UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP MULTI-PARTNER TRUST FUND OFFICE

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Table of Contents

Report on the Audit of UNDP Multi-Partner Trust Fund Office
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Multi-Partner Trust Fund Office (MPTF Office or the Office) from 24 February to 2 April 2020.

The objective of the audit was to review the governance, risk management and internal controls of MPTF Office. The audit assessed the organizational structure, including key workflow processes, roles and responsibilities; the design and effectiveness of controls for operational support and support to the United Nations agencies; and risk management practices at the MPTF Office.

The audit focussed on three key areas:

1. Governance, including organizational structure, key processes, roles and responsibilities.
2. Fund design and administration.
3. Operations, including finance, human resources, procurement and travel.

The audit covered the period 1 January 2018 to 31 December 2019. The Office recorded operational expenditure of approximately $15.5 million during the audit period. This was the first audit of the Office.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the MPTF Office as **satisfactory**, which means, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Key recommendations: Total = **1**, high priority = **1**

The recommendation aims to ensure compliance with legislative mandates, regulations, rules, policies and procedures.

For the high (critical) priority recommendation, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Delays in fund and project closure (Issue 1)	As at December 2019, UNDP had 1,320 projects with a project end date of 31 December 2019, for which activities were completed and awaiting closure. This represented 54 percent of the total projects awaiting closure.
	Recommendation: The Bureau for Management Services, in coordination with the Regional Bureaux, should implement a time-bound action plan for closing outstanding projects in line with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 1).

Management comments and action plan

The Assistant Administrator and Director of the Bureau for Management Services accepted the recommendation and is in the process of implementing it. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Multi-Partner Trust Fund Office (MPTF Office or the Office) was established in 2003 and serves to facilitate UN coherence and development effectiveness in addressing multifaceted issues. Such as during a humanitarian crisis or to support peacebuilding. The Office also collaborates with international responses to pandemics, climate change and biodiversity conservation.

The response to these challenges requires the expertise and resources of a combination of development partners. The MPTF Office assists the UN system and national governments in establishing and administering pooled financing mechanisms for multi-donor trust funds and joint programmes, to collect and allocate funding from a diverse range of financial contributors to a wide range of implementing entities in a coordinated manner. These funding mechanisms build on the principles of the aid effectiveness agenda, which calls for country-driven, coherent, timely, flexible and result-oriented assistance.

Hosted by UNDP, the MPTF Office provides fund design, fund administration and other professional services to UN entities, national governments and non-governmental partners. The Office's service platform encompasses the entire trust fund management cycle, from needs analysis, fund architecture design and fund establishment, to day-to-day financial management and, ultimately, fund closure. The MPTF Office has a cumulative portfolio of over $10.8 billion, and has supported the joint action of UN entities, governments, non-governmental organizations (NGOs) and the private sector in 113 countries.

The Office administers a variety of funds that support UN action on a range of humanitarian, transitional, development and climate change related challenges. For example:

- The Peacebuilding Fund supports countries emerging from conflict. It supports activities that contribute to post-conflict stabilization and to building peaceful and inclusive societies.
- The Joint SDG Fund supports UN Country Teams with accelerating SDG achievement through strategic investments for integrated policy and financing.
- The Spotlight Initiative is a global, multi-year partnership between the European Union and the UN to eliminate all forms of violence against women and girls.
- The Central African Forest Initiative (CAFI) is a joint undertaking to slow down and halt deforestation and forest degradation in Central Africa.
- The Lion's Share Trust Fund supports animal welfare globally, by encouraging advertisers to contribute 0.5 percent of their animal-featured media spending to conservation and animal protection projects.
- The Colombia Post Conflict Trust Fund supports the efforts of the Government, international donor community and the UN to achieve results in the consolidation of peace.

The MPTF Office relies on three distinct roles in pooled fund management.

- **Fund design and administration** is the core role of the MPTF Office, which includes providing fund design expertise and working with both donors and recipients to facilitate the functioning of the funds.
- The Office is not involved in **fund allocation and governance**, apart from its role as ex-officio member of the Steering Committee.
- **Fund implementation** is the role of the multiple implementing organizations participating in a specific pooled fund. The MPTF Office is not a fund implementer but fulfills the secretariat function for the pooled funds.

The Office administers three broad types of UN pooled financing mechanisms in terms of geographic and thematic scope:

(a) UN global/regional multi-donor trust funds (MDTFs), which address issues that require joint UN action and a coherent response across multiple countries.
(b) Country-level MDTFs (that include both UN and national funds), which enhance UN coordinated support to the SDGs and have the UN Development Assistance Framework (UNDAF) as their programmatic framework.
(c) UN joint programmes, which are often used as the pooled funding instrument for joint development activities at the country level.

At the time of the audit, the MPTF Office had 39 staff holding either permanent appointments, fixed-term appointments or temporary appointment and comprised of four divisions:

1) Directorate
2) Hosted Fund Secretariats
3) Portfolio Management
4) Finance and Operations

A. Audit Objectives

The objective of the audit was to review the governance, risk management and internal controls of the MPTF Office. The audit assessed the organizational structure, including key workflow processes, roles and responsibilities; the design and effectiveness of controls for operational support and support to the United Nations agencies; and risk management practices at the MPTF Office.

The audit focussed on three key areas:

1. Governance, including organizational structure, key processes, roles and responsibilities.
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3. Operations, including finance, human resources, procurement and travel.

B. Audit Methodology

The audit methodology included documentation review, interviews with MPTF Office staff and walkthrough tests of selected MPTF Office systems and processes, including those relating to fund creation, administration of the funds, and fund closure procedures.

For the operations area, sample testing was conducted in the areas of finance, procurement, human resources (recruitment) and travel.

II. Audit results

Satisfactory performance was noted in the following areas:

a) Governance: The MPTF Office had an effective governance structure built around its portfolio of funds and its role as an administrative agent. There was a management structure with defined teams and functions. The Office complied with the UNDP Internal Control Framework requirements by maintaining the

required delegations of authority, operations manual, and effective management of user profiles within the enterprise resource planning system (Atlas).

b) Operations: The audit of operations covered finance, procurement, human resources (recruitment), and travel. Overall, adequate controls were in place and operating effectively.

OAI made one recommendation ranked high (critical) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High-priority recommendation:

- The Bureau for Management Services, in collaboration with the Regional Bureaux, should implement a time-bound action plan for closing outstanding projects in line with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 1).

The detailed assessment is presented below:

A. Fund Design and Administration

The core role of the MPTF Office is that of fund design and administration. This includes providing guidance at the initial stages of the fund's design and setup, as well as support for the preparation of the fund concept notes and terms of reference.

In the fund design phase, the Office supports Participating UN Organizations (PUNOs) by: assessing and articulating the fund's objectives and theory of change; advising on the financial viability; and resource mobilization and options for governance arrangements. In addition, the Office negotiates and finalizes the legal agreements with participating stakeholders and establishes a structure for the fund.

As the fund administrator, the MPTF Office is responsible for: the receipt of financial contributions from donors; treasury and investment management; and fund disbursement and the production of annual fund financial reports and certified financial reports. The Office is also responsible for recording closure of projects, as advised by the PUNOs. When all projects relating to a fund are closed, ensuring closure of the fund includes making refunds to donors as required. Fund administration is managed through the Gateway system, which provides real-time financial and programme data.

The audit team conducted a walkthrough of the fund design process, examined the administration closure procedures, and assessed the efficiency of the fund administration.

The fund design and administration process were well documented, and in accordance with guidance provided in the UNSDG guidance documents.

The audit team concluded that design and administration procedures were carried out in accordance with the operations manual and in accordance with the UNSDG guidance documents. The audit team also noted that the Office adhered to the standards of service for fund administration.

The Office utilized technology to support efficient fund administration through the web-based fund and project management tool Gateway. The Gateway system provided users with real time information on fund financial data,

including deposits, transfers and expenditures. It was also a repository for fund-related documents and legal agreements. At the time of the audit, Gateway was being upgraded to streamline and digitize the fund management system.

The audit made the following observation:

Issue 1   Delays in fund and project closure

The Funds Memorandum of Understanding and Terms of Reference outline the steps that are to be taken in order for a project/fund to be closed. Procedures for project closure follow the individual participating organization's internal rules and regulations. Each organization determines when the project has completed the activities and communicates the completion to the fund secretariat by submission of the final narrative report to the fund secretariat.

For programmes determined to be "operationally closed", the following steps need to be completed:

1) The PUNO informs the fund secretariat at the MPTF Office that the programme is operationally closed.
2) The PUNO submits the final end of project narrative report to the fund secretariat and MPTF Office for posting on Gateway.
3) Upon confirmation from the secretariat, the MPTF Office proceeds with operational closure in the MPTF Office system.

For programmes deemed to be "financially closed" the following need to be complied with:

1) The PUNO submits certified final financial statements and financial report for each project.
2) The PUNO refunds any unspent balance and notifies the MPTF Office to enable the Office to identify the refund.
3) The PUNO transfers the interest for the prior and current year, if any, to the MPTF bank account and notifies the MPTF Office.
4) No expenditure in excess of funds transferred should be reported on the Certified Final Financial Statement and Report submitted to the MPTF Office.
5) The indirect cost should not exceed the approved percentage of project cost (7 percent).
6) Upon review, the MPTF Office proceeds with the programme financial closure in the MPTF Office system and notifies the PUNO accordingly that all financial procedures are satisfied.

The audit team noted delays in the closure of funds, stemming from delays by agencies in closing projects both operationally and financially. Delayed UN agency project closure was also noted by the UN Board of Auditors and the Evaluation of UNDP Inter-Agency Pooled Financing Services, conducted by the UNDP Independent Evaluation Office (August 2018).

As of 31 December 2019, there were 2,449 projects awaiting financial closure, i.e. projects for which activities were completed. The highest number (1320) relate to UNDP, comprising of 957 NGO UNDP[1] projects and 363 UNDP projects (refer to the table below). This represented 54 percent of the total projects awaiting closure. Among these were projects with end dates dating back to 28 February 2009 (Peacebuilding Fund, Burundi).

Delays in closing these projects were affecting the MPTF Office's ability to report on and close funds on a timely basis, which in turn may impact on the reputation of UNDP in managing these funds.

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[1] Where UNDP serves as a participating UN organization for NGO implemented projects

The table below presents the number of projects with end dates of 31 December 2019 or earlier, and which remained open as of 31 December 2019

UN agency	Total number of projects awaiting closure as of 31 December 2019	% of total projects
NGO/UNDP	957	39%
UNDP	363	15%
NGO/OCHA	508	21%
UNICEF	94	4%
UNWOMEN	59	2%
All other agencies (23 agencies)	468	19%
Grand Total	**2,449**	**100%**

Data Source: MPTFO website

The audit team acknowledged that the closure of the projects falls outside the scope and responsibility of the MPTF Office.

As a result, the recommendation is being addressed to the Bureau for Management Services and the Regional Bureaux in UNDP. The audit team did not make a recommendation regarding the closure of projects pertaining to other UN agencies since this is outside of the mandate of the MPTF Office and OAI

Priority	High (Critical)
Recommendation 1: The Bureau for Management Services, in coordination with the Regional Bureaux, should implement a time-bound action plan for closing outstanding projects in line with the 'UNDP Programme and Operations Policies and Procedures'.	
Management action plan: As part of the overall corporate effort on proper project closure, the Bureau for Management Services will continue to collaborate with Regional Bureaux to put in place a time-bound action plan to ensure the proper closure of the remaining outstanding projects. **Estimated completion date:** 28 February 2021	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**

  Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)**

  Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low**

  Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.