INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of ITC NTF II Project "Creating Sustainable Exporter Competitiveness in the Coffee Sector in Uganda"

Overall results relating to the effective management of the NTF II Uganda project were initially assessed as partially satisfactory. Implementation of ten important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

18 July 2012
Assignment No. AE2011/350/01

CONTENTS

AUDIT REPORT

Audit of ITC NTF II Project "Creating Sustainable Exporter Competitiveness in the Coffee Sector in Uganda"

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the International Trade Centre's (ITC) Netherlands Trust Fund II (NTF II) Project "Creating Sustainable Exporter Competitiveness in the Coffee Sector in Uganda".

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. In March 2009, the Centre for the Promotion of Imports from Developing Countries of the Netherlands (CBI) and ITC signed a multi-year partnership agreement, called NTF II, with an overall funding of $15.9 million for a four-year period from April 2009 to March 2013. For 2009, ITC received from CBI nine per cent of its total extra-budgetary receipts. NTF II was the follow-up to the first CBI and ITC partnership called the Netherlands Trust Fund (NTF), which covered the period from March 2005 to December 2008. An evaluation of the NTF programme conducted in late 2008 by a team of two independent consultants commissioned by CBI concluded that the partnership had been successful.

4. The overall objective of the NTF II programme is to create sustainable exporter competitiveness in selected export sectors within selected partner countries. ITC and the donor collaborated to shortlist potential beneficiary countries and identify export sectors. The programme launched five projects in five different countries and sectors. The programme followed a five-stage implementation approach: (i) identification; (ii) feasibility; (iii) formulation; (iv) implementation; and (v) evaluation.

5. The Uganda project was launched operationally in November 2010 and will end in March 2013. At the time of the audit, the first three stages of the project were completed and implementation was underway. Three partner institutions in Uganda were selected to implement the project. The project budget is $2.27 million, excluding in-kind contribution from the partner institutions.

6. The overall expected outcome of the Uganda project is to ensure effectiveness of umbrella institutions and farmer organizations in the Ugandan coffee sector in accessing the European Union market, with the following outputs:

Output 1: Umbrella institutions are enhanced in their capacity to undertake monitoring and evaluation, to lead the mid-term update and review the National Export Strategy (NES) for coffee sector, and to manage the implementation of the NES Plan of Action;

Output 2: Implementing partner (IP) 'A' and 'B' are enhanced in their capacity to ensure competitive development and export promotion of coffee production; and

Output 3: Farmer associations are enhanced in their business capabilities and producers and exporters are assisted to take advantage of market opportunities in the European market.

7. The NTF II programme was incorporated within the ITC Large Projects Management Team section under the Office of the Executive Director, which was dissolved as planned in September 2011, and the programme moved to the Division of Market Development. The programme is managed by a programme manager, who is an ITC staff member, and individual projects are managed by project managers. The Uganda project is managed by a Geneva-based consultant project manager, who is supported by three staff: a senior technical advisor based in Geneva, a field coordinator and a lead monitor based in Uganda. This project management team is also supported by a Uganda-based project coordination group, comprising the chiefs of the three partner institutions, on implementation and local coordination issues.

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

II. OBJECTIVE AND SCOPE

9. The audit of the ITC NTF II Project was conducted to assess the adequacy and effectiveness of ITC's governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the project**.

10. An audit of an ITC project was included in the 2011 internal audit work plan because project management activities at ITC had not been previously audited and ITC was focusing on improving its project cycle management procedures. Selection of the Uganda project was based on criteria developed in coordination with ITC, which included: involvement of multiple ITC sections, multiple implementing partners in the field, implemented in one country, type of project ITC wants to implement more of in the future, major donor interest and a project that is at implementation phase but with time remaining to absorb and act on recommendations.

11. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Project management** - controls that provide reasonable assurance that there is sufficient project management capacity to achieve mandates.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures exist to guide the operations of the project in the following areas: budget and finance; administration of consultants; property management; travel; and records management.

12. The key controls were assessed for the control objectives shown in Table 1.

13. OIOS conducted this audit from August 2011 to January 2012. The audit covered the period from 1 April 2009 to 31 October 2011.

14. 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

15. ITC's governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of the NTF II Uganda project**. OIOS made ten recommendations to address issues identified in the audit.

16. The design of the NTF II programme incorporated the recommendations made by the external evaluation of the NTF programme conducted in late 2008. As a result, the NTF II agreement was signed for a longer period of four years, project design principles were outlined in the partnership framework and a joint ITC-donor governance structure in the form of a Steering Group was established. The Steering Group, comprising high level ITC and donor officials, provided necessary guidance on programme issues, including progress monitoring, strategic direction and overall governance for the NTF II programme. The work planning process for the Uganda project ensured participation of the three implementing partners. Project work plan was updated regularly and progress reporting was working as intended. The Steering Group approved the programme level communication strategy, and ITC established a dedicated section on its main website for NTF II.

17. The systems and procedures to manage the risks in planning, designing, implementing and monitoring the project needed strengthening. There were weaknesses in ITC's internal management and supervision arrangements to realistically meet the programme implementation plan and be responsive to restrictions imposed by donors, which resulted in the reduction of programme funding. *ITC stated that it undertook a review of the NTF II design process, the outcome of which would form the basis for the design of a possible follow-up programme with the donor, including a shared understanding between ITC and the donor on restrictions for funding carryover*. Activities aimed to strengthen the monitoring and evaluation (M&E) capacity of implementing partners were inadequate for the achievement of output 1 of the project. *ITC stated that the lead monitor had started providing backstopping and support to the three partner institutions to implement their M&E action plans, and each of the partner institutions had committed to set up an M&E unit.*

18. ITC's areas of work and its project activities in Uganda were not incorporated within the United Nations Development Assistance Framework (UNDAF) of Uganda to enable ITC to realize its commitment to the "One UN" initiative and its strategic priority to work closely with other agencies to implement joint programmes on trade promotion in beneficiary countries. *ITC stated that it had initiated communication with the UN Country Team in Uganda and worked out a way forward for the inclusion of ITC activities in the Uganda UNDAF, which was planned for revision in 2012.* Coordination and liaison activities with other stakeholders in the Ugandan coffee sector needed strengthening to improve communication and visibility of the project, minimize duplication and to link up the coffee farmers with complementary support providers. *ITC stated that media communication had improved, regular Project Coordination Group meetings had started with specific focus on linkages and partnerships with other stakeholders in the coffee sector in Uganda, and a local communication plan had been finalized.* Furthermore, baseline information developed at the project level was inadequate to support all the programme level indicators. *ITC stated that the NTF II Programme was in the process of undertaking a survey to analyze concretely how the project is contributing to programme outcomes and at impact level.*

19. Staff costs of IP 'A' funded by the NTF II project were not properly justified and verified with the payroll information of that IP resulting in unreasonably higher contribution by the project. *ITC stated that staff costs of IP 'A' had been reassessed and included in a new Memorandum of Understanding (MOU).* ITC internal guidelines on the Administration of Consultants were not aligned with the United Nations Administrative Instruction on Consultants and Individual Contractors (ST/AI/1999/7). *ITC stated that it had initiated a senior level working group, reporting to the Deputy Executive Director, to*

address these issues, and the work was ongoing. Furthermore, in-kind contributions received from IPs were not adequately valued and reported as required by the relevant United Nations regulations and rules. *ITC stated that a system that enables staff to record in-kind contributions and link these to both projects and beneficiaries was in pilot phase.*

20. In addition, the MOU with IP 'B' did not clarify procedures for the payment of daily subsistence allowance (DSA) to the participants of workshops jointly organized by ITC and the IP, which resulted in $31,800 of questionable expenditures. *ITC stated that this expenditure was wrongly labeled in project documents and budgets as DSA but it was a lump sum payment provided to each participant to pay for their substantive inputs to the programme. In any case, no new MOU had been done with IP 'B' pending resolution of the previous issues and agreement on how future activities will be administered.* OIOS notes that all relevant project documents referred to the payment as DSA and no documents were provided to support that the payments were made for the participants' contribution to the project.

21. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of ten important recommendations remains in progress.

Table 1: Assessment of key controls

Business objective	**Key controls**	**Control objectives**			
		Efficient and effective operations	**Accurate financial and operational reporting**	**Safeguarding of assets**	**Compliance with mandates, regulations and rules**
Effective management of the NTF II Uganda project	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management

Need to strengthen programme management and supervision

22. The NTF II programme had an annual budget of up to $3.97 million with carryover restrictions imposed by the donor, which did not allow unspent balance of any year to be carried over to subsequent years, but rather it was adjusted towards the $3.97 million available for the next year. Due to the delays in the design phase of the projects, the programme expenditure was only five per cent ($0.2 million) of the available $3.97 million in 2009 and 29 per cent ($1.17 million) in 2010. Therefore, the unspent balance of $6.5 million from the years 2009 and 2010 was deducted from the initially earmarked funding of $15.88 million for the programme, and by the time the implementation of the projects under the NTF II programme was launched in late 2010 and early 2011, the total programme budget had been reduced to about $9.4 million. This reduction in the programme budget directly affected the Uganda project, reducing its budget from $3.19 million initially to $2.27 million. Consequently, the following project activities were cancelled: the pilot project in the Nebi and Zongo districts, the geographic mapping of the coffee production by members of IP 'A'; and liaison activities with other actors for providing inputs during coffee production and post-harvest period.

23. The delays in the preparatory phase were initially due to confusion regarding governance arrangements with the donor in respect of roles and responsibilities between ITC and the donor for project identification, formulation and overall programme governance, which were finalized in November 2009. However, further delays in the preparatory phase occurred because of changes in the management of the programme within ITC during the period 2009-2010 and changes in the project manager for Uganda. These delays prevented ITC from meeting the programme implementation plan and adequately responding to the donor's restrictions on funding carryover.

(1) ITC should strengthen programme management and supervision to ensure that it is able to implement programmes in a timely manner to avoid reductions in available funding resulting from restrictions placed by the donor for funding its future programmes and projects.

ITC accepted recommendation 1 with a target date of 31 December 2013 for implementation and stated that it had put in place adequate programme management for NTF II including a Programme Manager, Programme Officer and managers for each of the projects. Programme implementation was now moving effectively and out of the design stage. In addition, ITC undertook a review of the NTF II design process, the outcome of which would form the basis for the design of a possible follow-up programme with the donor, including a shared understanding between ITC and the donor on restrictions for funding carryover. ITC also stated that based on the review report, a key learning workshop is planned for September 2012 to share the lessons learned from managing large programmes and develop a homogeneous and streamlined process for project cycle management that will be applied across ITC. Recommendation 1 remains open pending receipt of documentation detailing the arrangements to address the risk of programme funding reductions satisfactorily.

Procedures should be formalized for assessment, selection, and evaluation and sharing of performance information of implementing partners at the corporate level

24. At the corporate level, ITC has developed selection criteria for private enterprises; however, procedures for the assessment and selection of other implementing partners have not been formalized. In line with its strategic response to increase the depth of its assistance at country level, ITC is increasingly focusing on larger country programmes and working more with various governmental and non-governmental Trade Support Institutions (TSIs). For the Uganda project, ITC partnered with two governmental (IP 'B' and IP 'C') and one non-governmental (IP 'A') organizations. The selection of the two governmental entities as partners was justified because IP 'B' is a natural partner of ITC in Uganda and IP 'C' is the government authority for coffee sector development. Selection of IP 'A' was justified by its grass root connection with the farmers' association, its approach of work and its linkage with the import market. However, a due diligence process, including an organizational assessment, was not applied prior to the finalization of the partnership. This could have enabled ITC to acquire more information about IP 'A', including its financial situation and its donors, and to collaborate on the project activities with other donors, such as the NGO which was in the process of funding similar activities with IP 'A'.

25. Other UN agencies working in Uganda, such as UNDP, FAO, UNHCR and WFP have developed internal procedures for the selection, monitoring and evaluation of IPs as part of their due diligence process. These practices in ITC are currently informal and fragmented. While current procedures (such as the Project Quality Assurance Group review, the Senior Management Committee approval of projects, and the Grants Committee approval for disbursement of grants to partners) incorporate criteria for the approval of projects and grantees, a due diligence process for the assessment and selection of its partners needs to be formalized and documented. Such a procedure should also include a formal mechanism for monitoring and evaluating performance of implementing partners. This would reduce the exposure of

ITC to the potential risk of engaging with non-performing partners by cumulating those evaluations and distilling the learning for follow-up and application to further partnership development.

26. *ITC stated that monitoring and performance evaluation of partners were conducted as part of the implementation process and payment review. Sections overseeing partnerships assessed performance against criteria identified in the MOU and only provided payment when the performance criteria have been met. ITC also stated that a corporate level Client Relationship Management (CRM) system is scheduled for launch in 2012, which will provide a platform for collecting and sharing information on partners' performance.*

(2) ITC should formalize a corporate level procedure for the assessment, selection and performance evaluation of its implementing partners, including a mechanism to share partners' performance information within ITC.

ITC accepted recommendation 2 with a target date of 31 December 2013 for implementation and stated that it would set shared assessment criteria and pragmatic guidance regarding the selection of partners and a process that was adaptable to the operational environment. Due diligence would remain the responsibility of the operational sections with the support of ITC Division of Programme Support (DPS). ITC also emphasized that it was extremely important to understand that an integral part of the partnership process for ITC was to build capacity. Many of the organizations that ITC works with had gaps in capacity and organizational weaknesses that are being addressed as part of the work. Recommendation 2 remains open pending receipt of a formalized procedure for the assessment, selection and performance evaluation of implementing partners, and evidence of development of a mechanism for sharing information on their performance.

<u>Need to incorporate the work carried out by ITC in the UNDAF for Uganda</u>

27. In its strategic plan for 2010-2013, ITC emphasized its commitment to the "One UN" initiative and work closely with other agencies to implement joint programmes on trade promotion. However, the ITC area of work on trade and export promotion was not reflected in the current United Nations Development Assistance Framework (UNDAF) of Uganda for the period 2010-2014. Uganda is a "One UN" country and the current UNDAF was prepared by the UN Country Team in participation of all UN agencies in Uganda and included some non-resident agencies with operations in Uganda, such as ILO and UN Women. The UNDAF was developed in full consultation with the Government of Uganda and was aligned to the Uganda National Development Plan (NDP). The NTF II Uganda project of ITC also aims to support the NDP objective of poverty eradication by enhancing production, competitiveness and incomes. *ITC added that there is indeed a link made between the NDP and output 1.2 (NES update) of the project and that the project results indicator refers to the alignment of the NES update with the NDP.* However, the NTF II Uganda project and 21 other active projects of ITC in Uganda were missing their link with the Uganda UNDAF. Inability to effectively participate in the UNDAF process could result in ITC falling short of realizing its commitment to the One UN initiative and improving its collaboration with other UN agencies, which are issues that both ITC and UN Senior Management have put high importance on.

(3) ITC should ensure that its work is incorporated in the United Nations Development Assistance Framework for Uganda, in order to realize its commitment to the "One UN" initiative and improve scope for collaboration with other United Nations agencies.

ITC accepted recommendation 3 with a target date of 31 December 2013 for implementation and stated that an NTF II team visited the UN Country Manager and worked out a way forward to include ITC's work in the UNDAF, which is being revised in 2012. ITC also stated that it had held *important discussions on how to better link ITC work with UNDP Uganda.* Recommendation 3 remains open pending receipt of a copy of the revised UNDAF document which reflects the ITC activities.

<u>Coordination and liaison activities with other stakeholders in the Uganda coffee sector should be strengthened</u>

28. In line with the strategic plan of ITC, the project feasibility report recommended consultation with a wider number of players in the coffee sector during the formulation and implementation phases and to bring together IP 'A' and all its funders to increase coordination and synergies. However, the coordination efforts during the project formulation stage did not result in such synergies. The ITC Field Coordinator in Uganda, whose responsibilities include, inter alia, keeping abreast of other technical assistance initiatives in Uganda to support the coffee sector and explore possible synergy/linkage with the NTF II project, did not play a significant role in coordinating with other stakeholders during the project implementation. The Project Coordination Group (PCG) comprising the chiefs of the three implementing partners was responsible for local coordination of the project activities, including representation of the project in various local forums such as the National Steering Committee (NSC) on coffee. The first operational level meeting of the three implementing partners took place in September 2011 and another meeting was planned for November 2011.

29. There was duplication of efforts, as a similar activity relating to the preparation of a bankable business plan for IP 'A' under the Uganda project was also being carried out by an NGO, with focus on marketing and procurement issues. Although there had been communication and sharing of information among ITC, the donor and the NGO since March 2011, there was no substantive collaboration. ITC project management was aware of this and efforts were underway to improve collaboration. Furthermore, although the NTF II project did not support production issues and had focused on coffee quality, export marketing and training issues, addressing the production and post-harvest period needs of farmers was important for the achievement of the overall project outcome and impact. Efforts were needed by ITC, its partners and the PCG to find complementary ways to address the needs of the farmers. Moreover, local level communication and visibility of the project among the stakeholders in Uganda, e.g. NSC on coffee, monthly coffee breakfast and the Agriculture Development Support Group (ADSG) were inadequate.

(4) ITC should strengthen its coordination and liaison activities with other stakeholders in the coffee sector in Uganda, including implementing the local communication plan to improve visibility of the project, strengthening the Project Coordination Group to avoid duplication of efforts, and linking up farmers' associations with production and post-harvest support providers.

ITC accepted recommendation 4 with a target date of 31 December 2012 for implementation and stated that NTF II was highlighted in the coffee breakfast meeting in Uganda and one of its implementing partner's newsletters included a number of short write-ups on NTF II. ITC also stated that field communication has improved (TV, press and radio), with costs covered by the partners' own resources and that the Project Coordination Group meetings had started in October 2011 with the heads of institutions and would be organized regularly throughout 2012 with specific focus on linkages and partnerships with other stakeholders in the coffee sector in Uganda. ITC further stated that a local communication plan was finalized in January 2012 and its implementation was a top priority for ITC and its three partners during the remaining time of the project. Recommendation 4 remains open pending receipt of a copy of the local communication plan, evidence of visibility actions taken and minutes of the PCG meetings detailing initiatives undertaken to improve visibility of the project, avoid duplication of efforts and linking up farmers' associations with production and post-harvest support providers.

Programme performance management should be strengthened

30. One of the principles specified in the NTF II Partnership agreement was the need for a Results Based Management (RBM) framework to identify clear and measurable objectives and results from the start of the programme. Consequently, an RBM framework was adopted for NTF II wherein individual projects were responsible for achieving the outputs, whereas outcomes and impact were to be assessed at the programme level. A Quality Assurance (QA) advisor was appointed by the donor to help define the overall RBM framework. ITC was responsible to generate baseline figures for indicators of results, based on individual projects' objectives. However, the baseline study of the Uganda project did not provide the baseline information for some of the outcome/impact indicators, such as volume and value of current exports of farmers, percentage of women participating in the project and percentage of "poor" benefiting. A farmers' association survey was yet to be completed, which included some of these indicators.

31. Progress toward implementing activities under Output 1 of the project (to strengthen monitoring and evaluation (M&E) capacity of implementing partners) was slow. The NTF II Partnership Agreement between ITC and the donor emphasized the need to ensure support for partners in enhancing their M&E capacity. Accordingly, the Uganda project document included activities under Output 1 to provide M&E training to the staff of the partners. However, although the training for staff of the three implementing partners on M&E was planned for at the beginning of the project, this training took place only in December 2011.

(5) ITC should develop baseline information for all NTF II programme level indicators in the Uganda project.

ITC accepted recommendation 5 with a target date of 31 December 2012 for implementation and stated that NTF II Programme was in the process of undertaking a survey to analyze concretely how the project is contributing to programme outcomes (increase in export value and improved support services) and at impact level (improved income, gender specific impact and, poverty specific impact). The baseline will also be updated to reflect what the project achieved. Recommendation 5 remains open pending receipt of the updated project baseline report supporting all programme level indicators.

(6) ITC should enhance the monitoring and evaluation capacity of partners in accordance with the project document and the principles underlining the NTF II Partnership agreement.

ITC accepted recommendation 6 with a target date of 31 December 2012 for implementation and stated that the training workshop on M&E was completed in December 2011. The lead monitor has been providing backstopping and support to the three partner institutions to implement their M&E action plans. ITC also stated that concrete steps to anchor and strengthen M&E function within IP 'B' and 'C' are documented in the progress report and for IP 'A' this is part of their new strategic plan, which was developed with ITC's assistance. ITC further stated that each of the partner institutions has committed to set up an M&E unit to be supported by additional NTF II project activities as a result of the training. Recommendation 6 remains open pending receipt of evidence that the recommendations of the M&E workshop have been implemented and an M&E unit has been set up in each partner.

B. Regulatory framework

Need to reassess staff cost of an implementing partner to be funded by the project

32. NTF II does not provide core funding of Partner Trade Support Institutions (TSIs) as stated in the "Guidelines for the Design of NTF II Projects" and confirmed by a letter from the ITC Executive Director to the implementing partners on 16 June 2010. However, the donor and ITC agreed an exception for IP 'A' considering its limited financial and manpower capacity. In July 2010, the donor requested ITC to draw up a contract with IP 'A' specifying project management activities with concrete outputs and results. Consequently, terms of references (ToR) were prepared for three part-time functions (one supervisor, one desk officer and one information officer). However, the ToRs did not specify the expected outputs for each position. Information on costing and time required to undertake the related activities was not analyzed. Therefore, the real staff costs associated with the identified positions were not clear.

33. The total budgeted annual payroll cost of IP 'A' in 2011 for all of its activities was $57,000 (for a total of 9 posts including the Executive Director), which was funded by its donors, membership fees and commissions from Farmers' Associations and contribution from IP 'C'. ITC's contribution was meant to cover part of this payroll cost by supporting the additional work performed by staff of IP 'A' for the NTF II Uganda project. However, the project budget included $155,100 as contribution to IP 'A' for the 27-month implementation period, representing an annualized contribution of $68,933, which was almost $12,000 more than the total annual payroll cost of IP 'A'. The NTF II Programme Manager did not verify this cost estimation with payroll information of IP 'A' and the ITC Grants Committee did not question it when it approved disbursement of grants to the IP.

34. Out of the agreed $155,100, ITC disbursed $58,010 in staff costs to IP 'A' in 2011 through two MOUs, with the balance planned to cover similar expenditures in 2012 and first quarter of 2013. Although ITC cannot recover the amount already disbursed as it had been agreed in the MOU by both parties, it should reassess the staff cost payable to IP 'A' for the remaining period of the project.

(7) ITC should reassess the staff costs payable to implementing partner 'A' for 2012 - 2013 under the NTF II Uganda project based on the project needs and the actual payroll information of IP 'A' and incorporate it in the new Memorandum of Understanding with the IP.

ITC accepted recommendation 7 with a target date of 31 December 2012 for implementation and stated that staff costs paid by the project to IP 'A' had been reassessed and a new MOU signed in June 2012 shows clearly the links between expected deliverables and the staff time required from the IP. The staff cost is aligned with the agreed time allocation and the applicable rate in Uganda. Recommendation 7 remains open pending receipt of evidence of reassessment of staff costs and the new MOU reflecting revised staff costs payable to IP 'A'.

MOU with an implementing partner did not clarify procedure for DSA

35. ITC signed an MOU with IP 'B' in May 2011 for organizing three workshops for 30 participants on the Certified Trade Advisers Programme (CTAP). The total amount of the MOU was $87,076, of which $66,391 was allocated for travel and DSA of the participants, venue rental, and other administrative support costs. ITC follows the United Nations Administrative Instruction on the System of DSA (ST/AI/1998/3) in determining travel subsistence allowance for participants in workshops organized by ITC. According to the ST/AI, no allowance shall be paid for a journey of less than ten hours that does not involve a night away from the traveler's residence. Alternatively, in using the grant modality, ITC

could follow the applicable rules of IP ‘B’ for the payment of travel and DSA, wherein “night allowance” rates are applicable only for trips that involve overnight stay.

36. The MOU between ITC and IP ‘B’ on the CTAP workshop did not specify what rules would be followed for the payment of travel and DSA to the workshop participants. Determination of the travel and DSA rates was based on neither the UN nor the rules of IP ‘B’. The UN DSA for Kampala was around $160 and night allowances of IP ‘B’ were between Ugandan Shillings (UGX) 55,000 and 150,000 ($22 and $60) depending on the category of staff. At the time of the OIOS audit mission to Uganda in October 2011, two of the three workshops had taken place and DSA at the rate of $100 per day was provided to all 30 participants, including 18 that were based in Kampala where the workshops were organized. In addition, a flat rate of UGX200,000 (approximately $80) was provided as travel allowance to each participant without verification of the actual expenditures; lunch and coffee were already provided to the participants free of charge during the workshop. A total of $35,266 was disbursed to the 30 participants for the two workshops as DSA and travel allowance; out of which, $21,200 was disbursed to the 18 Kampala based participants.

37. Although OIOS immediately advised ITC to put corrective measures in place, the same practice continued during the third workshop that took place in November 2011 when IP ‘B’ disbursed $17,633 to the 30 participants as DSA and travel allowance, including $10,600 for the 18 Kampala based participants, resulting in a total of $31,800 of questionable payments.

(8) ITC should ensure that Memorandum of Understanding with implementing partners clarifies procedures and rates for daily subsistence allowance and other travel related expenditure.

ITC accepted recommendation 8 with a target date of 31 December 2012 for implementation and stated that lump sum payment was wrongly labeled in project documents and budgets as DSA and that the lump sum payment was provided to each participant to pay for their substantive inputs to the programme. All previous MOUs under the project have been concluded and no new MOU has been done with IP ‘B’ pending resolution of previous issues and agreement on how future activities will be administered. ITC also stated that it will provide additional guidance to project managers and include in the MOU package how DSA and lump sum should be administered. OIOS notes that all relevant documents including the MOU, project working files and the guidelines for the workshops referred to the payment as DSA and no documents were provided showing that the payments were made for participants’ contribution to the project. Recommendation 8 remains open pending receipt of the guidance to be included in the MOU package explaining how to administer DSA and other travel related expenditure.

Guidelines on administration of consultants need to be aligned with UN rules to ensure competition

38. The UN Administrative Instruction on Consultants and Individual Contractors (ST/AI/1999/7), which is applicable to ITC, guides the consultant selection process and requires it to be competitive. The ITC internal guidelines for the administration of consultants allow waiving the competitive selection requirement provided that the recommended candidate fully meets the eligibility criteria as set out in the Terms of Reference/Job Descriptions (TOR/JD). In OIOS’ opinion, the ITC internal guidelines for selecting consultants in ITC are not competitive and are not aligned with ST/AI/1999/7. OIOS’ audit tests showed that ITC had signed 18 contracts with 14 international and national consultants and individual contractors for the Uganda project, based on the consideration of a single candidate in each case, for which waivers had been granted by the ITC HR Approving Officer based on justifications provided in the request for hiring forms.

(9) ITC should align its internal guidelines on the administration of consultants with the United Nations Administrative Instruction on Consultants and Individual Contractors (ST/AI/1999/7) to ensure competition.

ITC accepted recommendation 9 with a target date of 31 December 2012 for implementation and stated that the major difference between the internal guidelines and the ST/AI concerns the length of mandatory break. ITC also stated that it had initiated a senior level working group, reporting to the Deputy Executive Director, to address these issues. Work is ongoing and ITC anticipates that an online consultants' database and roster would be operational in the third quarter of 2012. The working group was also reviewing the consultant selection process to ensure that the revised process, underpinned by an effective, stable electronic platform, would be competitive and transparent. The aim is to align the ITC policy with the administrative instructions of the United Nations. Recommendation 9 remains open pending receipt of the revised guidelines on the administration of consultants.

Contributions from implementing partners were not adequately reported

39. UN instructions on the reporting of in-kind contributions require ITC to value and report significant in-kind contributions of materials and services in its financial statements. However, the Uganda project document and various MOUs did not value nor report the in-kind contributions received from the partners, initially estimated at $465,000, and, as a result, they were not disclosed in ITC's financial statements.

(10) ITC should ensure that in-kind contributions from partners under the NTF II Uganda project are properly valued and reported.

ITC accepted recommendation 10 with a target date of 31 December 2012 for implementation and stated that its CRM system is currently in pilot phase (with 40 staff being trained) and full roll-out across the organization will take place in 3rd quarter of 2012. The CRM system includes a feature that enables staff to record contributions-in-kind and link these to both projects and beneficiaries. Recommendation 10 remains open pending receipt of documentation showing that all in-kind contributions to the NTFF II Uganda project are properly valued and reported in ITC's financial statements.

IV. ACKNOWLEDGEMENT

40. 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.

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ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of ITC NTF II Project "Creating Sustainable Exporter Competitiveness in the Coffee Sector in Uganda"

Recom. no.	Recommendation	Critical[1]/ important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
1	ITC should strengthen programme management and supervision to ensure that it is able to implement programmes in a timely manner to avoid reductions in available funding resulting from restrictions placed by the donor for funding its future programmes and projects.	Important	O	Submission to OIOS of documentation detailing the arrangements to address the risk of programme funding reductions satisfactorily	31 December 2013
2	ITC should formalize a corporate level procedure for the assessment, selection and performance evaluation of its implementing partners, including a mechanism to share partners' performance information within ITC.	Important	O	Submission to OIOS of a formalized procedure for the assessment, selection and performance evaluation of implementing partners, and evidence of a mechanism for sharing information on their performance	31 December 2013
3	ITC should ensure that its work is incorporated in the United Nations Development Assistance Framework for Uganda, in order to realize its commitment to the "One UN" initiative and improve scope for collaboration with other United Nations agencies.	Important	O	Submission to OIOS of a copy of the revised UNDAF document of Uganda reflecting the ITC activities	31 December 2013
4	ITC should strengthen its coordination and liaison activities with other stakeholders in the coffee sector in Uganda, including implementing the local communication plan to improve visibility of the project,	Important	O	Submission to OIOS of a copy of the local communication plan, evidence of visibility actions taken and minutes of the PCG meetings detailing initiatives undertaken to improve visibility of the project, avoid	31 December 2012

[1] Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.
[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.
[3] C = closed, O = open
[4] Date provided by ITC in response to recommendations.

Recom. no.	Recommendation	Critical[1]/ important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
	strengthening the Project Coordination Group to avoid duplication of efforts, and linking up farmers' associations with production and post-harvest support providers.			duplication of efforts and linking up farmers' associations with production and post-harvest support providers	
5	ITC should develop baseline information for all NTF II programme level indicators in the Uganda project.	Important	O	Submission to OIOS of the updated Uganda project baseline report supporting all programme level indicators	31 December 2012
6	ITC should enhance the monitoring and evaluation capacity of partners in accordance with the project document and the principles underlining the NTF II Partnership agreement.	Important	O	Submission to OIOS of evidence that the M&E workshop recommendations have been implemented and that the M&E unit has been set up in each partner	31 December 2012
7	ITC should reassess the staff costs payable to implementing partner 'A' for 2012 - 2013 under the NTF II Uganda project based on the project needs and the actual payroll information of IP 'A' and incorporate it in the new Memorandum of Understanding with the IP.	Important	O	Submission to OIOS of evidence of the reassessment of staff costs and the new MOU reflecting revised staff costs payable to IP 'A'	31 December 2012
8	ITC should ensure that Memorandum of Understanding with implementing partners clarifies procedures and rates for daily subsistence allowance and other travel related expenditure.	Important	O	Submission to OIOS of the guidance to be included in the MOU package explaining how ITC should administer DSA and other travel related expenditure	31 December 2012
9	ITC should align its internal guidelines on the administration of consultants with the United Nations Administrative Instruction on Consultants and Individual Contractors (ST/AI/1999/7) to ensure competition.	Important	O	Submission to OIOS of the revised guidelines on the administration of consultants	31 December 2012
10	ITC should ensure that in-kind contributions from partners under the NTF II Uganda project are properly valued and reported.	Important	O	Submission to OIOS of documentation showing that all in-kind contributions to the NTFF II Uganda project are properly valued and reported in ITC's financial statements	31 December 2012