



# AUDIT REPORT

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The United Nations Democracy Fund  
(UNDEF)

UNDEF's sustainability is critical to promoting  
democracy as a global value

23 September 2010  
Assignment No. AN2010/524/01

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Roland Rich, Executive Head

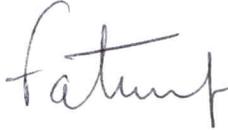
DATE: 23 September 2010

A: United Nations Democracy Fund

REFERENCE: IAD: 10- **00802**

FROM: Fatoumata Ndiaye, Director

DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AN2010/524/01 - Audit of the United Nations Democracy Fund (UNDEF)**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the open recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarised in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1, 2, and 5) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Amir Dossal, Executive Head, UNFIP  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Special Assistant to the Under-Secretary-General, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

*“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).*

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## EXECUTIVE SUMMARY

### Audit of the United Nations Democracy Fund (UNDEF)

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Democracy Fund (UNDEF). This audit was conducted because management of extrabudgetary-funded projects in the field is inherently a high risk area potentially exposing UNDEF's resources to possible waste, abuse or loss. The overall objective of the audit was to assess the effectiveness and efficiency of UNDEF's: (a) governance arrangements; and (b) management of its programme of work, in compliance with United Nations Regulations and Rules and other applicable policies and procedures. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UNDEF's operations promote democracy as a global value. It has successfully implemented projects that help Member States build capacity in upholding democratic institutions.

UNDEF's governance mechanisms comprised the Programme Consultative Group (PCG) and Executive Board. Overall, OIOS found that these mechanisms were functioning effectively. Except in the administration of first round projects, UNDEF has adjusted its procedures which have made its project administration increasingly efficient.

OIOS, however, identified the following areas where improvement is needed:

- UNDEF's financial sustainability is uncertain, and needs to develop a fundraising strategy to ensure its continued sustenance;
- UNDEF's strategic communication efforts to highlight its achievements and to enhance its visibility could be further strengthened by preparing a separate Secretary-General's report to the General Assembly;
- UNDEF's key performance indicators must reflect its strategic and operational targets with a logical linkage to its objectives;
- UNDEF's operational budget requires a review in order to ensure that the cost estimates reflect prices in the market since some of the estimates were either too low or too high;
- UNDEF's current practice of evaluating all projects for effectiveness and impact is not cost-effective and requires a review; and
- UNDEF projects carried significant amounts of unspent balances.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Democracy Fund (UNDEF or the Fund). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
  2. This audit was conducted because management of extrabudgetary-funded projects in the field is inherently a high risk area potentially exposing UNDEF's resources to possible waste, abuse or loss.
  3. UNDEF was established by the Secretary-General in July 2005, with the primary purpose of supporting democratization around the world. It provides grants to projects encouraging the participation of all groups in democratic processes, strengthening the voice of civil society, and promoting human rights.
  4. UNDEF's terms of reference (TOR), which were revised in September 2009, set out the objectives and scope of the Fund, and define its structure and governing mechanism. The UNDEF Office, located within the United Nations Office for Partnerships (UNOP), is headed by the Executive Head who reports to the Advisory Board on substantive matters and to the UNOP Executive Director for administrative purposes.
  5. Under the direction of the Executive Head, the core functions of the UNDEF Office are to:
    - (i) develop programme funding criteria, in consultation with the Programme Consultative Group (PCG);
    - (ii) solicit and receive proposals from applicants on the basis of guidelines approved by the Advisory Board;
    - (iii) review project proposals for submission to the Advisory Board;
    - (iv) conduct outreach activities;
    - (v) facilitate in-kind donations of technical assistance from Member States and non-governmental organizations (NGOs);
    - (vi) arrange monitoring and evaluation, including evaluation of projects;
    - (vii) handle all aspects of the allocation, disbursement and accounting of funds; and
    - (viii) submit reports to the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee of the General Assembly, as and when required.
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6. UNDEF relies entirely on voluntary contributions from Member States. Thirty-six Member States have contributed \$106 million to the Fund from its inception to December 2009 as shown in Table 1.

**Table 1. Summary of contributions to UNDEF, allocations and expenditures**

Year	2005	2006	2007	2008	2009	Total
Contribution (\$)	27,437,424	23,119,740	15,866,974	24,800,514	12,498,728	106,466,154
Allocations (\$)	No allocations	35,201,230	23,695,000	18,855,367	Awaiting 2009 round approval	77,751,597
Number of approved projects	No projects	122	82	67	Awaiting 2009 round approval	271

Source: [http://www.un.org/democracyfund/Donors/donors\\_index.html](http://www.un.org/democracyfund/Donors/donors_index.html)  
<http://www.un.org/democracyfund/XApprovedProjects.htm>

7. UNDEF grants are organized in an annual cycle, which starts in the fall each year with the submission of applications to UNDEF. Applications will then be vetted against 10 criteria by independent assessors resulting in a shortlist of between 200 and 300 projects to be further reviewed by the PCG. The final list of projects deemed appropriate for funding is submitted by the Advisory Board to the Secretary-General for approval.

8. The large majority of UNDEF funds go to local civil society organizations (CSOs). Eligible applicants for UNDEF funding include CSOs, independent and constitutional bodies (including election commissions), and global and regional inter-governmental bodies, organizations and associations. UNDEF projects can have a budget between \$50,000 and \$500,000. A typical project is implemented over 24 months.

9. Comments made by UNDEF are shown in *italics*.

## II. AUDIT OBJECTIVES

10. The main objectives of the audit were to assess the effectiveness and efficiency of UNDEF's:

- (a) governance arrangements; and
- (b) management of its programme of work, in compliance with United Nations Regulations and Rules and other applicable policies and procedures.

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### III. AUDIT SCOPE AND METHODOLOGY

11. The audit covered the current governance arrangements and the management of UNDEF's programme of work from its inception in 2005 to 2009, including:

- governance structure of the fund;
- reporting to the UN Secretariat and donors;
- fundraising strategy;
- process of managing the core functions of the fund, from review of proposals to monitoring project implementation/ project closure;
- compliance with UN Regulations and Rules for finance, procurement and human resources; and
- client interface and website management.

12. The audit included a review of documents and other data produced by UNDEF, the Advisory Group, and the PCG; and interview of UNDEF's personnel and stakeholders. The audit did not cover grantees' financial management and the substantive achievement or impact of the projects.

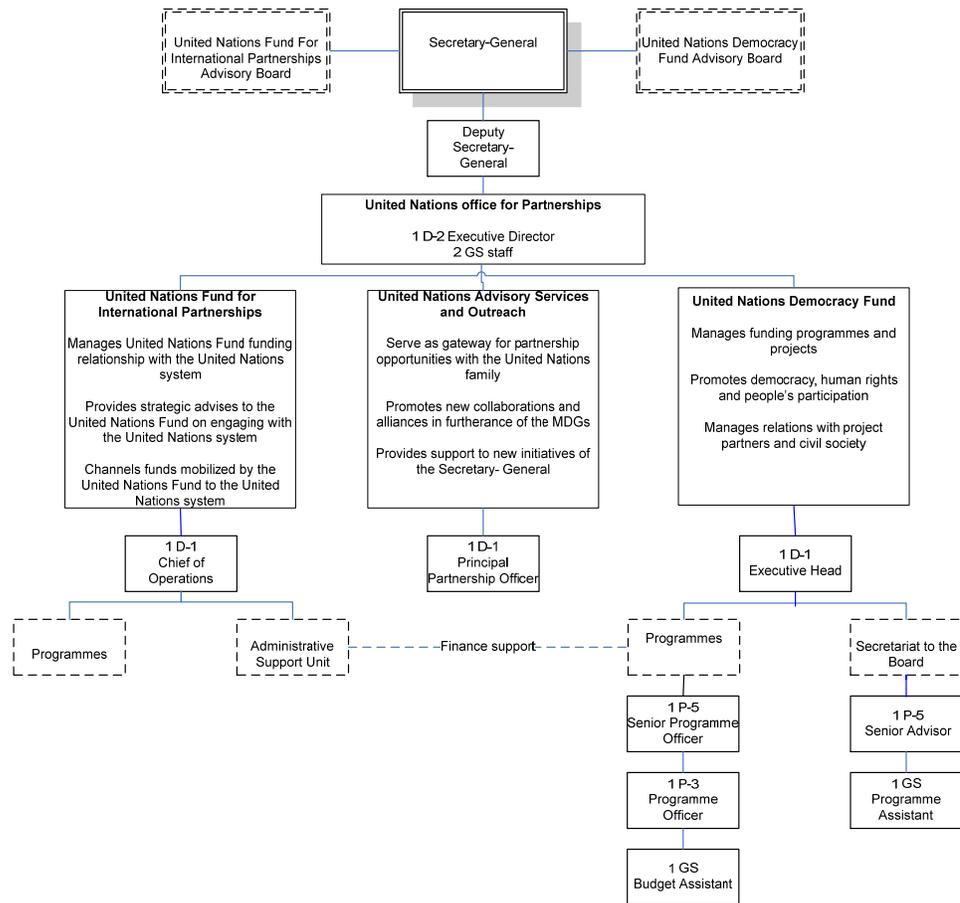
### IV. AUDIT FINDINGS AND RECOMMENDATIONS

#### A. Governance

13. The Advisory Board, which is UNDEF's main governing mechanism, provides policy guidance for the development of programme frameworks and funding guidelines, and considers proposals for funding. The Members of the Advisory Board are appointed by the Secretary-General, including representatives of the seven largest contributors, civil society organizations (CSOs) and individual experts. The Executive Director of UNOP serves the Board in an ex-officio capacity. The Advisory Board meets quarterly or as appropriate.

14. The PCG provides advice to the Advisory Board on programme funding criteria and on project proposals through the Executive Head of the Office of UNDEF. The PCG may comprise up to a total of seven senior representatives appointed by the Secretary-General from the Department of Political Affairs, the United Nations Development Programme, the Office of the High Commissioner for Human Rights and other relevant UN system organizations. Figure 1 illustrates UNDEF's governance and organizational structure.

**Figure 1. UNDEF's Governance and Organization Structure**



Source: Organization chart for the United Nations Office for Partnerships for 2010

15. Overall, OIOS found that UNDEF's governance mechanisms were functioning satisfactorily.

UNDEF's financial sustainability is uncertain

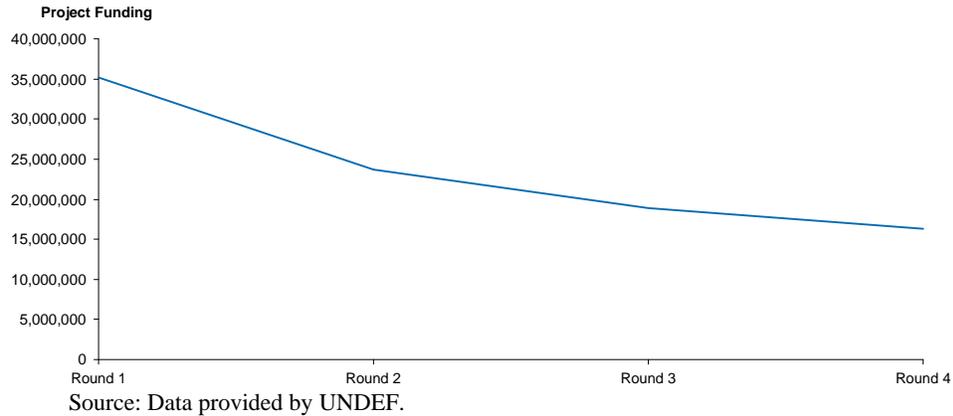
16. UNDEF can significantly contribute to the United Nations' worldwide democracy efforts. Its activities align with the Guidance Note of the Secretary-General on Democracy in that UNDEF supports a strong and vibrant civil society. However, UNDEF has experienced a consistent decrease in Member States' contributions. For example, contributions decreased from more than \$25 million in 2005–2006 to about \$12.5 million in 2009 due to several reasons:

- UNDEF, being wholly dependant on voluntary contributions, has been unable to obtain long-term commitments from donors, except from Sweden and Australia that signed three-year Memoranda of Understanding (MoU) with the Fund. Not all pledges were supported by MoUs. Some Member States could not pledge multi-year funds because of their national fiscal policies;
- UNDEF has not established fundraising targets; and

- The resource mobilization function has generally been left solely to the small management team of UNDEF itself with limited support from other stakeholders.

17. Figure 2 shows the consistent decline in contributions to UNDEF.

**Figure 2: UNDEF Project Funding (in \$)**



18. As a result of the steady decline in contributions, UNDEF is at risk of not being able to sustain its activities and achieve its objectives. In particular, UNDEF may be unable to finance a critical mass of projects if the current funding continues to decline. In the short-term, increasing the level of funding could be particularly challenging for UNDEF due to the current global economic climate. Nevertheless, UNDEF needs to develop a strategy for fundraising and sustainability of its activities.

### **Recommendation 1**

**(1) UNDEF should develop a fundraising strategy to ensure the sustainability of its activities.**

19. *UNDEF accepted recommendation 1 and stated that to date UNDEF fundraising strategy has been focused on individual country donors given the variation in processes and perspectives. While this aspect of the strategy will continue, UNDEF will also develop a broader outreach and fundraising strategy. This will need to be cleared with the Advisory Board. Implementation will occur in 2011. The Advisory Board will be asked to discuss and adopt the fundraising strategy. Recommendation 1 remains open pending provision of a fundraising strategy.*

### UNDEF can improve its strategic communication

20. UNDEF's strategic communication can be improved at two levels. Firstly, although UNDEF activities have been communicated to the General Assembly through the annual reporting of the United Nations Fund for International Partnerships (UNFIP), UNDEF's section is a small part of the report and the overwhelming size of UNFIP funding and activities as compared

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to UNDEF dilutes the issues reported on by UNDEF. Furthermore, there has been no separate report on UNDEF activities submitted to the General Assembly to highlight its achievements, particularly in relation to its impact in the field of democracy and the sustainability challenges it faces. Such a report could constitute an important tool to reach out to the larger community of Member States for fundraising purposes. Donors have indicated that the report could enhance UNDEF's visibility by highlighting its achievements and emphasizing the importance of its continued sustenance.

21. Secondly, UNDEF has been relying on its newsletter and website as its main communication tools. The newsletter has a circulation of approximately 15,000 copies and has been used as a tool to generate a pool of about 2,000 applicants for grants each round. Even though the Executive Head travels to the field, programme officers rarely do so. Expanding its field presence would not only serve as a learning opportunity for the programme officers, but also ensure better outreach to grass-root CSOs in key regions of the world.

### **Recommendations 2 to 3**

**(2) UNDEF should strength its strategic communication plan by preparing a separate Secretary-General's report to the General Assembly on UNDEF activities.**

**(3) UNDEF should ensure that its newsletter reaches grass-root civil society organizations and consider expanding alternative communication channels such as periodic field outreach activities.**

22. *UNDEF accepted recommendation 2 and stated that, subject to the views of the Office of the Deputy Secretary-General, UNDEF will prepare a separate report to the United Nations General Assembly in the second year of each biennium.* Recommendation 2 remains open pending provision of evidence of a separate Secretary-General's report to the General Assembly on UNDEF activities.

23. *UNDEF accepted recommendation 3 and stated that UNDEF Update, the quarterly newsletter, has a distribution of about 15,000 addressees. The vast majority of recipients are civil society organizations. Desk officers will be encouraged to visit some of their projects as time and budget permit.* Recommendation 3 remains open pending provision of evidence of analysis of the number of CSOs receiving the newsletter as a percentage of total circulation, and for a strategy to encourage field outreach activities.

### **Performance indicators are not addressing the objectives of UNDEF**

24. UN programmes are expected to establish performance indicators in line with their overall objectives. Although UNDEF has developed performance indicators in the "Note to the Secretariat - administrative budget proposal for 2010", e.g. number of applications and number of meetings of the Advisory Board, these indicators are not directly linked to the objectives of the Fund.

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Typical indicators could be quantitative (such as resource mobilization targets, number of projects funded, or projects successfully completed), or qualitative (such as good project management practices and quality of screening processes). Without such performance indicators, UNDEF cannot always show its achievements and garner support from important stakeholders.

#### **Recommendation 4**

**(4) UNDEF should revisit its performance indicators to ensure that they reflect UNDEF's most critical strategic and operational targets and are linked to its objectives.**

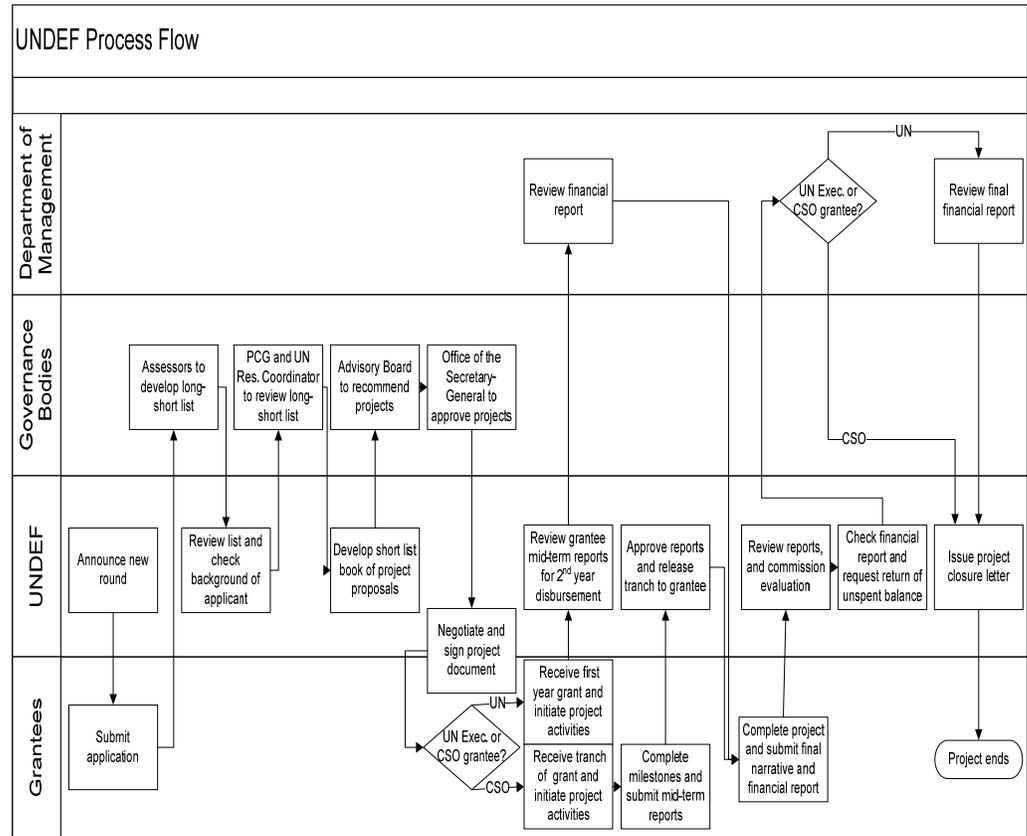
25. *UNDEF accepted recommendation 4 and stated that UNDEF's key performance indicators need further elaboration. The basic indicator is to strengthen demand by civil society to undertake "voice" projects. For the next Annual Report UNDEF will add further indicators. Recommendation 4 remains open pending provision of evidence of further indicators in the annual report.*

#### B. Programme of Work

##### Process-Flow

26. The Project Guidelines and Templates for each round have changed as UNDEF has learned from its experiences and adopted improved ways of working. UNDEF attaches significance to its monitoring and reporting of projects with project implementing partners required to submit mid-term and final narrative substantive and financial reports. UNDEF monitors submission of reports and project milestones identified in project documents. Verification of project milestones in the field is performed by either UNDP Country Offices (including via hiring a consultant for a fee), or by an external consultancy firm on a pro-bono basis. Evaluations of selected UNDEF projects have been performed by contractors. Figure 3 illustrates the high level end-to-end project cycle as of round 4.

**Figure 3. UNDEF Project Process-Flow**



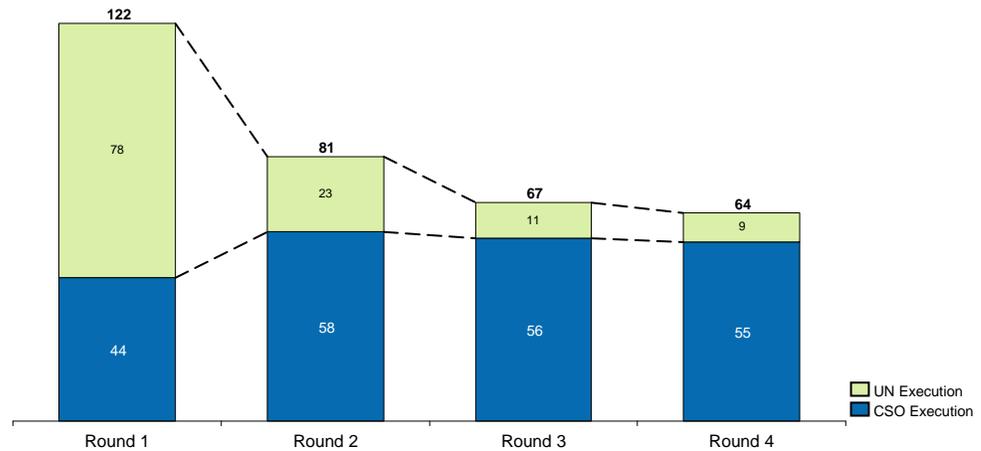
Source: UNDEF personnel and proposal / project guideline documents.

27. UNDEF successfully managed the grant call process, from screening applications to grantee selection.

The operational budget structure and allocations require revision

28. The structure and budget lines have not been reviewed since the inception of the Fund. For example, Office of Programme Planning, Budget and Accounts (OPPBA) cost has remained the same since 2006 at the rate of about \$370,000 per year, even though the services required from the Office of Central Support Services (OCSS) has decreased. The reasons for the reduction in services required from OCSS are that UN agency-executed projects involve more work for OCSS than CSO-executed projects, and as Figure 4 illustrates, both the total number of UNDEF projects and the ratio of UN agency-executed projects to CSO-executed projects have generally decreased year-on-year.

**Figure 4: UNDEF's approved projects**



Source: Data provided by UNDEF.

29. OIOS also found that the other line items such as the rental costs required a review for their reasonableness.

### **Recommendation 5**

**(5) UNDEF should evaluate and revise its operational budget structure and allocations to ensure that they reflect UNDEF's current operational objectives.**

30. *UNDEF accepted recommendation 5 and stated that the 2011 budget will not be based on previous years' precedents but will be "zeroed" and built from the bottom. Circumstances have changed since the original UNDEF budget template was prepared. In particular, the level of support costs paid to other parts of the UN system will be carefully reviewed to reflect actual service needs. Negotiations on this issue have already begun.* Recommendation 5 remains open pending the provision of evidence of UNDEF's revised operation budget structure and allocations.

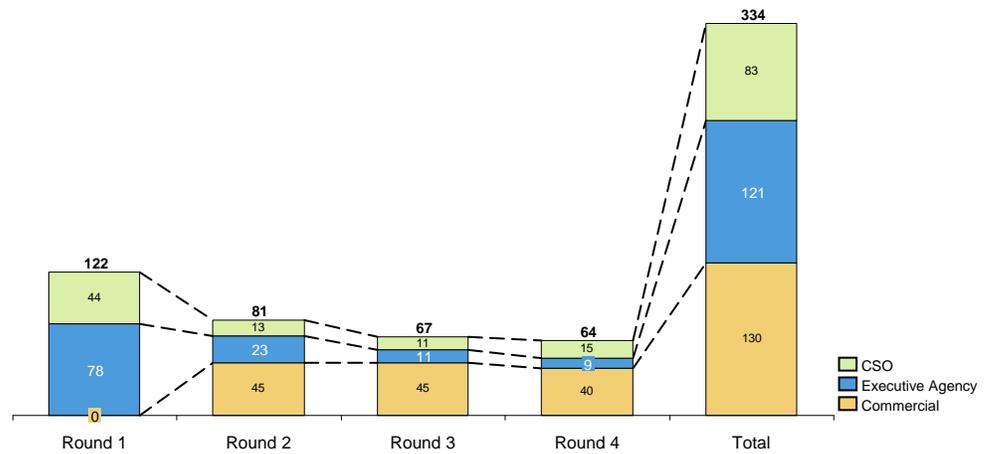
#### UNDEF's programme evaluation strategy needs to be reviewed

31. UN-funded programmes are generally required to demonstrate results and impact through rigorous monitoring and evaluation of their activities. UNDEF has established an effective monitoring system through direct and third party involvement. Impact evaluation has, however, not been effective for the first round projects because of the initial approach which gave the latitude to the grantees to carry out their own evaluations. UNDEF project guidelines required a systematic budgeting for evaluation funds for each project at the rate of 10 percent of the total budget but not more than \$25,000. To prevent delay in the submission of evaluation reports, and to improve the quality, consistency, and credibility of the reports, UNDEF has now decided to commission commercial evaluations starting from the second round.

32. Although it is important for UNDEF to demonstrate results and impact through independent review of its projects, it is OIOS's view that UNDEF has

committed too much funds for this activity. Currently, UNDEF's policy requires 100 percent evaluation coverage of all its projects, irrespective of their size. For the first round only, which had approved 122 projects and \$35.2 million in funding, about \$2.9 million was devoted to evaluation. For rounds one through round four, about \$7.7 million was budgeted for evaluation. In order to carry out more effective and timely evaluation, UNDEF has signed a contract with a consulting firm for an initial commitment of \$2.5 million for two years with an option to extend for three additional one-year periods bringing the cost of the commercial strategy to a Not-to-Exceed (NTE) amount of about \$5.3 million for five years. Figure 5 illustrates the project evaluations expected to be undertaken by the CSO-appointed evaluator, the Executive Agency or by a commercial contractor, by round.

**Figure 5: Type of project evaluators**



Source: Data provided by UNDEF.

33. In OIOS' opinion, UNDEF does not need to evaluate every single project to demonstrate its effectiveness and impact. Firstly, UNDEF has established a good monitoring system with interim and final narrative reports, which generally provided adequate information on project activities. Secondly, 100 per cent coverage of all round projects is costly. OIOS also believes that even if UNDEF was to resort to commercial evaluation, it should select a sample of the total project population and aim to keep the evaluation costs below \$1 million. Savings on evaluation costs could be allocated to finance additional projects. Following consultation with the Procurement Division, UNDEF stated that it would be counterproductive to renegotiate the contract with the commercial evaluator. Evaluations to be conducted by the contractor are scheduled to begin in October 2010 and to continue thereafter on a very tight schedule over the following two years and to attempt to renegotiate the contract will jeopardize this process. UNDEF also indicated that as the contract only binds the UN for two years during which the second and third rounds will be evaluated, UNDEF will take into account the OIOS view when considering the extension of the evaluation consultancy contract for future rounds.

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## Recommendation 6

**(6) UNDEF should review its evaluation strategy in order to reduce allocation of resources to evaluation and thereby achieve significant cost savings.**

34. *UNDEF accepted recommendation 6 and stated that UNDEF's emphasis on the need for evaluation reflects the emphasis placed on this issue by the Advisory Board. The reference to "all projects" needs some clarification:*

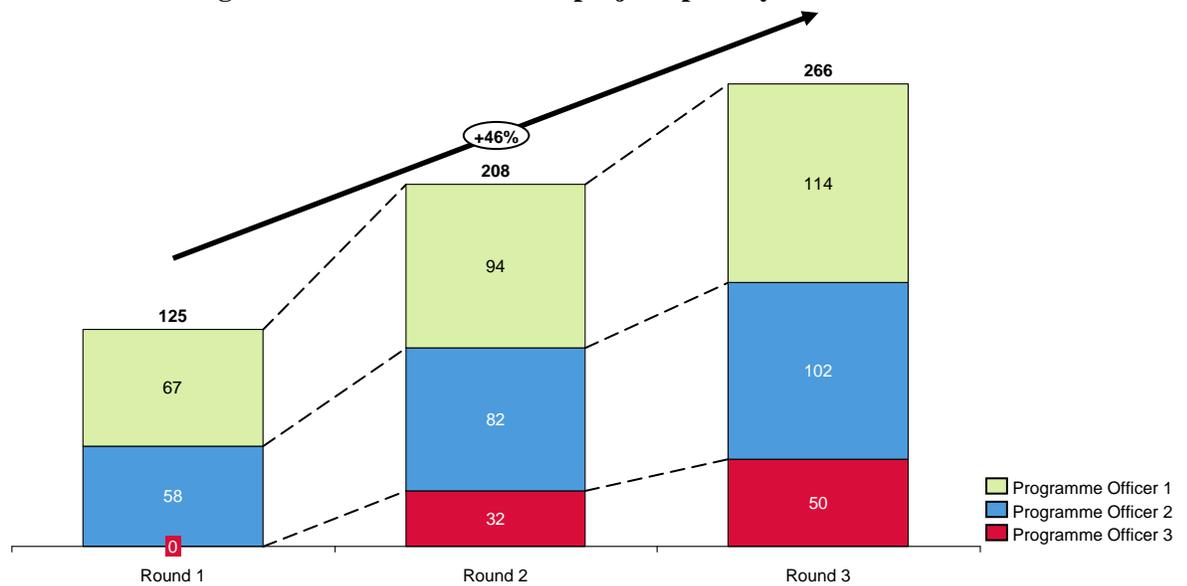
- *The first round projects all had a built-in mechanism for evaluation to be conducted by the executing agency of the project (either a UN body or the implementer of the project). This system is the subject of a meta-evaluation by a consultant;*
- *Starting with the second round of projects, the amount designated for monitoring and evaluation was retained by UNDEF and with it comes the responsibility for deciding on the evaluation strategy and allowing for greater flexibility;*
- *Of the 148 projects in the second and third rounds, 34 have UN executing agencies which receive project support costs under which they are responsible for having evaluations undertaken; and*
- *Of the remaining 114 projects, UNDEF has entered into a contract with a consulting firm to conduct evaluations of up to 90 projects. The balance of 24 projects will either be evaluated on an ad hoc basis or not evaluated.*

*As UNDEF is a new Fund delivering a new product which essentially began with the second round of funding with grants focused on local NGOs, it is important that UNDEF stakeholders receive a strong initial evaluation of its work to guide the Fund's future direction. This will be accomplished by the very broad evaluation result that will be obtained for the second and third rounds. Thereafter, there will be a diminishing return on evaluations and UNDEF will be more selective in which projects are evaluated. Evaluations are necessary at this early stage of UNDEF's work but will be more selectively undertaken thereafter. Recommendation 6 remains open pending the provision of UNDEF's new evaluation strategy to achieve significant cost savings.*

### UNDEF needs to conduct staff workload analysis and develop a plan to address workload issues

35. The first round projects that started in 2007 should all have been closed in 2009. However, only 24 out of 122 projects had been closed by 2 July 2010. During interviews, programme officers have consistently reported that excessive workload prevented them from being able to dedicate time for each project. As new rounds initiate, each programme officer's project portfolio/workload increases as illustrated in Figure 6.

**Figure 6: UNDEF: Number of projects per key staff**



Source: The chart is based on the UNDEF Tracking Sheets.  
Note: Figures include cancelled projects.

36. Apart from limited manpower available against the increasing amount of workload, the reasons for the delays in closing first round projects included:

- reporting delays on the part of grantees (narrative, financial and evaluation reports);
- delays in coordinating with UN Accounts Division due to misalignment on grantee financial reporting format requirements of UNDEF versus those of the UN Accounts Division. At the time of audit, this misalignment has been addressed by UNDEF.

37. Consequently, work on the first round projects take up significant amount of time for programme officers and thereby effectively reduce the time they can allocate to subsequent round projects. For example, programme officers have to repeatedly follow-up with first round grantees to ensure their compliance with reporting requirements. The Advisory Board expected UNDEF to finalize the closure of the first round projects by June 2010. However, with some projects still carrying unspent balances, UNDEF plans to extend them in order to resolve the financial closure. This already heavy workload is further burdened by additional reporting requirements after first and subsequent rounds for each project.

38. For project management (planning and monitoring), UNDEF's authorized staffing table had only two programme officers at the P-5 and P-3 level. An additional Programme Officer at the P-2 level was loaned by UNFIP on a temporary basis from second round onwards. UNDEF is at risk that this temporary arrangement could come to an end and the 50 projects currently managed by this Programme Officer would be allocated to Programme Officers 1 and 2, resulting in further increases to the workload.

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## Recommendation 7

**(7) UNDEF should conduct a workload analysis of its Programme Officers taking into consideration any additional workload required in managing projects.**

39. *UNDEF accepted recommendation 7 and stated that UNDEF project officers are under great pressure. The closure of most first round projects will ease this pressure but it will remain considerable. Two project officers (P5, P3) cannot by themselves manage project oversight for two rounds of projects at one time. The problem is exacerbated by the fact that some projects will inevitably run beyond the two years. The two principal project officers cannot be expected to have to manage more than 40-45 projects each (which only allows for about one hour per project per week). The balance will be handled by a temporary staff member working on both UNDEF and UNFIP projects and by the other two officers in UNDEF (D1, P5) who normally deal with management and outreach issues. Flexibility is achieved by having an UNFIP temporary officer work on UNDEF projects as need requires. Recommendation 7 remains open pending the provision of evidence of UNDEF's new workplan.*

### UNDEF needs to clear unspent balances for the projects that have been completed and operationally closed

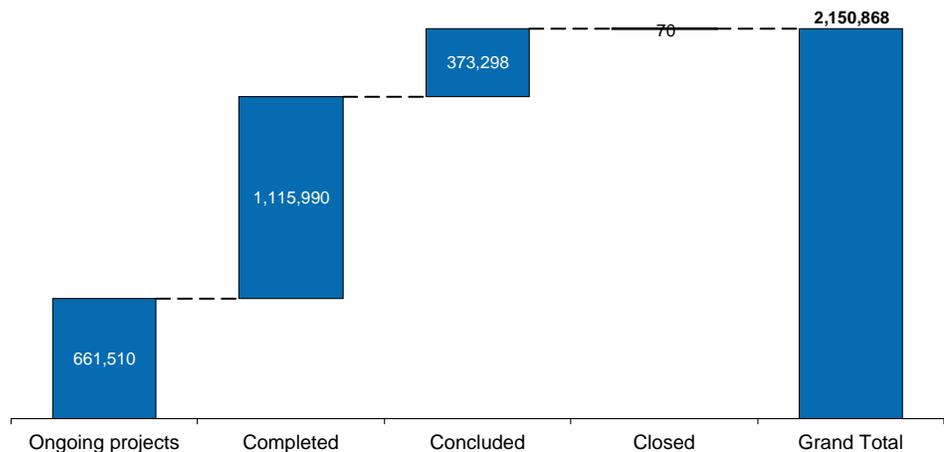
40. In May 2010 UNDEF's Advisory Board and the United Nations Controller approved a policy that unspent projects balances less than \$1,000 on completed projects funded by UNDEF should be treated as project expenditures (i.e. such balances can be retained by the grantees). Any unspent balance amounts above \$1,000 for such projects should be returned to the Fund. UNDEF distinguishes three main stages in a project closure:

- Stage 1 - a project is "completed" when all activities have been implemented and the project is pending receipt of final documentation (financial and/or narrative and/or evaluation reports).
- Stage 2 - a project is "concluded" when the project is operationally closed by UNDEF (final documentation has been received and reviewed by UNDEF and financial documentation has been forwarded to UNFIP and, where applicable, UN Accounts for financial review).
- Stage 3 - a project is "closed" when the project is operationally and financially closed; remaining funds have been returned to UNDEF, and UNFIP/UN Accounts have reviewed and signed off all financial documentation (including the Statement of Income and Expenditures for UN-executed projects).

41. As mentioned above, the first round projects that started in 2007 should all have been closed in 2009, given that maximum project duration is typically 24 months. However, only 24 out of 122 projects had been closed by 2 July 2010. OIOS noted, however, that the first round projects were in the process of being reviewed for closure including Stage 1 (i.e. completed) and Stage 2 (i.e.

concluded) projects. These projects carried significant amounts of advance balances that were yet to be justified or returned to UNDEF. Generally, the advance balances were related to UN executing agencies. Figure 7 shows advance balances data for the first round projects executed by UN agencies by project status. Overall, as of 2 June 2010, the first round projects executed by UN agencies carried advance balances (i.e. potentially unspent balances, if no justifiable expense reports are received by UNDEF) totaling \$2,150,868, which is approximately six per cent of the \$35,201,230 allocated for the first round projects.

**Figure 7: UNDEF First Round Projects Executed by UN Agencies – Advance Balances (in \$)**



Source: Financial data as of 2 June 2010 provided by UNDEF.

Note: 15 projects with unspent balances under \$1,000 with a total unspent balance of \$4,809 are included in calculations.

42. Apart from advance balances data, UNDEF has also provided financial figures as of 13 July 2010 for unspent balances based on the assumption that unspent balances relate only to closed and concluded projects (47 projects), and where UNDEF has received the appropriate documentation to be informed about the final financial figures. For closed and concluded projects only, UNDEF reported that its unspent balances for projects executed by UN agencies and CSO-executed projects amounted to only \$137,912, and \$66,349.05, respectively. However, UNDEF noted that the unspent balance figures would increase as further projects are closed or concluded.

### **Recommendation 8**

**(8) UNDEF should, in coordination with the Accounts Division, follow-up with UN executing agencies to clear the unspent balances for concluded and completed projects.**

43. *UNDEF accepted recommendation 8 and stated that the first round was a very large round with the bulk of funds going to or through UN agencies. The issue of unspent balances is actually largely an issue of the lag in the provision of financial utilization reports by some UN executed projects. Since the OIOS report was written, the figure of \$2,150,868 has been reduced to \$1,543,306*

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*because further financial reporting has been received. This was generated by the emphasis UNDEF has placed on closing first round projects in 2010. It is anticipated that the actual amount of unspent balances for the first round projects will be less than \$0.5 million. All unspent balances will become available to UNDEF for future funding rounds. Unspent balances are being returned as projects are closed. Only a small handful of first round projects have not produced financial reports. Recommendation 8 remains open pending provision of evidence that unspent balances for completed projects have been cleared.*

## V. ACKNOWLEDGEMENT

44. We wish to express our appreciation to the Management and staff of UNDEF for the assistance and cooperation extended to the auditors during this assignment.

### STATUS OF AUDIT RECOMMENDATIONS

Rec. No.	Recommendation	Risk category	Risk rating	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	UNDEF should develop a fundraising strategy to ensure the sustainability of its activities.	Strategy	High	O	Submission to OIOS of a fundraising strategy.	2011
2	UNDEF should strength its strategic communication plan by preparing a separate Secretary-General's report to the General Assembly on UNDEF activities	Strategy	High	O	Submission to OIOS of evidence of a separate Secretary-General's report to the General Assembly on UNDEF activities.	2011
3	UNDEF should ensure that its newsletter reaches grass-root civil society organizations and consider expanding alternative communication channels such as periodic field outreach activities.	Strategy	Medium	O	Submission to OIOS of evidence of analysis of the number of CSOs receiving the newsletter as a percentage of total circulation, and for a strategy to encourage field outreach activities.	Not provided
4	UNDEF should revisit its performance indicators to ensure that they reflect UNDEF's most critical strategic and operational targets and are linked to its objectives.	Governance	Medium	O	Submission to OIOS of evidence of further indicators in the annual report.	2011 Annual Report
5	UNDEF should evaluate and revise its operational budget structure and allocations to ensure that they reflect UNDEF's current operational objectives.	Governance	High	O	Submission to OIOS of evidence of UNDEF's revised operation budget structure and allocations.	2011
6	UNDEF should review its evaluation strategy in order to reduce allocation of resources to evaluation and thereby achieve significant cost savings.	Governance	Medium	O	Submission to OIOS of UNDEF's new evaluation strategy to achieve significant cost savings.	Not provided
7	UNDEF should conduct an analysis of its workload taking into consideration any additional workload required in managing projects.	Operational	Medium	O	Submission to OIOS of evidence of UNDEF's new workplan.	Not provided

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<b>Rec. No.</b>	<b>Recommendation</b>	<b>Risk category</b>	<b>Risk rating</b>	<b>C/O<sup>1</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>2</sup></b>
8	UNDEF should, in coordination with the Accounts Division, follow-up with UN executing agencies to clear the unspent balances for concluded and completed projects.	Financial	Medium	O	Submission to OIOS of evidence that unspent balances for completed projects have been cleared.	Not provided

1. C = closed, O = open

2. Date provided by UNDEF in response to recommendations.