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OIOS AUDIT OF UNHCR OPERATIONS IN TURKMENISTAN

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EXECUTIVE SUMMARY

In March 2004, OIOS conducted an audit of UNHCR Operations in Turkmenistan. The audit covered activities with a total expenditure of US\$ 1.04 million in 2002 and 2003. An Audit Observation was shared with the Chief of Mission in April 2004, on which comments were received by May 2004. *The Chief of Mission has accepted most of the recommendations made and implemented them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Turkmenistan as above average. Overall, it was well run, and although some weaknesses in the application of internal controls were identified, the weaknesses concerned were not sufficiently critical to compromise the overall system of internal control.

Programme Management

- For the five partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. From OIOS' field visits it was also evident that the partners achieved objectives and that resources, funds and assets, were used efficiently and effectively.
- Financial and performance monitoring was adequately performed and efforts intensified to build capacity at partners.
- The Government of Turkmenistan introduced a new law on Public Associations that is in effect from November 2003. Three NGOs; i.e. Keik-Okara NGO, Miras NGO and My Right were not registered and finding it difficult to register. The new law prohibits unregistered NGOs to operate in Turkmenistan. If the NGOs cannot register, programme activities would be hampered and UNHCR's capacity building efforts would be jeopardized. It is rather doubtful that local NGOs can sustain financially if not engaged by UNHCR. *OCM, Ashgabat assists the NGOs to register.* Should they not be registered by end 2004, then OIOS suggests that the Bureau of CASWANAME take up the matter with the Government of Turkmenistan.
- UNHCR pays instalments in US\$ that the partners convert into the local currency (Manat) at an "unofficial exchange rate" that is more than three times higher than the "official exchange

rate". The new law requires NGOs to register all projects with the Ministry of Justice and it was argued that the funds would have to be transferred through the Ministry at the "official exchange rate". *There is a "commercial exchange rate" in use in Turkmenistan, that is much more favourable than the "official rate of exchange", but the application of OCM, Ashgabat to use the rate was rejected by the Central Bank of Turkmenistan.* This will have a substantial financial effect on the operation. According to OIOS' calculation, UNHCR could loose as much as US\$ 450,000 in 2004, by applying the "official rate" instead of the "commercial rate". Therefore, OIOS suggests that the Division of Financial and Supply Management request the Central Bank of Turkmenistan to reconsider OCM, Ashgabat's application and to grant the use of the "commercial rate of exchange" for activities funded by UNHCR.

Supply Management

- Procurement activities, warehousing and asset management were found to be well managed, in particular, the redeployment of NFIs to Afghanistan when the "Afghan Repatriation Project" was discontinued as of December 2003.

Security and Safety

- OIOS found the security measures in place to be adequate.

Administration

- In the areas of administration and finance, the UNHCR Office in Turkmenistan generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. Also, the MIP system was well managed and claims were settled in accordance with the rules.

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I. INTRODUCTION

1. From 4 to 19 March 2004, OIOS conducted an audit of UNHCR's Operations in Turkmenistan. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of the UNHCR Office of the Chief of Mission in Turkmenistan and of five of its implementing partners (partners).

2. OIOS' previous audit of UNHCR in Turkmenistan was conducted in March 2000. The review focused on 1998 and 1999, covering project expenditure of US\$ 502,000 and administrative expenditure totalling US\$ 262,000.

3. In 2000, the management of programme and administration was assessed as adequate, but OIOS recommended training for partners to strengthen internal controls during the implementation of sub-projects, compliance to UNHCR's procurement procedures and strengthened budgetary controls. Since then, programme related training was provided that notably improved the compliance of partners with UNHCR's procedural and reporting requirements. The new "Law of Turkmenistan on Public Associations", however, could seriously affect the capacity building initiatives and efforts of OCM, Ashgabat.

4. In 2002 and 2003, UNHCR assisted a total of 550 refugees, of which 240 are Tajiks and 310 Afghans, to repatriate voluntarily. A main element of the operation was the "Afghan Repatriation Project" that was discontinued as of end December 2003. The project was oriented towards the repatriation, contingency planning and the provision of cross-border assistance, as well as logistical and administrative support required by the UNHCR Sub-Offices, Herat and Mazar-i-Sharif in Afghanistan. In fall 2003, the remaining stockpile of NFIs, which was stocked in the Turkmenabad warehouse, was redeployed to Afghanistan.

5. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 19 March 2004. An Audit Observation detailing the audit findings and recommendations was shared with the Chief of Mission in April 2004. The comments, which were received in May 2004, are reflected in the final report. *The Chief of Mission has accepted most of the audit recommendations made and implemented them.*

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and,
- Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on 2002 and 2003 programme activities under projects 02 and 03/AB/TKM/CM/200, 02 and 03/AB/TKM/CM/470 and 02 and 03/AB/TKM/LS/470 with expenditure of US\$ 403,000. Our review concentrated on the activities implemented by National Red Crescent Society of Turkmenistan (NRCS) - expenditure of US\$ 135,000; Keik-Okara NGO (Keik-Okara) - expenditure of US\$ 51,000; the World Turkmen Humanitarian Association in Mary Valayat (WTHA/Mary) – expenditure of US\$ 32,000; the Woman’s Organisation of Lebap Valayat (“WOLV”) – expenditure of US\$ 63,000 and the Youth Self-Supporting Centre Bosfor (BOSFOR) – expenditure of US\$ 28,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 313,000.

8. The audit reviewed the administration of OCM, Ashgabat with administrative budgets totalling US\$ 712,000 for 2002 and 2003 and assets with an acquisition value of US\$ 686,000 and a current value of US\$ 293,000. The number of staff working for the UNHCR Operation in Turkmenistan was 14. This included 12 staff on regular posts and 2 temporary staff, one of which performed the duties of Admin/Fin. Clerk and the other as Field Clerk.

9. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

10. For the five partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements and OIOS assessed that internal controls of all partners were generally in place and operating effectively.

11. Most of the partners audited maintain cashbooks, but not general ledgers. Although the transactions incurred by the implementing partners were limited in numbers and amounts, it was still time consuming to add all the expenditures per item for reporting or verification and therefore, OIOS suggested the introduction of general ledgers. *OCM, Ashgabat introduced general ledgers at the partners and trained staff members of the partners to record transactions therein.* OIOS views this as a commendable step.

12. No audit certificates were received from the partners. The accumulated amount of sub-projects implemented by an individual partner per year, however, was below US\$ 100,000 and therefore audit certificates were not required from them.

(a) “Law of Turkmenistan on Public Associations”

13. A new law on Public Associations, published on 10 November 2003, came into effect on 20 November 2003. It requires NGOs to register, even if they were previously registered under the law published on 12 November 1991.

14. As of March 2004, only three of the NGOs; i.e. BOSFOR, NRCS and the Woman's Organisations managed to register under the new law. The other NGOs; i.e. Keik-Okara, Miras NGO and My Right were not registered. The new law prohibits unregistered NGOs to operate in Turkmenistan and administrative and criminal penalties have been added in the law. Also, the government has complete control over the registration process.

15. *OCM, Ashgabat provides support and assistance to the partners in their efforts to register, but cautioned that the new legislation specifically prohibits NGOs from operating until their applications for registration has been approved, and provides for severe penalties (both administrative and criminal) in the event of non-compliance with this stipulation. Therefore, OCM, Ashgabat could not consider working with partners until they have been registered.*

16. The situation is unfortunate. UNHCR's capacity building efforts could be jeopardized. Programme activities could be seriously hampered. Also, since the partners do not receive any other funding than that of UNHCR, their financial sustainability is rather doubtful, if the partnership with UNHCR cannot be continued. Even the salaries of the staff members of some partners are fully funded by UNHCR. OIOS therefore suggests that the Bureau of CASWANAME address the matter directly with the Government of Turkmenistan.

Recommendation:

- The UNHCR Bureau of CASWANAME, in consultation with the NGO Coordinator, should approach the Government of Turkmenistan to overcome the obstacles, the Office of the Chief of Mission, Ashgabat is facing in registering its local implementing partners in accordance with the new "Law of Turkmenistan on Public Associations" (Rec.01)

(b) Social security and income taxation

17. Until early 2004, the partners did not pay social security contributions and income taxes as required by legislation. *OCM, Ashgabat officially informed all its partners of the need to pay social security and employment taxes, in compliance with local laws. Furthermore, OCM, Ashgabat drafted a "letter of acknowledgment" to be endorsed/signed by its partners, that clearly underlines the responsibility of the latter in regard to the payment of all taxes and confirms their compliance with the relevant laws.* OIOS welcomes this action taken by OCM, Ashgabat.

(c) Salary provisions in sub-project budgets of partners

18. There were differences in the salary provisions for similar positions in UNHCR sub-project budgets and staff members under UNHCR sub-projects were paid differently than those under projects with other donors. *As of April 2004, OCM, Ashgabat harmonized the provisions for salaries of staff members with similar functions in UNHCR sub-project budgets and a salary scale was introduced to ensure that staff members in UNHCR sub-projects are paid the same as staff members under projects with other agencies.*

19. NRCS charged the UNHCR sub-project for rental of office space. However, the funds were used, *inter alia*, for remuneration to staff members other than those working in the UNHCR sub-project. *Given the general difficulties encountered in the management of the*

NRCS sub-project, OCM, Ashgabat decided to discontinue its activities with the partner from 2004.

B. Other Programme Issues

(a) Financial and performance monitoring

20. OIOS assessed that project financial and performance monitoring was competently performed, good progress was made to build capacity at partners and the recent engagement of a locally recruited National United Nations Volunteer further increased OCM, Ashgabat's capacity building initiatives.

(b) Exchange rates and sub-project budgets

21. Most sub-project budgets are in US\$ and in the past, partners paid salaries, travel allowances and the limited purchases in US\$ and exchanged US\$ in the local currency, Manat, at an "unofficial rate of exchange". The "unofficial rate of exchange" (US\$ 1 = 22,500 Manat) is more than four times the "official rate of exchange" (US\$ 1 = 5,200 Manat). The "unofficial rate of exchange" was also used during budgetary discussions and negotiations with partners.

22. The new law, however, requires the NGOs to register all projects with the Ministry of Justice of Turkmenistan and it is argued that all funds received from international donors would have to be transferred through the Ministry of Justice. As to whether the latter would be put in practice is not certain, but the new law allows the Ministry of Justice access to the records of the NGOs and it is understood that it is a requirement that NGOs pay their obligations in local currency.

23. Therefore and although UNHCR may pay the instalments in US\$ to the partners, the partners will have to use the "official rate of exchange". This would seriously affect the programme activities in Turkmenistan. If sub-project budgets had to be based on the "official rate of exchange", the cost of programme activities would almost quadruple. According to OIOS' calculation, the financial implication of using the "official rate of exchange" could be as high as US\$ 450,000 in 2004.

24. OCM, Ashgabat requested approval from the Central Bank of Turkmenistan, through the Turkmen Turkish Bank, to use the "commercial rate of exchange" (US\$ 1 = 19,000 Manat), that is more than three times the "official rate of exchange" (US\$ 1 = 5,200 Manat). *OCM, Ashgabat's request was refused in a letter from the Central Bank of Turkmenistan in April 2004.*

25. Considering the financial effect of using the – artificially high - "official rate of exchange" and the serious consequences this would have for UNHCR's programme activities, OIOS suggests that the Division of Financial and Supply Management requests the Central Bank of Turkmenistan to reconsider their decision.

Recommendation:

- The UNHCR Division of Financial and Supply Management should request the Central Bank of Turkmenistan to reconsider OCM, Ashgabat's application and to grant the use

of the “commercial rate of exchange” for all activities funded by UNHCR, in order to avoid estimated additional cost of as much as US\$ 450,000 in 2004, which would result from applying the “official rate of exchange” (Rec.02).

C. Supply Management

26. OCM, Ashgabat procured assets and other items for the partners. In accordance with the Co-operation Agreement with the Government of Turkmenistan, UNHCR is exempt from the payment of Value Added Tax and therefore, it is economical to procure under self-implementation.

27. Overall, OIOS assessed the procurement activities, warehousing and asset management as adequate.

D. Security and Safety

28. Security measures were in place, but OIOS suggested that the Security Focal Point conduct a security assessment of residences that international staff wants to rent. Also, to engage security guards through the Office by contract and to recover the amounts due from the international staff members on a monthly basis to formalise arrangements and to ensure that claims and recoveries are dealt with in a timely manner.

29. *As of 1 May 2004, OCM, Ashgabat directly contracts security guards that are deployed at the staff members' residences and recovers the portion due by the staff members concerned, at the end of each month.*

E. Administration

30. In the areas of administration and finance, the UNHCR office in Turkmenistan generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. OCM, Ashgabat also managed the MIP system well and claims were settled in accordance with the rules.

V. ACKNOWLEDGEMENT

31. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and its implementing partners in Turkmenistan.

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