



INTERNAL AUDIT DIVISION

REPORT 2016/106

Audit of management of implementing partners at the International Trade Centre

**Overall results relating to management of
implementing partners were initially
assessed as partially satisfactory.
Implementation of six important
recommendations remains in progress**

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

26 September 2016

Assignment No. AE2015/350/01

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AUDIT REPORT

Audit of management of implementing partners at the International Trade Centre

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of management of implementing partners at the International Trade Centre (ITC).

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3. ITC is the joint technical cooperation agency of the United Nations and the World Trade Organization (WTO) for business aspects of trade development. Its mission is to foster inclusive and sustainable growth and development through trade and international business development. The ITC Strategic Plan for 2015-2017 outlined the following three goals:

- (a) Strengthen the integration of the business sector of developing countries and economies in transition into the global economy;
- (b) Improve the performance of trade and investment support institutions for the benefit of small and medium enterprises (SMEs); and
- (c) Improve the international competitiveness of SMEs.

4. Within the framework of its technical cooperation activities, ITC regularly provided grants to non-profit organizations (implementing partners) to implement specific project activities either in full or in part. ITC signed grant agreements or Memoranda of Understanding (MOU) with the implementing partners outlining the purpose of the grants, obligations of ITC and the implementing partner, and general terms and conditions for the grants. In 2014 and 2015, ITC signed 65 grant MOUs totalling \$1.5 million as shown in Table 1.

Table 1: Grant MOUs signed in 2014-2015

Value of grant	Number of MOUs	Total amount \$
Less than \$30,000	55	1,007,658
\$30,000 - \$50,000	5	156,959
Above \$50,000	5	384,197
Total	65	1,548,814

5. Comments provided by ITC are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of ITC governance, risk management and control processes in providing reasonable assurance regarding the **effective management of implementing partners at ITC**.
7. The audit was included in the OIOS 2015 risk-based work plan for ITC because of the financial and operational risks associated with the management of implementing partners.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the management of implementing partners; (ii) are implemented effectively; and (iii) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 2.
10. OIOS conducted this audit from February to June 2016. The audit covered grants paid to implementing partners during the period 1 January 2014 to 31 December 2015.
11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The ITC governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of implementing partners at ITC**. OIOS made six recommendations to address issues identified in the audit.
13. Grants above \$30,000 were reviewed by the grants committee and processed in accordance with established procedures. However, there was a need for ITC to: (a) strengthen the selection process to ensure that appropriate assessments of implementing partners are performed and documented; (b) ensure that grant agreements below \$30,000 are prepared in accordance with established guidelines; (c) establish guidelines on budgeting for staff costs and on the evidence needed to support the budget and actual costs; (d) ensure that implementing partners submit adequate financial information that can be reviewed efficiently in accordance with the terms and conditions of the MOUs; and (e) ensure that performance evaluations of implementing partners are prepared at the end of the grant and centrally stored.
14. The initial overall rating was based on an assessment of the key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of six important recommendations remains in progress.

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Table 2: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of implementing partners at ITC	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Need to strengthen the process for selection of implementing partners

15. The ITC administrative instruction on grants (grant guidelines) outlined the procedures for selection of implementing partners. While the substantive divisions indicated that they did research and vetted potential partners, OIOS review of the selection process for 15 grants showed that the assessments were not adequately documented. Although brief background information of the implementing partner and the rationale for selecting the partner was documented in the memo submitted to the Division Director for approval, there was no documentation of whether more than one potential implementing partner was considered for selection. In several cases where only one partner was considered and selected, there was no explanation on record as to why only one partner was considered.

16. In mid-2015, ITC established a working group that prepared a due-diligence checklist for selection of implementing partners. This checklist was detailed and included a section for documenting the various partner organizations considered in the selection process, or justification for not considering more than one organization. However, the checklist was not mandatory and there was no evidence that it was being used. Documenting the selection process, including the various organizations considered, is necessary for assuring accountability and transparency.

(1) ITC should establish requirements for project managers to document the organizations considered in the implementing partner selection process or the justification for considering only one organization as suggested in the due diligence checklist.

ITC accepted recommendation 1 and stated that: (i) it will roll out the partner selection/due diligence checklist and guidelines on partner selection and the documentary requirements on the selection process; (ii) the memorandum requesting a grant will be modified to enable project managers to document the assessments adequately, to clarify whether more than one potential implementing partner/grantee was considered in the selection process or the justification for considering or vetting only one grantee; and (iii) the grant MOU checklist will be updated accordingly. Recommendation 1 remains open pending receipt of the amended grant MOU and checklist to reflect the assessment of potential implementing partners.

Need to ensure that grant agreements below \$30,000 are prepared in accordance with established guidelines

17. The ITC grant guidelines include a MOU template that provide guidance on the clauses that should be included in grant MOUs and a MOU checklist that has to be completed before the MOU is approved. Grants above \$30,000 are reviewed and approved by the Director, Division of Programme Support and those above \$50,000 are reviewed by the Grants Committee. The authority to sign grant agreements below \$30,000 is delegated to the Directors of the Substantive Divisions. Directors are responsible for ensuring that the MOUs are in accordance with established guidelines. The ITC Legal Officer periodically reviewed on *ex post facto* basis the signed grants MOUs below \$30,000 to assess whether they had been prepared in compliance with established guidelines. The last review done in 2014 found that 13 out of 15 MOUs reviewed had not fully complied with the established guidelines.

18. OIOS reviewed 15 grant MOUs to check compliance with established guidelines. All three MOUs for grants above \$30,000 complied with established procedures, because they were subject to additional oversight by the Division of Programme Support and the Grants Committee. However, for grants less than \$30,000, exceptions were noted in 9 out of the 12 MOUs reviewed, as summarized below:

- In two cases, the budget in the signed MOU did not include a breakdown of the activity costs by expense category as recommended in the MOU template.
- In four cases, the MOU did not include a requirement for the implementing partners to submit a list of participants in training courses and workshops as required. The list of participants is important to justify the travel costs which were a significant component of most grants.
- Article 3 of the MOU template stated that the daily subsistence allowance (DSA) payment has to follow either the rules of United Nations/ITC or the implementing partner, and that in no circumstances should the DSA rate be higher than the United Nations standard rate. In one case, DSA for four participants attending a workshop was paid at the implementing partner's rate of \$305 instead of the United Nations rate of \$181. In another grant, a participant was paid for DSA as well as hotel charges but there was no evidence that this was questioned by ITC.
- In one grant to a university, a question in the MOU checklist on whether the organization was a university was incorrectly answered "no". As a result, the university was contracted through the grant process instead of through the procurement process as recommended in the guidelines in the MOU checklist.
- In one case, activities were started before the grant was signed by the implementing partner, which was contrary to the guidelines.

19. Although there was slight improvement in the compliance rate compared to the results of the last review conducted by the ITC Legal Officer, the exception rate was still high. This showed that substantive Divisions needed to put more effort to ensure that the MOUs are established in accordance with established procedures. This is particularly because grants below \$30,000 were the most significant category of grants at ITC. In 2014 and 2015, grants below \$30,000 comprised about 85 per cent of all grant agreements and 65 per cent of the value of all grants.

(2) ITC should strengthen the review mechanisms at the division level to ensure that MOUs for grants are prepared in accordance with established guidelines and procedures.

ITC accepted recommendation 2 and stated that: (i) senior management will remind ITC Division Directors of their role, responsibility and accountability in relation to the approvals of grants below \$30,000. The need to strengthen the review mechanisms and to take additional measures from an operational perspective at the division level to ensure that MOUs for grants are prepared in accordance with established guidelines and procedures will be highlighted; (ii) a footnote will be included in the grant MOU template to remind project managers to include a breakdown of the activity costs by expense category; and (iii) the grant MOU checklist and/or the grant MOU template will be modified to include a note on the need to ensure that implementing partners are aware of the United Nations DSA rates in advance during the budgeting process or prior to the organization of specific workshops and events. Recommendation 2 remains open pending receipt of evidence that review mechanisms for MOUs at the division level have been strengthened.

Need for guidelines on budgeting for staff costs and on evidence that implementing partners should provide to support the costs

20. Most grants included a budget for staff costs which related to recruitment of new staff to implement grant activities or reimbursement to the implementing partner for use of their regular staff. However, there were no requirements or guidelines on how the staffing costs should be determined, and the evidence that implementing partners should provide to support the costs. Of the 15 grants reviewed, there was only one grant where the budget for staff costs was based on actual salary costs, as certified by the implementing partner. In all other cases, the basis of budgeting for the staffing costs was not documented and implementing partners did not provide evidence to support them. For example, in one case, the project manager indicated that the daily rate of \$250 was aligned to the average salary of a mid-range professional but this could not be verified. The actual rates also varied and in some cases appeared high. In another case, the daily rate was \$800, which was higher than the United Nations rate for consultants. Since implementing partners are not for-profit organizations, the rates used should be based on reasonable salary costs.

(3) ITC should establish guidelines on budgeting for implementing partners' staff costs as well as the evidence needed to support the budget and actual costs.

ITC accepted recommendation 3 and stated that the grant checklist will contain a note that the budget for staff costs should be based on actual salary costs and that the grantee should submit evidence to support the staffing costs or rates used prior to the payment of the relevant tranche of the grant. Recommendation 3 remains open pending receipt of the guidance issued on budgeting for staff costs and the evidence needed to support actual staff costs.

Need to ensure that implementing partners submit adequate financial information that can be reviewed efficiently

21. Article 3 of the MOU template includes clauses requiring implementing partners to provide interim and final financial reports. There was no requirement for implementing partners to reference the supporting documents, prepare summaries of the information provided, and link the summaries to the financial reports and budgets. These are necessary particularly in cases where a large number of supporting documents are submitted for review. There was also no standard requirement for implementing partners to compare budget and actual costs and explain significant variations. As a result, the financial information submitted by the implementing partners was of varying degrees of quality. In three cases, it was difficult to check the completeness and accuracy of evidence submitted because the

evidence provided could not be linked to the budget. As the review of financial information is essential to ensure that grants are used as intended, there is a need to include appropriate requirements in the MOUs to ensure that the financial information and evidence provided by the implementing partner are of appropriate quality and can be reviewed efficiently.

(4) ITC should revise the standard clauses on financial reporting in the MOU template to include requirements for implementing partners to: (a) clearly reference and link supporting documents to financial reports and budget; and (b) explain significant variances between the budget and actual costs.

ITC accepted recommendation 4 and stated that a standard template for approved budget and actuals by budget component will be included as an Annex to the Grant MOU template and relevant language in the standard Grant MOU provided. Recommendation 4 remains open pending receipt of the revisions to the standard clauses on financial reporting in the MOU template.

Need to ensure that implementing partners comply with terms and conditions of the MOU

22. The grants guidelines state that the Section Chiefs/Certifying Officers are responsible for checking that substantive reports are provided and the activities for which the grants have been approved have taken place as planned. Implementing partners submitted substantive reports as required under the grant MOUs and project managers indicated that they reviewed the reports and followed up on issues arising. However, with regard to the use of funds, OIOS identified cases of non-compliance in 7 out of the 15 MOUs reviewed.

23. In one case, the work was subcontracted without prior ITC approval and without stating the rationale for subcontracting. In another case, the implementing partner did not submit a list with signatures of participants as required by the MOU. In two cases implementing partners did not submit financial reports as required by the MOU, and the project managers had to prepare a summary financial statement based on the supporting evidence provided. In a MOU with a university, ITC paid the second instalment before the implementing partner had submitted financial reports for the first instalment. OIOS could not verify whether all the funds under the MOU had been accounted for.

24. For one grant, the unspent balance was not refunded. Although the project manager stated that the funds were likely to be used to fund a new grant, there was no evidence to support this statement. The deficiencies noted show the need for sections/divisions to be more diligent in reviewing financial information and supporting evidence to ensure that implementing partners comply with the terms and conditions of the MOU.

(5) ITC should: (a) remind divisions to be diligent in reviewing financial information submitted by implementing partners to ensure compliance with the terms of the MOU; and (b) ensure that grants are properly accounted for, with any unspent balance either refunded or utilized in another MOU with the approval of ITC.

ITC accepted recommendation 5 and stated that the Management Action Group and certifying officers will be reminded accordingly. The memorandum requesting grants will contain appropriate language. The responsible sections for the two grant MOUs mentioned will be requested to present action plans to bring these matters to closure, including the refund or reutilization of unspent funds. Recommendation 5 remains open pending receipt of evidence that divisions have been reminded to be diligent in reviewing financial information and that pending financial issues on the two grants referred to in the report have been addressed.

Need to ensure that performance evaluations of implementing partners are prepared and centrally stored

25. Implementing partners were evaluated at the closure of a project but evaluations were not documented and stored in a central repository for future reference. OIOS was therefore unable to verify whether the evaluations were performed, and performance issues were appropriately addressed. Performance evaluation is important to assess whether the implementing partner performed as expected and appropriately accounted for the funds granted. Any issues relating to performance should be considered when ITC partners with the same organization in future. ITC was concerned that this requirement may be an administrative burden for grants below \$30,000. OIOS is of the view that the evaluation for grants less than \$30,000 could be simpler than those of larger grants above \$50,000.

(6) ITC should ensure that performance evaluations of implementing partners are prepared and centrally filed for ease of reference.

ITC accepted recommendation 6 and stated that it will develop a template to assess the performance of grantees and will consider appropriate options to file such evaluations centrally. Recommendation 6 remains open pending receipt of the performance assessment template for implementing partners, and the arrangements put in place to store them centrally.

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the Management and staff of ITC for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of management of implementing partners at the International Trade Centre

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	ITC should establish requirements for project managers to document the organizations considered in the implementing partner selection process or the justification for considering only one organization as suggested in the due diligence checklist.	Important	O	Receipt of the amended grant MOU and checklist to reflect the assessment of potential implementing partners.	30 June 2017
2	ITC should strengthen the review mechanisms at the division level to ensure that MOUs for grants are prepared in accordance with established guidelines and procedures.	Important	O	Receipt of evidence that review mechanisms for MOUs at the division level have been strengthened.	31 December 2016
3	ITC should establish guidelines on budgeting for implementing partners' staff costs as well as the evidence needed to support the budget and actual costs.	Important	O	Receipt of the guidance issued on budgeting for staff costs and the evidence needed to support actual staff costs.	31 December 2016
4	ITC should revise the standard clauses on financial reporting in the MOU template to include requirements for implementing partners to: (a) clearly reference and link supporting documents to financial reports and budget; and (b) explain significant variances between the budget and actual costs.	Important	O	Receipt of the revisions to the standard clauses on financial reporting in the MOU template.	31 December 2016
5	ITC should: (a) remind divisions to be diligent in reviewing financial information submitted by implementing partners to ensure compliance with the terms of the MOU; and (b) ensure that grants are properly accounted for, with any unspent balance either refunded or utilized in another MOU	Important	O	Receipt of evidence that divisions have been reminded to be diligent in reviewing financial information and that pending financial issues on the two grants referred to in the report have been addressed.	31 December 2016

² Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by ITC in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of management of implementing partners at the International Trade Centre

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	with the approval of ITC.				
6	ITC should ensure that performance evaluations of implementing partners are prepared and centrally filed for ease of reference.	Important	O	Receipt of the performance assessment template for implementing partners, and the arrangements put in place to store them centrally.	30 June 2017

APPENDIX I

Management Response

Management Response

Audit of management of implementing partners at the International Trade Centre

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ITC should establish requirements for project managers to document the organizations considered in the implementing partner selection process or the justification for considering only one organization as suggested in the due diligence checklist.	Important	Yes	For 1: Director, Division of Country Programmes (DCP) For 2. and 3: Senior Legal Adviser	For 1: 30 June 2017 For 2 and 3: 31 December 2016	ITC agrees with this recommendation. 1. Roll out of the partner selection/due diligence checklist and guidelines on partner selection and the documentary requirements on the selection process 2. The memorandum requesting a grant will be modified to enable project managers to document the assessments adequately, to clarify whether more than one potential implementing partner/grantee was considered in the selection process and if so, who or the justification for considering or vetting only one guarantee. 3. The Grant MOU checklist will also be updated accordingly.
2	ITC should strengthen the review mechanisms at the division level to ensure that MOUs for grants are prepared in accordance with established guidelines and procedures.	Important	Yes	For 1: Deputy Executive Director Director, DCP Director,	31 December 2016	ITC accepts this recommendation. 1. Senior Management will remind ITC Division Directors of their role, responsibility and accountability in relation to the approvals of grants below USD 30,000. The need to

⁶ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

⁷ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of management of implementing partners at the International Trade Centre

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				Division of Market Development (DMD) Director, Division of Business and Institutional Support (DBIS) For 2. and 3.: Chief, Financial Management Senior Legal Adviser		strengthen the review mechanisms and to take additional measures from an operational perspective at the division level to ensure that MOUs for grants are prepared in accordance with established guidelines and procedures will be highlighted. 2. A footnote will be included in the Grant MOU template to remind project managers to include a breakdown of the activity costs by expense category. 3. The Grant MOU checklist and/or the Grant MOU template will be modified to include a note on the need to ensure that implementing partners are aware of the United Nations DSA rates in advance during the budgeting process or prior to the organization of specific workshops and events.
3	ITC should establish guidelines on budgeting for implementing partners' staff costs as well as the evidence needed to support the budget and actual costs	Important	Yes	Chief, Financial Management Senior Legal Adviser	31 December 2016	ITC agrees with this recommendation. The Grant checklist will contain a note that the budget for staff costs should be based on actual salary costs and that the Grantee shall submit evidence to support the staffing costs or rates used prior to the payment of the relevant tranche of the Grant.
4	ITC should revise the standard clauses on	Important	Yes	Chief,	31 December	ITC accepts this recommendation.

Management Response

Audit of management of implementing partners at the International Trade Centre

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	financial reporting in the MOU template to include requirements for implementing partners to: (a) clearly reference and link supporting documents to financial reports and budget; and (b) explain significant variances between the budget and actual costs.			Financial Management Senior Legal Adviser	2016	A standard template for approved budget and actuals by budget component will be included as an Annex to the Grant MOU template and relevant language in the standard Grant MOU provided.
5	ITC should: (a) remind divisions to be diligent in reviewing financial information submitted by implementing partners to ensure compliance with the terms of the MOU; and (b) ensure that grants are properly accounted for, with any unspent balance either refunded or utilized in another MOU with the approval of ITC.	Important	Yes	Deputy Executive Director Director, Division of Programme Support Director, DCP Director, DMD Director, DBIS For 3: Director, DCP and Director, DBIS	31 December 2016	ITC accepts this recommendation. 1. The Management Action Group (MAG) and certifying officers will be reminded accordingly. 2. The memorandum requesting grants will contain appropriate language. 3. The responsible sections for the two Grant MOUs mentioned will be requested to present action plans to bring these matters to closure, including the refund or reutilization of unspent funds.
6	ITC should ensure that performance evaluations of implementing partners are prepared and centrally filed for ease of reference	Important	Yes	Director, DCP Chief, Strategic Planning,	30 June 2017	ITC accepts this recommendation. ITC will develop a template to assess the performance of Grantees and will consider appropriate options to file such evaluations centrally.

Management Response

Audit of management of implementing partners at the International Trade Centre

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				Performance & Governance		