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**Internal Oversight Service  
Audit Section**

**IOS/AUD/2010/02**

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**Audit of UNESCO's Extrabudgetary Framework**

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## EXECUTIVE SUMMARY

### Key Results of the Audit

Since the External Auditor's report in 2006 on management of extrabudgetary (EXB) activities, improvements have been made, for instance, by establishing stronger links between the EXB activities and UNESCO's mandate and priorities, improving guidance and clarifying roles, authorities and related accountabilities for EXB activities.

However, further efforts are required in terms of preparing sectoral strategies and resource targets for EXB activities. This should be coordinated with clear UNESCO-wide strategy and vision. The large number of small EXB activities makes their administration difficult and underscores the need to move towards a smaller number of larger activities in the form of un-earmarked, multi-annual contributions to thematic programmes.

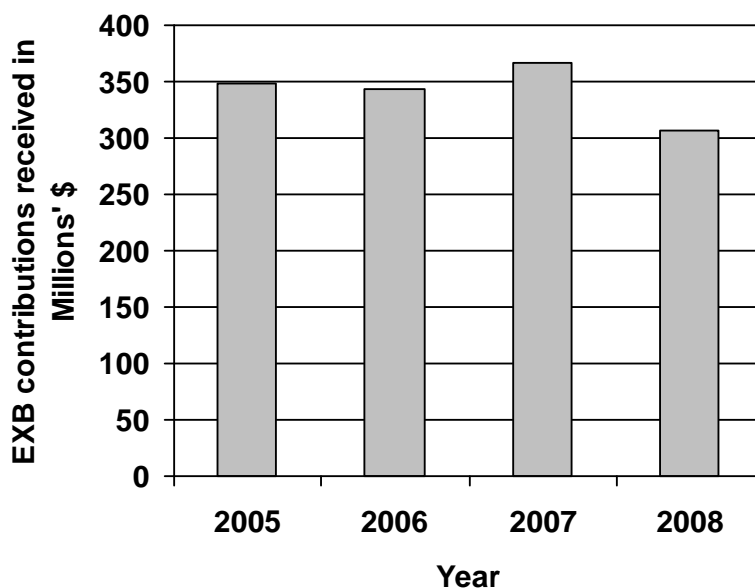
Accountability for resource mobilization for extrabudgetary activities is too diffused and no performance targets are set. A clear strategic direction is required with assignment of accountabilities. Bilateral governmental funding continues to be a predominant source for EXB activities and there are opportunities to further explore other sources, in particular cooperation with private donors. This should be included in the resource mobilization strategy, cooperation modalities and communication plans. The success of raising EXB resources has been variable across sectors, and there is a need to learn from the more successful sectors.

Lack of a corporate programme monitoring tool impairs monitoring of EXB activities and contributes to implementation delays, thereby affecting UNESCO's reputation.

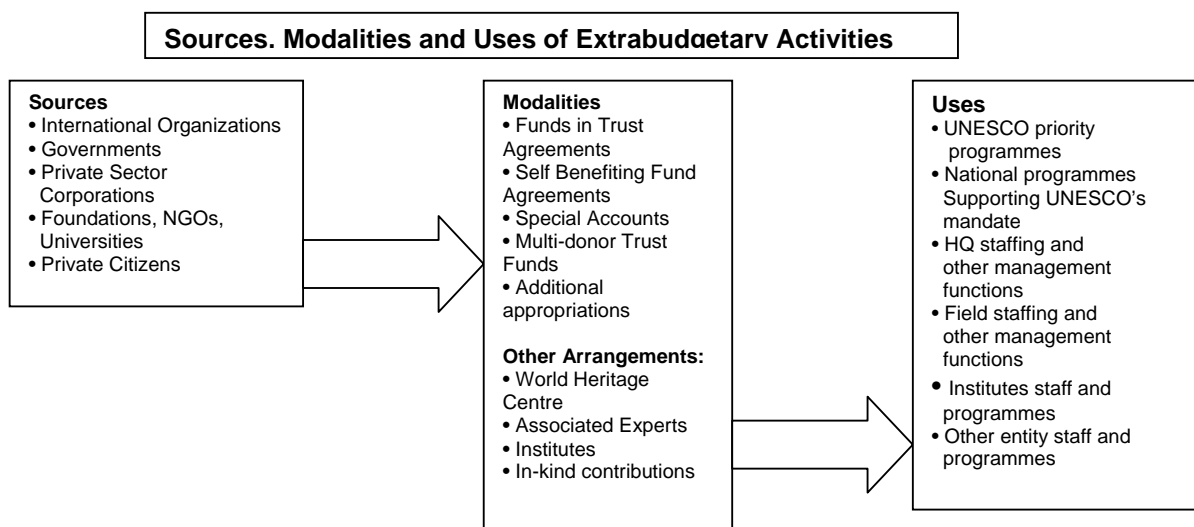
A cost recovery policy has been introduced to better identify and recover direct costs relating to EXB activities. Aspects of the policy require careful consideration and detailed guidelines are needed on the use and reporting of recovered costs.

### Background, Scope and Objective

1. EXB programme activity is significant relative to UNESCO's regular programme. Over the last four years, UNESCO received US \$1.4 billion of voluntary contributions for EXB contributions. The voluntary contributions (\$710 Million) exceeded the assessed contribution (\$610 Million) for the last completed biennium (2006-07).



2. The most frequently cited benefits of EXB financing are:
  - Support and supplement the regular programmes by expanding and strengthening institutional and programmatic capacity,
  - A greater volume and scope of activities increases the public and political profile of the Organization, operational and substantive relevance and global presence.
3. Notwithstanding these benefits, there is a concern that EXB activities are supported, and in effect “subsidized”, by regular programme resources and are diverting these resources from programmes, projects or activities mandated by governing bodies towards those reflecting other priorities of a “narrower” and/or bilateral nature.
4. The sources, modalities and uses of UNESCO’s EXB activities are given below.



5. UNESCO’s policies on management of EXB activities are defined in the Administrative Manual chapter 5. The relevant processes are outlined in the tables of delegation of authority (Administrative Manual Appendix 5A). A practical guide on UNESCO’s EXB activities has been prepared (updated in April 2008) by ERC/CFS and disseminated to units in Headquarters and Field Offices.
6. Programming of EXB activities is the responsibility of the programme sectors with the Bureau of Strategic Planning providing strategic inputs. Resource mobilization is a shared responsibility between programme sectors, Field Offices (and Institutes) and ERC/CFS, with the latter assuming responsibility for overall coordination. Implementation is the responsibility of the relevant unit (Field Office, Institute or programme division) implementing the project. Bureau of Budget monitors expenditure incurred on quarterly basis and the programme sectors monitor the programmatic progress achieved. The financial statement to donor is prepared by the Bureau of Comptroller.
7. In March 2006, the External Auditor of UNESCO presented his report (174 EX/27) on management of EXB projects. The report noted the need to:
  - Introduce an overall vision, strategy and policies to guide EXB activities,
  - Clearly relate EXB programmes and projects to UNESCO’s mandate and priorities,
  - Ensure proper review, approval and monitoring of projects,
  - Avoid delays and enable effective monitoring,
  - Comply with financial rules and regulations,
  - Have independent evaluations in major projects.

8. The Internal Oversight Service (IOS) audited UNESCO's EXB activities from August to October 2009 to provide assurance on adequacy and effectiveness of risk management and control in the following areas of the EXB cycle:

- Programming
- Resource Mobilization
- Project Implementation
- Monitoring and Reporting.

9. The scope of the audit included EXB projects planned and implemented during 2008/2009.

10. The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. Methodology was based on a risk assessment conducted during the planning phase of the audit and included substantive testing of a sample of 15 large EXB projects in order to provide assurance on compliance with the policies. The auditors surveyed 15 Field Offices on a set of questions spanning the life cycle of EXB activities. The auditors also interviewed staff in ERC/CFS, Executive Officers and their staff in Programme Sectors, and the staff in Bureau of Budget and the Bureau of Comptroller.

**11. The key achievements in administration of EXB activities are as follows:**

- Preparation of the "Complementary Additional Programme" better links the EXB activities to UNESCO's mandate and priorities.
- The introduction of the Table of Delegated Authority and Accountability on EXB activities clarifies roles, authorities and related accountabilities.
- The revision of the guide on UNESCO's EXB activities provides updated guidance on project preparation, implementation, monitoring and reporting.
- The review and approval process of EXB projects has improved.
- A cost recovery policy has been introduced.
- More evaluations were planned in EXB projects although these were not present in 30% of the sampled projects.
- Donor reporting requirements (substantive and financial) were generally met.

**12. The key remaining challenges and opportunities in the administration of EXB activities are as follows:**

- Sector-specific Strategic Frameworks for EXB projects need to be formulated.
- The quality control process to review project outlines needs to be strengthened and streamlined.
- There are wide variances remain among programme sectors in resource mobilization.
- A large number and smaller size of EXB activities are difficult to administer effectively.
- A resource mobilization strategy is needed for private donors.
- A corporate monitoring tool is required for EXB activities.
- The cost recovery policy is yet to produce desired results and there is a need to clarify the use of related special accounts.
- More effort is needed for raising funds at the national level.
- Lessons learnt from evaluations need to be systematically collated and applied in next programming cycle.
- Efficiencies can be increased in the finalization of financial statements to donors.

### 13. Table of recommendations

#### Key recommendations

**Recommendation 1:** To improve programming of extrabudgetary activities, ERC, in coordination with BSP, should do a stock take at the end of the current programme preparation cycle in March 2010 to (i) assess the impact of programme sectors not preparing the required sector strategies and targets for EXB activities, (ii) if deemed necessary, modify policy and guidance based on lessons learned from the past two programme cycles, and (iii) for the current biennium, reiterate to sector ADGs the need for establishing sectoral EXB targets.

**Recommendation 2:** In order to enhance resource mobilization for EXB activities, UNESCO should (i) assign clear accountabilities for resource mobilizations to each programme sector and field Office, (ii) focus on larger sized programme based EXB activities, (iii) develop a separate resource mobilization strategy for private donors including objectives, cooperation modalities and communication strategy, and (iv) study reasons for wide differences in the level of EXB activities in programme sectors to identify and promote best practices.

**Recommendation 3:** Bureau of the Budget should convene another round of internal consultations (with BOC, LA and Sectors), before financial regulations for the special accounts are presented to the Executive Board, to identify and address transparency, compliance and accountability risks and to build consensus on expected operation of the cost-recovery policy and associated special accounts.

#### Other recommendations

**Recommendation 4:** Conduct benchmark studies on the strategies and procedures for management of EXB funds in comparable UN agencies.

**Recommendation 5:** Establish mechanisms for effective consultation with relevant HQ unit in all cases involving non-standard donor agreements.

**Recommendation 6:** Clarify performance expectations on resource mobilization for the Directors/Heads of Field Offices.

**Recommendation 7:** Avoid self-benefitting funds-in-trust projects with large procurement components given the limited in-house procurement expertise and lack of added value.

**Recommendation 8:** Develop a uniform mechanism for collating results of evaluations of EXB activities with a view to applying the lessons learnt in the next programming cycle.

**Recommendation 9:** While formulating donor agreements, clearly prescribe the treatment of final project account balances.

**Recommendation 10:** Develop mechanism to collect analytical information on the number of operationally closed projects and related project balances.