Internal Audit of the Republic of Turkmenistan Country Office

December 2014

Office of Internal Audit
and Investigations (OIAI)
Report 2014/37

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Republic of Turkmenistan country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities, and covered the period from January 2013 to October 2014.

The country programme for 2010-2015 consisted of two main programmes: *Social policy and child rights advocacy*; and *National and local systems strengthening*. The total budget is US$ 12 million, of which US$ 5 million is regular resources (RR) and US$ 7 million is other resources (OR). Regular resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other resources are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling.

The country office had a budget of US$ 1.2 million in 2013 and US$ 1.4 million in 2014 with funds utilization (actual and commitments) amounting to US$ 2.2 million as of August 2014.

The country office is based in Ashgabat; there are no zone offices. The office had 17 established posts as of 7 August 2014.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. None of the observations raised in the report were rated as high risk – that is to say, requiring immediate management attention.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Turkmenistan country office has prepared action plans to address the issues raised.

The Turkmenistan country office, with support from the CEE/CIS Regional Office, and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI)   December 2014

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office.

The audit observations are reported under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit Observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had established supervisory structures and governance advisory committees with adequate terms of reference and appropriate memberships. The office had set indicators for measuring and monitoring the office's performance, including programme and management priorities. The minutes of the country management team (CMT) meetings showed that it regularly reviewed these priorities, and that action points were clearly identified and regularly followed up.

The office's table of authority (ToA) was comprehensive and updated regularly. The financial control authorities, such as authorizing, certifying, approving and paying functions, were properly assigned. The financial limits were adequately set for each authority. Programme and operations staff had formally confirmed their awareness of the authorities delegated them.

The audit did not identify any control weaknesses in governance.

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Governance: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, the controls and processes over governance, as defined above, were generally established and functioning during the period under audit.

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2   Programme management

The country programme is owned primarily by the host Government and UNICEF's role is to support the Government in managing the programme. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. For the transactions tested, programme funds were appropriately allocated and utilized for the intended purpose and in accordance with policy and donor agreements (including the agreed time frame). Partners were involved in the planning of programmes, and they expressed a high level of satisfaction with the support received from the country office and the timely delivery of supplies and release of cash transfers.

The office had developed a multi-year and annual integrated monitoring and evaluation plans. The results from recent evaluation and research activities were used in programming and advocacy activities. There were also established processes and assigned accountabilities for preparing the office's annual report and donor reports.

However, the audit made the following observations.

Programme planning
UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the

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construction of a school or clinic, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

Offices should establish outcomes/PCRs and outputs/IRs that are specific, measurable, achievable, realistic and time-bound. The PCRs and IRs agreed with partners are expected to be established in the country programme action plan (CPAP); this is a formal agreement between a UNICEF office and the host Government on the programme of cooperation. The CPAP sets out the expected results, programme structure, distribution of resources and respective commitments. These are then incorporated into the annual or rolling workplans[1] (in the case of Turkmenistan, the latter were used). In addition, as part of the planning process, the offices and partners are required to develop qualitative or quantitative indicators, including baselines and targets that should be used to monitor annual progress on achievement of results.

The audit team reviewed CPAP result matrix and workplans and noted the following shortcomings.

Development of CPAP: Signed by UNICEF and the government of Turkmenistan in 2009, the 2010-2015 CPAP provided a framework for monitoring programme implementation and achievement of results. It contained two outcomes and six outputs; the output indicators and baselines were defined. As of the time of the audit, the office was fully engaged in developing the country programme document (CPD) for 2016-2020 in the context of the United Nations Partnership Framework.

The audit reviewed the six planned outputs in the current CPAP, and noted that one output was not specific enough to be measured. In addition, the office developed baselines and performance indicators for each of the outputs in the CPAP, but no targets or means of verification.

Development of workplans: The results included in the workplans were not always specific and measurable; they included words such as "improved awareness", or "strengthened", which are not specific enough and are difficult to measure. For example, one workplan contained results like "The social protection of the most vulnerable groups of the population strengthened"; "Legal, normative and methodological base of the social protection of the mother and child improved".

Endorsement of workplans: The office started designing the 2014-2015 workplans in June 2013. All were signed during the first quarter of 2014, except for which was belatedly endorsed by the implementing partner in October 2014. The audit was informed that the Ministry of Finance approved the allocation of public funds and the workplans were sent for endorsement to the Cabinet of Ministers. However, at some point, the workplans were delayed. They were subsequently signed at the time of the audit.

Agreed action 1 (medium priority): The office agrees to:

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[1] According to UNICEF's Programme Policy and Procedure Manual (PPPM), workplans can be developed on an annual or multi-year basis, or as rolling workplans. In the latter case, the workplan is subject to interim review – for instance, it may be for 18 months, but the government and UNICEF will agree to periodic technical review of its outputs, say every six months, with an adjustment based on the review of the remaining 12 months. At the same time, an additional six months will be added on to the rolling workplan to make up a new 18-month cycle.

i.   Implement quality assurance mechanisms to ensure that the 2016–2020 country programme action plan (CPAP) and next year's workplans include: specific and measurable outcomes and targets; and means of verification.

ii.   Ensure timely development and endorsement of rolling workplans, including establishment of a timetable to be used for the process.

Target date for completion: December 2015
Responsible staff members: Representative and Deputy Representative

Resource mobilization

While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

Of the 2010-2015 country programme budget of US$ 12.21 million, US$ 7.16 million was expected to be funded from Other Resources (OR). Between January 2010 and October 2014, the office had received contributions amounting to US$ 1.9 million, i.e. 37 percent of its OR budget. As of the end of October 2014, there were notable OR funding gaps for some of the programmes. For example, the social policy and child rights advocacy programme was only 3 percent funded while the national and local systems strengthening programme was 40 percent funded.

The office had a fundraising strategy in place that clearly set out funding targets for the programme cycle, and identified gaps and potential ways of raising funds through private sector. The office did manage to secure some funding for the rolling workplans from the Government of Turkmenistan, but there was still a funding gap. The office was not able to raise sufficient resources because it was difficult to attract donor's attention for a middle-income country like Turkmenistan.

The audit also noted that the office had not developed key performance indicators for monitoring the implementation of its resource mobilization strategy. For instance, it did not have indicators such as funding targets and actual funding for proposals sent, or deadlines for completion of donor mapping and closing of funding gaps for each of its programmes. The absence of indicators reduced the office's capacity to effectively monitor the implementation of its fundraising strategy through the country management team.

Agreed action 2 (medium priority): The office agrees to:

i.   Establish key performance indicators and targets on resource mobilization activities and monitor progress regularly through the country management team.
ii. Seek assistance and advice from the Private Sector Fundraising and Partnership Division on fundraising for a country programme in a middle-income country.

Target date for completion: February 2015
Responsible staff members: Representative and CMT

Programme management: Conclusion

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Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over Programme Management, as defined above, were generally established and functioning during the period under audit.

3   Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules, Regulations, policies and procedures. The scope of the audit in this area includes the following:

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. Sampled financial transactions such as direct cash transfers to partners, travel and contracts for services were processed, authorized and approved in accordance with the established table of authority. The bank signatory panel was also up-to-date. Transaction testing revealed appropriate supporting documentation, and relevant payees were paid. The office's 2013 year-end accounts closure reports were processed and submitted to the Division of Financial and Administrative Management according to the established timeline and requirements.

The office had appropriate processes for selection and hiring of consultants; there were timely evaluations of their inputs, and the terms of reference were relevant and appropriate.

The office's property survey board (PSB) had appropriate membership and terms of reference. It had met once in both 2013 and 2014. Disposal of inventory was properly approved by the PSB and endorsed by the Representative. The office also conducted an inventory count of property, plant and equipment in July 2014, and no errors were noted.

Access ICT systems and data was restricted to appropriate users. The office's disaster recovery plan, updated in 2014, included procedures for conducting daily backup of data, ICT security routines, training, simulation testing and data restoration. The office also had a business continuity plan (BCP) plan in place endorsed by the Representative. The Regional Emergency Unit of CEE/CIS had provided an emergency preparedness and response training and carried out a desktop simulation exercise in Turkmenistan as part of a four-day Emergency Capacity Workshop for the country office and partners.

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However, the audit made the following observation.

Back-up of data

Country offices are expected to store back-up media (i.e. hard drives) in a fire-proof safe with access limited to a small number of authorized officials. They are also expected to put in place security arrangements in case back-up media is stored off-site. The audit found that back-up was done in accordance with established plan, schedules and procedures. However, the backup of media or tapes was not stored off site.

Agreed action 3 (medium priority): The office agrees to arrange to store backup media in a suitable off-site location that is in accordance with the policy on the physical and environmental security of ICT resources.

Target date for completion: November 2014
Responsible staff members: Operations Manager and ICT Assistant

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

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Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

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Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over [audit area] were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.