



IOC/INF-1204
Paris, 3 May 2005
English only

INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION
(of UNESCO)

**Audit Report on the Intergovernmental Oceanographic Commission (IOC):
Special Account and controls generally (Summary)**

At the request of the Executive Secretary, the Internal Oversight Service of UNESCO (IOS) carried out an Audit to review the IOC Special Account financial statement of 31 December 2003 and the effectiveness of controls in the major administrative/operational procedures in the IOC secretariat in Paris. This document contains a Summary of the IOS internal final report on this audit. The IOS concluded that: *“generally the internal controls in the IOC secretariat in Paris are functioning effectively and recommended measures to strengthen controls including specific measures to ensure full compliance with IOC financial regulations. Considering the effectiveness of the controls identified by the Audit, the IOS recommended increasing delegation of authority to IOC to manage its own administrative affairs.”*

This report contains the Executive Summary and summary observations of each of the functional areas covered in the audit scope (Financial Review, Contracts, Travel, and Donor Reporting). It is presented to the IOC Assembly at its 23rd Session, Paris, 21–30 June 2005.

Note: figures are expressed in U.S. dollars

SUMMARY

1. The IOS audit of the Intergovernmental Oceanographic Commission (IOC) of UNESCO was conducted, following a request by ADG/IOC to review the IOC Special Account financial statement of 31 December 2003 and the effectiveness of controls in major administrative/operational processes within IOC. For material amounts in the financial statements IOS was able to trace samples of transactions back to the supporting documentation.

2. IOS concluded that generally the internal controls in the IOC secretariat in Paris are functioning effectively. However, several recommendations were made to strengthen the controls including specific measures to ensure full compliance with IOC financial regulations.

3. The overall ratings on the effectiveness of internal control in the functional areas reviewed by IOS were as follows:

- Financial control: Satisfactory
- Contracting: Satisfactory
- Travel: Unsatisfactory
- Donor reporting: Satisfactory

Of the 43 audit recommendations issued in the audit report, 31 are addressed to IOC and the remaining 12 are addressed to the Division of the Comptroller (DCO) and the Natural Science Sector.

4. Specifically on the travel process, more improvements are needed in various areas including the accuracy of calculation and payment of travel entitlements. It should be noted that the processing of the travel documents and travel entitlements are undertaken by the Administrative Unit of the Natural Sciences Sector.

5. Considering the effectiveness of controls as identified by the audit, it was recommended that DCO, in discussion with IOC and the Natural Sciences Sector, revisit the current administrative process including processing of payments with a view to streamlining the existing process and increasing delegation of authority to IOC.

AUDIT OBJECTIVE

6. The audit objective was to assist the IOC by assessing the existence and functioning of internal controls, the effective and efficient use of the Commission's resources, the accuracy of reporting and compliance to rules and regulations. The assessments lead to identification of risks which, if not managed, could threaten the achievement of the Commission's objectives. The audit presents recommendations to address and to strengthen controls over these risks.

AUDIT SCOPE & METHODOLOGY

7. The audit of the IOC was conducted in Paris from 24 June to 1 July 2004 and further follow-up work was conducted from 2 September to 10 September 2004. The audit did not cover the two IOC sub commission offices located in Bangkok, Thailand and Cartagena, Colombia.

8. The audit adopted an objective-based model, which seeks to uncover risks, i.e. internal or external factors that can threaten the achievement of the Commission's objectives. The audit did not seek to cover all activities of the IOC and so there may or may not be inadequately-controlled

risks in those activities not covered. The audit exercised due care in the assessment of the risk of fraud and any suspected fraud or mismanagement reported before or during the audit, and any significant irregularity identified by the audit. However, consistent with generally-accepted auditing standards, the audit did not seek to uncover fraud, which is by definition intentionally concealed.

9. The audit collected information through the review of a sample of the IOC's records to test the existence and adequacy of expected controls. In this review the audit does not seek to secure a statistically representative sample of the entire population of records, but rather to test the functioning of the IOC controls. Any unexpected results in the IOC records are further assessed to consider if they were isolated errors or indicative of control shortcomings.

10. The IOC and relevant HQ Services/Sectors (DCO and Natural Sciences Sector) were invited to review the draft audit report and to comment on its contents in a written statement to IOS. In addition, the IOC secretariat was invited to develop an action plan to describe how the IOC intends to address the audit recommendations. These inputs are included in the final report.

AUDIT REPORT FORMAT

11. The report is presented by functional area (financial control, contract, travel, etc.) and each of the functional areas is broken down into a logical work process sequence of major tasks. Total amount of procurement for 2002/2003 was immaterial (\$46,492.01 which is 0.34% of IOC total budget 2002/2003). Given the small value involved, the audit scope does not cover the supply procurement process undertaken by IOC. Furthermore, most procurement, as with all other UNESCO HQ sectors/services, are undertaken by the Procurement Division (ADM/PRO), the review of procurement functions will be covered in the audit of ADM/PRO.

12. Good internal control practices or significant accomplishment found during the audit are reported as "Compliance to Rules and Procedures". However they are not elaborated upon since the purpose of the audit report is to assist management by identifying important risks or issues over which the IOC's controls need strengthening. For each issue identified, the report describes the observations made, implications that had or could have happened and recommendation to address the issue.

13. A draft audit report was presented to ADG/IOC prior to the exit meeting held at the close of the audit for concurrence on the information and recommendations presented in the report. The response from the IOC has been taken into account while preparing the Audit Report.

BACKGROUND — IOC

14. The Intergovernmental Oceanographic Commission (IOC) of UNESCO was established in 1960 in order to facilitate oceanographic research. Changes in the international community's concerns with respect to the oceans have given the Commission a dominant role.

15. The purpose of the Commission is to promote international cooperation and to coordinate programmes in research, services and capacity-building, in order to learn more about the nature and resources of the ocean and coastal areas and to apply that knowledge for the improvement of management, sustainable development, the protection of the marine environment, and the decision-making processes of its Member States.

16. The Commission collaborates with international organizations concerned with the work of the Commission, and specially with those organizations of the United Nation system, which are willing and prepared to contribute to the purpose and functions of the Commission and/or to seek advice and cooperation in the field of ocean and coastal area scientific research, related services and capacity-building.

17. The Governing Body of the commission consists of the Assembly of all Member States of the Commission and the Executive Council consisting of up to 40 Member States. The secretariat of the Commission is headed by the ADG/IOC who reports to the UNESCO Director-General including the statutory function of reporting to IOC Governing Bodies. The IOC Special Account is managed under the authority of ADG/IOC with direct assistance of the IOC Senior Administrative Assistant. However, all financial transactions, with the exception of travel to meetings and conferences, are processed by the Administrative Officer of the Natural Sciences Sector (SC/AO). Recently, in July 2003, under request of SC and IOC, the Comptroller granted limited authority to IOC to manage its administrative affairs with respect to processing of payments up to \$50,000 relating to the travel for non-staff members as well as expenses for meetings organized by IOC. In conducting its operations, IOC is guided by 'Rules of Procedure' adopted by the IOC assembly and IOC financial regulations. The Financial Regulations for IOC are identical to the standard model Financial Regulations of Special Accounts applicable to UNESCO Institutes and similar bodies created in the framework of UNESCO as adopted under 157 EX/7.

FINANCIAL REVIEW

Summary of Observations

18. IOS review of the Statement of Income and Expenditure for the Special Account as at 31 December 2003 and was able to trace samples of transactions with material amounts to the supporting documentation. IOS review of internal control in the IOC financial management within the IOC Secretariat in HQ Paris did not identify major risk area.

Compliance to rules/procedures:

- Established mechanism to monitor budget using separate spreadsheet and additional software;
- Submission of report according to IOC Financial Regulation and Statutes;
- Proper safe keeping of financial documents/records which are generally well prepared and filed properly;
- IOC has complied with the reporting requirement to IOC Executive Council and IOC General Assembly.

Risks:

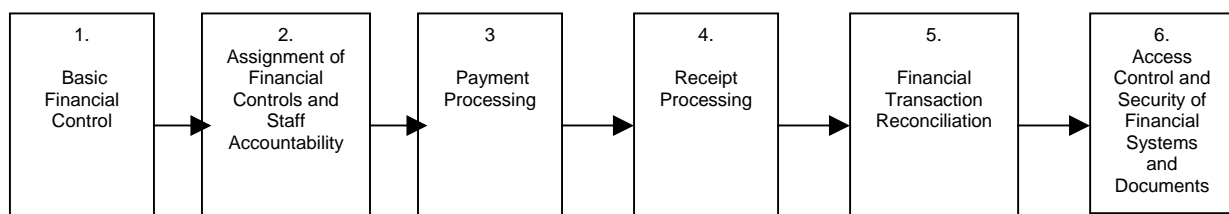
- Weaknesses noted in presentation of information in the Financial Statement;
- Non existence of Reserved Funds Requirement analysis;
- Financial Statement not compliant with UN Accounting standards;
- Non compliance to the Delegation of financial Authority by the Comptroller;
- Lack of adequate segregation of duties;

- Unused balance of 'Fund Reservation' for completed activities which was still outstanding long after the activity was completed;
- Need for mechanism to ensure completeness of Income;
- Use of FITOCA¹ fund which is not in accordance with the purpose of the funds as specified in the FITOCA financial regulations;
- Lack of reconciliation process between IOC and DCO financial records.

OBSERVATIONS, ANALYSIS AND RECOMMENDATIONS

KEY STEPS EXAMINED

19. The audit assessed the following key work process steps of Financial Control by examining the key risk areas that need to be addressed.



Financial Statement Audit

20. According to the latest balance sheet (as at 31 December 2003), the assets of the IOC were at \$1,363,113.88. The assets consisted of cash and term deposits made during the 2003 year. The liabilities consisted of undelivered orders to the sum of \$221,641.75.

21. The income and expenditure account for 2003 shows income of \$1,473,219.50 (extra-budgetary contributions \$1,458,712.50, interest \$14,507.00) and expenditure (cash disbursements \$1,562,733.12). Cash disbursements include elements of costs such as experts and consultants fees, mission costs, sub-contracts, training and meetings and equipment and maintenance for each of the five principal programme activities. These programme activities are: Capacity Building/Regional Co-operation; Global Ocean/Coastal Observing Systems; General Policy and Ocean Science and Ocean Services.

22. During 2003 the IOC had an average monthly expenditure of \$163,311.69 for the five programme activities mentioned above.

23. The reserves and fund balances for earmarked activities decreased from \$162,434.78 in 2002 to \$61,312.18 in 2003. However, the reserves and fund balances for programmed activities generated an increase of \$33,118.22 for year ended 31 December 2003. In order to generate more reserves for future periods, effort must be made in order to increase the voluntary contributions. The Intergovernmental Oceanographic Commission (IOC) is heavily reliant on donor funding in order to facilitate oceanographic research. Earmarked activities are activities carried out by IOC with extra-budgetary funds which are received from donors but these activities were distinct from

¹ Funds-in-Trust Overhead Costs Account

that carried under the IOC trust fund (programmed activities). The Sector for External Relations and Cooperation (ERC) informed IOS that these projects are not following the same criteria as Funds-in-trust projects and are not donor-specific and no-specific project documents exist for these projects.

Volume of budgets and expenditure: Regular Programme 2002–2003

Direct Programme Cost:	\$ 3,243,900.00
Staff costs:	\$ 3,763,900.00
Running Costs:	\$ 116,807.08

Voluntary Contributions:	\$ 6,500,000.00
--------------------------	-----------------

Review of Statement of Income and Expenditure as at 31 December 2003

24. In addition to reviewing internal control in the financial management area, a review of the Statement of Income and Expenditure as at 31 December 2003 was conducted through the following steps:

- a. For all income and expenditure stated in the Statement of Income and Expenditure as at 31 December 2003, traced from the Statement of Income and Expenditure using FABS (SAP) to the actual source documentation (e.g. invoice, payment instruments/cheque, etc).
- b. Expenditures included all disbursements for the programme activities namely: Capacity Building/Regional Cooperation, Global Ocean/Coastal Observing Systems, General Policy, Ocean Science and Ocean Services.

25. The IOS audit tests on the above which were performed on sampled transactions of high material amounts concluded satisfactory findings.

Deficit under earmarked activities

26. IOS noted from the Statement of Income and Expenditure that there was a deficit of \$101,122.60 of income over the expenditure incurred during the year 2003. IOS analysed the income received and expenditure incurred for the three earmarked activities shown in the Statement of Income and Expenditure prepared by DCO and noted that for each of these three activities, the total annual expenditure incurred exceeded the income received during the year. IOS verified correctness of these income and expenditure figures with the entries in Finance and Budget System (FABS) and no discrepancies were noted between the two sets of figures. Further, since these programme activities had an unspent balance (of \$162,434.78, taken together), IOS concluded that the excess expenditure over income for these activities did not pose any financial risk to the organization as sufficient funds were available from the unspent balance to cover the deficit during the year.

Internal Control Review

27. Scope of the audit included a review of adequacy and effectiveness of the existing financial controls, including compliance to the established financial rules/regulations, administrative manuals and established procedures, in the Intergovernmental Oceanographic Commission (IOC) in UNESCO Paris HQ. The area (processes) reviewed comprised of: Basic financial control, Assignment of Financial Controls and Staff Accountability, Payment Process, Receipt Processing, Financial Transaction Reconciliation, Financial transactions Reconciliation, and Access

Control/Security of Financial Systems and Documents. Part of these processes are administered and/or completed by the Natural Sciences Sector, of which IOC forms part. IOS review of adequacy and effectiveness of controls were limited to those existing within IOC secretariat in Paris.

CONTRACTS

Summary of Observations:

28. During the audit, IOS selected and reviewed the contracts made with 20 contractors during 2002–2003.

29. The Intergovernmental Oceanographic Commission (IOC) mainly used four different types of contracts: Activity Financing Contracts, Fee Contracts, Consultant Contracts and Translation Contracts. Statistics regarding contracts issued by IOC during 2002 and 2003 using the Special Accounts Codes are given below.

Table C.1 – Contracts issued in 2002–2003

Type of Contracts	2002		2003	
	Number	Value (US\$)	Number	Value (US\$)
Activity-financing	16	256,826	16	306,252
Fee	14	126,570	11	53,959
Consultant	21	243,908	2	5,467
Translation	8	11,170	1	585
Total	59	638,474	30	366,264

Compliance:

- The need for contractors were identified in the 2002–2003 work plans;
- The correct contract type and form were used for most of the contracts reviewed, with an exception noted;
- The contracts reviewed were signed by UNESCO and the Contractor;
- The Terms of Reference in the contracts reviewed were generally well developed, with a few exceptions noted;
- Assessments of the relevance and conformity with regulations for fee and consultancy contracts were recorded on Form 431;
- Distinct numbers were used for the contracts;
- Advances were paid in accordance with UNESCO Policies;
- Evaluation Form 354C was used to record the evaluation of consultant services;
- Payment requests were often provided and copies of the approved deliverables were located on the files (when possible).

Risks:

- Contracts were signed beyond the time limit specified in the contract;

- Contracts were signed after the commencement of the work specified in the contract;
- In one case the detailed financial statement of an activity-financing contract was not signed and certified by the contractor as required by policy;
- Payment requests at times did not specify that the services were sufficiently rendered or that the deliverables were satisfactorily received;
- Considerable delays were noted in the payments to two contractors;

TRAVEL

Summary of Observations

30. During the audit, IOS selected and reviewed a sample of 20 staff missions, 10 meetings and 23 consultants travel for the year ending 2002 and 2003. All travel requirements are administered through the in-house travel agency, unless otherwise requested by the traveller.

Compliance:

- Travel orders specify purpose of mission which is in line with the objectives of the project;
- Travel orders are approved two weeks before the date of travel.

Risks:

- Not all travel orders could be obtained during the course of audit;
- Some consultant contracts did not state the need for the consultant to travel;
- Mission reports are not always submitted as required;
- Incorrect calculation of travel entitlements;
- Weak practice in authorizing changes to travel itinerary;
- Payment of travel advance which are non compliant to the established policy;
- Delay in submission of travel claims.

DONOR REPORTING

Summary of Observations

31. During 2002–2003 IOC implemented 21 Fund–in–trust projects. The donor contribution for these projects was \$2,193,243 and \$645,297 for 2002 and 2003 respectively.

32. The following projects were selected to review of the Donor reporting process.

- Ecosystem-based Approaches to Fisheries project. Fund: 193INT2000
- Global Coral Reef Monitoring Network. Fund: 193UKM2041
- Charpentier Salary, Mission and other Cost. Fund: 193GLO2001
- 513URT2000, Sustainable Management Resources

Compliance:

- Projects completed according to the schedule;
- Support cost charged for one project in accordance with the framework agreement;
- Year-end financial statements were prepared by DCO;
- While the projects do not have formal reporting requirements to donors stated in the agreement or exchange of correspondence, informal reporting was made;
- Activity financing contractors submitted the financial statement to account for funds released to them.

Risks:

- For two of the samples selected, the agreement was based on exchange of letters without a formal donor agreement being prepared;
- For one of the samples selected, there was no plan of operations established. However, acceptance from the institute involved in the beneficiary country is available;
- Supporting documents for some expenditures could not be made available during the audit;
- List of non-expendable property procured for projects was not maintained;
- Reporting requirement to donors was not formally stated;
- Unclear status of 193-series projects (funds-in-trust or special account projects) which needs to be discussed with ERC/CFS and BB.