AUDIT

OF

REDUCING EMISSIONS FROM DEFORESTATION AND FOREST DEGRADATION, REDD+ RESULTS-BASED PAYMENT CORRESPONDING TO THE RESULTS FOR THE PERIOD 2014-2015

(Directly Implemented Project No. 122756, Output No. 118235)

IN

UNDP COSTA RICA

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Report on the Audit of Reducing Emissions from Deforestation and Forest Degradation, REDD+ Results-based Payment Corresponding to the Results for the Period 2014-2015 implemented by UNDP Costa Rica (Project No. 122756, Output No. 118235)

Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 18 to 29 April 2022, conducted an audit of ‘Reducing Emissions from Deforestation and Forest Degradation, REDD+ Results-based payment corresponding to the results for the period 2014-2015’ (Project No. 122756, Output No. 118235) (the Project), which is directly implemented and managed by the UNDP Country Office in Costa Rica (the Office).

The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) Governance
(b) Development activities
(c) Operations – procurement, finance, human resources and administrative services

The audit covered the Project’s activities from 1 January to 31 December 2021. The Project recorded expenses of approximately $25 million during the audited period. This was the first audit of the Project.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team’s understanding of the Office’s and Project’s working environments.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.

Overall audit rating

OAI issued an audit rating of the Office’s management of the Project as fully 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.”

The audit did not result in any recommendations.
Management comments and action plan

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

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I. About the Project

Costa Rica (the Country) has proposed an ambitious carbon neutrality goal in its Nationally Determined Contributions (NDC), which highlights the crucial role of the forestry sector to achieve it. The Project contributes directly to this goal by reiterating the Country's political will to reduce emissions, conserve forest carbon stocks, and increase the ambition of mitigation measures, while actively seeking to eradicate poverty.

The Project is directly implemented by the Office, and fully funded by the Green Climate Fund. The Project seeks to strengthen the Payment for Environmental Services (PES) programme as a policy instrument to ensure forest conservation and enhancement of carbon stocks through reforestation, tree plantations, agroforestry and silvopasture, systems\(^1\) as well as to strengthen fire prevention measures that have proven effective recently. Another objective of the Project is to further increase the participation of all stakeholders in the PES programme, both public and private, including indigenous peoples and women. The Project follows the Country's National REDD+ Strategy.

The Project uses the Performance-Based Payment Agreement (PBPA), an agreement between UNDP and a responsible party i.e. Fondo Nacional de Financiamiento Forestal, to provide funding upon the verified achievement of agreed results. Under this mechanism, the responsible party finances and implements activities using its own resources, and UNDP transfers funds based on actual results reported by the responsible party, verified by UNDP and agreed upon with the Green Climate Fund.

The Project has a budget of $54 million, to be implemented over five years, from January 2021 to December 2025.

In December 2021, the Project received a contribution from the Green Climate Fund of $23.9 million and disbursed the entire sum to the responsible party under the results-based payment modality. The results and the calculation of this payment were reviewed and approved by the project board before the disbursement. The project board comprised a member of academia, the Costa Rica Minister of Environment and the Resident Representative of UNDP Country Office in Costa Rica.

II. Audit results

Effective controls were established and functioning in the following areas:

(a) **Project governance.** Adequate internal controls were in place to ensure segregation of duties. The Office’s personnel were aware of the Project’s priorities, challenges, and objectives. The Office exercised adequate oversight over the work of the responsible party by regularly visiting the project and reviewing project results among others.

(b) **Development activities.** The controls governing project design, appraisal and implementation were adequate and supported the implementation of the Project effectively. The project results were verified by an independent firm whose report was reviewed during the audit to obtain adequate assurance regarding reported results. The independent firm formulated its opinion based on various activities undertaken such as conducting interviews with stakeholders, performing field visits and recalculation of results reported by the responsible party.

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\(^1\) Silvopasture is the deliberate integration of trees and grazing livestock operations on the same land. Source: US Department of Agriculture
(c) **Operations – Procurement.** A review of the procurement function, including samples of procurement transactions for the hiring of individual contractors indicated that adequate controls were in place.

(d) **Operations – Finance.** The Office adequately monitored the level and use of project financial resources, managed risks of financial loss, and maintained accurate accounting records. It also adequately controlled project commitments and disbursements.

(e) **Operations – Human resources.** The governance, risk management and control systems in the human resources area were adequate and effective.

(f) **Operations – Administrative services.** The governance, risk management and control systems within administrative services, which include travel and administrative support for the Project, were adequate and effective.

The audit did not result in any recommendations.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.
Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.

- **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**.