



INTERNAL AUDIT DIVISION

REPORT 2015/001

Audit of the management of the United Nations Fund for International Partnerships

Overall results relating to the effective management of the United Nations Fund for International Partnerships were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

21 January 2015
Assignment No. AN2013/522/01

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AUDIT REPORT

Audit of the management of the United Nations Fund for International Partnerships

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the United Nations Fund for International Partnerships (UNFIP).
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. UNFIP was established by the Secretary-General in March 1998 as an autonomous trust fund to serve as the interface to receive, coordinate and monitor all funds received in the partnership between the United Nations and the United Nations Foundation. The United Nations Foundation was established as a charitable organization in 1998 to administer, *inter alia*, a donation by a major benefactor to the United Nations. A relationship agreement, signed in 1998 and renewed in 2007 governed the arrangement between the Foundation and the United Nations. Through UNFIP, funds were provided by the Foundation for the implementation of projects, which were focused on four thematic areas: (i) Children's Health; (ii) Women and Population; (iii) Environment; and (iv) Peace, Security and Human Rights.
4. During the period 2008-2012, UNFIP received \$283.2 million from the Foundation and disbursed \$201.2 million to implementing partners to carry out projects in the thematic areas. All implementing partners were United Nations entities. The United Nations Office for Partnerships was responsible for overseeing UNFIP. The UNFIP administrative support budget of \$10.6 million for the period 2008-2012 was funded by the Foundation. The budget covered general operating expenses and general temporary assistance for seven staff.
5. Comments provided by UNFIP are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNFIP governance, risk management and control processes in providing reasonable assurance regarding **effective management of UNFIP**.
7. The audit was included in the 2013 OIOS risk-based work plan because of the high financial and reputational risks related to the management of donor contributions.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provides reasonable assurance that policies, procedures, and agreements: (i) exist to guide the management of the fund; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from May to August 2013. The audit covered the period from January 2008 to December 2012.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control 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. OIOS reviewed the relationship agreement with the Foundation, memorandums of understanding with implementing partners, UNFIP project documents and related information, funds received from the Foundation and disbursed to implementing partners, and the financial and narrative reports submitted by project implementing partners to UNFIP. The audit process also involved discussions with key managers and staff at UNFIP. OIOS reviewed 15 projects valued at \$11.5 million (5 per cent of total approved projects).

III. AUDIT RESULTS

12. The UNFIP governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding **effective management of UNFIP**. OIOS made five recommendations to address issues identified in this audit. There was a need to update the relationship agreement with the Foundation as the operational arrangement between the Foundation and the United Nations had significantly evolved over the years. Additionally, the UNFIP standard operating procedures for project monitoring and reporting required clarification regarding: (i) the scope of UNFIP project monitoring activities; and (ii) the independence and authority of the person certifying project financial statements on behalf of implementing partners. Implementing partner project reporting also needed improvement.

13. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress. UNFIP satisfactorily implemented one recommendation.

Table 1: 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 |
| Effective management of the UNFIP | Regulatory framework | Partially satisfactory | Partially satisfactory | Partially satisfactory | Partially satisfactory |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

¹ 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.

Regulatory framework

The relationship agreement with the United Nations Foundation needed to be updated

14. The Agreement between the United Nations and the Foundation prescribed: (a) the role of UNFIP and its relationship with the Foundation; and (b) the steps involved in identifying and approving projects and activities to be funded from the UNFIP trust fund, including prior review by the UNFIP Advisory Board.

15. The existing operational practices were not in line with the relationship agreement. UNFIP did not play a prominent role in reviewing and prioritizing project proposals submitted by implementing partners. UNFIP only authorized the commencement of project execution and implementation. Additionally, although the UNFIP Advisory Board met at least annually over the past five years, the Board did not review project proposals or select projects for approval. Instead UNFIP and the UNFIP Advisory Board received project proposals for information purposes only.

16. During the audit fieldwork, OIOS observed that the relationship agreement was being reviewed by UNFIP management, with the assistance of the Office of Legal Affairs.

(1) UNFIP should update the relationship agreement between the United Nations and the United Nations Foundation.

UNFIP accepted recommendation 1 and stated that UNFIP, the Office of Legal Affairs and the United Nations Foundation had worked extensively on developing a new, revised and restated relationship agreement between the United Nations and the United Nations Foundation. The revised and restated agreement was signed by both parties on 23 October 2014. Based on action taken and the documentation provided by UNFIP, recommendation 1 has been closed.

Need to enhance the Fund's due diligence activities in partner selection

17. The guidelines on cooperation between the United Nations and the business sector stated that partner selection would be subject to due diligence processes established by the United Nations entity considering the partnership.

18. Third party donors and other co-financing partners had made significant contributions to projects financed by the Foundation (approximately 63 per cent). The source of such funding however, was not known to the United Nations until after the project documents were received by UNFIP for disbursement of funds. In one instance, a project had to be reconsidered as the United Nations had concerns about the donor. Inadequate review of donors by UNFIP may result in a reputational risk to the United Nations and conflict with its ethical values. UNFIP management indicated that reliance was placed on the rigorousness of the Foundation's policies.

(2) UNFIP should establish policies and procedures to ensure that the funds it receives are from acceptable donors.

UNFIP accepted recommendation 2 and stated that UNFIP would review its policies and procedures in collaboration with the United Nations Foundation in the context of the revised and restated relationship agreement. Recommendation 2 remains open pending submission of documented policies and procedures to ensure that funds are received from acceptable donors.

Need to clarify the scope of the Fund's project monitoring activities

19. The relationship agreement stated that UNFIP was responsible for monitoring and reporting to the Foundation on the progress of projects and activities funded by the Foundation. Additionally, the memorandum of understanding between UNFIP and implementing partners stated that: (i) specifics relating to each project were to be set out in a project document, which should include among other things project monitoring and evaluation procedures; and (ii) UNFIP could undertake or coordinate spot checks of projects.

20. There was no clarity in the UNFIP standard operating procedures of the activities that UNFIP needed to perform to meet its monitoring and reporting responsibilities under the relationship agreement and memoranda of understanding between UNFIP and implementing partners. Furthermore, UNFIP had not undertaken or coordinated spot checks of any projects.

21. This lack of clarity may hinder UNFIP from consistently undertaking the expected monitoring and reporting of projects.

(3) UNFIP should revise its standard operating procedures to clarify the activities needed to carry out its responsibility to monitor and report on projects, as required by its relationship agreement with the United Nations Foundation.

UNFIP accepted recommendation 3 and agreed to review its standard operating procedures to clarify UNFIP specific role in monitoring and reporting on projects in the context of the revised and restated relationship agreement. Recommendation 3 remains open pending submission of revised standard operating procedures outlining UNFIP specific role in monitoring and reporting of projects.

There was a need to clarify to implementing partners the acceptable authority to certify project financial statements

22. Responsibilities for key functions were required to be segregated to mitigate the risk of error or inappropriate or fraudulent actions.

23. Financial statements indicating project expenditure and income were not consistently certified by finance officers in the offices of implementing partners. The statements were sometimes certified by the programme managers or funds managers, who were also responsible for implementing the project and preparing the narrative reports. This could affect the reliability of the information submitted by implementing partners.

(4) UNFIP should revise its Guidelines to Implementing Partners to specify the authority to certify project financial information.

UNFIP accepted recommendation 4 and stated that UNFIP recently reached an agreement with United Nations Accounts Division that certified financial statements would be prepared and certified by the Director of Accounts Division for all projects implemented by Secretariat departments. The UNFIP Standard Operating Procedures covering the Guidelines to Implementing Partners would be updated accordingly. Recommendation 4 remains open pending submission of updated Guidelines to Implementing Partners specifying the authority of the individual required to certify the submitted financial information on behalf of implementing partners.

Project reporting needed improvement

24. The UNFIP Guidelines for Implementing Partners required implementing partners to submit annual progress reports to UNFIP on projects implemented by them. Narrative reports on projects were due by 15 February of each year if the project received funding before 30 September of the reporting year and financial reports were due on 30 June following the completion date of the project. Additionally, reports should include information on the purpose of the project indicating the objectives and expected outcomes as included in the project document and the results achieved against the stated objectives, expected outcomes and performance indicators. The guideline indicated that reports that did not provide this information would be returned to the implementing partner.

25. OIOS review of the reports for 15 projects indicated that:

(i) As of June 2014, one final project narrative report was submitted by the due date, seven were submitted late, two had not been submitted, and five projects were still in progress. Six of the seven late project reports were submitted one month to two years after the required reporting deadline. For the five projects that were still in progress, two interim reports were submitted late. Additionally, financial statements were not received for three projects as at June 2014. Follow up reminders were sent to the implementing partners to remind them of the reporting obligations. Non-submission of reports by the implementing partners limited the ability of UNFIP to monitor the implementation of projects effectively.

(ii) Project proposals included adequate indicators to evaluate and monitor the projects such as objectives, expected outcomes, indicators of achievement, activities, outputs and milestones. However, the performance of the 15 projects reviewed was not reported against these indicators. Project reports were accepted and not returned for inadequate information. Failure to report on indicators outlined in the project proposal could undermine the ability of UNFIP to ensure that the project was undertaken as proposed and that the proposed outcomes were being achieved.

(5) UNFIP should strengthen its project reporting mechanism by enforcing the requirements for implementing partners to submit reports as stipulated in the guidelines.

UNFIP accepted recommendation 5 and stated that UNFIP made every effort to send regular and periodic reminders to implementing agencies in cases where reports were overdue. In cases where reports were not received within 90 days of the deadline, UNFIP would write to senior management of the United Nations implementing partner organizations in order to ensure timely receipt of reports. Recommendation 5 remains open pending the submission of the additional measures adopted by UNFIP to strengthen its project reporting mechanisms.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of the United Nations Fund for International Partnerships

| Recom. no. | Recommendation | Critical ² / Important ³ | C/ O ⁴ | Actions needed to close recommendation | Implementation date ⁵ |
|------------|---|---|----------------------|--|----------------------------------|
| 1 | UNFIP should update the relationship agreement between the United Nations and the United Nations Foundation. | Important | C | Action completed | Implemented |
| 2 | UNFIP should establish policies and procedures to ensure that the funds it receives are from acceptable donors. | Important | O | Submission of documented policies and procedures to ensure that funds are received from acceptable donors. | 31 March 2015 |
| 3 | UNFIP should revise its standard operating procedures to clarify the activities needed to carry out its responsibility to monitor and report on projects, as required by its relationship agreement with the United Nations Foundation. | Important | O | Submission of revised standard operating procedures outlining UNFIP specific role in monitoring and reporting of projects. | 31 March 2015 |
| 4 | UNFIP should revise its Guidelines to Implementing Partners to specify the authority to certify project financial information. | Important | O | Submission of updated Guidelines to Implementing Partners specifying the authority of the individual required to certify the submitted financial information on behalf of implementing partners. | 31 March 2015 |
| 5 | UNFIP should strengthen its project reporting mechanism by enforcing the requirements for implementing partners to submit reports as stipulated in the guidelines. | Important | O | Submission of additional measures adopted by UNFIP to strengthen its project reporting mechanisms. | 31 March 2015 |

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNFIP in response to recommendations.

APPENDIX I

Management Response

United Nations



Nations Unies

UNITED NATIONS OFFICE FOR PARTNERSHIPS
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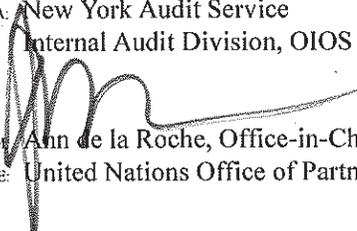
INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

TO: Ms. Muriette Lawrenec-Hume, Officer-in-Charge
A: New York Audit Service
Internal Audit Division, OIOS

DATE: 6 JANUARY 2015

REFERENCE:

FROM:  Ann de la Roche, Office-in-Charge
DE: United Nations Office of Partnerships

SUBJECT: **Draft report on an audit of the management of the United Nations Fund for International Partnerships (Assignment No. AN2013/522/01)**
OBJET: **Partnerships (Assignment No. AN2013/522/01)**

1. Thank you for your memorandum dated 12 December 2014 attaching the draft report pertaining to audit assignment AN2013/522/01.
2. In this connection please find below our comments.

Recommendation 1: UNFIP should update the relationship agreement between the United Nations and the United Nations Foundation.

"UNFIP accepts recommendation 1. UNFIP, the Office of Legal Affairs and the United Nations Foundation has worked extensively on developing a new, revised and restated relationship agreement between the United Nations and the United Nations Foundation. The revised and restated agreement was signed by both parties on 23 October 2014."

Recommendation 2: UNFIP should establish policies and procedures to ensure that the funds it receives are from acceptable donors.

UNFIP accepts recommendation 2. UNFIP will review its policies and procedures in collaboration with the United Nations Foundation in the context of the revised and restated relationship agreement.

Recommendation 3: UNFIP should revise its standard operating procedure to clarify the activities needed to carry out its responsibility to monitor and report on projects, as required by its relationship agreement with the United Nations.

UNFIP accepts recommendation 3 and agrees to review its Standard Operating Procedures to clarify UNFIP's specific role in monitoring and reporting on projects in the context of the revised and restated relationship agreement.

Recommendation 4: UNFIP should revise its Guidelines to Implementing Partners to specify the authority to certify project financial information.

"UNFIP accepts recommendation 4. UNFIP recently reached an agreement with United Nations Accounts Division that Certified Financial statements would be prepared and certified by the Director of Accounts Division for all projects implemented by Secretariat departments. The Standard Operating Procedures covering the Guidelines to Implementing partners will be updated accordingly."

Recommendation 5: UNFIP should strengthen its project reporting mechanism by enforcing the requirements for implementing partners to submit reports as stipulated in the guidelines.

UNFIP accepts recommendation 5. UNFIP makes every effort to send regular and periodic reminders to implementing agencies in cases where reports are overdue. In cases where reports are not received within 90 days of the deadline, UNFIP will write to senior management of the UN implementing partner organisations in order to ensure timely receipt of reports.

Management Response

Audit of the management of the United Nations Fund for International Partnership

| Rec. no. | Recommendation | Critical ¹ / Important ² | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|----------|---|---|-----------------------|---------------------------------------|---|--|
| 1 | UNFIP should update the relationship agreement between the United Nations and the United Nations Foundation. | Important | Yes | Officer-in-Charge of UNOP | Implemented - The revised and restated agreement was signed by both parties on 23 October 2014. | UNFIP, the Office of Legal Affairs and the United Nations Foundation has worked extensively on developing a new, revised and restated relationship agreement between the United Nations and the United Nations Foundation. |
| 2 | UNFIP should establish policies and procedures to ensure that the funds it receives are from acceptable donors. | Important | Yes | Officer-in-Charge of UNOP | 31 March 2015 | UNFIP will review its policies and procedures in collaboration with the United Nations Foundation in the context of the revised and restated relationship agreement. |
| 3 | UNFIP should revise its standard operating procedures to clarify the activities needed to carry out its responsibility to monitor and report on projects, as required by its relationship agreement with the United Nations Foundation. | Important | Yes | Officer-in-Charge of UNOP | 31 March 2015 | UNFIP agrees to review its Standard Operating Procedures to clarify UNFIP's specific role in monitoring and reporting on projects in the context of the revised and restated relationship agreement. |
| 4 | UNFIP should revise its Guidelines to Implementing Partners to specify the authority to certify project financial information. | Important | Yes | Officer-in-Charge of UNOP | 31 March 2015 | UNFIP recently reached an agreement with United Nations Accounts Division that Certified Financial statements would be prepared and certified by the Director of Accounts Division for all projects implemented by Secretariat departments. The Standard Operating Procedures covering the Guidelines to |

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of the management of the United Nations Fund for International Partnership

| Rec. no. | Recommendation | Critical ¹ / Important ² | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|----------|--|---|-----------------------|---------------------------------------|------------------------|---|
| | | | | | | Implementing partners will be updated accordingly.” |
| 5 | UNFIP should strengthen its project reporting mechanism by enforcing the requirements for implementing partners to submit reports as stipulated in the guidelines. | Important | Yes | Officer-in-Charge of UNOP | 31 March 2015 | UNFIP makes every effort to send regular and periodic reminders to implementing agencies in cases where reports are overdue. In cases where reports are not received within 90 days of the deadline, UNFIP will write to senior management of the UN implementing partner organisations in order to ensure timely receipt of reports. |