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**Internal Audit in the Office of the United Nations High Commissioner for Refugees
(2006-2007)**

Report by the Office of Internal Oversight Services

Summary

This report reviews the internal audit activities of the Office of the United Nations High Commissioner for Refugees (UNHCR) and the results achieved for the period from 1 July 2006 to 30 June 2007 by the United Nations Office of Internal Oversight Services (OIOS). During the period, OIOS issued 25 audit reports which included 225 recommendations to improve internal controls, accountability mechanisms and organizational efficiency and effectiveness.

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) assumes the internal audit function in the Office of the United Nations High Commissioner for Refugees (UNHCR) based on a “Letter of Agreement on the Provision of Audit Services” signed between UNHCR and OIOS in March 2007. OIOS assists the High Commissioner in fulfilling his oversight responsibilities and enhances the effectiveness of implementation of UNHCR’s activities by making recommendations to improve the latter’s internal control mechanisms.

2. For 2007, the budget for audit services provided by UNHCR totalled \$3.1 million, which includes the cost of resident auditors for the Sudan and the Democratic Republic of the Congo. These funds provide for a total of 16 posts: 13 Professional and 3 General Service staff.

3. As far as possible, internal audit assignments are undertaken to address areas of risk most likely to affect UNHCR’s ability to carry out its mandated activities. During the current period, audits focused on the following high-risk areas:

- **Working with implementing partners:** UNHCR’s activities, for the most part, are delegated to partners to implement. As a focus of all audits of field operations OIOS reviews UNHCR’s management of partners as well as the capacity of partners to achieve the established objectives (see paragraphs 4 to 13).
- **Performance measurement:** Measuring performance, in order to quantify the level of achievement of strategic objectives and to identify opportunities for improvement of clear and measurable objectives, should be established. In all audits conducted, OIOS continues to assess the effectiveness of UNHCR’s mechanisms for measuring and reporting on performance (see paragraphs 14 to 16).
- **Internal control environment:** The internal control environment reflects the tone set by management and the overall attitude, awareness and action of management and staff concerning the importance of internal control. It forms the foundation of internal control and influences the emphasis that UNHCR places on control in its policies, procedures, practices and organizational structure. OIOS, during the period, not only continued to review UNHCR’s compliance with its rules and procedures but also assessed the overall environment in which controls were established and maintained by management (see paragraph 17).
- **Procurement and asset management:** Procurement has been identified as a high-risk area in UNHCR. There is a potential for inefficiency and uneconomical contracting. Procurement activities remain a core subject covered by OIOS in all UNHCR field audits. In addition, asset management has repeatedly been reported by OIOS as a problem area in many field operations and continues to be viewed as a high-risk area in UNHCR’s field operations due to the inherent lack of controls over the safeguarding and recording of assets (see paragraphs 18 and 19).
- **Information and communication technology:** UNHCR’s increasing dependence on information and communication technology (ICT) makes ICT operations vulnerable to risks such as the reliability of data and systems. OIOS’ audit of UNHCR’s ICT management included a review of its governance, strategic planning, access security and business continuity planning (see paragraph 20).

II. INTERNAL INITIATIVES

4. In the reporting period, OIOS commenced a number of initiatives in order to be in a better position to assist UNHCR to improve internal controls and manage risks. Some of these initiatives are described below.

A. A more structured and focused mechanism to assess risk

5. Having adopted a risk-based approach to prioritize its work, OIOS initiated a risk assessment of UNHCR's activities. The risk assessment, which is required by international internal auditing standards, ensures that internal audit plans focus on areas that pose the greatest risk to the organization being audited. OIOS' risk assessment does not however mitigate UNHCR management's responsibility to manage and monitor identified risks. OIOS will continue to advocate with UNHCR's management on the need to have a more formal and structured mechanism to do this. For this period, a draft risk map was developed and presented to UNHCR's Oversight Committee. Although the process is a dynamic one, the draft risk map has already identified a number of high-risk areas in UNHCR. From 2008 onwards, the level of audit resources should be determined by UNHCR's tolerance¹ of risk in pursuit of its global objectives.

B. Improving professional practices and auditors' skills

6. In order to ensure that OIOS produces consistently high quality oversight work, a Professional Practices Section has been established within the Internal Audit Division to ensure that the internal audit activity follows professional auditing and OIOS standards. The Section has already developed several initiatives aimed at improving the Internal Audit Division's (IAD) work methods and reporting processes through new and enhanced tools and methodologies, including the revision of the Internal Audit Manual.

7. To ensure OIOS has the requisite knowledge and skills to effectively and efficiently carry out audit assignments, a comprehensive skills assessment is being conducted to identify both training requirements and any gaps in skill sets to ensure that internal audit staff are fully equipped for current and future roles.

8. OIOS Internal Audit Division has also established an Information and Communication Technology (ICT) Audit Section. This section is staffed by auditors with ICT expertise. In addition to conducting focused ICT audits, the creation of this section aims at strengthening the overall capacity of OIOS to conduct ICT audits. Moreover, as information technology encompasses almost all areas which are audited, the Section is responsible for providing guidance and support to all auditors to ensure ICT is systematically reviewed and subsequent findings are reported.

¹ "Tolerance of risk" is defined by the amount of risk, on a broad level, which UNHCR is willing to accept in pursuit of achieving its objectives.

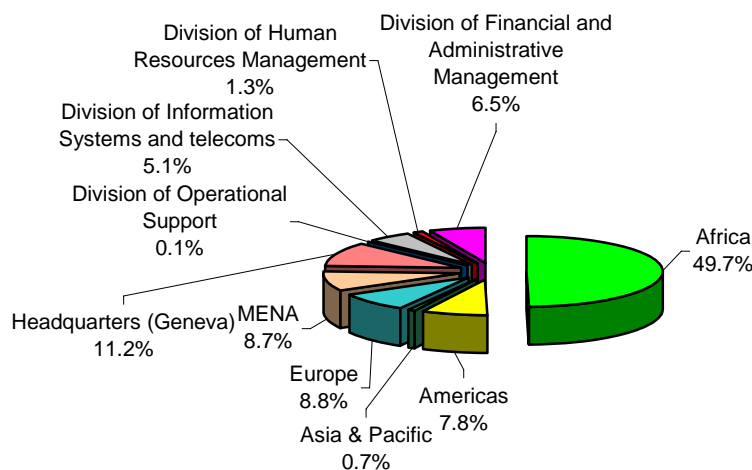
C. Monitoring recommendation implementation

9. To streamline the process of monitoring the implementation of recommendations, OIOS launched a single recommendation database known as IssueTrack in April 2006. The next phase of its development will provide UNHCR's audit focal point with online access to the audit recommendations. Therefore, UNHCR's audit focal point will be able to view and update recommendations online and carry out a dialogue with OIOS on progress in implementing audit recommendations. It will also enable UNHCR to generate management reports summarizing the status of audit recommendations.

III. SUMMARY OF THE MAIN AUDIT RESULTS

10. During the period, OIOS audited operations and activities with a total value of approximately \$230 million. OIOS audited activities in 18 countries: Argentina, Armenia, Brazil, Bulgaria, Burundi, Colombia, Czech Republic, Egypt, Ghana (Regional Hub Administration), Guinea, Islamic Republic of Iran, Liberia, Mauritania, Sierra Leone, Sudan, Syrian Arab Republic, Turkey and the United Kingdom. At Headquarters, OIOS audited: Information and Communication Technology Management, Assignment Grants and Relocation Grants, Fleet Management, the Electronic Documentation Management System, the Regional Hubs structure and Official Travel. Chart 1 illustrates the allocation of resources to the various geographical and functional areas of UNHCR. During the reporting period, 25 audit reports were issued (listed in the Annex).

Chart 1: OIOS' audit resources spent from 1 July 2006 to 30 June 2007



A. Working with implementing partners

11. A number of critical weaknesses identified in this reporting period are recurring issues highlighted in OIOS' previous reports to the Executive Committee. This includes the lack of adequate internal control systems established by partners to monitor and control UNHCR funds.

For example, in one operation, over \$3 million were disbursed in cash - inherently risky transactions - without proper documentation, reconciliation or supervision. In another case, the absence of refugee beneficiary cards resulted in non-food items being provided on the basis of ration cards which had no photograph to confirm the beneficiaries' eligibility. OIOS continued to identify a lack of adherence to the management and reporting requirements as outlined in the UNHCR Sub-Project Agreement with particular reference to the adoption of sound procurement procedures, as referred to below. OIOS appreciates that UNHCR is often working in difficult environments but in such operations strong internal controls should be established from the outset.

12. Many of the weaknesses noted by OIOS should have been identified through UNHCR's regular financial and performance monitoring, or by systematic follow-up on the implementation of recommendations issued as part of the audit certification process. The latter is a useful management tool, which is not effectively used despite the overall cost of the process to UNHCR. In some country operations, OIOS was pleased with the quality and level of monitoring conducted. Nonetheless, for the most part, project monitoring was not done in a timely fashion to ensure that remedial action was being taken to improve systems and procedures, and to alert management if set targets would not be met.

13. Following OIOS' 2005 audit report on UNHCR's audit certification process, UNHCR revised its policy on audit certificates to ensure better planning of the process, monitoring and follow-up, as well as their submission in a more timely manner. The benefits of the revised policy should be seen in 2008. Additional encouragement and guidance is required however to ensure that the process is fully effective. OIOS' recent audits found that the engagement of local external auditors was not always done in good time and there was still no mechanism in place to follow up on qualified opinions. As recommended by OIOS, the external audit process needs to be brought forward to ensure that the revised three-month deadline for the submission of audit certificates is achieved in 2008.

B. Performance measurement

14. UNHCR is progressing with the implementation of Results-Based Management (RBM), with the aim of ensuring that it is a performance-driven organization whose operations achieve the right results in the most effective and efficient manner possible. UNHCR's RBM is subject to a separate review by OIOS' Inspection and Evaluation Division. The results of the review will be reported later this year.

15. As a result of audits conducted during the period, OIOS has found that performance measurement is an area that warrants further focus and enhancement by UNHCR. For instance, OIOS' audit of UNHCR's regional support hubs, which are responsible for supporting field operations with a variety of experts (Resettlement, Registration, Finance and HIV/AIDS), found that when the hubs were created, no clear and formal objectives were set. In the absence of standards and benchmarks, it was not possible to measure any benefits obtained from the establishment of the regional hubs. OIOS has recommended that as UNHCR is outposting certain functions, the lessons learned from the establishment of the regional hubs should provide valuable input as to the targets and expected added value of any enhanced regional structures.

16. It was also apparent that there is a need to improve standards and indicators to adequately report on achievements as well as objectives not reached. There were many examples where implementing partners did not clearly report the level of achievement of their planned activities, making it difficult to assess the overall impact of projects. Also, performance objectives were not always realistic or measurable.

C. Internal control environment and compliance risk

17. OIOS' review of 18 field operations disclosed that effective internal controls were not always in place, exposing UNHCR to the risk of inefficiencies and the non-achievement of project objectives. The underlying cause in many instances came from a weak internal control environment, in particular the attitude, awareness and action of management and staff concerning the importance of control. For example, OIOS audits identified vacancies in key positions, high turnover of staff on mission, lack of adequate training of UNHCR staff and/or implementing partners, and insufficient project monitoring. OIOS also observed that a weak system of internal control had led in some cases to inaccurate reporting, overpayments to staff, poor value for money in purchasing, low levels of project implementation and possible loss through fraud. OIOS made a number of recommendations for UNHCR to strengthen its internal control mechanisms to reduce the risk of non-compliance with UNHCR rules and procedures and to ensure efficiency; to establish clear reporting lines so that accountability can be established; to heighten the level of its monitoring and supervisory role over partners; and to improve the impact of project implementation. From a positive perspective, OIOS takes note of the 2006/2007 development of the Management Systems Renewal Project – Version 2 that has enhanced internal control through the introduction of a Financial Control Framework and Delegation of Authority Plan for each cost centre.

D. Procurement and asset management

18. UNHCR continues the practice of delegating procurement to implementing partners, which is often found to be inefficient because the partners do not always use sound procurement procedures. OIOS found a number of cases where there was no evidence indicating that competitive tendering, to provide assurance that the concept of best value for money, had taken place. For example, partners in one operation awarded construction contracts valued at almost \$1.2 million without competitive tendering. The contracts entered into did not ensure UNHCR's best interests. Significant clauses, such as penalties for delays and the retention of warranty monies were omitted. Enforceable accountability mechanisms need to be established to reduce non-compliance with UNHCR's Implementing Partner Guidelines. OIOS recommended that compliance with UNHCR's guidelines should become a regular part of UNHCR's project monitoring.

19. Almost all OIOS field audits reported weaknesses in asset management, highlighting that UNHCR's asset data was not up to date. Data was sometimes found to be unreliable and incomplete, and often there were inadequate internal controls to safeguard assets against loss and theft.

E. Information and communication technology

20. OIOS' audit of UNHCR's Information and Communication Technology Management did not reveal major weaknesses; however, the ICT strategy could be further developed to define mission-critical information and identify any business processes that need to be modified to take full advantage of the potential benefits of UNHCR's automated systems. In addition, there was no comprehensive business continuity plan in place to safeguard critical system availability. Some of the ICT management-related instruments were not in accordance with best practices. OIOS assessed that the governance and the administrative structure of the overall ICT operation and the role of the Division of Information Systems and Telecommunications were not clear. OIOS recommended that UNHCR develop such ICT structures, documents and procedures that allow adequate monitoring, avoid duplication and inefficiency and ensure best value for money in the use of ICT resources.

F. Other important topics covered in 2007

21. The assignments described in the following paragraphs were conducted to assist UNHCR in mitigating its exposure to identified risks.

G. Review of UNHCR's electronic document management system (EDMS)

22. The forward-thinking approach and the initiatives taken to introduce and develop EDMS are commendable. The system has been operational since 2000, and considerable effort has been made to train staff on its use, as well as to market its capabilities to store and retrieve data. Nonetheless, it is still not fully effective, as managers and staff are not systematically using it. For example, OIOS' analysis showed that over 75 per cent of managers and staff at Headquarters have never used or rarely used it. Consequently, UNHCR faces the risk of losing significant electronic records, especially with the high staff turnover at Headquarters, and the new e-mail policy whereby electronically stored documents will be automatically deleted after a period of time. OIOS recommended that UNHCR continues to actively encourage the use of the EDMS in order to have assurance that important documents are not lost.

H. Review of UNHCR's relationship with one major donor

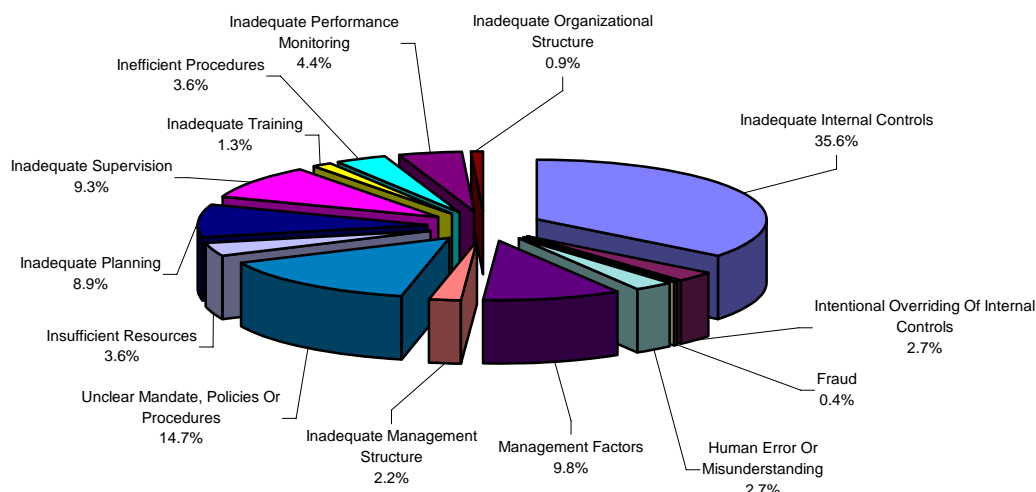
23. OIOS disclosed that UNHCR was not always complying with the conditions attached to certain funding by external donors. This non-compliance resulted in project objectives not being achieved and the reimbursement of non-eligible expenditure. UNHCR argued that this was due to the unique field working environment or the lack of guidance to and training of staff. OIOS recommended that UNHCR develop criteria for accepting funds, especially in situations that do not fully guarantee compliance with the donor conditions, as well as accountability for the management of funds and compliance with the requirements. UNHCR agreed to consider the recommendation in the context of its new competency model and to update and reinforce guidelines and accountabilities in relation to effective project management and use of funds.

IV. OVERVIEW OF RECOMMENDATIONS

24. Over the reporting period, OIOS issued 225 recommendations, 132 of them critical, for the improvement of accountability mechanisms and control systems, as well as for the development or clarification of policies and procedures and workflow processes. As at 30 June 2007, 114 of these recommendations had been implemented or were in the progress of being implemented. From all recommendations made, 36 per cent highlighted inadequate internal control systems and 15 per cent addressed the issue of unclear policies or procedures.

25. As at 30 June 2007, 213 recommendations were outstanding from this and previous years, of which 58 or 27 per cent had been outstanding for more than one year.

Chart 2: Causes of recommendations issued 1 July 2006 to 30 June 2007



26. In general, UNHCR could respond to recommendations in a more timely manner. OIOS appreciates that due to UNHCR's rotation policy for staff, responsible managers may have taken up new functions. This however does not mitigate senior management's responsibility to address the risks identified that have a high likelihood of having an adverse impact on UNHCR's ability to attain its goals.

27. With regard to some of the older recommendations, OIOS is aware that work on these has been initiated, and that the development of new or revised policy changes takes time. Furthermore, the ongoing work of UNHCR's Structural and Management Change project, for which the outcome could be a prerequisite to, and could facilitate the implementation of the recommendations, has led in some cases to a pause in the implementation of many of OIOS' critical recommendations, mainly at Headquarters. Despite this, there are a number of

recommendations which have been outstanding for three or more years and which need to be addressed to strengthen internal control and to improve the effectiveness of UNHCR's activities. These include: the revision of UNHCR's Policy on Refugees in Urban Areas; the deployment of staff on emergency operations; and the management and reporting on central and regional stockpiles.

Annex

UNHCR AUDIT SERVICE

List of Reports Issued

<u>Title</u>	<u>Date of Report</u>
1. Operations in Zambia	21 July 2006
2. Operations in Belgium	8 August 2006
3. Operations in South Sudan (Main Office – Juba)	22 August 2006
4. Operations in The former Yugoslav Republic of Macedonia	28 August 2006
5. Operations in the Republic of the Congo	12 Sept 2006
6. Operations in Bulgaria	12 Sept 2006
7. Operations in Djibouti	25 Sept 2006
8. Operations in Nepal	10 October 2006
9. Operations in Algeria	23 October 2006
10. Kenya Regional Hub - Administration	31 October 2006
11. Ghana Regional Hub - Administration	6 November 2006
12. Electronic Documentation Management System	16 November 2006
13. Operations in Mauritania	27 November 2006
14. Assignment and Relocation Grants	12 December 2006
15. Operations in Islamic Republic of Iran	8 January 2007
16. Operations in South Sudan	31 January 2007
17. Operations in Darfur	7 February 2007
18. Regional Hubs	15 February 2007
19. Information & Communication Technology Management	9 March 2007
20. Operations in Sierra Leone	9 March 2007
21. Operations in Liberia	15 March 2007
22. Operations in Turkey	16 March 2007
23. Operations in Egypt	30 March 2007
24. Operations in United Kingdom	29 June 2007
25. Operations in Burundi	29 June 2007
