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INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

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TO: Mr. Gurpur Kumar, Deputy Director
A: New York Audit Service
Internal Audit Division, OIOS

DATE: 27 September 2011

REFERENCE: CDO/11/0327

FROM: Marie Oveissi, Officer-in-Charge
DE: Capacity Development Office, DESA

SUBJECT: **Assignment No. AN2011/540/01- Audit of DESA's Global Centre**
OBJET: **for Information and Communications Technology in Parliament Project INT05X73**

Reference is made to your memorandum dated 26 August 2011 forwarding the above-mentioned draft audit report. Attached please find DESA's overall comments on the report, along with feedback on the proposed recommendations and opportunities for improvement (Annexes I and II). In providing these comments, I would like to take the opportunity to raise the following two issues:

First, the report noted that the project's governance mechanisms were adequate to oversee its activities, the project had strong leadership to carry out its activities and to account for results, and the performance reporting framework had been instituted to report on project performance and utilization of resources. However, OIOS' overall assessment was that the project's risk management, controls and governance processes were "partially satisfactory." As this assessment seems somewhat inconsistent with the detailed audit findings, the department would appreciate receiving further information on how the overall rating is determined, and whether it is based on established criteria which define set standards expected for each distinct rating. We would also be interested in knowing if OIOS can offer guidelines and/or tools to facilitate the Department's understanding of each rating, and guide our own internal monitoring of activities to promote "satisfactory" outcomes.

Second, while DESA had identified 12 potential risks in the project document, none of these risks specifically addressed the management and sustainability of the project. While DESA has accepted OIOS' recommendation to develop a comprehensive project risk management framework, we would appreciate receiving guidance from OIOS on the organizational standards which should be followed in formulating such a framework. Without this, DESA runs the risk of developing risk management strategies which OIOS may subsequently consider inadequate.

I would like to take this opportunity to express the Department's appreciation for the detailed review carried out by the audit team, and look forward to receiving clarification on the above points.

cc: Ms. Haiyan Qian
Mr. Gherardo Casini
Ms. Amy Wong

DESA's Comments on OIOS Assignment Number AN2011/540/01

<u>Audit of the Global Centre for ICT in Parliaments</u>

Overall Assessment

'*In OIOS opinion, the project's risk management, controls and governance processes examined were* ***partially satisfactory*** *to provide reasonable assurances regarding the achievement of its objectives."*

During the implementation of the audit, OIOS reviewed the project document, organizational structure, terms of reference of the Board and Advisory Committee, agendas and minutes of Board meetings, annual work plans and cost plans, financial authorizations, monthly financial imprest reports, progress reports, financial statements, publications and other outputs, staffing table, job descriptions, and other relevant information. OIOS also reviewed the project's public website and obtained project statistical data and other documentation. In addition, OIOS reviewed reference documents contained in the report of the World Summit of the Information Society (WSIS) held in Tunis, Tunisia in 2005. OIOS also conducted interviews with DESA officials in New York and Rome.

The sections on Audit Results (Page ii) as well as the Overall Assessment (Section IV) indicate that OIOS found that "*the project's governance mechanisms, comprising an independent high-level Board and Advisory Committee, and DPADM and CDO within DESA were adequate to oversee its activities. The project also had strong leadership to carry out its activities and to account for results. The project performance reporting framework had been instituted to report on project performance and utilization of resources*."

Against the highly positive review outlined above, the Department is of the view that OIOS' overall assessment that the project's risk management, controls and governance processes examined were only "partially satisfactory" is inconsistent with the audit findings. DESA would have expected that the overall audit assessment would have been "satisfactory" based on the very strong governance and oversight mechanisms which had been instituted, while at the same time making recommendations for areas which could be strengthened.

The Department would appreciate receiving feedback on the criteria used by OIOS in distinguishing between the overall ratings, and what guidelines/tools can be provided to the Department to (1) facilitate its understanding of the ratings; and (2) guide its own internal monitoring of activities to promote "satisfactory" outcomes.

Recommendations

A. <u>Fundraising Strategy</u>

The audit reflects that DESA was only able to mobilize $5.1 million against the proposal of $16.6 million, of which Italy funded 93%, noting that reliance on Italy as the main donor and the lack of strategy to diversify funding sources exposed the project to undue financial risk and uncertainty.

While a formal fund raising strategy had not been formulated, the audit did not touch upon the multiple fundraising efforts implemented by the Centre which resulted in the approval of 4 parallel projects funded through the UN Development Account and the European Commission, totalling \$3.3 million. Due to the funding regulations of these funds, they could not be commingled with the core account. Therefore, the activities were implemented in parallel with the core project and contributed to the overall objectives of the Centre . In order to mobilize the EC funding, the Centre co-shared 15% of the project's overall costs.

In addition, the project document had foreseen the need to establish partnerships for fund raising purposes (both cash, parallel financing, and parallel activities implemented by partners), and the audit noted that the project had been successful in overcoming its funding gap through receipt of contributions from partners and collaborative arrangements. As concerns the Advisory Board, the Project Document noted that one of its roles was to "ensure proper fundraising and advocacy for its activities." Therefore, despite the absence of a "formal fund-raising strategy", DESA was continually engaged in fund raising and cost-sharing initiatives.

Recommendation: DESA agrees to prepare a formal fund raising strategy in the context of the 2nd Phase of the Centre (2012 and beyond). At the same time, we note that a strategy cannot **commit** external parties (Board, IPU, Stakeholders) to the project's financial sustainability. We suggest reformulating the recommendation as follows: ***DESA should prepare a comprehensive fundraising strategy for approval by the Board, and report on its implementation during Board meetings.***

B**.** Financial forecasting

Gaps in Project budget and Actual Contributions

As reflected above, the project received more than \$5.3 million when parallel projects (Development Account and EC) are taken into account, the value of which totals \$ 8.9 million.

The relationship between "receipt against the contributions" and the ability to forecast is entirely unclear. Contributions in hand represent the value of the funding available to implement activities in the short period. Contribution agreements, which define future contribution commitments of donors, allow DESA to forecast the financial situation in the coming period, and to formulate its annual budgets according. For example, the budget revision presented to Italy was formulated on the basis of the cash received, as well as future funding sought from Italy to support the project over a 5 year period. The revision does forecast the funding required for future periods, which ultimately defines the programme of work.

The provision of new funding from the European Parliament to support a specific meeting of the Global Centre was due to the Centre's efforts to diversify funding and reach out to new donors. The funding from the Parliament was never intended to contribute to the broader activities of the Centre, and therefore the refund had no negative implications on the Centre's programme, as implied by the Audit.

Paragraph 14 makes reference to a \$25.0 million budget for the next phase of the Centre (2011-2020) which is not supported by prospective donors. Any future extension of the Centre's activities would only be effective in 2012. As the project proposal has not yet been formulated, nor vetted internally with DESA, the value of its future operations has not yet been determined. DESA will put into place a fundraising strategy for the next phase of the Centre. However, a fundraising strategy can only outline the mechanisms to be followed to solicit interest and contributions; ultimately, the economic situation of donor countries, and their priorities, will have a major impact on contributions to the Centre.

Contributions from partners and collaborative arrangements were not adequately recorded

In its reports to the Advisory Board, the Global Centre included information on activities which were sponsored by its Partners. In most instances, no financial value was attached to these arrangements as they are not recorded in the accounts.

During the exit interview, DESA informed the audit of the organization's policies and procedures on the recording of in-kind contributions, which can be found in ST/SGB/2006/5 on the Acceptance of Pro bono Goods and Services, as well as the instructions from the Director of the Accounts Division dated 17 November 2006 on the reporting of contributions in kind in the financial statements. The project was not required to report in the accounts on the following basis:

(a) UN Associate Experts are assigned to projects and programmes through the UN Secretariat, when donor countries agree to fund those positions. The Associate Experts are staff of the UN Secretariat and their salaries and related entitlements are recorded in the UN Accounts. As these experts were assigned to the Global Centre project, they are not in-kind contributions to the Centre. Recording their costs would imply double accounting in the UN financial statements.

(b) Paragraph 5 of the Accounts Division memo indicates "facilities or contributions provided under the host country agreement are not recorded in the accounts as voluntary contributions and are therefore excluded. Therefore, the provision of conference services/facilities/rooms/accommodations/meals, etc., arranged under the HCAs are not recorded in the accounts. (The audit team was provided with copies of all associated HCAs).

(c) The Partnership Section of the Project document noted that in order for the Centre to achieve its objectives, it would count on voluntary multi-stakeholders support. Such partnering includes drawing on the services of parliamentarians in developed countries to participate in assessment missions. In accordance with Section 3 of ST/SGB/2006/5, **services which are provided to technical cooperation projects, and for which the United Nations is not the end beneficiary, do not fall under the criteria of probono.** As the end user is not the UN, the value of such service should not be recorded in the UN accounts.

(d) Cost-sharing of DSA for participants falls under the Host Country Agreement, which is excluded from in-kind contribution reporting (see b above).

Recommendation: In accordance with the Organization's current policies and procedures on the recording of in-kind contributions, the sponsorships to the Global Centre's activities should not be recorded in the UN accounts. Therefore, the recommendation as formulated cannot be accepted. At the same time, the Global Centre does see the value of informing the Board of all partnership arrangements, and will include a distinct section on Partnership arrangements in its future reporting to the Board, although no cost will be associated to these arrangements.

Opportunity: Financial forecasting is fully dependent upon commitments of donors which are formalized through contribution agreements. While DESA will prepare and implement a fundraising strategy, it is not a position to "**procure a predictable supply of contributions**", nor "**commit**" project stakeholders. At most, the project stakeholders can be encouraged to continue support to the project through active partnerships and cash contributions.

D. Risk management and strategic planning

The audit report recognized that the project document attempted to outline possible risks, and that 12 specific risks had been identified. The audit also noted that the project took action to mitigate these risks. While the risk analysis did not formally address management and sustainability of the project, the absence of two risk indicators does not equate to an inadequate risk management framework. Furthermore, the Department is of the view that the very strong governance arrangements put into place, which was approved through the Advisory Board, strengthened the Centre's management's arrangements. In fact, paragraph 18 and 19 of the audit noted that the project had adequately implemented a governance and oversight framework to oversee the project planning, resource allocation and monitoring of deliverable against project objectives.

While DESA is prepared to strengthening its risk management through developing a formal framework, the audit team was unable to provide guidance on the organizational standards which have been put into place in developing a risk management framework, which would set the benchmarks for developing this framework. Without proper guidance, DESA runs the risk of missing criteria deemed necessary by OIOS.

Recommendation: DESA accepts the recommendation and will prepare a risk management framework for the 2nd phase project of the Global Centre. DESA would appreciate guidance from OIOS on the organizational standards which should be followed in formulating such a framework.

Formal exit strategy had not yet been prepared

A formal exit strategy had not been formulated as there is every expectation that the Centre will be continued for another 10 year period under a 2nd phase. While the audit notes that the project's assets would be lost, these assets belong to DESA and would remain as intellectual property of the Department.

Recommendation:

DESA accepts the recommendation to prepare an end-of-term evaluation and exit strategy prior to its extension or termination.

Audit Inaccuracies

DESA's Project Office in Rome does not serve as the Secretariat of the project "Global Centre for ICT in Parliaments", nor is the Head of the Project Office the head of the "Global Centre project". The current staffing of the Global Centre project consists of 3 Professional positions and 1 support position, complemented by professional staff working under parallel projects funded by the European Commission, and located in the Centre's premises. These personnel collectively form the Secretariat of the Global Centre. The Head of DESA's Project Office provides overall guidance and oversight to the work of the Global Centre, and the DESA Project Office provides the infrastructure for the Centre's administrative and financial management.