

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

THE UN WOMEN FUND FOR GENDER EQUALITY

Report No. 1228
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Table of Contents

| | |
|--|----------|
| Executive Summary | i |
| I. About the Fund | 1 |
| II. Audit results | 1 |
| A. Governance and strategic management | 2 |
| B. Grantee management | 4 |
| Definitions of audit terms - ratings and priorities | 7 |

Report on the audit of the UN Women Fund for Gender Equality Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the Fund for Gender Equality (the Fund) of the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) from 20 November to 20 December 2013. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas:

- (a) governance and strategic management (organizational structure, risk management, planning, monitoring and reporting);
- (b) programme management (grant-making);
- (c) grantee management; and
- (d) operations (financial management and reporting). The procurement and supply management, human resources management, and asset management functions are centralized within the Division for Management and Administration and were not covered by the audit.

The Fund is managed by the secretariat within the Programme Division (the Office). The audit covered the activities of the Fund from 1 July 2012 to 30 September 2013. The Fund recorded expenditures totalling \$14.6 million. This was the first audit of the Fund.

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

Overall audit rating

OAI assessed the Office as **satisfactory**, which means “Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.” This rating takes into consideration that the issue within governance and strategic management, resulting in two high priority recommendations, is partly outside the control of the Office.

Key recommendations: Total = 5, high priority = 2

For high (critical) priority recommendations, prompt action is required to ensure that UN Women is not exposed to high risks. Failure to take action could result in major negative consequences for UN Women. The two high (critical) priority recommendations are presented below:

Insufficient efforts to ensure operational and financial sustainability (Issue 1)

The Project Document that created the Fund expired in 2012. However, the project continues to operate without action being taken to formally extend the Project Document. This may negatively impact the governance and management structure, sustainability of the Fund, and the approved support costs payable to UN Women. Further, the funding of \$76 million received from seven donors during the period from 2009 to 2013 was insufficient to sustain the Fund operationally and financially beyond 2015. In addition, the Office did not have an approved resource mobilization strategy or action plan to guide its efforts in mobilizing funds.

Recommendations:

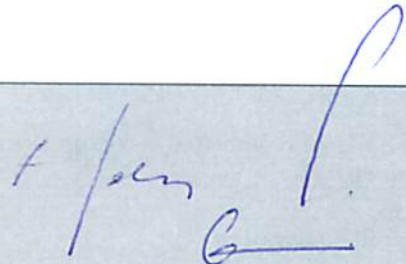
Review, update and approve the Project Document to clarify the strategic direction and operating framework of the Fund. The amended Project Document should include the approved governance and management structure, a sustainability strategy and percentage and use of support costs.

Document, approve and implement a resource mobilization strategy and action plan that provides for the financial requirements of the Fund as identified in the amended Project Document.

Management comments and action plan

The Chief, Fund for Gender Equality, and the Director, Programme Division accepted all recommendations and are in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (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 Fund

The Fund was established on 19 August 2009 as a global multi-donor fund that is exclusively dedicated to women's economic and political empowerment. The Fund provides grants to women-led organizations and governmental agencies that: (a) contribute to increasing women's access to and control over decision-making, land, technology, credit, livelihoods and other means of production and social protection; and (b) permit women to take on leadership roles and participate fully in political processes and in all spheres of public life, particularly formal institutions.

UN Women inherited the secretariat or administrator role of the Fund from the United Nations Development Fund for Women (UNIFEM) and it was incorporated within the Programme Division as a separate unit. The secretariat is located in New York and is headed by a Chief who is supported by 10 international staff members on fixed-term appointments and 2 individuals on temporary appointments. Of the 10 staff, 4 are located in 4 geographic regions as Monitoring and Reporting Specialists. A Steering Committee comprised of donor representatives, governments, non-governmental organizations, and multilateral agencies advises on the overall design and policies of the Fund. A Technical Committee that comprises of regional experts in women's economic and political empowerment, reviews grant proposals and makes recommendations for funding. The Fund is reported to have granted \$56.5 million in support of 96 grantee programmes in 72 countries since its inception.¹

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management. The grant-making process was well-defined. No reportable issues were noted.
- (b) Finance management and reporting. No reportable issues were noted during the review of financial reports prepared by the Office. Existing controls were adequate.

OAI proposes five recommendations that are ranked high (critical) and medium (important) priority.

Low priority issues/recommendations were discussed directly with and agreed to by the Office and are not included in this report. Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are no longer included in this report.

High priority recommendations, (arranged according to significance):

- (a) Review update and approve the Project Document for the Fund (Recommendation 1).
- (b) Document and implement a resource mobilization strategy and action plan (Recommendation 2).

Medium priority recommendations, (arranged according to significance):

- (a) Develop a plan which maps monitoring activities to be performed for all grantees (Recommendation 3).
- (b) Provide financial monitoring training to monitoring and reporting staff (Recommendation 4).
- (c) Implement a process to systematically review and take action on recommendations in audit reports of grantees (Recommendation 5).

¹ <http://www.unwomen.org/en/trust-funds/fund-for-gender-equality>

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Insufficient efforts to ensure operational and financial sustainability

The UN Women Strategic Plan 2011-2013 indicates, inter alia, that UN Women is committed to advancing gender equality and the empowerment of women, including through the provision of targeted funds to support key priorities such as the Fund.

On 19 August 2009, the Fund was established by UNIFEM as Project 00069162. In July 2010, when activities of UNIFEM were merged with three other UN entities to create UN Women, all activities of the Fund became part of the mandate of UN Women's Programme Division. OAI noted the following deficiencies in the corporate management of the Fund, which could negatively affect its operational and financial sustainability:

- No approved operating framework: The project was initially approved to be implemented over three years from August 2009. However, the project continues to operate without authoritative action being taken to formally extend the Project Document which represents its operating framework. This may have negative consequences for the Fund, as follows:
 - Governance and management structure - The Project Document makes reference to support of sub-regional offices and programme offices which no longer exist due to changes effected by the UN Women Regional Architecture implemented in 2013.
 - Sustainability strategy - The existing Project Document does not include a strategy and action plan to ensure sustainability of the Fund. Such a strategy would include an exit clause if it were determined that the best course of action would be to cease all activities of the Fund.
 - Support costs - The Project Document indicates that support fees in the amount of 7 percent are to be paid by contributors to UNIFEM as the then administrator of the Fund. The fees are to meet the monitoring costs incurred by UN Women. In 2013, the UN Women Executive Board agreed to increase all support fees to 8 percent, however, there needs to be clarity regarding the application of the new fees to the Fund.

In preparation for the audit, the Office had conducted a Programme and Operational Review (report dated 20 November 2013), in which several of the above issues were highlighted. A draft plan of action was made available for OAI's review.

In their response to the draft audit report, the Office and Programme Division indicated that the Project Document update was deliberately postponed pending the completion of the Regional Architecture, the approval of the new UN Women Strategic Plan 2014-2017, and completion of this internal audit.

- Financial sustainability at risk: Between 2009 and 2013, the Fund received contributions from seven donors totalling \$75.6 million and had signed grant agreements totalling \$56.7 million for activities to be conducted through 2015, leaving only \$18.9 million to cover operational, monitoring and evaluation and technical costs related to the signed agreements. This resulted in only \$5.3 million being available to meet operational costs of approximately \$2 million annually through 2015. As such, the Fund may not be able to have a new grant making cycle or to continue operations after 2015 without a corporate decision to support its activities with core funds or intensified fundraising efforts. In 2012, the Fund had proactively drafted a resource mobilization/fundraising brief in which it identified the need for immediate fundraising of \$15

million in the short term to ensure business continuity and a further \$20 million post-2014 for sustainability. Moreover, the brief highlighted the strategic and operational risks if funds were not mobilized. As at the reporting date, no significant corporate action had been taken to mobilize funds specific for the Fund.

Without adequate funding and an approved Project Document, UN Women risks not being able to continue its efforts in advancing high-impact gender equality programmes through its grant-making modality.

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| Priority | High (Critical) |
| Recommendation 1: | |
| Review, update and approve the Project Document to clarify the strategic direction and operating framework of the Fund for Gender Equality. The amended Project Document should include the approved governance and management structure, a sustainability strategy and percentage and use of support costs. | |
| Responsible Division/Section: Programme Division | |
| Management action plan: | |
| Several actions were ongoing to implement the recommendation: (a) The Project Document was being amended to reflect the approved governance and management structure and sustainability strategy; (b) The use of the Fund-related support cost was being discussed with the Division of Management and Administration for inclusion in the final corporate cost recovery policy; and (c) The Programme and Operations Manual Review Committee was reviewing the Fund's policies and procedures for integration into the revised Programme and Operations Manual. | |
| Estimated completion date: May 2014 | |

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| Priority | High (Critical) |
| Recommendation 2: | |
| Document, approve and implement a resource mobilization strategy and action plan that provides for the financial requirements of the Fund for Gender Equality as identified in the amended Project Document. | |
| Responsible Division/Section: Fund for Gender Equality | |
| Management action plan: | |
| The Fund for Gender Equality Resource Mobilization Strategy for 2014 and beyond will be reviewed and approved by the Programme Division and Strategic Partnership Division. | |
| Estimated completion date: March 2014 | |

B. Grantee management

Issue 2 Lack of mechanism for identifying/consolidating monitoring and assurance activities

The Monitoring and Evaluation Framework 2010-2013 defines monitoring as a way to strengthen the impact and effectiveness of its programmes and requires evidence-based monitoring as the best method for measuring progress, detecting problems, correcting them, improving performance and learning at the local and global levels.

OAI noted that the existing monitoring mechanisms may not be sufficient to: (a) identify other challenges and risks that grantees had not reported; and (b) provide easy-to-access, consolidated information for decision-making at the regional or global level. The following weaknesses were noted:

- (a) There was no consolidated monitoring plan or framework that identified monitoring activities based on the level of assurance needed to cover the individual, regional or global risk of working with the various grantees. The need for monitoring visits to the grantees was collectively determined by the regional monitoring and reporting staff, the focal points from UN Women field offices and the Office, depending on priority programmes as well as available human and financial resources. In addition, ad hoc monitoring missions were undertaken by the Office on a case-by-case basis, to address politically sensitive cases that could have a high-impact on achievement of results, delivery of resources and UN Women's reputation. This methodology lends itself to gaps in the monitoring process and may not provide adequate coverage of the total risks in the portfolio.
- (b) A comprehensive online database of remote programmatic monitoring was not available. All documents and reports received from grantees through communications via e-mail, telephone and Skype calls that were used to perform the desk reviews were maintained on a computer shared drive. The information was entered in Microsoft Excel Workbook to consolidate the status and results of grantee. The results of the desk reviews were not easily or efficiently compiled and it was difficult to link the narrative reports to the results reported. The Office indicated that new modules of a Grantee Management System were expected to record monitoring activities as well as permit grantees to provide online updates on the results being achieved and that the system would improve the management of grantee monitoring. Despite the Office's expectation to have the Grantee Management System fully functional by March 2014, OAI raised an observation in its Audit Report No. 1227 (audit of United Nations Trust Fund to End Violence against Women), relating to the possibility that the system may continue to remain unavailable due to errors and failures of modules during the running of queries. Therefore, OAI is not raising a recommendation in this audit report.
- (c) In some cases, financial reviews were performed separate and apart from programmatic reviews and the results from one type of review were not used to inform the other. The Funding and Certification of Expenditures forms which capture the amounts requested, disbursed and used by grantees were reviewed in the first instance by the focal points in UN Women field-based offices, and secondly by the monitoring and reporting staff. The Monitoring and Reporting staff accepted the certification of expenditures by grantees and recommended approval of subsequent advances of funds.

OAI performed a desk review of documents relating to 22 grantees and visited 2 of the grantees in 2 different countries. For one grantee, OAI noted that the underlying financial records did not agree with the Funding and Certification of Expenditures forms provided to the Office and may require an adjustment of approximately \$51,000 or 43 percent of the amount disbursed. This example highlighted the need for independent verification of the amounts self-reported by grantees on the said forms with programmatic

activity reported, which was known to be below the expected results. During discussions with OAI, management and staff of the Office explained that monitoring personnel at the field level may not have the capacity to connect the programmatic deliverables with the use of funds, specifically if they are not located within the country of programme implementation. Also, management indicated in their response to the draft audit report that the roles and responsibilities of UN Women field-based focal points needed to be clarified, vis-à-vis monitoring of grantees to facilitate the financial monitoring. As management clarified the roles of the focal points in January 2013, no recommendation was raised.

- (d) In addition to the monitoring activities, independent audits of grantees are performed at least once during the lifetime of the grant as required by the Project Corporation Agreement. However, the results of these audits are not included as input for UN Women assurance on the use of funds by grantees or as an opportunity to build the capacity of grantees.

The absence of consolidated information related to monitoring and assurance activities may result in ineffective monitoring and assurance activities, non-achievement of grant objectives, challenges not being detected and corrected on a timely basis, and funds not being used as intended.

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| Priority | Medium (Important) |
| Recommendation 3: Define a plan which maps monitoring activities to be performed for all grantees per region, taking into consideration the risk profile of each grantee and the level of assurance required by the Fund. | |
| Responsible Division/Section: Fund for Gender Equality | |
| Management action plan: Management has since developed a monitoring tool that will allow the Fund to determine levels of risk and assurance required for all its grantees and assist in prioritizing monitoring missions at each level. | |
| Estimated completion date: April 2014 | |

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| Priority | Medium (Important) |
| Recommendation 4: Provide training to monitoring and reporting personnel to improve their ability to perform financial monitoring as well as to link programmatic and financial activities. Responsible Division/Section: Programme Division/Fund for Gender Equality | |
| Management action plan: Management indicated that a training session on financial monitoring for monitoring and reporting staff will be delivered by the Finance Section, Division for Management and Administration during the Fund for Gender Equality global retreat in March 2014. Also, the updated "Fund For Gender Equality Focal Point Guide" (Operational Manual), which is being validated by the Finance Section, will include procedures on financial management of grants. Moreover, at the corporate level, additional training options will be explored for UN Women field-based focal points on financial monitoring as part of corporate efforts to strengthen capacity of field offices and encourage focal points to attend. This will commence with the customization of existing training materials and specific webinars for UN Women field-based focal points (on financial monitoring) and grantees (on financial management). Estimated completion date: June 2014 | |

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| Priority | Medium (Important) |
| Recommendation 5: Define, document and implement a process to systematically review and take action on recommendations in audit reports of grantees in coordination with the audit focal points in the Division of Management and Administration. Responsible Division/Section: Fund for Gender Equality | |
| Management action plan: Management has since developed, jointly with the Division of Management and Administration, a system for tracking and managing audits of grantees, which is aligned to UN Women's corporate audit processes. The system will be implemented by April 2014. Estimated completion date: April 2014 | |

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UN Women is not exposed to high risks. Failure to take action could result in major negative consequences for UN Women.
- **Medium (Important)** Action is required to ensure that UN Women is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UN Women.
- **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.