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INTEROFFICE MEMORANDUM

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INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE  
OIOS · BSCI

TO: Ms. Susana Malcorra, Deputy Executive Director,  
A: WFP, and  
Chair of the UNDG Management Group

DATE: 27 July, 2007

REFERENCE: AUD-7-5:7 (07-00378)

FROM: Mr. Dagfinn Knutsen, Director,  
DE: Internal Audit Division, OIOS and  
Chair of UNDG Working Group on Audit



SUBJECT: **Framework for auditing multi-donor trust funds (MDTFs)**  
OBJET:

1. On behalf of the UNDG Working Group on Audit, I am forwarding the Framework for auditing multi-donor trust funds (MDTFs), item 1.2 of the tasking memorandum for the Working Group on Audit, which has now been completed.
2. The Framework for auditing multi-donor trust funds (MDTFs) has been discussed extensively and the agencies indicated in paragraph 1 of the document have agreed to participate in this arrangement. The internal audit divisions of the different UN entities have been represented by their officials in this Working Group.
3. On behalf of the Working Group on Audit, I request that the UNDG Management Group endorse the Framework for auditing multi-donor trust funds (MDTFs) at its meeting in September.
4. Please feel free to contact me should you require any further clarifications.

Cc: Members of UNDG Working Group on Audit  
Ashok Nigam, UNDGO

# Framework for auditing multi-donor trust funds (MDTFs)

1. This framework has been agreed by the Internal Audit Services (IASs) of FAO, ILO, ITU, OIOS, UNDP, UNESCO, UNFPA, UNICEF, UNIDO, WFP, WMO and IFAD.
2. The framework may be jointly modified by the participating IASs, based on lessons learned.

## I. Purpose

3. This framework is designed to facilitate periodic summary reporting of the management of risks, the status of internal controls and recommendations made by the Internal Audit Services of UN organizations participating in MDTFs. The framework applies when agencies' offices or programmes/projects (hereafter referred to as entities) that are in receipt of funding from MDTFs are audited.
4. The need for such agreement does not lie in the fact that there are several donors contributing to a fund, but that the fund is distributed to and used by several participating organizations.
5. Evaluations are not covered by this framework. It is assumed that, where evaluations are carried out, they will follow UN Evaluation Norms and Standards.

## II. Framework

6. Each participating UN organization is accountable for the funds it receives from the MDTF. The Administrative Agent does not have oversight or fiduciary responsibility for the funds administered by the participating organizations.
  - Entities in receipt of funding from MDTFs shall be subject exclusively to the internal and external auditing procedures provided for in the financial regulations, rules and directives of the participating UN organizations.
  - No specific commitments regarding auditing should be made in agreements on MDTFs, unless these are in accordance with the process described below, or agreed to by the Directors of the IASs of participating UN organizations.
7. IASs of participating UN organizations are responsible for auditing entities that have received funding from the MDTF. IASs of participating UN organizations can engage private audit firms to assist them with audits if they so wish.
8. The framework does not override any internal auditing policies that participating organizations may have. While all IASs use risk models to select entities or areas for audits, have their own audit rating systems, and their own audit reporting formats, the framework shall facilitate audits that are comparable and allow the preparation of a summary report reflecting a fair overall presentation of audit results of participating UN organizations.
9. The audits conducted by the IASs may include programmes and entities not funded through the MDTF, such as programmes funded from the organization's own resources, or from donors that are not party to the MDTF. Unless agreed otherwise, only the observations and recommendations with relevance to the MDTF shall be reported in summary reports.

## III. Risk Assessments

10. MDTFs are conceived primarily in situations of especially difficult circumstances (e.g. security risks, natural disasters, etc.) which may include risks not normally found in other programmes. Therefore, whenever a MDTF under terms of the governing agreements requires summary reporting of audit findings by participating organizations, the IASs of the participating organizations will conduct a coordinated risk assessment, and thus establish the risk areas that shall be reported on in the summary reports. It is expected that, upon the creation of a MDTF, the Administrative Agent will request all participating organizations to advise their internal audit services

to liaise with the IAS of the Administrative Agent, so that risk assessments can be planned without delay. Also, once the IAS of the Administrative Agent has been informed about the creation of an MDTF, the IAS will inform the IASs of participating organizations accordingly.

11. The risk assessment will be coordinated by the IAS of the Administrative Agent. The assessment should be done within an agreed time period and as soon as possible after the signing of the MDTF agreement.
12. The IAS of the Administrative Agent will summarize the individual risk assessments prepared by the IASs of the participating UN organizations, and also highlight significant inter-organizational risks and concerns expressed by the MDTF Steering Committee in their order of priority. The IAS of the AA will share the joint risk assessment report with the IAS of each participating organization, which in turn will share it with its own management.
13. Donors should be alerted upfront on the need for higher tolerance to inherent risks in these situations.
14. IASs commit themselves to sharing information on issues of common interest pertaining to the MDTF and help one another, inter alia in combating fraud and corruption.

#### **IV. Audits**

15. The IASs of UN organizations select audit entities or audit areas on the basis of their own risk models or risk-based planning exercises. Entities in receipt of funding from the MDTF will be included in the audit universe and subject to such selection process. When deciding whether or not to include an MDTF entity in their audit programme, and when selecting the specific areas to be audited for this entity, the IASs of participating organizations will give consideration to the risks identified in the coordinated risk assessment.
16. Not all entities using the MDTF may be audited every year. The overall summary report will indicate the last time the organization's entity was audited in respect of the MDTF.
17. The audit of the Steering Committee's operations and mechanisms for receiving and allocating funds out of a MDTF will be under the responsibility of the IAS of the Administrative Agent. A summary of the observations and recommendations relating to these areas will be included in the overall summary report.

#### **V. Reporting**

18. Following their individual audits, the IAS of each participating UN organization will prepare a summary report highlighting important risk areas and the adequacy of risk management by the audited entity, with observations and recommendations. For each area and sub-area identified in the coordinated risk assessment and covered by the audit, the IAS should indicate which of the following has been covered: (1) whether a system/mechanism of internal control is in place, (2) whether the functioning of the system/mechanism has been tested, (3) whether the system/mechanism is functioning as expected.
  - The IASs will use the the template described in Annex 2;
  - Should the biennial audit reports of the external auditors of the participating UN organizations to their governing bodies contain observations relevant to the MDTF, a reference to these reports is included, as per Annex 2;
  - Definitions and terminology used by the IIA will be applied.
19. In describing the key risk areas and consequences of inadequately managed risks, IASs will aim to describe the performance of the entity in the specific audited area as broadly (i) unsatisfactory, (ii) partially satisfactory/needing improvement, or (iii) satisfactory. The purpose of such ratings is not to reflect these individual ratings in the overall summary report; but to provide some guidance to the IAS of the Administrative Agent when compiling the overall summary report.
20. IASs will submit their summary reports to the IAS of the Administrative Agent of the MDTF for preparing an overall summary report.

21. The overall summary report to be prepared by the IAS of the Administrative Agent will follow the format contained in Annex 1. It is not the intent to provide overall audit ratings, but to provide a description of key risk areas that audit entities experience, or which cut across the work of several or all participating organizations. The overall summary report will also describe possible consequences of unmitigated risks, and main recommendations issued to one or more entities.
22. The IAS of the Administrative Agent will share the draft overall summary report with the heads of the IASs of the participating UN organizations, for comments. It is expected that the overall summary report will be a consensus document.
23. The expected timeline is as follows:
  - Under the leadership of the IAS of the Administrative Agent, who will propose a timeline, the IAS of the participating organizations will agree on the period to be covered by the periodic – possibly annual - summary report. In agreeing on the timeline, IASs will consider the benefits of aligning the reporting period with the financial reporting calendar.
  - It is expected that the IAS will submit their summary reports of any audits whose field work was completed in the agreed reporting period, within 4 months following the end of the reporting period.
  - It is expected that a draft overall summary will be prepared by the IAS of the Administrative Agent and submitted to the heads of IASs of the participating UN organizations for comments, within 5 months following the end of the reporting period.
  - A final overall summary report would typically be prepared by the IAS of the Administrative Agent within 6 months following the end of the reporting period, covering all audits for which field work was completed in the preceding reporting period.
  - Modifications to the timeline may be agreed by the IASs, as needed.
24. The final overall summary report will be submitted by the IAS of the Administrative Agent to the Administrative Agent, the MDTF Steering Committee, the IASs of participating organizations and the Fiduciary Management Oversight Group.

**ANNEX 1 : Template for use by the IAS of the Administrative Agent**

**Frequency of preparation:** Annually; reporting period to be agreed by participating IASs

**Date of preparation:** Six months after the end of the reporting period

**Report Issued by:** Name of Internal Audit Service of the Administrative Agent

This report is submitted to the MDTF Steering Committee, and contains an annual compilation of findings of audits conducted by UN organizations participating in the MDTF.

The IAS of the Administrative Agent has no mandate for the oversight of funds administered by the participating organizations. It has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information provided by the IASs of the participating UN organizations. The summary report has been vetted by the IASs of the participating organizations.

Overview of agencies receiving allocations from the Multi-donor Trust Funds (all figures refer to calendar year 2000x):

Agency	Total allotments received as of 1 January 200x	New allotment until 31 December 200x	Total allotment as of 31 December 200x	Cumulative expenditure as of 1 January 200x	Expenditure incurred in 200x
UNX					
UNY					
UNZ					
Admin Agent					
<b>Total</b>					

(dates are illustrative and will be adjusted in accordance with the agreed reporting period)

**Overview of audited areas**

Area 1: (e.g. Finance)

Agency	Risks identified (as per the coordinated risk assessment)	Critical Findings (materiality and significance of findings to be explained in context of total MDTF budget)	Actions taken by management to mitigate identified risks
UNX			
UNY			
UNZ			

Note1: Areas to be reported are decided at the time of the coordinated risk assessment

Note2: Where for a particular organization and audit area no findings are reported, it should be indicated whether this area was audited or not.

Area 2: (e.g. Procurement)

Area 3: (e.g. Cash Transfers)

etc

**Attachment:** List of available external audit reports of participating organizations, which contain observations related to an MDTF entity, and which covers the same reporting period.

## **ANNEX 2: Template for use by the IAS of the participating UN organizations**

**Frequency of preparation:** Annually; reporting period to be agreed by participating IASs

**Date of preparation:** Four months after the end of the reporting period

**Report Issued by:** Name of Internal Audit Service of the participating UN organization

This report summarizes findings of audits for which field work was conducted in [reporting period], of an office, entity or programme that received funding from the [specific title] MDTF.

Where no audit of the office or programme receiving funds from the MDTF was undertaken, a “zero report” shall be submitted. The zero report includes financial information only and a statement by the IAS of the participating UN organization that according to the risk assessment by the IAS, no audit was required in [preceding year].

Overview of agencies receiving allocations from the MDTF:

<b>[UN organization]: Financial information</b>				
Total allotments received as of 1 January 200x	New allotment until 31 December 200x	Total allotment as of 31 December 200x	Cumulative expenditure as of 1 January 200x	Expenditure incurred in 200x

(dates are illustrative and will be adjusted in accordance with the agreed reporting period)

### **Overview of audited areas**

Audit area	Risks identified (as per the coordinated risk assessment)	Critical Findings (materiality and significance of findings to be explained in context of total MDTF budget)	Actions taken by management to mitigate identified risks
Area 1 (e.g. Financial Controls)			
Area 2 (e.g. Procurement)			
Area 3 (e.g. Cash Transfers)			
Area 4			
etc			

Note1: Areas to be reported are decided at the time of the coordinated risk assessment

Note2: Where for a particular audit area no findings are reported, it should be indicated whether this area was audited or not.

**A reference** should be made to any available external audit reports of the organizations, which contain observations related to an the entity participating in the MDTF, and which covers the same reporting period