bangladesh, Bosnia and Herzegovina, Colombia, Pakistan, Samoa, Tuvalu, Uganda, Viet Nam and Zambia.

- The audit team noted that five projects did not have risk logs maintained in Atlas. These projects were in Bangladesh, Colombia, Egypt, Georgia, and Viet Nam.

  The audit team noted that there were differences in the risks presented in the funding proposal, and those recorded in Atlas. For example, for the project in Mauritius, 10 risks were listed in the funding proposal, but only one risk was recorded in Atlas. As another example, for the project in Samoa, 13 risks were listed in the funding proposal but only 4 were entered in Atlas.

These weaknesses occurred because of insufficient oversight of the quality assurance process by the Country Offices, Regional Bureaux, and BPPS, which may expose UNDP to reputational risks.

Priority	Medium (Important)

Recommendation 3:

The Bureau for Policy and Programme Support, in coordination with the Regional Bureaux, should enhance quality assurance by requiring Country Offices to:

(a) complete and upload all outstanding quality assurance requirements into the corporate planning system; and
(b) work with relevant Regional Bureaux to ensure that the relevant Country Offices regularly update in Atlas project risk logs identified in the GCF funding proposal and other relevant documents.

Management action plan:

The Bureau for Policy and Programme Support will convene, by January 2019, meetings with the relevant Regional Bureaux to address the following:

(a) Ensure all GCF projects are fully compliant with UNDP quality assurance standards and policies. The QA assessor for each GCF project is the Country Office.

(b) As per the new enterprise risk management, work with the relevant Regional Bureaux to ensure that the relevant Country Offices regularly update in Atlas all project risks identified in the approved GCF funding proposal, the Funded Activity Agreement and Project Document.

Estimated completion date: January 2019

Question 2: Was UNDP delivering on its projects and commitments to the GCF Secretariat in terms of reporting, achieving the portfolio objectives, and meeting partners' expectations?

As an Accredited Entity to the GCF, UNDP worked with National Designated Authorities to develop and submit funding proposals for review by the GCF Secretariat and consideration and approval by the GCF Board.

2.1 To what extent is the progress in project implementation aligned to the agreed work plans?

The audit team noted the issues below:

Issue 4 Slow GCF project implementation

The PPM states that implementing a project involves delivering outputs defined in the approved Project Document. This is done through a multi-year work plan, which articulates activities to achieve outputs in a specified time period.

The audit team noted that the pace of implementation of the fully funded projects had been slower than originally anticipated and outlined in the annual work plans. As noted in the table below, the average implementation rate on the first disbursement was 44 percent.

Table 1: Implementation rates on first disbursement

Country	Total budget ($)	First disbursement ($)	Expenses ($)	Commitment ($)	Expenses + Commitment ($)	Implementation rate on first disbursement
Viet Nam	41,984,578	3,491,400	2,253,170	389,216.00	2,642,386	76%
Maldives	28,230,304	3,034,330	440,904	15,623.00	456,527	15%
Uganda	44,262,160	2,617,368	232,076	584,516.00	816,592	31%
Sri Lanka	52,084,000	11,155,624	898,086	611,603.00	1,509,689	14%
Armenia	116,070,000	729,000	414,279	153,028.00	567,307	78%
Ecuador	84,008,647	7,901,895	3,773,278	684,750.00	4,458,028	56%
Malawi	16,264,545	2,377,039	428,070	98,081.00	526,151	22%
Tuvalu	38,870,000	2,013,841	478,298	23,147.00	501,445	25%
Mauritius	191,390,000	2,974,261	2,064,037	1,551.00	2,065,588	69%
Samoa	65,718,000	4,766,361	2,509,802	171,597.00	2,681,399	56%
					Average of the implementation rate	**44%**

Source: OAI, based on data provided by BPPS

This issue was noted by the National Designated Authorities who indicated that challenges in implementation at the beginning of the projects due to delays in first disbursement of the funds from GCF to UNDP led to the first year's work plan being implemented in a shorter time-frame.

The audit team noted similar lags in the implementation rates of the GCF Readiness Projects. While funds had been disbursed fully by the GCF to UNDP, the implementation of the Readiness Projects had been low, and in some cases, there were no expenditures. For example, projects in Uruguay and Guinea were to be closed in August 2018 and April 2019, respectively, and had only implemented 13 percent and 50 percent, respectively, of their budgets.

In response to the draft audit report, management indicated that several steps had already been taken to address the delays in the implementation of the Readiness Projects. Since January 2018, the BPPS Directorate has indicated to Country Offices that there is a moratorium on UNDP agreeing to play a Delivery Partner role for any new GCF Readiness Project proposals.

In addition, the UNDP-GEF Executive Coordinator had previously addressed the Country Offices with under-performing GCF Readiness Projects and the relevant Bureaux staff via letters highlighting the importance of expediting delivery. One Readiness Project was cancelled based on these discussions. The UNDP-GEF team had already commenced to track delivery and engage Country Offices in trouble shooting exercises across the entire Readiness Project portfolio.

Discussions with BPPS and the Country Offices, as well as a review of the 2017 Annual Performance Reports, disclosed the following underlying reasons for the slow implementation:

a) Absence of operational assessment of Country Offices

The audit team was informed that the UNDP-GEF reviewed, during the idea screening, the Country Offices' technical capacity to manage and implement environmental projects, including the competency of the UNDP staff in charge of the environment thematic area. Where possible, staff were sent to another Country Office on detailed assignment in order to obtain the required skills and knowledge to implement the GCF project. However, the UNDP-GEF indicated that the Country Offices capacity assessment was limited to the office internal expertise in environmental issues, and as such, the finance/procurement/operational aspects of the office were not covered.

BPPS indicated that the PPM required Regional Bureaux to assess Country Office capacity to implement Country Programme Documents at the start of any cycle. However, the GCF projects may not have been factored in during the design of the Country Programme Document. Further, BPPS indicated that Country Offices were required to build into the project budget the necessary operational capacity required for project implementation. The delays in the staffing of the Project Management Unit may create significant implementation challenges.

In response to the draft report, management indicated that over the course of the past year UNDP-GEF (BPPS) programming staff working on GCF had strengthened engagement with the relevant Country Offices implementing GCF projects to improve tracking and oversight of the Project Management Units.

b) Delays in establishing the Project Management Units may further delay project implementation.

The project inception timeline indicates that Country Offices should begin recruiting personnel for the Project Management Unit upon technical clearance of the Funded Activity Agreement. As such, at final clearance of the Funded Activity Agreement, recruitment could be completed, and the project implementation may commence as soon as the Project Document is signed.

From discussions with the Country Offices and through surveys conducted by the audit team, the recruitment of the Project Management Unit personnel did not commence until after the Project Document was signed and the funds were received. This resulted in delays in setting up the Project Management Unit, and the start of the project.

For example, in Maldives, as at the time of the audit, not all project personnel had been recruited, even though the project was among the first to be approved. Of the 15 Project Management Unit posts, only 12 had been recruited, although implementation of the project began, as per the Funded Activity Agreement, in May 2017. Additionally, UNDP Ecuador indicated that the Project Manager was hired seven months after implementation began. Without the team in place, the implementation of the activities was delayed by six months. Similarly, the staffing challenge was outlined in the 2017 Annual Performance Reports for Armenia and Samoa, where it was indicated that the staffing issues resulted in delays in implementation and possible loss of contingency funds.

Delays in implementing the GCF projects may negatively impact UNDP's reputation and performance, and compromise UNDP's ability to mobilize additional resources from GCF.

Priority	High (Critical)

Recommendation 4:

The Bureau for Policy and Programme Support should work with the Regional Bureaux to improve the management of the GCF-funded projects by:

(a) reviewing and fast-tracking the Readiness Projects that have been significantly delayed, including the option of exiting from such projects and returning the remaining funds to the GCF Secretariat; and
(b) assessing the Country Offices' operational and technical capacity prior to implementing GCF funded projects and tracking the staffing of the Project Management Units.

Management action plan:

The Bureau for Policy and Programme Support will:

(a) Prepare an analysis of underperforming Readiness Projects by 1 December 2018 and for those projects which have been "Under Implementation" for at least 12 months and have less than 40 percent delivery develop a plan of remedial action to address operational bottlenecks by 10 December 2018; or in a worst case scenario, in consultation with the GCF Secretariat, consider project cancellation/exit and reimbursement of funds to the GCF by 31 July 2019; and send additional communication to the relevant Regional Bureaux on a moratorium on UNDP agreeing to play a Delivery Partner role for any new GCF Readiness Project proposals so that they can assist with communicating this message to the Country Offices in their respective regions.

(b) Engage with relevant counterparts in the Office of Financial Resources Management and Regional Bureaux to explore the possibility of developing and implementing a Country Offices Capacity Assessment tool for GCF projects, building off the questionnaires and methodologies used in the Partner Capacity Assessment Tool (PCAT).

Estimated completion date: 31 July 2019

2.2 To what extent is reporting to the GCF timely and of quality?

In March 2018, UNDP-GEF submitted to the GCF Secretariat its first Annual Performance Reviews for the 11 GCF-funded projects for the year ended 31 December 2017. The audit team noted that this was in line with the reporting responsibilities set out in the relevant funding proposals and the Funded Activity Agreement. The audit team did not find any reportable issues.

2.3 To what extent are the results achieved meeting the National Designated Authorities expectations?

The National Designated Authorities indicated that they were satisfied with their interactions and work with UNDP. The audit team did not find any reportable issues.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.