

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the Financial Management of the Voluntary Trust Fund for Mine Action (UNMAS)

21 January 2008
Assignment No. AN2007/600/1

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

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

TO: Mr. Jean-Marie Guéhenno, Under-Secretary-General
A: Department of Peacekeeping Operations

DATE: 21 January 2008

REFERENCE: AUD- *IAD:08-00893*

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AN2007/600/1 - Audit of the Financial Management of the Voluntary Trust**
OBJET: **Fund for Mine Action Service (UNMAS)**

1. I am pleased to present the report on the above-mentioned audit, which was conducted from April to July 2007.

2. Based on your comments, we are pleased to inform you that we will close recommendations 1, 2, 4, 6, and 7 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 3 and 10), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. John Flanagan, Officer-in-Charge, UNMAS
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. William Petersen, Chief, New York Audit Service, OIOS

INTERNAL AUDIT DIVISION

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 Financial Management of the Voluntary Trust Fund for Mine Action (UNMAS)

OIOS conducted an audit of the Financial Management of the Voluntary Trust Fund for Mine Action Service (UNMAS) from April to July 2007. The overall objectives of the audit were to assess the (i) compliance with UN Financial Regulations and Rules and other financial procedures and practices relevant to Fund management; (ii) economy, efficiency, and effectiveness of the financial management; and (iii) implementation status of previous audit recommendations. The audit covered the period from 1 January 2004 to 31 December 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Following OIOS' 1998 and 2004 audits, UNMAS undertook several important measures to improve controls over the financial management of the Voluntary Trust Fund (the Fund). These measures have resulted in marked improvements in the Fund's financial performance and UNMAS' management of Fund assets. Notwithstanding these improvements, OIOS noted a number of control weaknesses in the financial management of the Fund, as detailed below:

- In 3 out of 7 sampled projects, the Fund did not strictly enforce compliance with financial reporting requirements by implementing partners. Financial reports from implementing partners were, on average, submitted 18 months after the deadline during the period from 2004 - 2006;
- In 4 out of 7 sampled projects, UNMAS took 15 months to disburse contributions resulting in the delayed implementation of the projects. UNMAS did not prescribe any timelines to enable it to monitor the efficient disbursement of the funds;
- In 2 out of 7 sample projects, unspent balances totaling \$198,174 were not recovered from implementing partners by the Fund until 12 months after the projects had ended. UNMAS had not established timelines for the efficient return of the unspent balances and accrued interest;
- In the period 2004 to 2006, the average age of accounts receivables relating to balances not collected by the Fund, or reported as expenditures in the financial records, for 102 projects was 15 months; the receivables during the period dated as far back as 2002;
- In all 7 sampled projects, the Fund did not report its financial results to donors in accordance with the timelines stipulated in the donor agreements;
- In 2 out of the 7 sampled projects, modifications to clauses of contracts with implementing partners were not spelled out in addenda to the contracts;
- In general, delegation of authority over certifying and financial management for improved efficiency has not yet been obtained by the Fund.

OIOS has made a number of recommendations to address the observed internal control deficiencies.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Financial Management of the Voluntary Trust Fund for Mine Action (UNMAS) from April to July 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The Secretary-General established the Fund on 30 November 1994. The purpose of the Fund is primarily to finance mine action programmes and projects. Voluntary contributions from donors are the major source of funding. The Fund also receives subvention funding from the UN regular budget and the United Nations Development Programme (UNDP).

3. In October 1997, management responsibility for the Fund was entrusted to the Department of Peacekeeping Operations (DPKO). The United Nations Mine Action Service (UNMAS), a subsidiary of the Office Rule of Law & Security Institutions (ORLSI) within DPKO as of 1 July 2007, administers the day-to-day financial aspects of the Fund. UNMAS is responsible for the timely mobilization of financial resources from donors to achieve the Fund's objectives and strategy. UNMAS is also responsible for the Fund's administration and assuring the effective and efficient use of the Fund's resources.

4. Contributions and other income to the Fund from 1 January 2004 to 31 December 2006¹ totaled approximately \$147 million (see Table 1). Between 2004 and 2006, UNMAS expended approximately \$155 million against total contributions and Fund reserves to implement mine action projects. The total number of UNMAS mine action projects implemented for the same period was 102².

Table 1. Financial Highlights – Voluntary Trust Fund, 2004 - 2006

	2004	2005	2006	Total Period (2004 – 2006)
Total income ³	\$42,558,579	\$50,804,631	\$53,612,329	\$146,975,539
Total expenditures ⁴	\$51,888,342	\$60,936,620	\$42,152,829	\$154,977,791
Reserves and fund balances	\$47,318,037	\$38,202,201	\$54,435,612	\$139,955,850

Source: UNMAS Financial Statements

¹Source: VTF Statement of assets, liabilities and reserves and fund balances, 31 December 2006

² This figure includes projects budgeted for 2007, but started in 2006.

³ Total income comprise Contributions, Funds received from UN agencies, Interest income, and Other/miscellaneous income

⁴ Total expenditures include project expenditures and Programme Support Costs

5. Since the previous OIOS audits, UNMAS undertook a number of internal reviews in relation to the financial management of the Fund. As a result, several improvements were instituted. OIOS reviewed the implementation status of the previous audit recommendations and examined newly implemented controls to determine their operational efficiency and effectiveness.

6. Comments made by UNMAS are shown in *italics*.

II. AUDIT OBJECTIVES

7. The major objectives of the audit were to:

- (i) Compliance with UN Financial Regulations and Rules and other financial procedures and practices relevant to Fund management;
- (ii) Economy, efficiency, and effectiveness of the Fund's financial management; and
- (iii) Implementation status of previous audit recommendations.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered the fund management activities of the Budget and Finance Office of UNMAS and the supporting functions administered by the UN's Central Accounts Division relative to maintaining the Fund's accounting records. The audit examined the Fund's financial management practices for the period from 1 January 2004 to 31 December 2006. The effectiveness of internal controls over the financial management of the Fund's assets, including the safe custody, reporting and disclosure, and maximization of the Fund's assets was also assessed. Specifically, the audit examined financial compliance for 7 out of 102 (7 percent of the total population) partner-implemented projects. The audit was conducted through interviews with key personnel and the review of relevant documentation.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Financial monitoring and compliance

Financial reporting requirements

9. Implementing partners are required to comply with the financial reporting requirements laid out in the governing Memorandum of Agreement (MoA)⁵ or grant agreement⁶, as applicable. Accordingly, implementing partners

⁵ MoAs are established with UN-related implementing agencies (E. g., UNOPs), which receive cash advances to implement projects. The advances are reported in the Fund's

should periodically submit a report on the financial status of the advances and grants they receive from the Fund. Interim reports detailing the amount of expenditures incurred and the projection of cash requirements are required on a quarterly basis. Annual reports are required every 12 months. Within three months of completion of the project, a final certified financial report on income and expenditures against approved cost plans is also required.

10. In general, the implementing partners did not comply with the financial reporting deadlines. Financial reports from implementing partners were, on average, submitted 18 months after the deadline. For the 7 sampled projects, 12 instances of non-compliance with the reporting requirements by implementing partners were noted (Table 2):

Table 2. Compliance with Financial Reporting Requirements

Requirement per Agreement	Rate of Non-Compliance
Monthly Interim Financial Report	6 out of 7
Semi-final Financial Utilization Report	3 out of 7
Annual Financial Statements	3 out of 7

Source: Test results for 7 sampled projects (2004 to 2006)

11. The submission of quarterly financial reports for each project forms the basis for subsequent disbursements to the implementing partners. Additionally, reporting to donors by UNMAS is contingent on the timely and satisfactory receipt of information from implementing partners. Quarterly financial reporting also facilitates the timely and accurate processing of refunds and the apportionment of interest income by implementing partners. However, the auditors found that in 3 out of 7 projects⁷ implemented between 2004 and 2006, quarterly financial reports were not submitted to UNMAS in a timely manner.

12. UNMAS tracks and follows up on compliance with financial reporting deadlines manually. UNMAS informed OIOS that in 2004 and 2005, the Fund's internal capacity to monitor the various reporting requirements was limited. With the appointment of a Finance Officer in 2006, UNMAS intensified its compliance monitoring of financial reporting requirements. In addition, in mid-2006, deadlines were included as an integral part of the terms and conditions of

financial statements as Accounts Receivable. The MoA outlines the reporting requirements of UN-related implementing partners and governs the accountabilities of the UN-related implementing partners to the UN.

⁶ Grant agreements are established with non-UN nongovernmental organizations (NGOs). Much of the actual work, such as demining and mine-risk education, is carried out by these NGOs. As with MoAs, grant agreements outline the reporting requirements of the NGO implementing partners and govern the accountabilities of the NGOs to the UN.

⁷ Projects implemented in Afghanistan, Congo, and Iraq

implementation agreements signed with UNMAS partners. Whilst these measures helped to reduce reporting delays by implementing partners to 5 months in 2006, strict compliance with the reporting requirements is needed to ensure that UNMAS adheres to UN Financial Regulations and Rules.

Recommendation 1

(1) The UNMAS Administration should ensure that implementing partners strictly adhere to financial reporting deadlines established by UNMAS.

13. *The UNMAS Administration accepted recommendation 1 and stated that quarterly financial reporting deadlines have been stipulated in all implementation agreements signed by the UN effective 1 July 2006. Based on the new procedure and UNMAS' assurance that, in future, it will ensure that implementing partners comply with the reporting deadlines stipulated in the MOUs, recommendation 1 has been closed.*

Disbursement of contributions

14. Ninety-six percent (96 percent)⁸ of all contributions to the Fund are earmarked for specific mine action projects. The efficient disbursement of funds to the projects, therefore, is integral to the UN's ability to fulfill its mandate and obligations to the donors. In accordance with the MoAs, disbursement of installments follows a quarterly schedule that is determined in consultation with implementing partners. Disbursement of each quarterly payment is contingent on actual cash requirements and cash projections. Subsequent disbursement of installments during the life of the project also depends on the timely and satisfactory reporting by implementing partners on previous tranches received.

15. OIOS assessed the disbursement timelines of the Fund for 4 of the 7 sampled projects from time of receipt to actual disbursement to projects and found that the average time taken to disburse the contributions to the projects was 15 months. This was mainly due to the administrative burden of processing numerous contributions ranging from several thousand to hundreds of thousands of dollars. All processing of financial transactions, regardless of amount, are routed through the Executive Office of DPKO and approved by the UN Controller.

16. Given the sample results, OIOS reviewed the time taken to disburse contributions to all approved projects between 2004 and 2006 and found that the average disbursement time was 7 months from the time contributions were received into the Fund. Notwithstanding these improved results of the total population, there is a clear need for the Fund to efficiently disburse funds to approved projects to ensure timeliness of project implementation and effective results. In addition, strict adherence to the donor agreements for disbursing the funds to the projects and/or implementing partners should be observed.

⁸ Source: UNMAS

Recommendation 2

(2) The UNMAS Administration should strictly adhere to the specific timelines stipulated in the donor agreements for disbursing funds to projects and/or implementing partners.

17. *The UNMAS Administration accepted recommendation 2 and stated that the timeline for the disbursement of funds is stipulated by donors in the terms and conditions of the contribution agreements signed with the UN. Based on the OIOS' review of the new documented procedure for the disbursement of quarterly payments and UNMAS' statement that, in future, disbursement of all subsequent installments will depend on the timely and satisfactory reporting by implementing partners in order to meet the UNMAS deadline for spending the funds as specified by donors, recommendation 2 has been closed.*

Reconciliation of advances

18. The UN Accounting Manual Standard Operating Procedures and Trust Standard Operating Procedures⁹ require that disbursements against advances are recorded in the accounting records as at the date at which they are made. In accordance with Fund practice, advances are given to UN implementing partners, in particular, the United Nations Office for Project Services (UNOPS¹⁰), under applicable terms of reference outlined in the MoA. During 2004 to 2006, however, UNMAS did not reconcile these advances to actual project expenditures in a timely manner. In 3 out of 7 sampled projects, liquidation of the advances and the recording of expenditures in the Fund's accounting records was not done for as long as 12 months.

19. According to UNMAS, *this was mainly due to delays in the submission of certified financial statements by UNOPS. UNMAS also stated that the practice of the UN Accounts Division is to record expenditures in the accounts only after the certified annual financial statements¹¹ are received from UNOPS. As a result, during the period between 2004 and 2006, expenditures were only updated in the accounting records when the certified financial statements had been received by UNMAS. In view of these delays, there was an overstatement of advances to implementing partners and an understatement of expenditures in the Fund's financial records. Starting in July 2006, UNMAS stipulated new financial reporting requirements, which require UNOPS to report on a quarterly basis. UNMAS should consider using the quarterly financial reports as the basis*

⁹ Volume V. Trust Fund and Technical Cooperation Accounts Section Manual

¹⁰ Frequency of reporting by UNOPS is determined in the memoranda of agreement. Currently, the UN Accounts Division follows the practice to record only those amounts reflected in the financial reports, which are certified by the UNOPS Comptroller as expenditure.

¹¹ Certified financial reports are prepared by UNOPS at the beginning of the year following the accounting period.

for updating the accounting records to ensure that advances and related expenditures are reconciled in a timely manner.

Recommendation 3

(3) The UNMAS Administration should ensure that advances to implementing partners and related expenditures are reconciled on a timely basis.

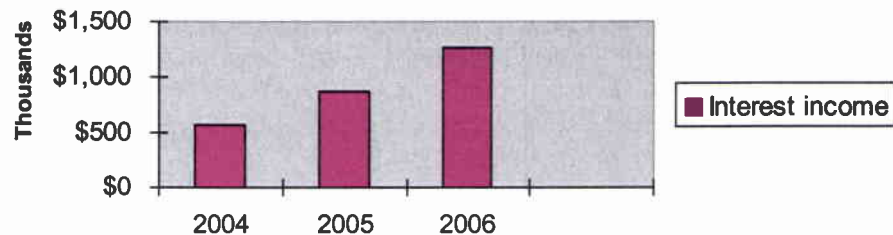
20. *The UNMAS Administration accepted recommendation 3 and stated that it will review further with the Accounts Division the feasibility of updating the relevant financial records more frequently based on interim quarterly financial reports.* Recommendation 3 remains open pending submission of the results of UNMAS’ review with the Accounts Division on the feasibility of updating the relevant financial records on a quarterly basis.

Recovery of unspent balances and interest income

21. Interest income is accrued by implementing partners on cash on hand and regularly adjusted to reflect the latest balance of income due to the Fund. Accordingly, the timeline for the return of unspent balances is determined by the implementation agreement. However, between 2004 and mid-2006, refunds and interest remittances were sometimes received long after the projects had ended. For two projects¹², unspent balances totaling \$198,174 were not recovered by the Fund until 12 months after project completion. Using the UN’s Treasury interest rate of 4.5 percent for the same period, an estimated amount of \$16,400 in related interest income was not reported to the Fund in a timely manner.

22. In general, the Fund’s collection of interest income prior to 2006 was inadequate. For example, due to its weakened capacities to monitor and collect interest, the Fund only collected a total interest of \$1.5 million for the 2004 – 2005 biennium. With a view to improve controls, UNMAS increased its efforts to collect interest due to the Fund in 2006. As a result, approximately \$1.3 million in interest income was collected in a single year, far surpassing collections of an average of \$750,000 for each of the preceding two years (*Figure 1*).

Figure 1. VTF Interest Income: 2004 to 2006



Source: UNMAS Financial Statements

¹² Iraq and Lebanon

23. UNMAS stated that it *has been following up in compliance with the terms and conditions of the implementation agreement to ensure the refund of interest requirements*. UNMAS also stated that *it recognizes that a backlog of outstanding advances/accounts receivable had accumulated by mid-2005, but had been cleared by mid-2006. The backlog was based on financial reports related to projects which started prior to the period under review by OIOS. In some cases, the unspent balances refunded by implementing partners to the Fund are refundable to the donors and cannot be re-programmed*.

24. Notwithstanding the improved collection experience, it was noted that the effort and time taken to collect interest due to the Fund was 24 months for one of the sampled projects. There is a need, therefore, to ensure the timely recovery of unspent balances and interest income due to the Fund from implementing partners. Failure in this area entails the risk of low recovery of these amounts.

Recommendation 4

(4) The UNMAS Administration should stipulate a specific timeframe for implementing partners to return unspent balances and interest income earned on project funds; monitoring of the adherence to these timelines of implementing partners should also be done.

25. *The UNMAS Administration accepted recommendation 4 and stated that implementation agreements/MOUs now stipulate the reporting and refund deadlines. Periodic financial reports will be monitored closely for the reporting interest income on unencumbered balances and the related payment. Based on OIOS' review of the revised agreement, and the assurance by UNMAS that implementation agreements and MOUs will stipulate reporting and refund deadlines, recommendation 4 has been closed.*

Outstanding Accounts Receivable

26. In its previous audit, OIOS recommended that the Fund age its receivables from UN agencies and NGOs on a monthly basis to enable the timely follow-up action and establish their collectibility¹³. OIOS' review of the financial statements for the period from 2004 to 2006 during the current audit indicated that in 2004 there were outstanding accounts receivable balances on the Fund's books for excessive periods. For example, an amount of \$21.8 million comprising 40 advances to UN agencies in previous years had not been cleared in the accounting records as of 31 December 2004. These receivables ranged from \$5,000 to \$4.9 million and related to projects either still in-progress, but older than 12 months, or completed projects. Since advances should be expensed annually and the related accounts receivable cleared, these advances were not properly reflected as expenditures in the Fund's accounting records as of 2004.

¹³ OIOS Audit No.: AP2003/600/01; Recommendation 13

Accounts receivable balances for the same period, therefore, were overstated and expenditures were understated.

27. In 2005 and 2006, UNMAS conducted a major exercise to collect the outstanding balances due to the Fund from UN agencies. As a result, these balances were reduced to \$7.7 million by the end of 2006, a 65 percent reduction from the 2004 balance. The Fund also instituted quarterly reporting requirements to better monitor accounts receivable balances. Notwithstanding these improvements, the Fund does not age its receivables in accordance with OIOS' previous audit recommendation.

28. An aging analysis performed by OIOS showed that a receivable balance of \$9.9 million shown on the Fund's books as at 30 June 2006 included advances issued to UN agencies dating back as far as 2002. These amounts had not been collected or accounted for as expenditures in the accounting records for the same period. At the end of 2006, all project receivable balances were current. Notwithstanding, there is a need to age all accounts receivable balances to identify and track long outstanding balances and take appropriate follow-up action to collect amounts due to the Fund.

Recommendation 5

(5) The UNMAS Administration should prepare an aging of accounts receivable to identify and track long outstanding receivables and take appropriate follow-up action to collect amounts due to the Fund.

29. *The UNMAS Administration accepted recommendation 5 and stated that follow-up actions to collect amounts due to the Fund have been initiated and are being pursued by UNMAS. UNMAS will age and monitor advances issued. UNMAS has negotiated with UNOPS new reporting arrangements so that all quarterly reports will now be certified by a UNOPS Certifying Officer. Recommendation 5 remains open pending submission of evidence of the collection of overdue amounts due to the Fund. Further, submission of an aging analysis of accounts receivable performed by UNMAS to monitor advances issued to implementing partners should be provided to OIOS.*

Donor reporting

30. The timeline for the disbursement of funds is stipulated by donors in the terms and conditions of the contribution agreements signed with the UN. These agreements specify the deadline for contributions to be spent and the deadline for reports to be submitted to the donors by the UN. Implementation agreements negotiated by UNMAS with partners take into account disbursement deadlines and adhere to the timeframe agreed upon with a donor for a particular project or activity. Financial reporting by the implementing partners, therefore, is crucial to enable the Fund to comply with its reporting obligations to the donors.

31. Generally, during 2004 – 2006 the Fund did not apprise donors of the financial status of the contributions within the allotted timeframes in accordance

with the pledge agreements. A review of donor reporting deadlines for 184 contributions made to the Fund between 2004 and 2006 disclosed that the average time for reporting to the donors was 15 months after the due date¹⁴. OIOS was informed that these delays were due to the untimely collection of financial information from the implementing partners or projects delays. By the end of 2006, six financial reports to the donors remained outstanding. Despite the improvement in the more efficient reporting by UNMAS, frequent delays in meeting the donors' deadlines could reflect poorly on the Fund. It is crucial, therefore, that the Fund ensures compliance with the donors' reporting deadlines given its increasing size¹⁵ and the need to demonstrate a high level of accountability and justified use of contributions.

Recommendation 6

(6) The UNMAS Administration should ensure compliance with the donor's financial reporting deadlines.

32. *The UNMAS Administration accepted recommendation 6, stating that reporting to donors remains contingent on timely and satisfactory reporting by implementing partners, as well as timely and accurate processing of refunds and apportionment of interest income by implementing partners. Deadlines and timelines for reporting have been emphasized in the terms and conditions of implementation agreements with UNMAS' partners.* Based on the documentation provided and UNMAS' assurance that, in future, deadlines and timelines for reporting will be emphasized in the terms and conditions of implementation agreements with UNMAS' partners, recommendation 6 has been closed.

Modifications to agreements

33. The terms of the standard grant agreement state the project's objectives, scope, duration, financial arrangements, including banking instructions, and other terms, which are agreed to between the UN and the implementing partners. The agreement also states that all "...agreements or annexes may be modified or amended only by written agreement between the parties". However, OIOS observed that this procedure was not properly followed for 2 out of 7 projects. In accordance with the implementation agreements, all changes should be in writing in the form of an amendment. Furthermore, all amendments to the terms and conditions of the agreements should be signed by the implementing partner and the UN Controller to ensure a legally binding effect.

¹⁴ Source: VTF Donor Reporting, by Contribution, 21 May 2007

¹⁵ The Fund received donor contributions in the amount of \$50.3 million in 2005 and \$51 million in 2006. As at the date of the audit, the Fund had received \$75.8 million, an increase of 49% compared to 2006. The increase was due in part to the enhanced accountability by UNMAS and compliance with its reporting requirements to the donors.

Recommendation 7

(7) The UNMAS Administration should ensure that amendments to the grant agreement are made in writing and placed on file.

34. *The UNMAS Administration accepted recommendation 7 and stated that the cases considered by OIOS and discussed with UNMAS related to changes in banking instructions for the national implementing partner. In both cases, UNMAS received notification of changes in banking details on official letterhead from the Directors of the relevant NGOs, who were also signatories to the implementation agreement. Based on the information provided by UNMAS, recommendation 7 has been closed.*

B. General management controls

Management reports

35. UNMAS has several mechanisms to report financial information and inform decision-makers of the financial condition of the Fund. However, in recognizing the need for a more comprehensive reporting tool, UNMAS embarked on acquiring the Project and Finance Information system (ProFi)¹⁶ to better manage its information needs. The new system is being launched to address many of the reporting weaknesses of the fragmented systems (IMIS, IRFA, Excel, client systems, etc.) currently in place. Business specifications have been designed to include management reports. UNMAS should ensure that the reporting module includes monitoring and management reports to enable management's review of integrated financial and programmatic data and to assist in the evaluation of project implementation against established targets.

Recommendation 8

(8) The UNMAS Administration should ensure that the reporting module for the new Project and Finance (ProFi) information system includes reports to enable an integrated review of financial and programmatic data and to assist evaluation against established targets.

36. *The UNMAS Administration accepted recommendation 8 and stated that as per the system business specifications for ProFi, the financial reporting aspect has been covered in the system design requirements. Recommendation 8 remains open pending the submission of evidence supporting the launch of the financial and management reporting module in ProFi by 1 April 2008.*

¹⁶ The United Nations Office at Vienna (UNOV) is currently using ProFi. In addition to ITSD at headquarters, UNOV will administer the system and provide technical support.

Financial policies and procedures manual

37. The UNMAS Finance Unit is staffed with two professionals and one general service staff¹⁷. Finance personnel are guided by the UNFRR in carrying out their fiscal responsibilities for the Fund. The United Nations Finance Manual, the Trust Fund Desktop Procedures, and various other administrative instructions also provide supplemental guidance for finance functions as they relate to the financial management of the Fund. However, these instructions do not outline the specific duties assigned to the UNMAS Finance personnel, as stated in the performance goals of the PAS. These include:

- Sound financial management of the Fund and cash management;
- Budgeting, resource planning, and cost plan preparation;
- Timely disbursements;
- Financial tracking/monitoring of projects, including progress reporting;
- Timely reporting to donors; and
- Recording of transactions, reconciliation, and follow-up of discrepancies

38. Formal documentation of Fund procedures and practices required to implement each of the above duties in the financial management of the Fund is needed. UNMAS is in the process of developing a Finance Module to be appended to the Programme Management Manual (the Manual). The draft finance module will be included in the Manual to update with the most recent developments and requirements in the area of project management, implementation and evaluation, as well as financial management. The Manual will be redistributed to all staff members upon completion. Given the importance of the Manual, there is critical need to complete the Finance Module and incorporate it into the Handbook to ensure full adherence for dissemination.

Recommendation 9

(9) The UNMAS Administration should finalize the Finance Module and include it in the Handbook for Mine Action Programming.

39. *The UNMAS Administration accepted recommendation 9 and stated that the draft Finance Module has been completed. UNMAS is currently revising the Programme Management Manual to update it with the most recent developments and requirements in the area of project management, implementation and evaluation, as well as financial management, and will redistribute it upon completion. Recommendation 9 remains open pending submission of the finalized Programme Management Manual.*

¹⁷ As a result of reorganization and restructuring in UNMAS in 2006, the UNMAS HQ office (including a Liaison Office in Geneva) is now structured around (a) the Office of the Director; (b) two functional sections and one unit (Programme Management and Oversight, Policy, Coordination, Information and Resource Management, and Finance and Budget); and (c) administrative and secretarial support.

C. Delegation of authority

40. The UN Controller, at his discretion, has the authority to delegate the management of trust funds, including the (i) acceptance of voluntary contributions and the clearance of all related financing agreements with those of donors and implementing partners and (ii) issuance of allotments, allocations, and grants in respect of the trust funds¹⁸ to Departments and Offices. The UN Controller may also delegate certifying authority to a designated official who has responsibility for the day-to-day administration of the Fund. All delegations are given with the view to improve the efficiency and effectiveness of the organization. The Office of Programme Planning, Budget and Accounts (OPPBA) within the Department of Management (DM) sets the criteria for considering these delegations of authority. OPPBA informed OIOS that it considers the following criteria to determine delegation of authority:

- Capacity of the office or department to undertake the assigned functions;
- Size of funds;
- Nature, complexity of the programme and/or project;
- Familiarity with UN Financial Rules and Regulations; and
- Internal controls (including adequate segregation of duties).

41. UNMAS took some steps to obtain a level of delegation of authority in 2004. Consideration of this issue was postponed by the UN Controller due to lack of capacity within UNMAS in 2004 to manage the Fund. However, given the increasing size of the Fund and the increasing administrative demands to process and efficiently disburse contributions to projects, it may be necessary for UNMAS to request the delegation for Trust Fund Management and Certifying Authority as outlined in the Guidebook on Delegation of Authority of May 2005 again. An analysis of the Fund's growth since it was established showed that contributions to the Fund increased to \$71 million as of July 2007, the highest level ever. Since 2002, UNMAS has steadily drawn over \$308 million in contributions, expended approximately \$221.9 million, and nearly tripled in dollar size and in volume of transactions handled. Advances and allocations to implementing partners have also increased substantially since 2002. In addition, the number of Fund-implemented projects has steadily grown since its inception.

42. In 2004 – 2006, there were approximately 184 contributions ranging in size from a few thousand to several million dollars. Currently, the Executive Officer of DPKO and the UN Controller process and approve all the Fund's pledges, contributions, allotments, obligations and other financial transactions. These added administrative layers have caused significant processing delays in the past and inefficiency on the Fund's part.

43. Following OIOS' audit in 2004, UNMAS implemented several financial controls and strengthened its internal capacity to better manage the financial aspects of the Fund. Taking into account these improvements, consideration

¹⁸ Source: Guidebook on Delegation of Authority, Department of Management, May 2005

should be given by UNMAS to obtaining a delegation of authority over the acceptance of contributions and pledges and certifying authority to disburse funds. Adequate segregation of duties between key functions should be established in this case and sufficient resources should be obtained to ensure that the Fund is equipped to handle this delegation.

Recommendation 10

(1) The UNMAS Administration should consider requesting the delegation for Trust Fund Management and Certifying Authority as outlined in the Guidebook on Delegation of Authority of May 2005.

44. *The UNMAS Administration accepted recommendation 10 and stated that it took some steps to obtain a level of delegation of authority in 2004. Consideration of this issue was postponed by the Controller due to lack of capacity within UNMAS in 2004 to manage the Voluntary Trust Fund (VTF). Recommendation 10 remains open pending submission of UNMAS' renewed request for delegation of authority from the UN Controller.*

D. Documentation and archiving

File management and archiving

45. UNMAS maintains project-related documents in the substantive and finance files, as applicable. Project-related documents are also stored in an electronic archival system. Certain financial documents, such as financial statements and interim financial reports may either be found on the hard copy financial files or electronically in the electronic archiving system maintained by the Budget and Finance Officer. However, certification of project completion, which forms the basis for releasing cash installments to projects are not filed in the financial files. Certifications are only required to be filed on the substantive file. Due to the fact that financial information relative to the projects is kept in three separate filing systems, it was difficult to follow the documentation trail of the financial transactions for each project.

46. For example, the auditors did not find final certification of 5 of the 7 sampled projects in the Finance file during the audit. Subsequently, the certified substantive reports were provided to OIOS. There is a need, however, to ensure that an adequate document trail of all compliance documents that support financial transactions are maintained in the Finance file. A compliance checklist should also be developed and included in the Finance file to ensure that all steps are adequately taken to ensure compliance and a complete document trail.

Recommendation 11

(11) The UNMAS Administration should require that all documents necessary to support financial transactions are maintained on the Finance file to ensure a proper document trail. A compliance checklist should be developed to ensure

that all relevant supporting documents relative to financial transactions are maintained in the Finance file to ensure completeness.

47. *The UNMAS Administration accepted recommendation 11 and stated that ProFi has a document retention option which allows the retention of project specific files and all relevant information in a project file. Recommendation 11 remains open pending submission of evidence supporting the launch of the new ProFi system.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	C	Action completed.	Implemented
2	C	Action completed.	Implemented
3	O	Submission of the results of UNMAS' review with the Accounts Division on the feasibility of updating the relevant financial records on a quarterly basis.	Ongoing and is being implemented
4	C	Action completed.	Implemented
5	O	Submission of evidence the collection of overdue amounts due to the Fund. Further, submission of an aging analysis of accounts receivable performed by UNMAS to monitor advances issued to implementing partners.	Ongoing and is being implemented
6	C	Action completed.	Implemented
7	C	Action completed.	Implemented
8	O	Submission of evidence supporting the launch of the financial and management reporting module in ProFi.	1 April 2008
9	O	Submission of the finalized Programme Management Manual.	1 April 2008
10	O	Submission of UNMAS' renewed request for delegation of authority from the UN Controller.	1 January 2008
11	O	Submission of evidence supporting the launch of the new ProFi system.	Ongoing and is being implemented

1. C = closed, O = open

2. Date provided by UNMAS in response to recommendations.