



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the Development Account in the Department of Economic and social Affairs (DESA)

Overall results relating to DESA's effective management and implementation of the Development Account's activities were initially assessed as partially satisfactory. Implementation of one important recommendation remains open as it was not accepted

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

**__ December 2012
Assignment No. AN2011/540/02**

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AUDIT REPORT

Audit of the Development Account in the Department of Economic and Social Affairs

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Development Account (DA) in the Department of Economic and Social Affairs (DESA).
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. General Assembly resolution 52/12B, dated 9 January 1998, established the DA under Section 34 of the UN regular budget programme to fund capacity development projects in the priority areas of the UN Development Agenda from unspent balances gained from efficiency measures under the regular budget. Since its establishment in 1998, the DA has gained greater support from Member States resulting in increased budget appropriations, which include regular budget assessments, both during the biennial budgetary process and on ex post facto basis after the General Assembly's second budget performance review of the biennium. For each biennium from 1998-1999 to 2004-2005, the General Assembly approved \$13.07 million; from 2006 onward, the General Assembly sought to strengthen performance in the development arena and appropriated additional funds, resulting in enhanced budgets of \$21.55 million (2006-2007), \$26.15 million (2008-2009), and \$27.65 million (2010-2011). The DA-proposed programme budget for 2012-2013 included 40 projects, totalling \$29.2 million.
4. The DA has programmed 244 projects with a total value of over \$151 million since its inception. Ten implementing entities of the Executive Committee of Economic and Social Affairs (ECESA), including DESA, propose and implement the DA projects in accordance with selected development themes for each biennial funding tranche. The cumulative funding, by implementing entity (Figure 1), and thematic distribution of projects (Figure 2) are illustrated below.

Figure 1 - Development Account: cumulative funding by implementing entity: 1998-1999 to 2012-2013

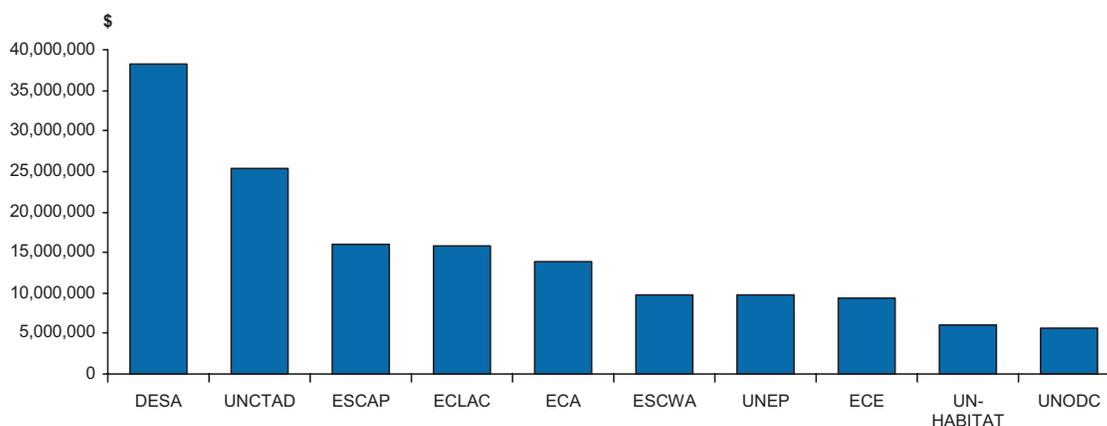
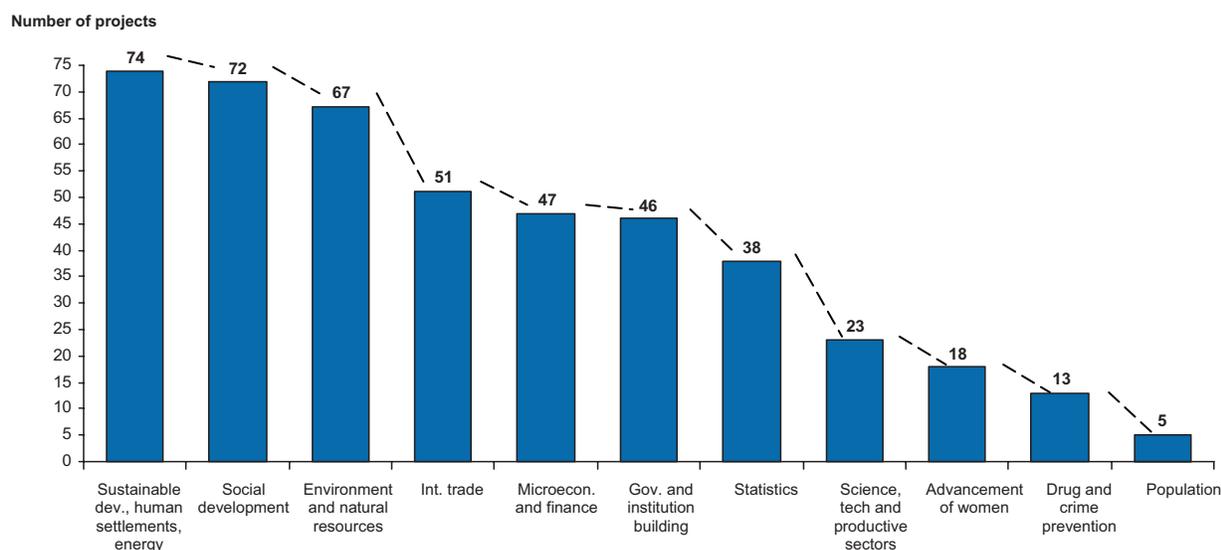


Figure 2 - Thematic distribution of projects funded by the Development Account: 1998-1999 – 2012-2013



5. The Under-Secretary-General for Economic and Social Affairs (USG/DESA) is the DA programme manager. A Steering Committee, established in early 2009 and comprising representatives of the UN entities implementing DA projects, advises and assists the USG in the strategic management and coordination of the DA activities. The DESA Capacity Development Office (CDO) carries out the DA day-to-day management function. The Office of Programme Planning, Budget and Accounts (OPPBA) reviews and approves the DA biennial programme budget submissions. Starting in 2010-2011, the programme budget for DESA (Section 9) funds two posts (one P-5 and P-4) in the DA.

6. Comments provided by DESA are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the DESA governance, risk management and control processes in providing reasonable assurance regarding **the effective management and implementation of the DA activities**.

8. The key controls tested for the audit were: (a) governance and strategic planning; (b) coordinated management; and (c) performance monitoring and reporting. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Governance and strategic planning** - controls that provide reasonable assurance that the DA's internal governance and strategic planning systems and responsibilities are adequate and effective.

(b) **Coordinated management** - controls that provide reasonable assurance that there are appropriate forums and procedures to identify and resolve in a timely manner potential overlaps in the DA activities and other issues affecting development activities funded by the UN regular budget, as well as other UN funding mechanisms.

(c) **Performance monitoring and reporting** - controls that provide reasonable assurance that: (i) metrics are established on when and how the consolidation and reporting activities are

performed, and that such activities are carried out in accordance with the established metrics; and (ii) a system exists to report on programme performance timely, accurately and completely.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from 25 April to 21 July 2011. The audit covered the period from the DA's inception in 1998 to 2011, focusing on the biennia 2008-2009 and 2010-2011.

11. 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

12. The DESA governance, risk management, and control processes examined were **partially satisfactory** in providing reasonable assurance regarding **the effective management and implementation of the DA activities**. OIOS made two recommendations to address the issues identified in this audit. **As regards governance and strategic planning, DESA had implemented OIOS' recommendation to establish the terms of reference of the Technical Review Group and elaborate the composition, roles and responsibilities of the Steering Committee, Technical Review Group, and DESA Capacity Development Office in the management of the Development Account to ensure proper segregation of duties and effective governance. Performance monitoring and reporting was assessed as satisfactory. As regards coordinated management, there was no documentation demonstrating the coordination of DA activities with similar activities under programme budget Sections 9 and 22 within DESA. DESA did not accept the recommendation addressing this issue, which OIOS is escalating up to the level of the Secretary-General and report to the General Assembly indicating management's acceptance of residual risks.**

13. 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 one important recommendation remains open as it was not accepted.

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
Effective management and implementation of DA activities	(a) Governance and strategic planning	Partially satisfactory	Not assessed	Not assessed	Not assessed
	(b) Coordinated management	Partially satisfactory	Not assessed	Not assessed	Not assessed
	(c) Performance monitoring and reporting	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Governance and strategic planning

Internal governance of the DA had been strengthened

(a) Terms of reference of review and approval bodies were incomplete

14. The DA internal governance comprises the Steering Committee, the CDO, and a Technical Review Group. The Steering Committee is concerned with oversight of the programme, including monitoring and evaluation of projects. It specifically advises the programme manager (USG/DESA) on the tranche themes and project approval criteria, reviews project proposals, and makes funding recommendations. CDO provides management and operational support to the DA in the implementation of DESA's capacity development strategy. It supports the DA Steering Committee by proposing project tranche themes, preparing budget proposals, and assessing project proposals and other project documents for approval by the Steering Committee. It also provides secretariat services to the Technical Review Group, which is responsible for reviewing project proposals submitted by the implementing entities. Additionally, the Technical Review Group advises on the quality of project documents and makes recommendations on the endorsement of those documents, as well as advises on budgetary questions. Although the Steering Committee had terms of reference, there were no formal terms of reference for the CDO and the Technical Review Group concerning their respective roles and responsibilities in managing and overseeing the DA.

(b) DESA was performing incompatible functions for the DA

15. DESA is the implementing entity for 74 DA projects with cumulative budget of more than \$38 million, making DESA the biggest recipient of the DA to date at 25 per cent of total funds. The Programme Support Services unit in CDO acts as the DESA focal point for DA projects implemented by DESA. The unit is also a member of the Technical Review Group and the Steering Committee. As the programme manager, as well as implementing entity and participant in oversight of the DA, DESA is performing incompatible functions. This situation presents reputational and control risks for DESA, as it could favour, or be perceived as favouring itself, in the allocation of DA funds.

(1) DESA should establish the terms of reference of the Technical Review Group and elaborate the composition, roles and responsibilities of the Steering Committee, Technical Review Group, and DESA Capacity Development Office in the management of the Development Account to ensure proper segregation of duties and effective governance.

DESA accepted recommendation 1 and submitted its written Development Account governance architecture document, which includes a written terms of reference for the Technical Review Group, and elaborates on the composition, and roles and responsibilities of the different stakeholders. Based on the action taken by DESA, recommendation 1 has been closed.

B. Coordinated management

Coordination of Development Account activities with other programmes in DESA was not documented

16. The review of DESA's overall capacity development project portfolio funded by the DA for the period from 1998 to 2013 found that the DA capacity development projects had similar or identical themes to those funded from DESA's extrabudgetary technical cooperation project programme budget (Section 9) and regular programme for technical cooperation (RPTC) programme budget (Section 22) of the UN regular budget for the same period, and were executed by the same implementing entities. For

example, the DA funded projects totalling \$28 million covered gender mainstreaming and statistics relative to the Millennium Development Goals (MDGs). DESA also had technical cooperation projects with a total value of \$117 million that focused on gender and economic statistics themes, as well as RPTC projects with a total value of \$55 million that covered also gender issues and advancement of women, and statistics.

17. *DESA stated that its internal approach to capacity development is based on an integrated approach with coordinated activities, both within and across the subprogrammes. DESA has, furthermore, formalized and documented the coordination activities between the DA and other related capacity-building activities within DESA. It provided to OIOS documentation on this matter. OIOS reviewed the documentation provided. However, the documentation was inadequate to demonstrate the guiding criteria for actual project selection and resource allocation to ensure effective leveraging of resources from the three programme budget Sections and that available capacity developing funding was being used effectively and economically. Furthermore, there was no evidence to validate that duplication and overlap among the three Sections of the programme budget were not occurring in the overall capacity development programme in DESA.*

(2) DESA should formalize and document the existing coordination activities between the Development Account and other related capacity-building activities within DESA.

DESA did not accept recommendation 2 stating that internal coordination of DESA's capacity development activities is not a function of the Development Account or the Development Programme Management Team. DESA is responsible for implementing a range of development activities and indicated that its approach to capacity development is both integrated and coordinated within and across sub-programmes but did not provide persuasive evidence that this is the case. If DESA were to document these integration/ coordination activities it would provide assurance that an appropriate level of coordination is being undertaken. This declined recommendation will be reported to the General Assembly indicating acceptance by the management of DESA of the risk associated with a lack of coordination.

C. Performance monitoring and reporting

Project monitoring and reporting were adequate

18. The DA had effective monitoring and reporting processes in place to gauge the timeliness of project and budget implementation, and efficiently report to the Secretary-General and General Assembly on the progress of DA project results and use of budgetary resources. In addition, DESA regularly followed up with the implementing entities to monitor for project changes, delays, and other challenges that could adversely affect timely project delivery within budget, providing management support to help avoid obstacles to efficient delivery. Therefore, project monitoring and reporting controls were assessed as satisfactory.

Standards and guidelines for DA's performance measurement had been strengthened

19. The duration of DA-funded projects run an average of four years. The fifth tranche (2006-2007) was the first tranche in which DESA required mandatory project evaluations for completed and closed projects. Eighteen of 22 evaluation reports for the fifth tranche were undertaken by external consultants. In most cases, evaluation reports concluded that the projects achieved their objectives. However, the evaluations did not assess whether the project results successfully measured against the expected accomplishments of the DA as a whole, using overall indicators of achievement. For example, the

evaluations in two projects provided, in general, assurance that the projects had achieved their individual objectives, but did not provide any useful information on project performance that could be used to measure their contribution to the overall achievement of the DA's objective and expected accomplishments. More importantly, there were no common standards or guidelines to extract the value of the project evaluation results and lessons learned and incorporate them into the project programming cycle at the DA programme level.

20. In the October 2010 retreat of the Regional Commissions' focal points for the DA, the participants suggested to cluster projects and commission thematic evaluations of the most successful projects to extrapolate lessons learned and best practices. OIOS conducted a survey of the participating entities and interviewed the Steering Committee members to obtain their views concerning the value added by the evaluations. The implementing entities supported the views proposed by the Regional Commissions' focal points, recommending that the evaluations be clustered into thematic focus areas to obtain added value. The Steering Committee also agreed that thematic evaluations would supplement the individual project evaluations, which could result in efficiency gains and allow for drawing comparisons across multiple projects.

21. In addition to lack of common standards and guidelines, the results of the project evaluations from the fifth tranche had not been assessed as of the date of the audit in 2011 to identify cross-cutting issues at the DA programme level. Although the project results have since been assessed, DESA noted that the approach to project evaluation was evolving as more experience was gained and agreed that it would be prudent to document the lessons learned from the first evaluation cycle, developing these into relevant guidance that might be used for later projects. DESA was still considering the effectiveness of its current approach to project evaluations and anticipated that the evaluations under the sixth tranche, due in 2012, would provide better insight for its assessment.

22. *DESA stated that in July 2012 it prepared guidelines and created a Task Team on Evaluation to assist with the strengthening of the DA's evaluation guidelines. The current project evaluations and final reports have provided informed assessments on whether the projects were successful in meeting their expected accomplishments as measured by their indicators of achievement. Based on the action taken by DESA, controls over the DA programme evaluation are assessed as adequate.*

IV. ACKNOWLEDGEMENT

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



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STATUS OF AUDIT RECOMMENDATIONS

Audit of the Development Account in the Department of Economic and Social Affairs

Recom. no.	Recommendation	Critical / Important ²	C/O ³	Actions needed to close recommendation	Implementation date ⁴
1.	DESA should establish the terms of reference of the Technical Review Group and elaborate the composition, roles and responsibilities of the Steering Committee, Technical Review Group, and DESA Capacity Development Office in the management of the Development Account to ensure proper segregation of duties and effective governance.	Important	C	Action completed	Implemented
2	DESA should formalize and document the existing coordination activities between the Development Account and other related capacity-building activities within DESA.	Important	O	Reconsideration of initial position on the recommendation and submission to OIOS of evidence formalizing and documenting existing coordination activities	Not provided

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.

³ C = closed, O = open

⁴ Date provided by DESA in response to recommendations.