INTERNAL AUDIT DIVISION

REPORT 2019/010

Audit of management of the Transport International Routier Trust Fund at the Economic Commission for Europe

Controls over governance and financial management need to be strengthened to ensure the sustainability of the Trust Fund’s operations

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Audit of management of the Transport International Routier Trust Fund at the Economic Commission for Europe

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of management of the Transport International Routier (TIR) Trust Fund at the Economic Commission for Europe (ECE). The objective of the audit was to assess the adequacy and effectiveness of internal controls in ensuring effective management of the TIR Trust Fund at ECE. The audit covered the period from 1 January 2015 to July 2018 and included a review of risk areas relating to: (a) governance arrangements; (b) financial management; and (c) regulatory framework. The audit scope was limited to the activities undertaken by ECE as part of the TIR Trust Fund’s operations.

The audit showed that controls over governance and financial management need to be strengthened to ensure the sustainability of the Trust Fund’s operations.

OIOS made 10 recommendations. To address the issues identified in the audit, ECE needed to:

- Propose to the Administrative Committee the possible options of mechanisms to monitor and evaluate the documentation submitted by the authorized international organization in order to strengthen governance in the TIR Convention, particularly with regard to accountability;
- Prepare updated terms of reference for TIR focal points for consideration and approval by the Administrative Committee;
- Bring to the attention of the Administrative Committee the need to develop appropriate procedures concerning: (a) evaluation of qualified organizations before selection of the authorized international organization for TIR operations; and (b) periodic assessment of the authorized international organization’s compliance with the stipulated conditions and requirements;
- Amend its agreement with the external partner to include the additional requirements introduced by the Convention in July 2018;
- Revise its internal directive on the management of extrabudgetary resources;
- Seek the advice of the Ethics Office on the apparent conflict of interest arising from its arrangement with the external partner on the eTIR project, including the receipt of funds from the external partner to whom ECE has become accountable under the contribution agreement despite having the responsibility to assist the Executive Board in overseeing the external partner’s operations and assessing its compliance with the TIR Convention;
- Bring to the attention of the Administrative Committee the need to: (a) study the reasons for the decline in sale of Carnets over the years and develop an action plan to address the underlying causes; and (b) develop an appropriate alternative financing arrangement to ensure the sustainability of TIR Trust Fund operations;
- Devise a mechanism in consultation with the Administrative Committee to settle the excess advance received from the external partner;
- Take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat; and
- Develop an action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries.

ECE accepted the recommendations and has initiated action to implement them.
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Audit of management of the Transport International Routier Trust Fund at the Economic Commission for Europe

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Transport International Routier (TIR) Trust Fund at the Economic Commission for Europe (ECE).

2. ECE hosted the TIR Convention in Geneva in November 1975 to simplify and harmonize the administrative arrangements of international road transport. The Convention had 74 Contracting Parties, including the European Union, and envisaged an international guarantee system consisting of national guaranteeing associations which ensures that a guarantee issued by a national guaranteeing association in one country is also valid in other countries. It simplified customs requirements by permitting the contents of approved load compartments, sealed by customs authorities, to pass through customs controls at international borders without delay and payment of duty. “TIR Carnet” is a document issued pursuant to the TIR Convention that permits sealed road transport shipments to traverse TIR member countries without undergoing customs inspection until reaching the destination country. The stakeholders in the Convention include governments, national guaranteeing associations and transport operators, besides an international organization responsible for the organizing and functioning of an international guarantee system including centralized printing and distribution of TIR Carnets to national guaranteeing associations who issue them to authorized transport operators.

3. The Administrative Committee (comprising of all the Contracting Parties) is the Convention’s governing body. The Committee authorized an organization based in Geneva (hereafter referred to as “the external partner”) as the responsible international organization for the effective organizing and functioning of an international guarantee system. The external partner has its own governance structure independent of the TIR Convention. The TIR Executive Board (hereafter referred to as the Executive Board) was established in 1998 as an intergovernmental body to, inter alia, supervise the centralized printing and distribution of TIR Carnets and oversee the operation of the international guarantee system. The Executive Board monitored the price per TIR Carnet charged by the external partner and the guaranteeing associations. The Executive Board consisted of nine members from various Contracting Parties and was supported by the TIR secretariat which had seven ECE staff members headed by a Secretary who reported to the Director of ECE’s Sustainable Transport Division.

4. The operations of the Executive Board and TIR secretariat were financed from an amount decided by the Administrative Committee and collected from the TIR Carnets distributed. The TIR Trust Fund was established in 1998 to account for revenue received to finance the Executive Board and TIR secretariat. Table 1 shows the Trust Fund’s income and expenditure for 2016 and 2017.

Table 1: Summary of income and expenditure for TIR Trust Fund (amounts in $)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from amount per TIR Carnet</td>
<td>1,580,662</td>
<td>1,067,787</td>
</tr>
<tr>
<td>Expenditure</td>
<td>1,290,037</td>
<td>1,368,663</td>
</tr>
<tr>
<td>Excess (Shortfall)</td>
<td>290,624</td>
<td>(300,876)</td>
</tr>
</tbody>
</table>

5. As mandated by the Administrative Committee, ECE signed an agreement with the external partner which stipulated that the latter shall fulfil the relevant provisions of the Convention. This agreement also included annexes containing the cost plans for the Executive Board and the TIR secretariat, administration of the TIR Trust Fund, and guidelines for external audit of the external partner’s accounts. The agreement
presently in force covered the years 2017-2019 in line with the duration of the external partner’s current authorization as the Convention’s international organization that is responsible for the TIR system.

6. ECE provided administrative support to the Administrative Committee, the Executive Board and the TIR secretariat, including management of the TIR Trust Fund. The Sustainable Transport Division of ECE was responsible for management of substantive operations of the TIR Trust Fund, whereas the Executive Office of ECE was responsible to ensure that the TIR Trust Fund’s expenditures were in accordance with United Nations regulations, rules and procedures.

7. Comments provided by ECE are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy and effectiveness of internal controls in ensuring effective management of the TIR Trust Fund at ECE.

9. This audit was included in the OIOS 2018 risk-based work plan for ECE at the request of the Administrative Committee in view of the risk that potential weaknesses in the management of the TIR Trust Fund could adversely affect the achievement of the Convention’s objectives.

10. OIOS conducted this audit from July to October 2018. The audit covered the period from 1 January 2015 to July 2018. Based on an activity-level risk assessment, the audit covered risk areas in the management of the TIR Trust Fund which included: (a) governance arrangements; (b) financial management; and (c) regulatory framework. The scope of this audit was limited to ECE’s activities undertaken as part of the TIR Trust Fund’s operations.

11. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of transactions.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Governance arrangements

Need to strengthen governance and ensure accountability of the authorized international organization

13. Effective governance arrangements would involve: (i) ensuring that roles and responsibilities are clearly defined, with adequate internal controls over operations; (ii) instituting adequate oversight of operations; and (iii) establishing clear reporting requirements to ensure accountability.

14. The governance structure for the TIR Convention comprised the Administrative Committee as the governing body, with the Executive Board as a subsidiary body to support the Administrative Committee. The Executive Board and the TIR secretariat were established to strengthen cooperation among the various stakeholders in the Convention. The “Working Party on Customs Questions affecting Transport” (hereafter referred to as the Working Party) established by ECE in 1947 enables, inter alia, close cooperation with, and support for the activities of, the Administrative Committee and the Executive Board.
15. The governance arrangements over the international organization (i.e., the external partner) have gradually evolved over the years since the inception of the Convention. In October 2013, an amendment was made to the Convention which required the authorized international organization to submit detailed documentation concerning, inter alia, proof of sound professional competence, financial standing and proof of guarantee coverage to either the Administrative Committee or the Executive Board to enhance transparency in the organization and management of the international guarantee system. Accordingly, the external partner submitted documentation to the TIR secretariat in October 2014. The Working Party noted that the voluminous documentation submitted by the external partner needed expert examination and submitted them to the Administrative Committee for consideration.

16. Although the Administrative Committee took note of the documentation from the external partner submitted to it through the Working Party, there was no evidence that the Committee undertook (or entrusted to someone else) an expert examination of the documents. Also, there was no indication that the external partner had complied with the same reporting requirements after 2015. ECE was yet to institute a mechanism to monitor and evaluate the documentation submitted by the external partner and ensure that the Administrative Committee exercised its envisaged governance role, particularly with regard to accountability of the external partner. Effective operation of the TIR system is also essential for the sustainability of the TIR Trust Fund’s operations.

(1) ECE should propose to the Administrative Committee the possible options of mechanisms to monitor and evaluate the documentation submitted by the authorized international organization in order to strengthen governance in the TIR Convention, particularly with regard to accountability.

ECE accepted recommendation 1 and stated that it will propose possible options of mechanisms to monitor and evaluate the documentation (list of documentation to be decided) submitted by the authorized international organization for consideration, approval and implementation by the Administrative Committee. Recommendation 1 remains open pending establishment of a mechanism to monitor and evaluate the documentation submitted by the authorized international organization.

Need to prepare updated terms of reference for TIR focal points

17. In terms of Resolution No. 49 adopted by the Working Party, TIR focal points were to be established by the Contracting Parties for the specific purpose of combating fraud by intensifying the exchange of information and intelligence concerning the TIR system amongst the Parties. The Administrative Committee endorsed Resolution No. 49 and requested all the Contracting Parties to inform the Committee about their official acceptance of the resolution. Thirty-four out of the then 56 Contracting Parties had confirmed acceptance of the resolution.

18. Although the role of the focal points as envisaged in the Working Party’s resolution was limited to fraud-related activities, over the years, focal points became involved in many other activities including facilitating responses to surveys, testing the implementation of the International TIR Database (ITDB), and routinely liaising with their respective Contracting Parties on other matters. Considering that the focal points were playing an important role in relation to the day-to-day activities of the Executive Board and the TIR secretariat, ECE needs to prepare updated terms of reference for TIR focal points clearly defining their roles and responsibilities which have clearly gone beyond what was originally envisaged. Lack of clarity in roles and responsibilities may diminish their effectiveness and potentially lead to divergent practices among them.
(2) ECE should prepare updated terms of reference for TIR focal points for consideration and approval by the Administrative Committee in order to ensure consistency and enhance the focal points’ effectiveness.

ECE accepted recommendation 2 and stated that it will review and update the terms of reference for customs TIR focal points, for consideration and approval by the Administrative Committee. Recommendation 2 remains open pending receipt of the updated terms of reference for TIR focal points approved by the Administrative Committee.

Need to strengthen governance mechanisms relating to the authorized international organization

19. According to the Convention, the authorization granted to the international organization is conditional to the fulfilment of the conditions and requirements laid down in Annex 9, Part III. The authorization granted should be reflected in a written agreement between ECE and the international organization. In this connection, OIOS noted the following:

   (i) Lack of documented procedures for selecting the authorized international organization

20. According to the Convention, an international organization which complies with the conditions and requirements set in Annex 9, Part III of the TIR Convention is authorized by the Administrative Committee to take on the responsibility for effective organization and functioning of the international guarantee system. The Administrative Committee can revoke the authorization if the authorized international organization no longer fulfils the stipulated conditions and requirements. The authorization is normally granted for a period of three to five years.

21. There was no documented process for identifying qualified international organizations for consideration by the Administrative Committee prior to selection of the authorized international organization. There was also no formal procedure for assessing the authorized international organization’s compliance with the stipulated conditions and requirements. Although the Administrative Committee had not expressed concern about the present arrangement for the authorization process, there was no established mechanism to assist the Committee in the event it decides to revoke authorization. To ensure the sustainability of TIR operations, ECE needs to develop appropriate procedures for identifying and evaluating qualified international organizations to assist the Administrative Committee.

   (ii) Need to amend the agreement with the external partner to include the latest amendment to the TIR Convention

22. ECE signed the latest agreement with the external partner as the authorized international organization for a period of three years with effect from 1 January 2017. On 1 July 2018, amendments to the TIR Convention entered into force, obliging the external partner to: (a) maintain separate records and accounts for the international guarantee system including printing and distribution of TIR Carnets; (b) allow additional examination of its accounts by the competent United Nations services or an independent external auditor; (c) provide full and timely cooperation and access to records and accounts to the competent United Nations services or any other duly authorized entity; and (d) engage an independent external auditor to conduct annual audits of accounts.

23. ECE was yet to amend its agreement with the external partner to incorporate these new requirements and ensure that they are complied with.
(3) ECE should bring to the attention of the Administrative Committee the need to develop appropriate procedures concerning: (a) evaluation of qualified organizations before selection of the authorized international organization for TIR operations; and (b) periodic assessment of the authorized international organization’s compliance with the stipulated conditions and requirements.

ECE accepted recommendation 3 and stated that it will bring to the attention of the Administrative Committee the request from OIOS to develop appropriate procedures for (a) and (b). Recommendation 3 remains open pending receipt of the decision made by the Administrative Committee on the procedures concerning evaluation and periodic assessment of the authorized international organization.

(4) ECE should amend its agreement with the external partner to include the additional requirements introduced by the Convention in July 2018.

ECE accepted recommendation 4 and stated that it has already incorporated this recommendation into the drafting of the new agreement for the years 2020-2022. Recommendation 4 remains open pending receipt of the amendment to the agreement with the external partner incorporating the additional requirements introduced by the Convention in July 2018.

Need to address the conflict of interest situation involving the external partner

24. In 2003, the Contracting Parties launched a project to provide an electronic platform for all stakeholders involved in the TIR system to enable secure exchange of data among them relating to the international transit of goods, vehicles or containers under the provisions of the TIR Convention. This was known as the “eTIR” system. It was intended to replace the current paper-based system (i.e., printing and distributing TIR Carnets).

25. Progress on the eTIR project has been slow since 2003. In 2015, ECE signed a memorandum of understanding (MOU) with the external partner to develop a pilot project to demonstrate the feasibility of a paperless TIR procedure limited to two Contracting Parties (the Islamic Republic of Iran and the Republic of Turkey). ECE signed another MOU with the external partner in 2017 to implement the eTIR system for all the Contracting Parties. ECE also signed a contribution agreement with the external partner in October 2017 by which the external partner agreed to contribute $1.5 million to fund the eTIR project activities defined in the agreement over a period of five years. The project manager of this pilot project was a staff member of the TIR secretariat. ECE was fully responsible for administering the contribution of $1.5 million from the external partner and was also accountable to the external partner for the funds. The contribution agreement required ECE to submit yearly status reports to the external partner on the progress made.

26. In this regard, OIOS noted that the MOUs and the contribution agreement with the external partner were signed by ECE without the approval of the Administrative Committee which is the governing body of the TIR Convention. Instead, these were endorsed by ECE’s Executive Committee which is responsible for approving projects other than those relating to ECE’s Conventions. ECE stated that it did not submit the MOUs and contribution agreement for the approval of the Administrative Committee because its internal directive on management of extrabudgetary resources did not clarify the procedures for approval of such projects/activities pertaining to its Conventions. ECE acknowledged the need to appropriately revise its directive on management of extrabudgetary resources to prevent recurrence of such situations in future.

27. Additionally, as previously explained, the external partner was selected by the Administrative Committee as the authorized international organization for effective organization and functioning of the
TIR system. The authorization, which is normally granted for a period of three to five years, is conditional and may be revoked by the Administrative Committee if the authorized international organization no longer fulfils the stipulated conditions and requirements. By accepting the contribution of $1.5 million from the external partner, ECE (which provides secretariat services to the TIR Convention) placed itself in a position whereby it received a ‘grant’ from the same international organization that is authorized to operationalize the TIR system on behalf of the Convention. Further, in the event that the external partner fails to fulfil the stipulated conditions and requirements for which it was selected, it is unclear how the authorization of the external partner could be revoked by the Administrative Committee if ECE is a ‘grantee’ of the same organization whose authorization may have to be revoked. This arrangement, which was established without prior consultation and approval of the Administrative Committee, presents a conflict of interest and raises questions about the risks to the Organization’s impartiality, independence and objectivity in the given situation, in view of the following:

(a) ECE is mandated to address sustainability of transport through norm-setting based on the negotiated positions of its Member States. ECE reports to Member States and the Contracting Parties to the TIR Convention. At the same time, under the contribution agreement with the external partner, ECE is required to report to the external partner, which is an implementing arm of the TIR Convention. This situation gives rise to a conflict whereby ECE (as the Convention’s custodian, a norm-setting arm reporting to its Member States, and the secretariat assisting the TIR Executive Board in overseeing the international guarantee system) would at the same time report to the external partner which is subject to supervision by the TIR Executive Board and the Contracting Parties.

(b) Furthermore, under the contribution agreement with ECE, the external partner, in its capacity as the authorized international organization for the guarantee system, concurrently plays the role of a donor to ECE for the eTIR project. Although a not-for-profit organization, the external partner generates significant annual income from the sale of TIR Carnets. The external partner may therefore have a commercial interest to remain at the heart of TIR operations. This situation gives rise to a conflict whereby the external partner, as an operator of the TIR system, concurrently plays the role of a donor to ECE, which may affect the ability of ECE and the TIR Executive Board to exercise their mandates impartially and objectively. It could call into question the credibility of the TIR Convention’s bodies, especially when responsibility and accountability may need to be established.

28. OIOS is therefore of the view that ECE needs to seek the advice of the Ethics Office on the appropriateness of the arrangement with the external partner, including the receipt of funds from the external partner, in order to address the apparent conflict of interest situation arising from the arrangement.

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(5) **ECE should revise its internal directive on the management of extrabudgetary resources to ensure that essential review and approval of projects relating to Conventions is performed by the respective governing bodies, such as the Administrative Committee in the case of the TIR Convention.**

ECE accepted recommendation 5 and stated that it will inform the Executive Committee of the OIOS recommendation and provide guidance for the Executive Committee’s decision on the approval of extrabudgetary resources. The subsequent decision of EXCOM will be reflected in a revised internal Directive No 18, on the Establishment of Agreements and Management of Extrabudgetary Resources. Recommendation 5 remains open pending receipt of the revised internal directive on management of extrabudgetary resources.

(6) **ECE should seek the advice of the Ethics Office on the apparent conflict of interest arising from its arrangement with the external partner on the eTIR project, including the receipt of funds from the external partner to whom ECE has become accountable under the**
contribution agreement despite having the responsibility to assist the Executive Board in overseeing the external partner’s operations and assessing its compliance with the TIR Convention.

ECE accepted recommendation 6 and stated that it will contact the Ethics Office after submission of auditor’s report to the Administrative Committee. Recommendation 6 remains open pending receipt of evidence that ECE has obtained the advice of the Ethics Office and taken remedial measures to address the situation.

Action had been initiated to mainstream Sustainable Development Goals in the Convention’s work

29. General Assembly resolution 70/1 defined 17 Sustainable Development Goals (SDGs) and 169 targets encapsulating in each goal the three development dimensions: economic, social and environmental. United Nations entities are expected to mainstream the SDGs in their programme of work to effectively support Member States in implementing them.

30. The Sustainable Transport Division of ECE identified three SDGs (related to the TIR Convention) where ECE had a comparative advantage, namely SDGs 9, 12 and 17. The target for SDG 9 was to develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure and facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing states. To that effect, the Sustainable Transport Division tracked the progress in ratification of the TIR Convention by landlocked countries. SDG 12 targeted reducing food losses along production and supply chains. The TIR system was designed to reduce the procedures and delays at borders which enabled more effective supply chains. The TIR Convention also contributed to SDG 17 with its public-private partnership in organizing and functioning of the guarantee chain. OIOS therefore concluded that the Sustainable Transport Division had initiated steps to mainstream SDGs in the TIR Convention’s programme of work.

B. Financial management

Need to ensure sustainability of the Executive Board and TIR secretariat operations

31. According to Annex 8 article 13 of the Convention, the operations of the Executive Board and the TIR secretariat shall be financed, until such time as alternative sources of funding are obtained, through an amount charged per TIR Carnet distributed by the international organization. This amount shall be approved by the Administrative Committee and shall be based on: (a) the budget and cost plan of the Executive Board and the TIR secretariat as approved by the Administrative Committee; and (b) a forecast of the number of TIR Carnets to be distributed, as determined by the international organization. After approval of the cost plan for the Executive Board and TIR secretariat by the Administrative Committee, the authorized international organization should transfer funds in advance. This “interim financing arrangement” for financing the Executive Board and TIR secretariat was introduced in February 1999 and is still in force. The TIR Trust Fund was also established to account for the financial transactions arising out of this interim arrangement. In this connection, OIOS noted the following.

(i) Decrease in the number of Carnets distributed over the years

32. The interim arrangement for financing of the Executive Board and TIR secretariat was linked to the number of TIR Carnets forecasted and distributed. However, there had been steady decrease in the number of Carnets distributed since 2015, as shown in Table 2. In 2017, Carnet sales reduced to 1.15
million, or 9.4 per cent lower than in 2016. As financing of the Executive Board and TIR secretariat’s operations was linked to the sale of Carnets, the Administrative Committee approved a higher amount per Carnet to meet the estimated expenditure. The approved amount per Carnet for 2018 was $1.43 compared to $0.60 in 2015. However, the external partner informed the Administrative Committee in January 2018 that it would continue to charge the 2017 approved amount of $0.88 per Carnet due to the difficult financial environment of the transport industry. Previously, since the number of Carnets distributed was higher than the number forecasted, there were surpluses in the collected amounts whereas during the last three years, there were deficits despite the increase in the amount per Carnet.

Table 2: TIR Carnets forecasted and distributed

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecasted number of TIR Carnets to be distributed</th>
<th>TIR Carnets actually distributed</th>
<th>Difference</th>
<th>Amount per Carnet approved by the Administrative Committee (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,900,000</td>
<td>1,500,450</td>
<td>(399,550)</td>
<td>0.60</td>
</tr>
<tr>
<td>2016</td>
<td>1,550,000</td>
<td>1,223,400</td>
<td>(326,600)</td>
<td>0.87</td>
</tr>
<tr>
<td>2017</td>
<td>1,480,000</td>
<td>1,154,650</td>
<td>(325,350)</td>
<td>0.88</td>
</tr>
<tr>
<td>2018</td>
<td>1,088,000</td>
<td>Not available</td>
<td>Not available</td>
<td>1.43</td>
</tr>
</tbody>
</table>

33. ECE stated that one of the reasons for the decline in sale of Carnets was the delay in implementing the eTIR system, as well as increased competition with other customs transit systems. Considering that the sustainability of the Executive Board and TIR secretariat are linked to the sale of Carnets, ECE needs to bring to the attention of the Administrative Committee the need to study and analyze the causes of this decline and develop an action plan to address them.

(ii) Alternative financing arrangements need to be explored

34. At the request of the Administrative Committee, the ECE secretariat had initiated attempts to obtain funds for the Executive Board and the TIR secretariat through the United Nations regular budget. However, these attempts failed due to lack of support from Member States.

35. Annex 8, Article 13 of the Convention states that funding through Carnet sales is an interim financing arrangement, pending identification of alternative sources. ECE needs to explore alternative funding sources, such as voluntary contributions from governments and non-traditional donors, to sustain the operations of the Executive Board and the TIR secretariat by means of a long-term solution.

ECE accepted recommendation 7 and stated that it will invite the Administrative Committee to consider the recommendation of OIOS to: (i) study the reasons for the decline in sale of Carnets over the years and develop, if required and in as far as possible, an action plan to address the underlying causes; and (ii) explore appropriate alternative financing arrangements, if any, for the TIR Executive Board and the TIR secretariat. Recommendation 7 remains open pending receipt of the study on reasons for the decline in sale of Carnets and an alternative financing arrangement for sustainability of TIR Trust Fund operations.
Need to adjust the excess amounts advanced to ECE by the external partner

36. The external partner maintained accounts detailing the number of TIR Carnets distributed, the amount collected from the Carnets distributed, and the amount advanced to ECE. The difference between the amount advanced to ECE and the actual amount payable to ECE based on Carnets distributed was to be adjusted later in accordance with the agreement between ECE and the external partner.

37. During the period 2015 to 2017, it was noted that the amount advanced to ECE was more than the amount collected by the external partner, resulting in deficit of approximately $541,130 as shown in Table 3.

Table 3: Amounts advanced to ECE, Carnets distributed, and amounts collected by the external partner

<table>
<thead>
<tr>
<th>Year</th>
<th>Advance paid by the external partner (in $)</th>
<th>Number of Carnets expected to be distributed</th>
<th>Amount collected for each Carnet (in $)</th>
<th>Carnets actually distributed</th>
<th>Amount collected by the external partner (in $)</th>
<th>Difference between advance and amount collected (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,132,822</td>
<td>1,900,000</td>
<td>0.60</td>
<td>1,500,450</td>
<td>900,270</td>
<td>232,552</td>
</tr>
<tr>
<td>2016</td>
<td>1,343,939</td>
<td>1,550,000</td>
<td>0.87</td>
<td>1,223,400</td>
<td>1,064,358</td>
<td>279,581</td>
</tr>
<tr>
<td>2017</td>
<td>1,045,089</td>
<td>1,480,000</td>
<td>0.88</td>
<td>1,154,650</td>
<td>1,016,092</td>
<td>28,997</td>
</tr>
<tr>
<td></td>
<td><strong>Total deficit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>541,130</strong></td>
</tr>
</tbody>
</table>

38. According to the agreement between ECE and the external partner, the excess advance may be adjusted by the Administrative Committee based on a proposal from the external partner. OIOS is of the view that ECE needs to raise this matter with the Administrative Committee and devise a mechanism to settle the advance in a mutually acceptable manner.

(8) **ECE should, in consultation with the Administrative Committee, devise a mechanism to settle the excess advance received from the external partner.**

ECE accepted recommendation 8 and stated that it has already started working on a new adjustment mechanism for the agreement with the external partner for 2020-2022 and will submit it to the Administrative Committee for consideration. Recommendation 8 remains open pending receipt of evidence of the mechanism devised to settle the excess advance received from the external partner.

C. **Regulatory framework**

Need to refine the budgeting and forecasting process for the Executive Board and the TIR secretariat

39. According to Annex 8, Article 13 of the TIR Convention, the Executive Board is required to prepare a budget proposal and cost plan for its operations during the year. It is a good practice to ensure that cost plans reflect realistic estimates. ECE had prepared budgets and cost plans for the Executive Board and the TIR secretariat which were submitted to, and approved by, the Administrative Committee. Table 4 shows the utilization of the TIR Trust Fund during the years 2015 to 2017.
Table 4: Utilization of the TIR Trust Fund (Amounts in $)

<table>
<thead>
<tr>
<th>Item</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual budget</td>
<td>1,635,110</td>
<td>1,632,850</td>
<td>1,598,950</td>
</tr>
<tr>
<td>External partner’s contribution (A)</td>
<td>1,132,822</td>
<td>1,343,939</td>
<td>1,045,089</td>
</tr>
<tr>
<td>Balance brought forward (B)</td>
<td>719,338</td>
<td>505,661</td>
<td>766,111</td>
</tr>
<tr>
<td>Expenditure (C)</td>
<td>1,217,077</td>
<td>1,368,664</td>
<td>1,290,037</td>
</tr>
<tr>
<td>15% Operating Cash Reserve (D)</td>
<td>217,050</td>
<td>216,750</td>
<td>212,250</td>
</tr>
<tr>
<td>Excess of income [E = (A+B)-(C+D)]</td>
<td>418,033</td>
<td>264,186</td>
<td>308,913</td>
</tr>
<tr>
<td>Balance brought forward as percentage of expenditure and Operating Cash Reserve [F = B/(C+D)]</td>
<td>50%</td>
<td>32%</td>
<td>51%</td>
</tr>
<tr>
<td>Utilization [G = (C+D) / (A+B)]</td>
<td>77%</td>
<td>86%</td>
<td>83%</td>
</tr>
<tr>
<td>Excess of income as a percentage of contribution and balance brought forward [H= E/(A+B)]</td>
<td>23%</td>
<td>14%</td>
<td>17%</td>
</tr>
</tbody>
</table>

40. Even after taking into consideration the 15 per cent operating cash reserve, there was an excess of income over expenditure in the amount of $991,132 during the years 2015 to 2017 which represented 18 per cent of the contribution and balance brought forward. ECE stated that the budget surplus was due to the cautious approach taken while preparing the budget relating to staff costs, travel and contractual services. OIOS observed that during the years 2015 to 2017, staff costs were lower than the estimate to the extent of $595,123. In 2015 alone, staff costs fell short of the estimate by $302,013 (or approximately 18 per cent of the annual budget). This was due to delays in staff recruitment, even though the number of positions remained the same.

41. The TIR secretariat needs to refine the budgeting and forecasting process to ensure that budgets and cost plans take into account known factors such as vacancy rates to make the estimates more realistic.

(9) ECE should take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat by considering the potential impact of known factors such as staff vacancy rates.

ECE accepted recommendation 9 and stated that considering that the 2019 budget has already been approved by the Administrative Committee, ECE will take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat as of the 2020 budget. Recommendation 9 remains open pending receipt of evidence showing the measures taken to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat.

Need to provide training and support to countries that have acceded to the Convention

42. The terms of reference of the Executive Board state that the TIR secretariat shall undertake the task of providing information, interpretation and support for training on the application of TIR procedures, particularly for countries that have recently acceded to the Convention.

43. OIOS noted that eight countries (Montenegro, the United Arab Emirates, Pakistan, China, India, the State of Palestine, Qatar and Saudi Arabia) had acceded to the TIR Convention since October 2006, of whom five countries were operational. The TIR secretariat was yet to provide training in the required administrative procedures to these eight countries since their accession to the Convention, as well as support
for establishment of administrative procedures by the newly acceded countries. The TIR secretariat needed to take the required measures in operationalizing the TIR system in these countries.

| (10) ECE should develop an action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries. |

ECE accepted recommendation 10 and stated that it will prepare an action plan for the TIR Executive Board to provide the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedure in those countries and present it to the Administrative Committee for its consideration and approval. Recommendation 10 remains open pending receipt of the action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries.

IV. ACKNOWLEDGEMENT

44. OIOS wishes to express its appreciation to the management and staff of ECE for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services
## STATUS OF AUDIT RECOMMENDATIONS

**Audit of the management of the Transport International Routier Trust Fund at the Economic Commission for Europe**

<table>
<thead>
<tr>
<th>Rec. no.</th>
<th>Recommendation</th>
<th>Critical(^1)/Important(^2)</th>
<th>C/ O(^3)</th>
<th>Actions needed to close recommendation</th>
<th>Implementation date(^4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ECE should propose to the Administrative Committee the possible options of mechanisms to monitor and evaluate the documentation submitted by the authorized international organization in order to strengthen governance in the TIR Convention, particularly with regard to accountability.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of evidence of establishment of a mechanism to monitor and evaluate the documentation submitted by the authorized international organization.</td>
<td>6 February 2020</td>
</tr>
<tr>
<td>2</td>
<td>ECE should prepare updated terms of reference for TIR focal points for consideration and approval by the Administrative Committee in order to ensure consistency and enhance the focal points’ effectiveness.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the updated terms of reference for TIR focal points approved by the Administrative Committee.</td>
<td>6 February 2020</td>
</tr>
<tr>
<td>3</td>
<td>ECE should bring to the attention of the Administrative Committee the need to develop appropriate procedures concerning: (a) evaluation of qualified organizations before selection of the authorized international organization for TIR operations; and (b) periodic assessment of the authorized international organization’s compliance with the stipulated conditions and requirements.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the decision made by the Administrative Committee on the procedures concerning evaluation and periodic assessment of the authorized international organization.</td>
<td>15 October 2021</td>
</tr>
<tr>
<td>4</td>
<td>ECE should amend its agreement with the external partner to include the additional requirements introduced by the Convention in July 2018.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the amendment to the agreement with the external partner incorporating the additional requirements introduced by the Convention in July 2018.</td>
<td>17 October 2019</td>
</tr>
<tr>
<td>5</td>
<td>ECE should revise its internal directive on the management of extrabudgetary resources to ensure that essential review and approval of projects relating to Conventions is performed by the</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the revised internal directive on management of extrabudgetary resources.</td>
<td>31 December 2019</td>
</tr>
</tbody>
</table>

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\(^1\) Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

\(^2\) Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

\(^3\) C = closed, O = open

\(^4\) Date provided by ECE in response to recommendations.
# STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of the Transport International Routier Trust Fund at the Economic Commission for Europe

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<tr>
<td>6</td>
<td>ECE should seek the advice of the Ethics Office on the apparent conflict of interest arising from its arrangement with the external partner on the eTIR project, including the receipt of funds from the external partner to whom ECE has become accountable under the contribution agreement despite having the responsibility to assist the Executive Board in overseeing the external partner’s operations and assessing its compliance with the TIR Convention.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of evidence that ECE has obtained the advice of the Ethics Office and taken remedial measures to address the situation.</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>7</td>
<td>ECE should bring to the attention of the Administrative Committee the need to: (a) study the reasons for the decline in sale of Carnets over the years and develop an action plan to address the underlying causes; and (b) develop an appropriate alternative financing arrangement to ensure the sustainability of TIR Trust Fund operations.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the study on reasons for the decline in sale of Carnets and an alternative financing arrangement for sustainability of TIR Trust Fund operations.</td>
<td>6 February 2020</td>
</tr>
<tr>
<td>8</td>
<td>ECE should, in consultation with the Administrative Committee, devise a mechanism to settle the excess advance received from the external partner.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of evidence of the mechanism devised to settle the excess advance received from the external partner.</td>
<td>17 October 2019</td>
</tr>
<tr>
<td>9</td>
<td>ECE should take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat by considering the potential impact of known factors such as staff vacancy rates.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of evidence showing the measures taken to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat.</td>
<td>17 October 2019</td>
</tr>
<tr>
<td>10</td>
<td>ECE should develop an action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries.</td>
<td>Important</td>
<td>O</td>
<td>Receipt of the action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries.</td>
<td>6 February 2020</td>
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</table>
APPENDIX I

Management Response
MEMORANDUM

CONFIDENTIAL

To: Mr. Guvur Kumal, Deputy Director,
   Internal Audit Division,
   Office of Internal Oversight Services

From: Ms. Olga Algayerova,
   Executive Secretary, ECE

Ref.: 2019/OES/084
Date: 11 March 2019

Subject: Draft report on an audit of the management of the Transport International Router Trust Fund at the Economic Commission for Europe (Assignment No. AG2018/720/02)

1. I acknowledge the receipt of your memorandum dated 20 February 2019 regarding the Audit of the management of the Transport International Router Trust Fund at the Economic Commission for Europe (Assignment No. AG2018/720/02)

2. The management response from the Economic Commission for Europe, with comments on the recommendations, together with the proposed timeframe for actions to address the recommendations, is provided herewith.

3. I would also like to request the deletion of the following words in the second sentence of paragraph 25 of the draft report: “Before any progress could be made on the basis of this MOU”. As stipulated in the report of the ECE Working Party on Customs Questions affecting Transport (WP.30) on its 146th session (document ECE/TRANS/WP.30/292, para. 17), the second MOU was a direct consequence of the successful conclusion of the first MOU. Further evidence of this is available in Informal document GE.1 No. 2 (2017) containing the final report of the eTIR pilot project (see section 8). Both documents are attached for reference.

4. I take this opportunity to thank OIOS for the professional, thorough, and informed manner in which the audit was conducted. I would like to express appreciation to the audit team and thank them for fruitful cooperation and providing recommendations for ECE to strengthen its governance framework.

cc: Mr. Yuwei Li, Director, Sustainable Transport Division, ECE
    Ms. Nicola Koch, Chef de Cabinet, ECE
    Ms. Catherine Haswell, Chief, Programme Management Unit, ECE
    Mr. Michael Sylvester, Executive Officer, ECE
Management Response

Audit of the management of the Transport International Routier Trust Fund at the Economic Commission for Europe

<table>
<thead>
<tr>
<th>Rec. no.</th>
<th>Recommendation</th>
<th>Critical Important</th>
<th>Accepted (Yes/No)</th>
<th>Title of responsible individual</th>
<th>Implementation date</th>
<th>Client comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ECE should propose to the Administrative Committee the possible options of mechanisms to monitor and evaluate the documentation submitted by the authorized international organization in order to strengthen governance in the TIR Convention, particularly with regard to accountability.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>06/02/2020</td>
<td>ECE will propose different possible options of mechanisms to monitor and evaluate the documentation (list of documentation to be decided) submitted by the authorized international organization, for consideration, approval and implementation by the Administrative Committee (AC.2).</td>
</tr>
<tr>
<td>2</td>
<td>ECE should prepare updated terms of reference for TIR focal points for consideration and approval by the Administrative Committee in order to ensure consistency and enhance the focal points' effectiveness.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>06/02/2020</td>
<td>ECE will review and update the terms of reference for customs TIR focal points, for consideration and approval by AC.2.</td>
</tr>
<tr>
<td>3</td>
<td>ECE should bring to the attention of the Administrative Committee the need to develop appropriate procedures concerning: (a) evaluation of qualified organizations before selection of the authorized international organization for TIR operations; and (b) periodic assessment of the authorized international organization's compliance with the stipulated conditions and requirements.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>15/10/2021</td>
<td>ECE will bring to the attention of AC.2 the request from GIOS to develop appropriate procedures for (a) and (b).</td>
</tr>
<tr>
<td>4</td>
<td>ECE should amend its agreement with the external partner to include the additional</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>17/10/2019</td>
<td>ECE has already incorporated this recommendation into the drafting of</td>
</tr>
</tbody>
</table>

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

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

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<tbody>
<tr>
<td></td>
<td>requirements introduced by the Convention in July 2018.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>the new agreement for the years 2020-2022</td>
</tr>
<tr>
<td>5</td>
<td>ECE should revise its internal directive on the management of extrabudgetary resources to ensure that essential review and approval of projects relating to Conventions is performed by the respective governing bodies, such as the Administrative Committee in the case of the TIR Convention.</td>
<td>Important</td>
<td>Yes</td>
<td>Chief, Programme Management Unit (PMU)</td>
<td>31/12/2019</td>
<td>ECE will inform EXCOM of the OIOS recommendation, and provide guidance for EXCOM decision on the approval of XB resources. The subsequent decision of EXCOM will be reflected in a revised internal Directive No 18, on the Establishment of Agreements and Management of Extrabudgetary Resources.</td>
</tr>
<tr>
<td>6</td>
<td>ECE should seek the advice of the Ethics Office on the apparent conflict of interest arising from its arrangement with the external partner on the eTIR project, including the receipt of funds from the external partner to whom ECE has become accountable under the contribution agreement despite having the responsibility to assist the Executive Board in overseeing the external partner’s operations and assessing its compliance with the TIR Convention.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>by the end of 2019</td>
<td>ECE accepts the recommendation and will contact the Ethics Office after submission of auditors’ report to the Administrative Committee (AC.2)</td>
</tr>
<tr>
<td>7</td>
<td>ECE should bring to the attention of the Administrative Committee the need to: (a) study the reasons for the decline in sale of Carnets over the years and develop an action plan to address the underlying causes; and (b) develop an appropriate alternative financing arrangement to ensure the sustainability of TIR Trust Fund operations.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>06/02/2020</td>
<td>ECE will invite the Administrative Committee to consider the recommendation of OIOS to (i) study the reasons for the decline in sale of Carnets over the years and develop, if required and in as far as possible, an action plan to address the underlying causes, and (ii) explore appropriate alternative financing arrangements, if</td>
</tr>
</tbody>
</table>
## APPENDIX I

### Management Response

Audit of the management of the Transport International Routier Trust Fund at the Economic Commission for Europe

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<td>8</td>
<td>ECE should, in consultation with the Administrative Committee, devise a mechanism to settle the excess advance received from the external partner.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>17/10/2019</td>
<td>ECE has already started working on a new adjustment mechanism for the ECE-IRU Agreement for 2020-2022 and will submit it to AC.2 for consideration.</td>
</tr>
<tr>
<td>9</td>
<td>ECE should take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat by considering the potential impact of known factors such as staff vacancy rates.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>17/10/2019</td>
<td>Considering that the 2019 budget has already been approved by AC.2, ECE will take appropriate measures to refine the budgets and cost plans for the TIR Executive Board and the TIR secretariat as of the 2020 budget.</td>
</tr>
<tr>
<td>10</td>
<td>ECE should develop an action plan for providing the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries.</td>
<td>Important</td>
<td>Yes</td>
<td>TIR Secretary</td>
<td>06/02/2020</td>
<td>ECE will prepare an action plan for TIRExB to provide the required training and support to countries that have acceded to the TIR Convention to operationalize the TIR procedures in those countries and present it to AC.2 for its consideration and approval.</td>
</tr>
</tbody>
</table>