

GEF Council Meeting

May 25 – 27, 2014

Cancun, Mexico

## **AGENCY PROGRESS ON MEETING THE GEF FIDUCIARY STANDARDS**

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## BACKGROUND

1. In June 2007, the GEF Council approved a set of Minimum Fiduciary Standards recommended by the Trustee, as presented in Council document GEF/C.31/6, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies*.<sup>1</sup> Following initial self-assessment reports by the Agencies, in April 2008, the Council requested the Secretariat to contract a Consultant to draft a comparative analysis and assess whether the Agencies met the GEF Minimum Fiduciary Standards. Those Agencies not meeting the standards were obligated to develop time-bound action plans to come into compliance with them.

2. Based on the Consultant's analysis and recommendations, in June 2009 the Council requested each GEF Agency that had not fully met the Minimum Fiduciary Standards to implement its agreed action plan to meet the standards. The Council also asked these Agencies to provide information annually on the progress made in implementing their plans. (See Council document GEF/C.35/5, *Compliance of the GEF Agencies on the Implementation of Minimum Fiduciary Standards*<sup>2</sup>). To date, the Secretariat has presented implementation progress reports to the Council in June and November 2010, May 2011, May 2012<sup>3</sup>, and November 2013<sup>4</sup>.

3. As of October 2013, as noted in Council document GEF/C.45/Inf.04, *Agency Progress on Meeting the GEF Fiduciary Standards*, the Secretariat had assessed eight agencies as having come into full compliance with the GEF Minimum Fiduciary Standards. These Agencies were: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the International Fund for Agricultural Development (IFAD), the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), and the World Bank. The Secretariat had also updated the Council on the progress made by the two remaining Agencies - the Food and Agriculture Organization of the United Nations (FAO), and the United Nations Environment Programme (UNEP).

4. The present document reports to the Council on the further progress that these two Agencies – FAO and UNEP – have made since September 2012 in implementing their action plans. The Secretariat assesses that FAO and UNEP have now come into full compliance with the GEF Fiduciary Standards. Based on the information and supporting documents submitted, the GEF Secretariat has determined that (i) FAO has successfully completed implementation of the four outstanding requirements in the areas of *External Financial Audit and Financial Management and Control Framework* and; (ii) UNEP has successfully completed implementation of the one outstanding standard in the area of External Financial Audit. This is further explained in the following sections and annexes.

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<sup>1</sup> See <https://www.thegef.org/council-meeting-documents/recommended-minimum-fiduciary-standards-gef-implementing-and-executing>

<sup>2</sup> See <https://www.thegef.org/council-meeting-documents/status-gef-agencies-respect-minimum-fiduciary-standards>

<sup>3</sup> See <https://www.thegef.org/council-meeting-documents/agency-progress-meeting-gef-fiduciary-standards-1>

<sup>4</sup> See Council document GEF/C.45/Inf.04, *Agency Progress on Meeting the GEF Fiduciary Standards* - <https://www.thegef.org/council-meeting-documents/agency-progress-meeting-gef-fiduciary-standards-2>

5. In June 2009, at its 35<sup>th</sup> Council Meeting, the Council requested the “Secretariat to manage a third-party process to review the minimum fiduciary standards in 2013 and every four years thereafter.”<sup>5</sup> The Council made this request prior to its decision in 2011 to launch a pilot on the accreditation of new GEF Project Agencies, under which applicants for accreditation are assessed against these minimum fiduciary standards. Taking into account that the accreditation process was expected to conclude at the end of 2014, in October 2013, at the Council’s 45<sup>th</sup> Meeting, the Secretariat proposed that, in collaboration with the Trustee, it starts the search for a third-party to undertake the review of the GEF Fiduciary Standards only after the conclusion of the pilot on the accreditation of new GEF Project Agencies.

## **AGENCY PROGRESS ON MEETING THE GEF FIDUCIARY STANDARDS**

### **Food and Agriculture Organization**

6. FAO reports that it has met the two remaining fiduciary standards – External Financial Audit and Financial Management & Control Framework – with which it has come into compliance since the November 2013 Council meeting. FAO reports that all actions detailed in the in the implementation tracker (attached as Annex I) with respect to the two standards have been completed. A summary of implementation measures taken to date is also provided below. These actions bring FAO into full compliance with the GEF Fiduciary Standards.

#### *External Financial Audit*

7. FAO prioritized implementation and deployment of the new systems and processes required to implement International Public Sector Accounting Standards (IPSAS) agency wide. FAO completed actions at the end of December 2013 to have fully IPSAS compliant systems and processes operating in all FAO locations and will issue its first IPSAS compliant financial statement for calendar year 2014. The strengthening of internal control systems and improved fiduciary accountability connected with the implementation of the new ERP and IPSAS compliant systems and processes were achieved in 2013.

8. As required by FAO’s Financial Procedures Agreement with the GEF Trustee, audits of the FAO-GEF fund statement have been annual since calendar year 2012

#### *Financial Management & Control Framework*

9. As of end of 2013, FAO had put in place measures to support application of this standard. The ERM risk assessment, monitoring and reporting process is established and has been applied for Business Units and extra-budgetary projects since January 2014. COSO principles have been applied in the risk catalogue. This will allow corporate risk reporting to identify processes which are under stress or not performing as expected, thereby providing a motor for continual improvement in internal control.

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<sup>5</sup> See *Joint Summary of the Chairs, GEF Council Meeting, June 22-24, 2009*, paragraph 12 (d).

## **United Nations Environment Programme**

### *External Financial Audit*

10. As of end-2013, UNEP successfully completed its work to transition from UNSAS (United Nations System Accounting Standards), which has some elements of International Accounting Standards (IAS), to International Public Sector Accounting Standards (IPSAS) covering its entire operations. Beginning January 1<sup>st</sup>, 2014, IPSAS has been fully implemented to handle all UNEP operations, and for the year ending December 31<sup>st</sup>, 2014, UNEP's financial statements are expected to be IPSAS compliant. This brings UNEP into full compliance with the GEF Fiduciary Standards.

### **ANNEXES**

**Annex I:      FAO Implementation Tracker**

**Annex II:     UNEP Implementation Tracker**

ANNEX I : FAO IMPLEMENTATION TRACKER – FIDUCIARY STANDARDS

#	Standard	Formerly Outstanding Items (As contained in Agency Progress of Oct. 2013)	Implementation Steps Undertaken as of January 31, 2014	Timeline
<b>A.1. EXTERNAL FINANCIAL AUDIT</b>				
A.1c.	Financial statements are prepared in accordance with recognized accounting standards such as International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) that are accepted in major capital markets for listed companies.	As reported in 2008 by the GEF Secretariat consultants, FAO has adopted the United Nations System Accounting Standards which are partially based on International Accounting Standards (IAS); however, these accounting standards are not accepted in major capital markets for listed companies. In an effort to adopt recognized accounting standards, the United Nations, which includes UNEP, had decided to transition to the IPSAS.	<p>As part of its programme to implement International Public Sector Accounting Standards (IPSAS), FAO has been upgrading systems and processes at its decentralized offices in parallel with an upgrade of the Organization's Oracle based Enterprise Resource Planning system (ERP). FAO implemented the updated Oracle Release 12 system in HQ and the Regional Offices in November 2012.</p> <p>In June 2013, the legacy accounting system was replaced in all FAO decentralized offices with a new IPSAS compliant system.</p> <p>FAO is on schedule on the issuance of its first IPSAS compliant financial statements for calendar year 2014.</p> <p>As required by FAO's Financial Procedures Agreement with the GEF Trustee, audits of the FAO-GEF fund statement have been annual since calendar year 2012.</p>	Completed
A.1d.	The internal controls over financial reporting cover the use of GEF funds, and Management asserts to the agency governing body that these internal controls are adequate.	FAO's Basic Texts and Self Assessment indicate that the Director General is responsible for maintaining internal financial controls and current standard processes. As such, it appears that internal controls over financial reporting are in place and cover GEF funds. However, GEF Secretariat consultants had concluded that management assertions over financial controls were not conducted.	<p>See update under A.1.c above. The strengthening of internal control systems and improved fiduciary accountability connected with the implementation of the new ERP and IPSAS compliant systems and processes was achieved in 2013.</p> <p>As required by FAO's FPA, audits of the FAO-GEF fund statement have been annual since calendar year 2012.</p>	Completed

ANNEX I : FAO IMPLEMENTATION TRACKER – FIDUCIARY STANDARDS

#	Standard	Formerly Outstanding Items (As contained in Agency Progress of Oct. 2013)	Implementation Steps Undertaken as of January 31, 2014	Timeline
<b>A.2. FINANCIAL MANAGEMENET &amp; CONTROL FRAMEWORK</b>				
A.2b.	The control framework covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing.	The GEF Secretariat consultants had reported that the Agency did not have a consolidated control framework in place that addressed all required elements.	<p>The ERM risk assessment, monitoring and reporting process has been established end-2013 and is being applied for Business Units and extra-budgetary projects from January 2014.</p> <p>COSO principles have been applied in the risk catalogue. This will allow corporate risk reporting to identify processes which are under stress or not performing as expected, thereby providing a motor for continual improvement in internal control.</p> <p>FAO now has the measures in place to support application of this standard</p>	Completed
A.2d.	At the institutional level, risk-assessment processes are in place to identify, assess, analyze and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent.	The GEF Secretariat consultants had reported that the Agency did not appear to have a formal risk assessment process while ad hoc processes existed. However, the Agency was in the process of developing and conducting a risk assessment.	See A.2.b.	Completed

ANNEX II : UNEP IMPLEMENTATION TRACKER – FIDUCIARY STANDARDS

#	Standard	Formerly Outstanding Items (As contained in Agency Progress of Oct. 2013)	Implementation Steps Undertaken as of January 31, 2014	Timeline
<b>A.1. EXTERNAL FINANCIAL AUDIT</b>				
A.1c.	Financial statements are prepared in accordance with recognized accounting standards such as International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) that are accepted in major capital markets for listed companies.	As reported in 2008 by the GEF Secretariat consultants, UNEP has adopted the United Nations System Accounting Standards which are partially based on International Accounting Standards (IAS); however, these accounting standards are not accepted in major capital markets for listed companies. In an effort to adopt recognized accounting standards, the United Nations, which includes UNEP, had decided to transition to the IPSAS.	UNEP fully adopted IPSAS for its entire operations with effect from January 1, 2014.	Completed