UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UN WOMEN REGIONAL OFFICE
FOR EUROPE AND CENTRAL ASIA

IN

TURKEY

Report No. 1779

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Report on the Audit of UN Women Regional Office for Europe and Central Asia in Turkey
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UN Women Regional Office for Europe and Central Asia in Turkey (the Office) from 31 July to 18 August 2017. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting);
(b) gender mainstreaming in development coordination
(c) programme activities (programme and project management, partnerships and resource mobilization); and
(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, and UNDP support to the Office).

The audit covered the activities of the Office from 1 May 2016 to 30 April 2017. The Office recorded programme and management expenditures of approximately $8 million. This was the first audit performed by OAI.

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 **partially satisfactory / some improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to non-compliance with UN-Women procurement policy, financial resources management, and asset management.

Key recommendation(s): Total = **6**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are six medium (important) priority recommendations, which means "Action is required to ensure that UN-Women is not exposed to risks. Failure to take action could result in negative consequences for UN-Women." Three of the six recommendations are corporate, pertaining to lack of clarity regarding the oversight role of regional offices, lack of established criteria regarding diversions from the regional architecture, and of a human resources strategy to address protracted cases of senior management recruitment.
The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1,2,3	Medium
Reliability and integrity of financial and operational information	5	Medium
Safeguarding of assets	6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4	Medium

Management comments and action plan

The Regional Director ad interim, the Head of Programme, and the Head of Human Resources, accepted all the six recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (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 Office

The Office, located in Istanbul, Turkey (the Country) was established in 2014 and provides support and oversight to five country offices located in Albania, Georgia, Bosnia and Herzegovina, Kyrgyzstan, and Moldova, as well as to the multi-country office in Kazakhstan.[1] In addition, the Office provides direct support to four UN Women programme presences in: Kosovo[2], the Former Yugoslav Republic of Macedonia, Serbia, Turkey, and Ukraine. The region within which the Office operates is characterized by a fragile political situation, conflicts, natural disasters, as well as a refugee and migrant crisis. In terms of programming, the Office had developed robust refugee-response programmes. With reference to the Office's coordination/normative and advocacy work, there was a notable effort across the region to conduct an analysis of Gender Theme Groups and Results Groups on Gender.

II.   Audit results

Satisfactory performance was noted in the following areas:
   (a) Gender mainstreaming in development coordination. The audit team assessed the Office's contribution to the system-wide and inter-agency mandates and functions of UN-Women. The Office is a member of the Regional Peer Support Group and a co-chair of the Regional Working Group on Gender. No reportable issues were noted.
   (b) Programme and project management. The audit team assessed the process of programme design and development, oversight of its implementation as well as the way the Office assesses emerging trends and priorities. No reportable issues were noted.
   (c) Partnerships and resource mobilization. The audit team reviewed the Office's resource mobilization activities, the programme/project funding sources, and the overall relationship with partners. The Office was well on track to achieve its resource mobilization target. No reportable issues were noted.
   (d) General administration: The review of leave management and travel management identified no reportable issues.
   (e) Human resources management. No reportable issues noted.
   (f) Safety and Security. No reportable issues were noted.
   (g) Information and communication technology. No reportable issues were noted.
   (h) Operational and support services provided by UNDP. No reportable issues were noted.

OAI made six recommendations ranked medium (important) priority
Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:
   (a) The Programme Division, in cooperation with the Division for Management and Administration, and based on the findings and conclusions of the Evaluation of UN-Women Regional Architecture, should clearly define and communicate roles and responsibilities of the regional offices (Recommendation 1).
   (b) The Programme Division should establish a corporate policy and clear guidance on criteria and considerations for establishing and/or changing the regional architecture (Recommendation 2)
   (c) The Office of Human Resources should develop a strategy for ensuring proper coverage of senior management vacancies, and proceed to fulfilling the specific vacancy identified (Recommendation 3).
   (d) The Office should ensure compliance with the Programme and Operations Manual regarding procurement (Recommendation 4),
   (e) The Office should improve the use of the hospitality account code (Recommendation 5).

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[1] The multi-country office in Kazakhstan is responsible for programme presence offices in Kazakhstan, Tajikistan and Uzbekistan.

[2] References to Kosovo shall be understood to be in the context of Security Council Resolution 1244 (1999).

(f) The Office should strengthen assets management (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1   Corporate Issue: Lack of clarity regarding the oversight role of Regional Offices on the performance of Field Offices

According to UN Women functional analysis, Regional Offices are responsible, among others, for "oversight, programme and operational support, and quality assurance" of the multi-country and country offices.

The 2016 corporate evaluation of the UN-Women Regional Architecture recommended to clarify the Regional Offices role in overseeing Country Offices.

During the first quarter of 2017, the Regional Office conducted a Service Survey, among all 11 field offices/presences under its responsibility. The survey confirmed that the services, functions and added value of the Regional Office needed to be clarified:

- 42 percent of respondents did not make use of oversight support such as: managerial performance oversight over programme quality; results reporting; due diligence regarding compliance requirements, etc.; and
- 30 percent of respondents were not using the operations support such as forecasting monthly expenditures; procurement planning, best practice standardization, etc.

The audit also noted that the Regional Offices oversight role for Offices with or without delegated authority roles was unclear. For example, Country Offices under the supervision of the Regional Office did not refer to them for resolution of complex procurement cases.

Priority	Medium (Important)
Recommendation 1: The Programme Division, in cooperation with the Division for Management and Administration, and based on the findings and conclusions of the Evaluation of UN-Women Regional Architecture, should clearly define and communicate roles and responsibilities of the regional offices regarding the field offices in their portfolio, including clarification of the oversight role of the regional offices over field offices with delegated authority.	
Management action plan: The Programme Division agrees with the recommendation and will continue to work on ensuring the Terms of References and main functions of the regional offices are clarified to both regional and country offices. **Estimated completion date:** March 2018	

Issue 2   Corporate Issue: Lack of established criteria for diversions from regional architecture

UN-Women regional architecture, as approved by the Executive Board (decision 2012/10 on September 18, 2012), envisaged the following types of UN-Women country presence: regional offices (a total of 5); multi-country offices (a total of 6); country offices (a total of 52); and programme presences (a total of 21). Any changes to this decision should be presented to and approved by the same authority.

The audit noted that, in the region for Europe and Central Asia, the following changes were made, diverting from the originally established structure:

- a new Project Office was established in Turkmenistan;
- the Project Office in Ukraine received in 2016 a Delegation of Authority and became a, so called, "Delegated Project Office". Furthermore, an upgrade of the Delegated Project Office in Ukraine to the full-fledged Country Office was announced in late 2016 to be fully operational in January 2018;
- a Multi-Country Office in Kazakhstan was downgraded to a Country Office, the oversight over two Programme Presence Offices (Tajikistan and Turkmenistan) that were under the responsibility of the Multi-Country office in Kazakhstan, was delegated to the Country Office.

It was unclear why these types of offices were established and/or modified; if the approval from the UN-Women Executive Board was requested, and, how their establishment was approved.

Priority	Medium (Important)
Recommendation 2: The Programme Division should establish a corporate policy and clear guidance on criteria and considerations when making decisions in establishing and/or changing the regional architecture;	
Management action plan: The Programme Division agrees with the recommendation. The process of defining the offices typology initiated in October 2016 will be finalized once the UN reform conclude the ongoing discussion on typology of UN offices in general, so that UN-Women would adjust its structure to the reformed model. **Estimated completion date:** June 2018	

2. Leadership, ethics and values

Issue 3   Corporate Issue: Lack of strategy for senior management vacancies

Good planning for and encumbrance of senior management posts is critical, especially for a regional office with a diverse portfolio undergoing architectural changes and two large countries programmes (Turkey and Ukraine).

One staff member performed three senior management functions: (i) Regional Director ad interim; (ii) Deputy Regional Director; and (iii) Country Representative.

The function of the Deputy Regional Director and Country Representative was combined as per the agreement between UN-Women and the host country government. The new release date for the vacancy announcement was pending at the time of the audit.

The delay in filling senior management team vacancies may negatively affect the UN-Women representation function, as well as the proper functioning of the offices in the region, and the staff well-being.

Priority	Medium (Important)
Recommendation 3: The Office of Human Resources should develop a strategy for ensuring proper coverage of senior management vacancies, and proceed to fulfilling the specific vacancy identified.	

Management action plan:
 	
The Office of Human Resources agrees with the recommendation and will:
 	
    (a) analyze the root causes of unsuccessful recruitment for senior management functions; and
    (b) implement appropriate corrective measures.
 	
Estimated completion date: March 2018	

3. Procurement

Issue 4   Non-compliance with UN-Women procurement policy

The Programme and Operations Manual on procurement requires that: processes comply with the Financial Rules and Regulations; the best value for money is achieved; effective competition is in place; the process is fair, ethical and transparent.

The audit reviewed 18 purchase orders totaling $611,107, or 22 percent of the total purchase orders of $2,859,260 issued during the review period, and noted the following deficiencies:

- The Procurement Review Committee approved a Special Services Agreement amendment for $27,910, almost six times the initial contract amount without adequate justification.
- A local consultant was contracted for $47,200 rather than in the local currency without justification.
- A purchase order was raised in US dollars for a local consultant, even though the contract currency and actual payments were made in Turkish Lira;
- Three purchase orders totaling approximately $90,000 were raised late, they were raised after the invoice receipt, and up to three months after entering a legal obligation with the vendor.

Lack of compliance with specific procurement policies may result in: failure to obtain value for money services; legal ambiguity due to conflicting terms; and exposure to loss to due currency exchange fluctuations.

Priority	Medium (Important)

Recommendation 4:

The Office should ensure compliance with the Programme and Operations Manual regarding procurement, by:

    (a) ensuring that Procurement and Procurement Review Committee personnel understand the policy and limitations related to review and use of amendments; and

    (b) ensuring that the contract payment currency terms are in accordance with the Programme and Operations Manual policy; and
         purchase orders are timely raised.

Management action plan:

The Office agrees with the recommendation and will undertake the following actions:

    (a) re-circulate the Memo from March 2017 to instruct all ECA offices/buyers that multiple POs under one contract should be avoided;

    (b) circulate a Memo on contract payment currency terms as per the POM;

    (c) provide additional procurement training to all project administrative staff in the ECA region; and

    (d) conduct a special session for Regional Procurement Review Committee members to review the audit observations and recommendations related to procurement;

Estimated completion date: March 2018

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4.   Financial Resources management

Issue 5   Erroneous use of hospitality account code

The Programme and Operations Manual defines the circumstances under which expenditures should be charged to the hospitality account in Atlas.

The audit reviewed 44 vouchers amounting to $804,872, or 52 percent of $1,542,244 for the total vouchers issued during the review period. The Office had established procedures for the review and approval of hospitality events expenses, and was using a tracking log.

For the period under review, the tracking log included a total of seven events with aggregate costs of less than $1,000, however, over $21,000 had been coded to the hospitality accounts. This was caused by charging all catering expenses to the hospitality catering account, including catering expenses for programme events, trainings and meetings conducted by the Office and even those related to the budgets of the responsible parties engaged under Project Cooperation Agreements.

The miscoding of expenditures to the hospitality accounts, was due to an error in the understanding of the proper use of the hospitality accounts.

Improper coding of expenditures and inadequate documentation of control procedures may result in inaccurate reporting of expenditures and/or overpayments, negative perception of the Office's use of funds, and the ineffective use of resources.

Priority	Medium (Important)

Recommendation 5:

The Office should improve the use of hospitality account code by:

(a) providing training and clarification to personnel regarding the Hospitality policy, definitions and limits and the proper coding of internal and Responsible Party meetings and events which include catering, but which do not meet the criteria for Hospitality expenses;
(b) reviewing and correcting the expenditures coded to the Hospitality accounts in Atlas for 2017; and
(c) reviewing and correcting the account coding of on-going Responsible Party budgets under Project Cooperation Agreements.

Management action plan:

The Office agrees with the recommendation and will undertake the following actions:

(a) the existing SOPs will be updated and circulated to ensure that all project personnel verify, document and reconcile services received from Responsible Parties;
(b) clarification will be sent to all UN-Women offices in the region to ensure that the hospitality account code is used correctly and that ongoing Responsible Party budgets are reviewed and corrected accordingly;
(c) information on the correct use of account codes for events will be included in all Finance trainings in the region;
(d) all projects and ATLAS budgets that have used the erroneous account code will be amended as applicable.

Estimated completion date: 31 December 2017

5. General Administration – Assets Management

Issue 6 Costs of assets acquisition not accounted for

Under the International Public Sector Accounting Standards, the recorded value of capital assets should include the costs incurred to acquire the asset including customs fees and freight costs, which should be added to the basis of the assets value, and depreciated accordingly.

The Office reported 106 assets with a net book value of $348,060 as of 30 April 2017. For two procurements of information technology equipment, the acquisition costs had either been directly expensed ($1,375) rather than having been allocated to the basis of the items purchased, or had not been allocated to the items purchased ($1,355).

Failure to adjust the basis of assets for all costs related to the acquisition and use of the assets may result in an understatement of the depreciable value of capital assets and in an overstatement of expenses reported at the end of the financial year.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen assets management by ensuring that all relevant procurement, finance and assets management personnel are trained on the proper treatment and coding of costs related to the acquisition of assets.	
Management action plan: The Office agrees with the recommendation and will ensure the participation of all UN-Women asset focal points in the region in a training conducted by UN-Women headquarters related to the proper treatment and coding of costs related to the acquisition of assets. **Estimated completion date:** March 2018	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.