



United Nations
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Organisation
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Organización
de las Naciones Unidas
para la Educación,
la Ciencia y la Cultura

Организация
Объединенных Наций по
вопросам образования,
науки и культуры

منظمة الأمم المتحدة
للتربية والعلم والثقافة

联合国教育、
科学及文化组织

Internal Oversight Service Audit Section

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Audit of UNESCO's Abdus Salam International Centre for Theoretical Physics

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Auditors:

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EXECUTIVE SUMMARY

Key Results

IOS conducted an audit of the Abdus Salam International Centre for Theoretical Physics (ICTP), a UNESCO Category 1 Institute, to assess the functioning and the effectiveness of internal controls. The audit showed that significant improvements are needed, and a number of the issues noted have been raised in prior audits without effective or sustained action by the Institute's management.

With regard to the Directorate of the Institute, oversight and accountability need strengthening to curtail the engagement in regular outside occupation without the prior approval of the Director-General. Better administration of the allowances and entitlements is also needed, specifically with regard to provision of a rent-free villa for the Director without the required payroll deductions. Going forward, it will be important to clarify the administrative reporting line of the Director of the Institute as well as to formalize functional reporting lines of the senior administrative and human resources managers.

In its contracting and procurement, competitive selection of contractors / consultants was not applied in a large number of cases, raising concerns about value for money and transparency in contract awards. Rather than conform to requirements that high-value contracts be approved by UNESCO's HQ Contracts Committee, the Institute continues to use a local committee without authorization. Further, the Institute continues to use a number of non-standard contracts that have not been vetted for legal and compliance risks. The audit also noted that there was inadequate segregation of duties for a large number of transactions during 2015. While this was addressed in 2016, further work is needed to ensure that certifying and approving officers adhere to their delegated limitations.

Improvements are also needed in the management of guest houses, inventory and travel to ensure effective risk management and control of the Institute.

Background

1. The Abdus Salam International Centre for Theoretical Physics (ICTP) is a UNESCO Category I institute located in Trieste, Italy, with a mission to (i) foster the growth of advanced studies and research in physical and mathematical sciences, especially in support of excellence in developing countries, (ii) develop high-level scientific programmes keeping in mind the needs of developing countries, and provide an international forum of scientific contact for scientists from all countries and (iii) conduct research at the highest international standards and maintain a conducive environment of scientific inquiry for the entire ICTP community.
2. ICTP was initially established in 1964 under the International Atomic Energy Commission (IAEA). Since 1996, UNESCO has been responsible for management of the Institute under a tripartite agreement between the Government of Italy, UNESCO and the International Atomic Energy Agency (IAEA).
3. As a Category I institute of UNESCO, ICTP operates with a degree of functional autonomy. At the same time, the Institute forms an integral part of UNESCO, is governed by UNESCO's rules and regulations and its overall programmes and priorities are an integral part of UNESCO's Programme and Budget (C/5).
4. The Director of the Institute, who serves at the level of Assistant Director-General, and 191 of its personnel serve under UNESCO staff contracts. Funding for the past biennium was derived from multiple sources with €41.8 million (76%) provided by the Government of Italy and €4.7 million (9%) from the IAEA. UNESCO's financial support totaled €700,000 and the remaining funding of €7.4 million (14%) came from various other donors.

5. The Internal Oversight Service audited the Institute in 2007 and 2012, raising a total of 109 recommendations to improve governance, risk management and control. The annual financial statements of the Institute are also separately audited each year by UNESCO's External Auditor.

Statement of Budget and Actual Expenditures
For the Period 1 January to 31 December 2015
(€ '000)

Main Appropriation Line	Original Budget	Adjustments 2015		Final Budget	2015 Actual Expenditure
	2015 Allotment	Authorized Transfers	Additional Appropriations	2015 Allotments as Adjusted	
Directorate	1,803	299	185	2,287	2,222
Science	6,716	78	2,293	9,087	7,980
Training Activities	3,149	314	876	4,339	3,725
External Services	2,168	(220)	2,314	4,262	3,010
Scientific Information Services	3,222	178	290	3,690	3,554
Administration	5,113	13	285	5,411	5,292
Guesthouses	2,045	52	155	2,252	2,243
Subsidies to Scientific Activities	479	36	2	517	508
Provisions for Other Costs	1,197	(750)	107	554	501
Total	25,892	-	6,507	32,399	29,035

Scope, Objective and Methodology

6. IOS conducted an audit of ICTP to assess the functioning and the effectiveness of the internal controls at the Institute. The scope of the audit included management of financial processes, assets, human resources, travel, contracting and procurement.

7. The auditors examined the design and operation of the control processes and information systems in place and tested a sample of transactions relating to each process.

8. The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing and covered activities undertaken during the period January 2015 to February 2016. Methodology was based on a risk assessment conducted during the planning phase of the audit and substantive testing of samples of financial transactions, contracts, travel and personnel actions. In doing this, the auditors examined transactional documentation and interviewed relevant personnel at the Institute.

Risk Management and Control of the Institute Need Improvement

9. The audit showed that significant improvements are needed, and a number of the issues noted have been raised in prior audits without effective or sustained action by the Institute's management.

10. With regard to the directorate of the Institute, oversight and accountability need strengthening. UNESCO staff members, including those at the executive level, are prohibited from engaging in regular outside occupation without the prior approval of the Director-General. The Institute's Director did not adhere to this requirement. Further, better administration of the allowances and entitlements is needed, specifically with regard to provision of a rent-free villa for the Director without the required payroll deductions as set forth in UNESCO staff rules. IOS estimates that the rental deductions arrears for the last six years total €109,650. A relative of a senior manager, who is not a UNESCO staff member, was involved in the selection process of two contractors. Such arrangements raise concerns about an appearance of conflict of interest or undue influence in contracting decisions.

11. In its contracting and procurement, the Institute continues to use a number of non-standard contracts (i.e., Scientific Contractual Agreements and local procurement contracts) that have not been vetted for legal risks. Further, competitive selection of contractors / consultants was not applied in a large number of cases, especially for the Scientific Contractual Agreements.

12. Contracts valued above \$150,000 (or above \$100,000 for contracts where competition was waived) were approved by a local contracts committee, appointed by the Director of ICTP, and were not sent to the HQ Contracts Committee for review and approval as required under the UNESCO policy.

13. The Institute's controls in managing human resources and travel need improvement. This can be accomplished by adopting current UNESCO management systems such as the time and attendance application (TULIP), the Travel Management module in FABS and the performance management system (MyTalent).

14. Financial control of the two guest houses of ICTP should be improved through (i) the implementation of an integrated system to manage reservations and billings and (ii) the regular reconciliation of receipts per the billing system and FABS. To ensure efficiency, ICTP should also undertake a detailed analysis of guest-house expenditure and receipts and assess whether more cost-effective options are available.

15. Control over inventory items needs improvement. During the last year, 23 inventory items with total procurement value of €55,000 were reported as stolen or missing. Clear accountability for custody of inventory items needs to be established.

16. Financial control was weak during the period under audit. In a large number of financial transactions in 2015, the same individuals both certified and approved transactions in FABS. While this was addressed in 2016, the delegated limitations of certifying and approving officers were not consistently respected.

17. A number of payments (totalling \$420,000 in 2015), in particular those relating to payment of grants, are done bypassing the contract modality in FABS. These payments are therefore not subject to systemic controls provided in FABS, increasing the risk of improper payments.

18. ICTP generally follows the policy of economy class travel for staff and participant missions. However, in 2015, business class tickets were purchased for five missions, which did not conform to the UNESCO policy on the class of travel. Weaknesses in obtaining updated security training certificates were also noted.

Assessment of Controls

19. As part of the audit, IOS validated the most recent self-assessments of internal controls completed by the Institute. The purpose of this validation is to reinforce the self-assessment methodologies and resultant assurance as this process continues to evolve. We concluded that the self-assessment did not accurately present the status of the Institute's controls in three of the four functional areas reviewed in this audit. Implementation of the recommendations contained in this report will improve controls where needed.

Functional Area	Self-Assessment (2014)	Self-Assessment (2015)	IOS assessment
Financial Control	Needs Improvement	Globally Under Control	Needs improvement (Recommendations 7,8,9 and 10)
Supply of Goods, Works & Services	Globally Under Control	Globally Under Control	Needs improvement (Recommendations 11 and 12)
Human Resource Management	Needs Improvement	Needs improvement	Needs improvement (Recommendations 1,2,3,4,5 and 6)
Travel Management	Globally Under Control	Globally Under Control	Needs Improvement (Recommendation 13)

Table of recommendations

Recommendation 1: HRM to confirm the amount of accrued leave or staff cost to be recovered from the ICTP Director for unauthorized absences due to outside occupational activities, estimated by IOS to total 45 workdays.

Recommendation 2: HRM, in light of the rent-free accommodations provided to the ICTP Director, to (i) establish the amount of rental deduction due from January 2010 to the present (estimated by IOS at €109,650) and ensure recovery from the staff member and (ii) institute appropriate monthly payroll deduction as rent-free occupancy continues.

Recommendation 3: HRM, in consultation with the Science Sector and ICTP, to define the administrative supervision of the ICTP Director to be exercised by the ADG/SC. This should include performance management of the Director, approval of travel and of leave.

Recommendation 4: HRM, in consultation with the respective Category 1 institutes, to establish a clear functional reporting line to the DIR/HRM for Human Resources Officers (and equivalents) at each Category 1 Institute. This should include the specific delegations to and accountabilities of the decentralized HR functions.

Recommendation 5: ICTP, in collaboration with HRM, to (i) review the Scientific Contractual Agreement to ensure it fits into UNESCO's legal contractual framework and to limit its use to post-doctoral fellows., (ii) develop formal guidance setting forth the circumstances under which these contracts are to be used, how the selection process is to be undertaken and documented, and how terms of reference are to be prepared to establish value for money and (iii) adopt the standard UNESCO Individual Consultant contracting framework for other consultant arrangements of the Institute.

Recommendation 6: ICTP, in consultation with HRM and KMI, to adopt TULIP, UNESCO's on-line attendance management system, as a priority to better manage staff leave and missions. Further in this regard, MyTalent should also be introduced to improve workflow and better integrate human resource management practices across the Organization.

Recommendation 7: ICTP to (i) conduct a detailed analysis of revenue collected (including the notional revenue for the invited guests) as compared to the expenditure incurred, including staff costs, on the guest houses to arrive at the net economic result of the guest house operations, (ii) explore the available market options for lodging invited guests in order to identify the most cost-effective option, and (iii) implement an integrated guest house management system if a decision is taken to continue with the guest house services. This assessment may include a request for proposals from hospitality firms to outsource the management of the facilities, guest services, reservations and billings.

Recommendation 8: ICTP, in collaboration with BFM, to identify appropriate contract modality and corresponding FABS workflow to control the direct payments related to the grants made by the ICTP.

Recommendation 9: ICTP to clearly assign accountability to the Senior Administrative Officer of the Institute to maintain effective control monitoring to ensure that (i) adequate segregation of duties is maintained in certifying and approving financial transactions and (ii) delegated certifying and approving limitations are consistent with the Institute's operating needs and are strictly adhered to.

Recommendation 10: ICTP to (i) institute a custodian system for the safe keeping of each asset item whereby the custodians are accountable for the proper care and security of the property issued to them, (ii) establish a separate inventory of small and attractive items as required under the UNESCO policy, (iii) ensure that the disposal of property is in accordance with the UNESCO policy on asset management including prohibition of gifts to staff members and other individuals, and (iv) ensure that log sheets are appropriately controlled with sign-off of persons using or authorizing the vehicle travel.

Recommendation 11: ICTP to (i) ensure that contracts above \$150,000 (\$100,000 for waived contracts) are submitted to the HQ Contracts Committee for review and approval, (ii) send all non-standard contracts to LA for vetting to avoid legal risks and (iii) strengthen procedures and accountabilities to ensure that instances of non-competitive selection of contractors are subject to waiver on basis of criteria and authorities laid down in the Administrative Manual.

Recommendation 12: ICTP to ensure that only UNESCO staff members are associated with the contracting process including selection of contractors. In exceptional cases where external expertise is required, such individuals should be selected in a manner that mitigates risk of any appearance of conflict of interest.

Recommendation 13: ICTP to (i) in consultation with BFM and KMI, draw up a plan to roll out FABS Travel Module for the management of mission and statutory travels, (ii) establish a checklist for management of travel to ensure that travel orders are complete and are in compliance with the UNESCO policy, including those relating to the class of travel and security requirements, (iii) clarify the statutory travel entitlements with HRM for calculation of lump-sum option and (iv) assess rationale and accountability for provision of business class travel to staff member and determine whether excess costs should be recovered and restored to ICTP.