



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 13 to 21 March 2023, conducted an audit of the project ‘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) Project governance
- (b) Programmatic monitoring and evaluation
- (c) Operations – procurement, finance, human resources and administrative services

The audit covered the Project’s activities from 1 January to 31 December 2022. The Project recorded expenses of approximately \$16 million during the audited period.

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) were discussed directly with management and actions have been initiated to address them.

Moncef Ghrib

Moncef Ghrib
Officer-in-Charge
Office of Audit and Investigations



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 systems¹ 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) scheme, an agreement between UNDP and a responsible party, *Fondo Nacional de Financiamiento Forestal (FONAFIFO)*, 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, approved by the project board, 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 November 2022, as part of the PBPA mechanism, an independent evaluation was conducted to verify the progress of the Project in 2022 *vis-à-vis* project objectives. The independent evaluation was able to verify the achievement of project results relating to all project activities. The evaluation report stated that project indicators and results on activities 2.1 (PES programme on private lands) and 2.2 (PES programme on indigenous territories) of the project document were found to be satisfactorily completed; as a result, it was recommended that PES could be made to the responsible party.

As per the mandate as noted above, the project board met on 2 December 2022 and approved a PES of \$13,304,970 for activities 2.1 and 2.2 to the responsible party on 13 December 2022. The project board comprised a member of academia, the Costa Rica Minister of Environment and the Resident Representative of UNDP in Costa Rica.

The Project recorded a contribution from the Green Climate Fund for \$13,499,970 on 9 December 2022, which was used to process the payment to the responsible party, FONAFIFO, of \$13,304,970 on 12 December 2022. The results and the calculation of this payment were reviewed and approved by the project board before the actual disbursement.

II. Audit results

Effective controls were established and functioning in the following areas:

- (a) Project governance. Adequate internal controls were in place to ensure appropriate segregation of duties. The Office's personnel were aware of the Project's priorities, challenges, and objectives.

¹ Silvopasture is the deliberate integration of trees and grazing livestock operations on the same land. Source: US Department of Agriculture.



The Office exercised adequate oversight over the work of the responsible party by regularly visiting the project and reviewing project results among others.

- (b) Project monitoring and evaluation. The project results were verified by an independent firm whose report was reviewed during the audit to obtain adequate assurance regarding reported results. The audit review did not identify any reportable issues.
- (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 financial risks, and maintained accurate accounting records. Project commitments and disbursements were adequately managed.
- (e) Operations – Human resources. The governance, risk management and control systems in the human resources area were adequate and working effectively.
- (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 Project did not keep any assets.

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.