



## INTERNAL AUDIT DIVISION

### REPORT 2014/144

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Audit of the management of the Global Compact trust fund

Overall results relating to management of the Global Compact trust fund were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

18 December 2014

Assignment No. AG2013/510/01

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# AUDIT REPORT

## Audit of the management of the Global Compact trust fund

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Global Compact trust fund (“trust fund”). The trust fund, established in 2001 by the Secretary-General, financed the Global Compact Office (GCO), which managed the trust fund and helped oversee implementation of the United Nations Global Compact Initiative (“Compact”).

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 Compact was launched by the Secretary-General at the World Economic Forum on 31 January 1999 and at United Nations Headquarters in July 2000. It was a strategic policy initiative for businesses that were committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. This initiative was aimed at bringing together private companies, United Nations institutions, civil society and labour organizations to promote responsible corporate citizenship. There were over 12,000 participants in more than 140 countries and the Compact was continuing to expand its reach and enhance opportunities for engagement.

4. GCO was formally entrusted with the support and overall management of the Compact. It received the endorsement of the General Assembly (resolution 68/234) and has been given United Nations system-wide responsibilities for promoting the sharing of best practices. GCO also has responsibilities with regard to advocacy and issue leadership, fostering network development and maintaining the Global Compact communications infrastructure. GCO was funded by voluntary contributions to the Trust Fund and the Foundation for the Global Compact (“Foundation”). The Foundation is a United States-based non-profit corporation established to increase the funding base for the Compact and to better reflect its public-private nature.

5. In 2012, the trust fund received \$5.3 million, including \$3.3 million from donor governments and \$2 million from the Foundation. In 2013, the trust fund received about \$5.2 million in contributions, including \$3.2 million from donor governments and \$2 million from the Foundation. The total expenditure during the 2012-2013 biennium was \$8.8 million.

6. Comments provided by GCO are incorporated in italics.

### II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of GCO governance, risk management and control processes in providing reasonable assurance regarding **effective management of the Global Compact trust fund by the GCO**.

8. This audit was included in the 2013 risk-based work plan because of the strategic importance of the Compact and the reputational risks relating to the management of the Trust Fund.

9. The key controls tested for the audit were: (a) strategic management and risk assessment; (b) regulatory framework; and (c) coordinated management. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic management and risk assessment** - controls that provide reasonable assurance that strategic plans are developed and implemented, and that risks are identified, assessed and mitigated.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the GCO in the area of trust fund management; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

(c) **Coordinated management** - controls that provide reasonable assurance that potential overlaps of activities are mitigated and that issues affecting relevant stakeholders are identified, discussed and resolved in a timely manner and appropriately.

10. The key controls were assessed for the control objectives shown in Table 1. Certain control objectives (shown in Table 1 as “Not assessed”) were not relevant to the scope defined for this audit.

11. OIOS conducted the audit from November 2013 to April 2014 and undertook some additional work in September 2014. The audit covered the period from 1 January 2012 to 31 December 2013.

12. The audit team 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 their effectiveness. The audit reviewed strategic and activity plans, donor reports and agreements, memoranda of understanding, minutes of Board meetings, and trust fund expenditure.

### III. AUDIT RESULTS

13. The GCO 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 Global Compact trust fund by the GCO**.

14. OIOS made three recommendations to address issues identified in the audit. GCO had developed strategic plans for the Global Compact Initiative and satisfactorily implemented its activity plan. The Office managed risks through integrity measures but needed to strengthen controls over the provision of information and use of the Compact’s logo by Local Networks. GCO was putting measures in place to improve compliance with communication on progress requirement and to reduce delisting of business participants. GCO also recorded complaints on violation of the ten principles and took action to address them. Although, the Secretary-General and senior staff in the Executive Office of the Secretary-General were kept informed of the Office’s work, no appraisals had been documented on the performance of the Executive Director. GCO needed to ensure compliance with the requirement to book air tickets at least 16 days in advance to minimize travel costs. GCO coordination with the Foundation and Local Networks was satisfactory.

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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 the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

**Table 1: Assessment of key controls**

Business objective	Key controls	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 Global Compact trust fund by the GCO</b>	(a) Strategic management and risk assessment	Partially satisfactory	Partially satisfactory	Not assessed	Satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
	(c) Coordinated management	Satisfactory	Satisfactory	Not assessed	Satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### **A. Strategic management and risk assessment**

The Global Compact Office had developed strategic plans for the Global Compact Initiative and satisfactorily implemented its activity plan

16. The United Nations Global Compact Board (“Board”), which was appointed and chaired by the Secretary-General, was established in 2006 as a multi-stakeholder body, providing ongoing strategic and policy advice for the initiative as a whole and making recommendations to GCO, participants and other stakeholders. It comprised of four constituency groups - business, civil society, labour and the United Nations.

17. The Global Compact Government Group was established for governments that contribute to the work of the Compact to review progress made and to ensure the effective and efficient use of the contributions that Governments have made to the trust fund. The bi-annual meeting of the Government Group was open for governments that contributed to the work of the initiative in line with the Global Compact strategy and work plan.

18. GCO developed periodic three-year strategic plans in consultation with the Board, the Government Group, and Local Networks. These plans identified the strategy and objectives for GCO and the Compact. The strategic plan for 2011-2013 identified nine expected outcomes for the period. GCO also issued a yearly activity plan, which expanded on the Compact’s strategy and presented key activities and outputs the Office would pursue to support the initiative in the upcoming year. This activity plan was circulated to current and potential donor governments identifying opportunities to fund proposed activities. Further, GCO issued yearly activity reports to the Member States who contributed to the trust fund. It also published the Global Compact Annual Review, which was an assessment of the extent to which participants implemented the ten principles. In addition, at the request of the Board, GCO conducted a mid-term assessment of the implementation of the 2011-2013 strategic plan.

19. GCO identified and coordinated its activities to achieve the outputs and outcomes. OIOS reviewed the 2012 and 2013 yearly activity plans and activity reports to determine implementation rates.

Overall, the implementation rate of the 2012 activity plan was satisfactory at over 85 per cent. The 2013 activity report was in draft at the time of the audit showing the overall implementation rate at 90 per cent.

20. Based on a review of these documents, OIOS concluded that controls were in place to ensure that strategic plans were developed and monitored, and activity plans were implemented.

#### The Global Compact Office managed risks through integrity measures

21. The Compact was a voluntary initiative and was not designed to monitor or measure participants' performance. To mitigate the risk of participants misusing their association with the United Nations or the Compact, integrity measures were introduced to strengthen participants' accountability. The three main measures were: (a) communicating progress on the implementation of the Compact by companies; (b) brand management and use of the Compact's logo; and (c) facilitating dialogue regarding systemic or flagrant misconduct by companies.

22. The Board was responsible for oversight of the integrity measures but the day to day work of assisting and monitoring implementation resided with GCO and the Foundation. OIOS reviewed how GCO monitored the integrity measures as detailed below in paragraphs 23 to 29.

#### The Global Compact Office was taking action to improve compliance with the communication on progress requirement

23. The Global Compact Office required the business participants to issue an annual "Communication on Progress" (COP) report. Failure to submit a COP report to GCO within the established time period of additional 12 months resulted in a delisting by GCO. OIOS reviewed ten randomly selected COP reports to determine whether the required elements were included, and whether the reports were filed in a timely manner. The review showed that the applicable requirements were complied with.

24. Between 31 December 2011 and 31 December 2013, 1,119 businesses were added to the list of participants and 1,245 were delisted (a net reduction of 126 businesses). While only 178 businesses were delisted in 2013, around 200 businesses had already been delisted between 1 January 2014 and 12 April 2014. The 2014-2016 strategic plan aimed to provide training and to increase global and local network capacity to support participants in submitting their COPs. The strategic plan indicated that a 1,000 per annum delisting rate could impede the Compact's goal of enlisting 20,000 participants by 2020.

25. In 2013, GCO continued to strive to improve compliance rates, particularly by small and medium enterprises. GCO had already stepped up outreach activities to companies in danger of becoming non-compliant through webinars, e-mails and telephone contacts, and gave companies additional time to comply with COP requirements. A bi-annual Communication on Engagement tool was introduced in October 2013 for non-business participants. This tool had a compliance deadline of October 2015 and was for use by non-business participants to express their commitment to the Global Compact initiative through disclosure of specific activities that they undertook in support of the Global Compact and its results. GCO anticipated that issues affecting compliance with the COP, such as language barriers, could also affect compliance with Communication on Engagement. GCO was developing additional measures to support small and medium size enterprises in meeting their COP requirements, which are due to be in place by June 2015. In view of the actions being taken by GCO, no recommendation was made.

The Global Compact Office needed to strengthen controls over provision of information and use of the Compact's logo by Local Networks

26. Local Networks were established to conduct outreach activities to: (a) recruit new business participants; (b) raise awareness of the Compact's ten principles; (c) facilitate dialogue, learning and knowledge-sharing among their participants; and (d) conduct activities to identify and spread best practices on corporate sustainability in support of United Nations goals. As of April 2014, there were 62 formal networks, 10 established networks and 28 emerging networks. The Compact also encouraged, but did not require, Local Networks to have a website.

27. Formal Local Networks were those that had a Memorandum of Understanding (MOU) with the United Nations to confirm the authorization to use the Global Compact Network logo in connection with the Network's activities. The audit reviewed eight Formal Networks and concluded that all were current on activity reports through 2011 and all had the logo displayed on their website except one that did not have a website.

28. The networks that had not yet entered into a MOU were categorized as either established or emerging networks and were not allowed to use the logo. OIOS randomly selected participants from the established and emerging networks listed on the Compact website to see whether they used the logo. Out of the 12 networks reviewed, 11 had no operational website and seven had activity reports that were outdated. Only one network had a functional website and a current activity report. Out of 12 activity reports reviewed, 11 were generic and contained no network-specific information. In 2012, GCO replaced individual activity reports issued by networks with a consolidated global network report for wider dissemination.

**(1) The Global Compact Office should review all Local Networks' information periodically and work with the Networks to address issues related to the inappropriate use of the Compact logo, outdated information, and defunct websites.**

*GCO accepted recommendation 1 and stated that it is currently in the process of reviewing Local Networks' use of the logo and their websites, including information contained therein. This exercise is due to be completed by February 2015 and thereafter there will be periodic checks. Recommendation 1 remains open pending receipt of documentary evidence showing that GCO reviews Local Networks' information periodically.*

The Global Compact Office recorded complaints on violation of the ten principles and took action to address them

29. Between 1 January 2012 and 31 December 2013, GCO received 20 complaints alleging violations of one or more of the ten principles by participating companies. The Office had limited recourse with such complaints due to the voluntary nature of the Compact. However, a dialogue was facilitated in cases that had merit. GCO compiled information regarding complaints received during the year and ongoing complaints in a special supplement for submission to the Board during their annual meeting. OIOS reviewed the December 2012, May and September 2013 "supplement on dialogue facilitation" which identified the complaints and actions taken. GCO had documented its actions regarding the complaints. OIOS concluded that the processes for dealing with complaints of violations were satisfactory.

## B. Regulatory framework

### The Executive Director of the Global Compact Office did not have periodic performance appraisals

30. The Administrative Instruction on “Performance Management and Development System” states that its purpose is to improve the delivery of programmes by optimizing performance at all levels. From its inception, GCO had been part of the Executive Office of the Secretary-General (EOSG), and the Secretary-General was the Chair of the Global Compact Board. Although EOSG was kept informed of the Office’s work, no appraisals had been documented on the performance of the Executive Director. Lack of documented performance appraisals may affect staff’s motivation and participation in the planning and delivery of work. In the opinion of OIOS, establishing a mechanism to formally assess the Executive Director’s performance would help in setting the appropriate tone at the top in GCO and promote a culture of high performance and accountability.

**(2) The Executive Director of the Global Compact Office should liaise with the Executive Office of the Secretary-General on the preparation of his/her periodic performance appraisals.**

*GCO accepted recommendation 2 and stated that the Executive Director frequently consults with the Secretary-General and senior staff of EOSG to seek their views on performance. An effort will be made to systematize this. Recommendation 2 remains open pending receipt of documentary evidence of periodic performance appraisals of the Executive Director in accordance with the provisions of the administrative instruction on performance management and development system.*

### There was a need to ensure compliance with the requirement to book tickets at least 16 days in advance

31. Table 2 shows the expenditures pertaining to the trust fund for the 2012-2013 biennium, as reported by GCO.

**Table 2: Global Compact Trust Fund expenditure for the biennium 2012-2013 (in United States dollars)**

Description of expenditures	2012-2013
Staff and other personnel costs	7,135,893
Operating expenses	855,306
Travel	777,028
Contractual services	14,122
Acquisitions	7,591
<b>Total expenditure</b>	<b>8,789,940</b>

32. OIOS review of expenditures pertaining to the trust fund indicated that:

(a) Staff costs incurred during the biennium matched the post incumbency reports and the applicable standard costs.

(b) Staff and other personnel costs included expenditures for consultants and expert groups in the amount of \$689,895. OIOS reviewed contracts for four consultants in the amount of \$372,551 (or 54 per cent of consultant expenditures) to determine whether: consultants were selected on the basis of a documented process; terms of reference describing the work were prepared in advance of the engagement; and verification of credentials, qualifications and experience as well as medical clearance had taken place. The review showed that these criteria had been complied with. The audit also reviewed whether the



outputs delivered by the consultants were in accordance with the relevant contracts. No exceptions were noted.

(c) Staff of GCO attended various forums and preparatory meetings. The audit reviewed travel claims amounting to \$174,601 (or 22 per cent of the total travel expenditure) to determine whether: travel requests were submitted timely and properly approved; the purpose of the trip was in line with the Office's activities; and the daily subsistence allowance rate was in accordance with rates established by the International Civil Service Commission. The Executive Office of the Department of Management could not provide travel requests for two out of 19 travel requests selected for review due to poor filing and rotation of staff. Although the Executive Office requested copies of these records from GCO and the Archives and Records Management Section, they were not received at the time of this report. OIOS review of the remaining 17 travel claims indicated that they were in accordance with established travel entitlements. The Executive Office of the Department of Management noted that since the end of 2012 all supporting documents including travel requests were scanned into UNite Docs system that provided a centralized and secure repository for all records. In view of the action taken by the Executive Office, no recommendation was made.

(d) GCO did not always comply with the Department of Management's requirement to book tickets at least 16 days in advance to avail the best fares. Six out of 17 travel requests reviewed by OIOS were submitted less than 16 days in advance, contrary to the guidance issued by the Department of Management. Likewise, two out of three travel requests pertaining to consultants were submitted less than five days before the travel.

**(3) The Global Compact Office should ensure that travel requests are submitted for approval within the timeframes established by the Department of Management to minimize the cost of travel.**

*GCO accepted recommendation 3 and stated that all staff have been reminded to file the relevant paperwork with the minimum required notice. However, most flights taken by GCO staff are booked and paid by the event organizer or other third parties to minimize cost to the Global Compact trust fund. GCO will undertake additional efforts to coordinate with such third parties. OIOS reiterates that out of 17 travel requests reviewed, only two itineraries were paid for by third parties. Therefore, GCO needs to ensure compliance with the guidance issued by the Department of Management. Recommendation 3 remains open pending receipt of documentary evidence of compliance with the guidance issued by the Department of Management to minimize the cost of travel.*

## **C. Coordinated management**

### Coordination between the Global Compact Office and the Foundation was satisfactory

33. GCO had controls in place to coordinate its efforts with the Foundation through an MOU, periodic meetings, activity plans and shared responsibilities. The MOU was signed between the Foundation and GCO in 2006 and subsequently amended in 2013. The MOU stated that the Compact and the Foundation would collaborate in the planning and implementation of fundraising activities; that GCO would inform the Foundation of its current and planned activities; and that the Office would invite the Foundation to relevant Compact meetings. Based on interviews with responsible managers and review of relevant documents, OIOS concluded that GCO coordination with the Foundation was satisfactory with no apparent overlap of activities.

Coordination between the Global Compact Office and Local Networks was adequate

34. GCO had controls in place to ensure coordination with the Local Networks through MOUs with the Formal Networks, periodic meetings, and review of reports and plans. The MOUs defined the networks' rights and responsibilities. GCO also coordinated with the networks via an annual Local Networks forum, which brought together representatives of Local Networks to share knowledge and receive updates on the Compact. In addition, in 2013 a Local Network Advisory Group had been established to better facilitate communication and interaction between Local Networks and GCO. In view of the above, OIOS concluded that the mechanisms for coordinated management were operating satisfactorily.

#### **IV. ACKNOWLEDGEMENT**

35. OIOS wishes to express its appreciation to the Management and staff of the Global Compact Office 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 Global Compact trust fund

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	The Global Compact Office should review all Local Networks' information periodically and work with the Networks to address issues related to the inappropriate use of the Compact logo, outdated information, and defunct websites.	Important	O	Receipt of documentary evidence showing that GCO reviews Local Networks' information periodically.	31 August 2015
2	The Executive Director of the Global Compact Office should liaise with the Executive Office of the Secretary-General on the preparation of his/her periodic performance appraisals.	Important	O	Receipt of documentary evidence of periodic performance appraisals of the Executive Director in accordance with the provisions of the administrative instruction on performance management and development system.	31 August 2015
3	The Global Compact Office should ensure that travel requests are submitted for approval within the timeframes established by the Department of Management to minimize the cost of travel.	Important	O	Receipt of documentary evidence of compliance with guidance issued by the Department of Management to minimize the cost of travel.	31 August 2015

<sup>2</sup> 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.

<sup>3</sup> 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.

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

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

# **APPENDIX I**

## **Management Response**

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

to: Gurpur Kumar, Deputy Director  
A: Internal Audit Division, OIOS

DATE: 16 December 2014

THROUGH:  
S/C DE:



FROM: Georg Kell  
DE: Executive Director  
Global Compact Office

REFERENCE:

SUBJECT: **Draft Report on an audit of the management of the Global  
OBJET: Compact Trust Fund (Assignment No. AG2013/510/01)**

The Global Compact Office wishes to express its appreciation to the OIOS for wonderful cooperation and would like to confirm that we have no additional comment to the draft final report conveyed to us on 25 November 2014.

As per your advice, we indicated an action plan with target dates and the titles of the individuals responsible for implementing the recommendations in Appendix I (enclosed).

Thank you.

cc:

Mr. Paul Akiwumi, Director, Office of the Deputy Secretary-General  
Ms. Renu Bhatia, Executive Officer, Department of Management  
Ms. Unis Valencia Williams-Baker, Deputy Director, Accounts Division, OPPBA, DM  
Ms. Ursula Wynhoven, General Counsel & Chief, Governance and Social Sustainability, Global Compact Office  
Ms. Da Woon Chung, Audit Focal Point and Programme Officer, Global Compact Office  
Ms. Cynthia Avena-Castillo, Professional Practice Section, Internal Audit Division, OIOS

## Management Response

## Audit of the management of the Global Compact trust fund

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Global Compact Office should review all Local Networks' information periodically and work with them to address issues related to the inappropriate use of the Compact logo, outdated information, and defunct websites.	Important	Yes	Chief, Social Sustainability and Governance	31 August 2015	The Global Compact Office is currently in the process of reviewing Local Networks' use of the logo, their websites, including information contained therein. This exercise is due to be completed by the end of February 2015 and thereafter there will be periodic checks.
2	The Executive Director of the Global Compact Office should liaise with the Executive Office of the Secretary-General on the preparation of his/her periodic performance appraisals.	Important	Yes	Executive Director	31 August 2015	The Executive Director frequently consults with the Secretary-General and senior staff in the Executive Office of the Secretary-General to seek their views on performance. An effort will be made to systematize this.
3	The Global Compact Office should ensure that travel requests are submitted for approval within the timeframes established by the Department of Management to minimize the cost of travel.	Important	Yes	Programme Management Officer	31 August 2015	All staff have been reminded to file the relevant paperwork with the minimum required notice. It is noted, however, that most flights taken by Global Compact Office staff are booked and paid for by the event organizer or other third parties rather than AMEX to minimize cost to the Global Compact Trust Fund. Because UN rules and regulations require itineraries as a precondition to approving travel requests even where the flight is being paid for by a third party, delays in receiving those

<sup>1</sup> 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.

<sup>2</sup> 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 Global Compact trust fund

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						itineraries from the third parties frequently delay submission of travel requests by the deadline. The Global Compact Office will undertake additional efforts to coordinate with such third parties.