



## INTERNAL AUDIT DIVISION

### REPORT 2016/019

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#### Audit of the management of the Trust Fund in support of Political Affairs

Overall results relating to the effective management of the trust fund in support of Political Affairs were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

21 March 2016  
Assignment No. AG2015/560/01

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# AUDIT REPORT

## Audit of the management of the Trust Fund in support of Political Affairs

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Trust Fund in support of Political Affairs.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Trust Fund in support of Political Affairs (SZA) was established in 2008 to assist the Department of Political Affairs (DPA): (a) in implementing its mandated activities; (b) to support peace-making activities carried out by non-governmental organizations as well as activities relating to coordination of the United Nations system's counter-terrorism efforts; and (c) to supplement and fund activities in support of special political missions. According to the terms of reference for the trust fund, the Under-Secretary-General (USG) for Political Affairs was the fund's programme manager and the Executive Officer of DPA was the certifying officer.
4. The trust fund had an income of \$36.4 million and total expenditure of \$37.7 million during the 2014-2015 biennium (up to October 2015), as shown in Table 1.

**Table 1: Total income and expenditure for the SZA trust fund (in thousands of US dollars)**

Particulars	2014-2015 biennium (up to 31 October 2015)	2012-2013 biennium
Income	36,495	38,360
Direct Expenditure	33,540	29,562
Balance	2,954	8,798
Programme support costs	4,155	3,352
Excess/(shortfall)	(1,201)	5,445
Prior period adjustments	(206)	(149)
<b>Total Excess (shortfall)</b>	<b>(1,407)</b>	<b>5,295</b>
Transfer (to) from other funds	1,674	3,872
Refund to donors	(216)	(3,681)
Reserve and fund balances, beginning of period	33,216	27,730
<b>Reserve and fund balances, end of period</b>	<b>33,267</b>	<b>33,216</b>

Source: Statement of Income and Expenditure and changes in reserves and fund balances

5. DPA implemented a project management system called NOVA in 2014 to help project managers, extra-budgetary focal points and the Executive Office to design projects, prepare project documents,

define activities and record their progress, prepare cost estimates, manage fund allocation and monitor projects.

6. Comments provided by DPA are incorporated in italics.

## II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of DPA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the Trust Fund in support of Political Affairs**.

8. The audit was included in the IAD work plan for 2015 due to the risk that potential weaknesses in the management of the trust fund could adversely affect the achievement of objectives, donor confidence as well as the Organization's reputation.

9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the trust fund; (ii) are implemented effectively; and (iii) ensure the reliability and integrity of financial and operational information.

10. The key control was assessed for the control objectives shown in Table 2.

11. OIOS conducted this audit from October 2015 to January 2016. The audit covered the period from 1 January 2014 to 31 October 2015.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

## III. AUDIT RESULTS

13. DPA governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of the Trust Fund in support of Political Affairs**. OIOS made three recommendations in the report to address the issues identified in the audit.

14. Trust fund activities reviewed by the audit were in line with the DPA mandate, guidelines and terms of reference. DPA had instituted a mechanism for preparation of cost plans and developed an adequate resource mobilization strategy. Earmarked funds were used for the intended purposes. However, DPA needed to: (a) take measures to improve compliance with the 16-day rule for official travel; (b) actively follow up on all reports overdue from an implementing partner and review them for reasonableness/accuracy; and (c) take appropriate measures to ensure compliance with the reporting requirements specified in the donor agreements.

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<sup>1</sup> A rating of "**partially satisfactory**" means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

15. The initial overall rating was based on an assessment of the key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

**Table 2: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Effective management of the Trust Fund in support of Political Affairs</b>	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### **Regulatory framework**

Project activities were in accordance with the mandate, guidelines and terms of reference

16. According to the terms of reference of the trust fund, one of its key purposes was to support and assist DPA in implementing its mandated activities.

17. OIOS review of project activities and substantive reports relating to a selected sample of projects pertaining to the trust fund indicated that their objectives matched with DPA’s mandate and prioritization criteria. Project objectives were aligned with the priorities in the DPA 2014/2015 strategic plan, and project activities were in accordance with the terms of reference of the trust fund. OIOS therefore concluded that the controls for project review and prioritization were operating satisfactorily.

DPA had prepared cost plans as required

18. According to the Secretary-General’s bulletin ST/SGB/188 on the establishment and management of trust funds, the development of a cost plan is a prerequisite for all trust funds. The implementing office is responsible for preparing the cost plan.

19. DPA had instituted a mechanism for preparing cost plans for projects financed from the trust fund. Project managers prepared the cost plans using NOVA, which had inbuilt cost estimates for standard items such as daily subsistence allowance, salaries, and travel tickets. DPA consolidated the individual project/divisional level cost plans into one cost plan for the trust fund as a whole. OIOS reviewed the cost plans for selected projects and noted that they included a detailed budget and plan of action, clearly outlining the purpose and distribution of funds. OIOS therefore concluded that the controls over preparation of cost plans for the trust fund were satisfactory.

DPA had developed a resource mobilization strategy

20. The terms of reference of the trust fund stated that contributions to the trust fund could be made by: (a) states and intergovernmental organizations; and (b) national institutions and non-governmental

organizations, as well as natural and juridical persons, provided that such contributions are made in accordance with United Nations Financial Regulations and Rules (particularly Regulation 3.11).

21. After an external review of its funding practices, DPA launched a resource mobilization strategy in 2010 titled “Multi-Year Appeal” (MYA). DPA updated the MYA each year and presented its extra-budgetary needs for the next calendar year. MYA served as a framework for project fundraising in the context of the Department’s overall strategy and budget.

22. DPA engaged a consultant to conduct an evaluation of the 2014-2015 MYA to determine whether the appeal had worked, and to identify key areas for improvement while developing the next MYA. The evaluation report indicated that the MYA was relevant and coherent, in line with the Department’s core mission, and was ‘mostly effective’ in resource mobilization. Compared to a total contribution of \$33 million for the 2012-2013 biennium, the contribution for 2014-2015 had increased to \$36 million; likewise, the number of donors had increased from 20 to 26. Based on the above, OIOS concluded that the resource mobilization strategy was adequate.

#### Controls over review of trust fund activities were satisfactory

23. The trust fund’s activities were overseen by the DPA extra-budgetary committee (XB Committee). Sixty per cent of the total expenditure related to staff costs and 40 per cent was related to travel, operating expenses, acquisitions and programme support costs. The XB Committee chaired by the DPA Chief of Staff met every three months and made recommendations to the USG/DPA on policies, operating procedures, programmes and resource allocation relating to extra-budgetary funding. OIOS reviewed the minutes of the XB Committee and noted that the Committee reviewed and approved project proposals, analysed the level of funding under MYA, and made recommendations for new rounds of funding allocations for each year. OIOS therefore concluded that the controls over review of trust fund activities were satisfactory.

#### Earmarked contributions were allotted and disbursed in accordance with contribution agreements

24. Donor contribution letters and agreements set forth the basis on which funds were to be utilized. The terms of reference of the trust fund stipulated that when a contribution was made to the trust fund, earmarking and disbursement should respect the intention of the donor. In the event that the contribution could not be used as intended, consultations needed to be held with the donor on the appropriate use of the contribution.

25. OIOS review of 11 contribution agreements for 2014 with earmarked funding totaling \$9.4 million showed that the DPA Executive Office allocated a unique code to each donor and project, tracked donor contributions, project allotments, expiration dates, funding levels and project expenditure to ensure compliance with contribution agreements. These controls also ensured that expenditures did not exceed the funding provided. OIOS therefore concluded that the controls over earmarked contributions were satisfactory.

#### Controls over consultants were satisfactory

26. The administrative instruction ST/AI/2013/4 on consultants and individual contractors provides guidance on the use of consultants and individual contractors. OIOS randomly selected for review 5 out of 18 consultants engaged by DPA during the period, to whom payments totaling \$83,721 had been made. The review indicated that consultants were selected based on a documented competitive process; terms of reference describing the work had been prepared in advance of the engagement; mid-term and final

evaluations were conducted; and proof of deliverables such as reports and studies from consultants were received. OIOS therefore concluded that controls over consultants were satisfactory.

#### Controls over travel needed to be improved

27. Administrative instruction ST/AI/2013/3 on official travel states that all travel arrangements for individuals travelling on behalf of the United Nations, including advance booking and purchase of tickets, should be finalized in 16 calendar days in advance of commencement of official travel. Programme managers are required to provide justification for all official travel arrangements that could not be finalized 16 calendar days in advance of the commencement of travel.

28. DPA had 1,004 transactions related to travel during the period 1 January 2014 to 31 October 2015, which amounted to approximately \$4.8 million paid from the trust fund. Of these, 610 travel requests (61 per cent) amounting to approximately \$3.2 million (67 per cent of total travel expenses) did not comply with the 16-day rule. OIOS review of a selected sample of 60 non-compliant travel requests indicated that: for 11 travel requests there was no documented justification; and in 11 other cases, the travel requests related to recruitment, assignment and separation. For all non-compliant travel requests, the travel request form required “preventive measures or control to be implemented” to ensure compliance with the 16-day rule. However, only 7 out of 60 non-compliant travel requests indicated preventive measures. Although the Office of Central Support Services reported to DPA on the percentage of non-compliance with the 16-day rule, there was no evidence of any corrective action taken by DPA to address the issue.

29. DPA stated that there was a need to respond to sudden emergencies and as a result, most travel requests could not comply with the 16-day rule. While it is acknowledged that travel may sometimes have to be arranged at short notice, OIOS is of the view that the justification for such deviations from the 16-day rule should be documented.

**(1) DPA should take measures to improve compliance with the 16-day rule for official travel and ensure that deviations from the rule are documented with appropriate justification.**

*DPA accepted recommendation 1 and stated that it will ensure that deviations are well documented with appropriate justification. Recommendation 1 remains open pending receipt of documentation showing the measures implemented by DPA to ensure compliance with 16-day rule.*

#### Need to follow up on overdue reports from an implementing partner

30. The financial agreement between DPA and an implementing partner (which was a United Nations agency) stated that by 31 January of the following year, the agency should provide a report listing non-expendable assets on hand as of 31 December. In addition, an amendment to the financial agreement required the agency to provide satisfactory progress reports on contracts issued and annual interim financial reports for the year 2013 by 28 February 2014, and the year 2014 by 28 February 2015.

31. The agency did not comply with the reporting requirements envisaged in the financial agreement and did not submit to DPA: (i) the interim financial reports for 2014; (ii) the report listing non-expendable assets on hand as at 31 December 2014; and (iii) satisfactory progress reports for contracts issued by the agency in 2014. There was no evidence to show that DPA followed up with the agency for timely submission of these reports.

32. The failure to provide financial reports as required in the agreement increased the risk that DPA may not be receiving value for the funds disbursed to the implementing partner.

**(2) DPA should actively follow up on all reports overdue from the United Nations agency and review them for reasonableness/accuracy.**

*DPA accepted recommendation 2 and stated it will follow up to ensure that reports are received and reviewed on time. Recommendation 2 remains open pending receipt of evidence showing that the required reports have been received from the agency and appropriately reviewed for reasonableness/accuracy.*

Monitoring of donor reporting requirement required strengthening

33. DPA guidelines require compliance with mandatory reporting requirements specified in each donor agreement.

34. Out of 18 contribution agreements signed by DPA in 2014, 16 required the submission of annual reports and two required periodic progress reports and semi-annual reports. Although DPA met the requirement of annual reports in 16 out of 18 projects, it did not meet specific reporting requirements in respect of two donors. DPA did not have a system to monitor donor reporting requirements to ensure that they were complied with. DPA stated that reporting requirements were generally met through the annual reports, which donors were satisfied with. OIOS is of the opinion that by not submitting the specific reports as stipulated in the donor agreements, DPA was in non-compliance with its reporting obligations, which could potentially have an adverse effect on donor confidence. If specific reports are not required by donors because annual reports are adequate, the agreements with donors should be amended accordingly.

**(3) DPA should take appropriate measures to ensure compliance with the reporting requirements specified in the donor agreements.**

*DPA accepted recommendation 3 and stated that it will continue to encourage donors to accept the Annual Report as the main reporting framework for extra-budgetary contributions. The majority of donors already accept this report as a sign of growing trust in DPA's ability to manage funds. Using NOVA and Umoja reporting tools, DPA will maintain a register of donor contributions with related reporting requirements to be set up. Recommendation 3 remains open pending receipt of evidence showing that DPA has established a register of donor contributions with related reporting requirements.*

#### **IV. ACKNOWLEDGEMENT**

35. OIOS wishes to express its appreciation to the Management and staff of DPA for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the management of the Trust Fund in support of Political Affairs

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	DPA should take measures to improve compliance with the 16-day rule for official travel and ensure that deviations from the rule are documented with appropriate justification.	Important	O	Receipt of documentation showing the measures implemented by DPA to ensure compliance with 16-day rule.	31 December 2016
2	DPA should actively follow up on all reports overdue from the United Nations agency and review them for reasonableness/accuracy.	Important	O	Receipt of evidence showing that the required reports have been received from the agency and appropriately reviewed for reasonableness/accuracy.	31 December 2016
3	DPA should take appropriate measures to ensure compliance with the reporting requirements specified in the donor agreements.	Important	O	Receipt of evidence showing that DPA has established a register of donor contributions with related reporting requirements.	15 April 2016

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by DPA in response to recommendations.

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the management of the Trust Fund in support of Political Affairs

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	DPA should take measures to improve compliance with the 16-day rule for official travel and ensure that deviations from the rule are documented with appropriate justification.	Important	Yes	Chief of OUSG	31 December 2016	OUSG will ensure that deviations are well documented with appropriate justification.
2	DPA should actively follow up on all reports overdue from the United Nations agency and review them for reasonableness/accuracy.	Important	Yes	Chief XB Unit/ EO	31 December 2016	DPA will follow up to ensure reports are received and reviewed on time.
3	DPA should take appropriate measures to ensure compliance with the reporting requirements specified in the donor agreements.	Important	Yes	Chief XB Unit/EO  Donor and External Liaison Officer	15 April 2016	DPA will continue to encourage donors to accept the Annual Report as the main reporting framework for extra-budgetary contributions. The majority of donors already accept this report as a sign of growing trust in DPA's ability to manage funds. Using NOVA and Umoja reporting tools DPA will maintain a register of donor contributions with related reporting requirements to be set up.

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.