

FOLLOW-UP TO THE RECOMMENDATIONS OF THE BOARD OF AUDITORS
ON THE ACCOUNTS FOR 2005 AND PREVIOUS YEARS

I. INTRODUCTION

1. At the 37th meeting of the Standing Committee in September 2006, UNHCR presented a summary report covering key issues raised in recommendations issued by the Board of Auditors on UNHCR's accounts for 2005. Following the Board of Auditors' report, UNHCR and the Board agreed to five higher risk areas as the focus of reporting by UNHCR. These areas comprise: treasury management; Tsunami operations (emergency response); audit of implementing partners; procurement; and agreements with donors.

2. This paper provides an update of the actions taken or agreed to be taken by UNHCR to date, in response to the Board of Auditors' recommendations on the aforementioned five higher risk areas. The detailed status of follow-up on all recommendations for 2005 will shortly be made available in matrix form on the Standing Committee documents (38th Meeting) page of the website www.unhcr.org/excom. The Office is also continuing to follow up on the Board's recommendations on previous years' accounts. The current status of implementation for 2002, 2003 and 2004 is as reported in the matrix updates placed on the Standing Committee documents (37th Meeting) page of the website in November 2006. For the 2002 accounts, the external auditors have indicated that the Board's report for that year may be closed once the remaining recommendations relating to the staff profiling exercise and the reporting of entitlements under the payroll module have been implemented in the second half of 2007. For the 2003 report, while the auditors have agreed to close most of the recommendations, eight remain open and subject to follow-up. The 2004 report is under implementation with 32 out of 62 recommendations presently outstanding. In the course of 2007, further updates to the matrices on the website will be provided.

II. MAIN RISK AREAS IDENTIFIED BY AUDIT AND ACTION TAKEN

A. Treasury management

3. The Board of Auditors identified treasury management as a higher risk area, and recommended that UNHCR introduce an information system for its cash management, noting that the Management Systems Renewal Project (MSRP) financial systems under implementation do not include a comprehensive Treasury Management System (TMS).

4. During 2006, UNHCR launched a project to specify a fully-fledged TMS which would include modules for liquidity, investment and risk management, with banking interfaces to establish an online multi-currency bank account pooling platform. In early 2007, after extensive consideration of the various systems-based products available, it was determined that the TMS should be developed utilizing the existing MSRP/PeopleSoft system. A contract for the technical development of the system has been approved and it is expected that full implementation of the TMS will be achieved by the end of 2007. By interfacing TMS with MSRP/PeopleSoft in conjunction with the global MSRP roll-out during 2007, the organization will be in a position to optimize cash flow management, maximize investment income, and enhance the mitigation of foreign exchange impacts.

5. With regard to the risk of negative exchange rate fluctuations, UNHCR agreed with the Board of Auditors to further examine the fundamental elements impacting on foreign exchange management from a budget, income and expenditure, and balance sheet perspective. The various dimensions of this complex subject were summarized in an *Aide Memoire* entitled "Impact of Currency Exchange Fluctuations on UNHCR's Operations" that was shared with delegations as a background document during the 34th meeting of the Standing Committee in September 2005. The *Aide Memoire* concluded that, while in the short term, depending on the timing and magnitude of foreign exchange movements, UNHCR may face serious difficulties with regard to the impact of negative exchange fluctuations, ultimately, the long-term impact is neutral.

B. Emergency preparedness - lessons learned from Tsunami operations

6. In response to a Board of Auditors' recommendation to conduct a lessons-learned review of UNHCR's response to the Asian Tsunami emergency, UNHCR commissioned an independent evaluation of its operations in Indonesia and Sri Lanka. The evaluation was conducted in November and December of 2006 and the report of the review will be available in the second quarter of 2007.

7. The findings and recommendations of the independent evaluation fall into four main categories, and point to the need for: (i) additional investment in shelter expertise; (ii) a greater commitment to community-led programming approaches; (iii) the maintenance of an independent logistics capacity, pending the establishment of a more effective inter-agency system; and (iv) a review of the way that UNHCR makes use of information from assessments, reviews and evaluations in the decision-making and planning process.

C. Implementing partner audit certification

8. As reported at the 37th meeting of Standing Committee in September 2006, the Internal Audit Service/OIOS (IAS/OIOS) was asked to conduct a review of implementing partner audit certification policies, instructions and processes, applicable during the year 2005. The IAS/OIOS report submitted to UNHCR in May 2006 included recommendations on the need for: (i) more convenient systems-based tools for monitoring implementing partner compliance; (ii) the reinforcement of instructions regarding the accountability of Representations and Headquarters desks for the validation of audit certificates and follow-up of issues raised by implementing

partner auditors; (iii) adequate briefing of audit firms on services to be provided; and (iv) reinforced communications with implementing partners as to their responsibilities in ensuring the availability of essential documentation for audit.

9. The Board of Auditors also looked into the matter of implementing partner audit certification. The Board's recommendations were complementary to the OIOS' observations and included a request that UNHCR review its reporting mechanisms and timetable for the submission of audit certificates, in order to secure reasonably timely assurance on the reported use of funds. The Board noted that the timetable set for the receipt of audit certificates, being six months after project liquidation, was too late for their review for the annual audit in March of the following year.

10. UNHCR agreed with the recommendations of IAS/OIOS and the Board of Auditors. In view of the linkage in time to the execution of sub-agreements by country offices for the ensuing year, a global instruction was issued to all staff in November 2006 bringing forward the timetable for the submission of audit certificates from six months to three months after the final project liquidation date, commencing with all 2007 sub-project agreements. A comprehensive revision of an earlier global instruction was subsequently issued in January 2007, with immediate effect, to clarify and reinforce the rules, roles and responsibilities of all parties concerned with implementing partner audit certification.

D. Procurement

11. The Board of Auditors observed that UNHCR has a limited view of the direct procurement activities of UNHCR country offices and implementing partners. The Board noted that the requirement for annual procurement plans was not systematically complied with by country offices and Headquarters units, so as to provide an understanding of global requirements in order to establish strategic arrangements to reduce procurement costs. The Board also recommended that UNHCR improve the functioning and reporting of local contract committees, and, in particular, reinforce country office obligations to confirm the receipt of goods procured centrally on their behalf. The Board further recommended that UNHCR limit the use of waivers of competitive bidding.

12. The timely compliance by country offices with the submission of annual purchasing plans was actively pursued by the Supply Management Service (SMS) during 2006. A systems-based version of the purchasing plan has been developed and is presently being tested. SMS is working towards implementation of this new software version for the 2008 purchasing plans. Updated instructions to underline the need for confirmation of the receipt of goods, to ensure strengthened monitoring and control of procurement in progress and delivered, will include guidelines for online confirmation of delivery by country offices with MSRP connectivity. No purchase order or contract file will be considered complete before a confirmation of receipt of goods or services has been received.

13. Concerning the need for improved functioning of, and reporting by, local contract committees, a report prepared by the Secretary of the Headquarters Committee on Contracts concerning contracts dated prior to 30 September 2006, reflects a much improved 94 per cent compliance rate with the submission of local contract committee minutes to Headquarters.

14. To ensure stricter compliance with financial rules on waivers, a monitoring process has been established under the auspices of the Headquarters Committee on Contracts. All waivers are reported to the Contracts Committee on a routine basis, for review and guidance, and the Committee is periodically provided with a trend analysis on waivers.

15. With regard to the Board's recommendation to analyse the financial stability of its vendors, in September 2006 a Vendor Review Committee (VRC) was established to vet supplier applications. The VRC has met on several occasions to review the viability of potential new vendors, and a review of the complete supplier vendor database is envisaged during the course of 2007. This work will be greatly facilitated by the new vendor workflow recording now available within MSRP/PeopleSoft that enables centralized control over the online Vendor database. More than 4,600 vendor records have been corrected or updated under this control system. This MSRP-based automated workflow enhancement was implemented in conjunction with the upgrade of a comprehensive Financial Internal Control Framework (FICF) that clearly defines roles and responsibilities for vendor maintenance.

E. Agreements with donors

16. The Board noted that reporting requirements stipulated in agreements with some donors had not been harmonized. The Board noted variations in the duration, monitoring and reporting requirements, and instances where agreements included clauses or objectives that were at variance with United Nations rules.

17. UNHCR has developed a standard template as a basic guide for agreements with donors. However, one standard format may not meet the needs of all individual donor governments, some of which provide a major portion of UNHCR's funding. A close dialogue is being maintained with donors in reviewing agreements to minimize the risk of non-compliance with applicable United Nations financial rules. Recently UNHCR has worked with three leading donor governments to establish a joint strategy within which donor prioritization and funding agreements can be more closely aligned with UNHCR's global strategic objectives.

III. CONCLUSION

18. It is envisaged that following the finalization of the closure of the 2006 accounts consultations will take place with the Board of Auditors to select higher risk areas for the next reporting period. UNHCR continues to believe that risk-based reporting on audit recommendations provides both Member States and UNHCR with an important primary focus on the initiation of preventative, remedial and mitigation strategies aimed at reducing, eliminating, or avoiding risks at the overall organizational level.