

FOLLOW-UP TO THE RECOMMENDATIONS OF THE BOARD OF AUDITORS  
ON THE ACCOUNTS FOR 2006 AND PREVIOUS YEARS

I. INTRODUCTION

1. Following the United Nations Board of Auditors report on UNHCR's accounts for the year 2006, UNHCR and the Board agreed on three high risk areas as the focus of reporting by UNHCR, namely: Implementing Partner Audit Certification; Asset Management (non-expendable property); and Staff In Between Assignments policy. This document provides an update of the actions taken and planned in response to the Board's recommendations on these three high risk areas. Concerning the follow-up on the recommendations contained in the Board's report on UNHCR's accounts for the year 2006, a detailed matrix indicating action taken to date has been placed on UNHCR's website ([www.unhcr.org/excom](http://www.unhcr.org/excom)).

2. With respect to preceding years, the current status is as follows:

(a) the Board's 2003 report on UNHCR's 2002 accounts has been closed;

(b) the Board's 2004 report on UNHCR's 2003 accounts remains open pending the closure of three out of four long-standing recommendations related to inter-agency cooperation within the United Nations Information and Communication Technology Network, and pertaining to policy issues of a longer-term common technology infrastructure cooperation strategy. As progress in this context is not dependant upon one agency alone, further consultations with the Board of Auditors are anticipated in order to recast and limit these recommendations to aspects that can be more realistically measured on a specific agency basis. The remaining recommendation concerning the assessment of implementing partner accounting systems and internal controls is being incorporated in a renewed effort in 2008 to update selection criteria for both national and international implementing partners;

(c) the Board's 2005 report on UNHCR's 2004 accounts remains open pending seven recommendations, three of which UNHCR believes should be closed as they are no longer germane to current realities. The remaining four recommendations are associated with the development and institutionalization of results-based management and the improvement of evaluation tools and capacities. Considerable progress has been made in recent years in these areas, and UNHCR expects that these recommendations will, be closed and recast in light of ongoing progress and future intentions; and

(d) the Board's 2006 report on UNHCR's 2005 accounts remains open, with the Office having implemented 52 per cent of the recommendations contained therein. Recommendations yet to be fully addressed relate mostly to the Treasury Management System (TMS). The TMS

was introduced globally on schedule in the last quarter of 2007. Progress against these recommendations will be examined by the Board during its upcoming annual audit in March 2008. Other recommendations remaining under implementation relate to: information technology systems security and infrastructure; asset (non-expendable property) and inventory management issues which are reported on in Section II.B below within the context of risk mitigation; fund raising, in terms of objectives, strategies, activities and outcomes; internal audit resource allocation and related risk assessment; project personnel relative to standby arrangements for emergencies; and field-based procurement planning, monitoring and delivery reporting deficiencies that are being improved through the global MSRP/PS<sup>1</sup> Financial and Supply Chain systems roll-out.

## II. MAIN RISK AREAS IDENTIFIED BY AUDIT AND ACTION TAKEN

### A. Implementing partner audit certification

3. The Board has carried out a thorough examination of the process of implementing partner audit certification in UNHCR, initially during its annual audit mission in March 2007, and subsequently during the Board's management audit conducted in October 2007. The Board had also previously examined the issue during its 2006 financial audit of UNHCR's 2005 accounts, and issued a number of recommendations. While welcoming a close review of this important area by the Board, UNHCR has emphasized that the issue of implementing partner audit certification is a mid- to long-term goal with formidable challenges. UNHCR's operations are often located in remote areas, and the availability of fully competent audit firms can present constraints.

4. Pursuant to a recommendation in the Board's 2006 annual audit report, UNHCR reviewed the effectiveness of mechanisms and procedures introduced in 2004 for auditing implementing partner expenditures. Subsequently, in early 2007, UNHCR issued an updated instruction clarifying the roles of all parties involved in implementing partner expenditure audit certification, and reducing the timetable for submissions from six to three months, with effect for all sub-projects implemented in 2007.

5. In its annual audit report issued in September 2007, the Board recommended that UNHCR: increase the proportion of implementing partner audit certificates received; shorten the timeframe for submissions; continue to improve the statistical monitoring of audit certificates; and determine the overall impact of qualified certificates. The Board also recommended that UNHCR take all necessary steps to secure reasonable assurances on the reported use of funds by implementing partners prior to the final audit of its financial statements, and to disclose any relevant concerns in the notes to the financial statements.

6. UNHCR has taken a number of steps to address the Board's recommendations. In October 2007, UNHCR issued a further set of instructions and guidance to Representatives and Directors on implementing partner audit certification that served to: clarify and reinforce the roles and responsibilities and respective levels of management accountability for the process; introduce compliance measures and monitoring procedures; and provide technical recording and

---

<sup>1</sup> The Management System Renewal Project (MSRP) has been developed and implemented since 2004, utilizing Enterprise Resources Planning (ERP) best practice systems based on Oracle/ PeopleSoft. MSRP/PS has been utilized to replace legacy financial, supply chain and human resources systems.

reporting guidance as well as a glossary of audit-specific terms to enhance common understanding among non-specialists. By the end of January 2008, 65 out of 110 relevant field offices (or 59 per cent) had reported that contractual arrangements had either been concluded or were under finalization with audit firms for the certification of 2007 sub-projects. This early monitoring trend is considered to be a positive sign that field offices are actively working towards ensuring that implementing partner audit certificates are provided by the end of April 2008 for the majority of 2007 sub-projects with end of January 2008 liquidation and closure dates.

7. Concerning the shortening of the timeframe for implementing partner audit certificate submissions, UNHCR has advised the Board that a period of less than the newly imposed three-month timeframe after sub-project closure would not be viable; it is not therefore realistic to expect that such certificates could be provided prior to the final audit of UNHCR's annual financial statements in March of the following year. UNHCR considers that audit certification provides an independent verification of implementing partner expenditures and constitutes an important management tool for identifying risks and addressing weaknesses or deficiencies in implementing partner performance. However, implementing partner audit certification should not be the primary validation mechanism for implementing partner expenditures, but rather an important complement to UNHCR's operational presence and internal programme management, monitoring, reporting and control systems and procedures.

8. UNHCR considers that the consistently high global compliance rate recorded with respect to the timely receipt and internal verification of implementing partner Sub-Project Monitoring Reports (SPMRs) provides reasonable assurance that funds disbursed to implementing partners have been spent in accordance with the intended purpose and in compliance with legislative authority. Disbursements to implementing partners in 2006, subsequently justified by SPMRs received in a timely manner, amounted to \$321.2 million, representing 98.7 per cent of all 2006 disbursements.

9. In 2008, the newly established Budapest Service Centre (BSC) has assumed a global compliance role to ensure the completeness of the 2007 audit certification processes. BSC staff are liaising with field offices where there is a need for greater rigour in contracting external auditors. The Centre is also validating sub-agreement information and related reports to ensure the accurate recording and reporting of data from MSRP. BSC will monitor data recorded in both MSRP and in the Livelink<sup>2</sup> document management system to ensure that information is complete in both systems, and will undertake any necessary follow-up with the Field when data is missing. In the course of 2008, UNHCR will reinforce functional accountability in the Field and at Headquarters for action required to redress any negative findings or qualified audit opinions reported through implementing partner audit certification.

#### B. Asset management (non-expendable property)

10. The Board of Auditors noted in its report on UNHCR's Financial Statements for 2006 that the progressive migration to a new asset management system in 2006 highlighted deficiencies in the legacy asset tracking systems which included: wrong data entries; inflated values; errors in depreciation rates; and the duplication of asset disposals. The Board expressed concern about the impact of such deficiencies on the accuracy of the disclosure of UNHCR's

---

<sup>2</sup> "Livelink" is UNHCR's electronic record-keeping system which provides staff with the means to file, access and preserve any type of electronic documentary evidence.

non-expendable property. The Board recommended that UNHCR: complete the data clean-up of the asset database started in 2005; periodically reconcile purchases recorded in the accounts and those entered into the database; pursue efforts to perform more timely physical inventories; and update the assets database and report decisions taken by local asset management boards in a timely manner.

11. UNHCR agrees with the Board's comments and recommendations on non-expendable property but takes the view that no further resources should be deployed to retroactively correct the categorization of non-active assets in legacy databases. Rather, remedial emphasis is being placed on the re-verification of the physical existence and accurate valuation of non-expendable property, as migration to the MSRP/PS-based asset modules takes place. With the completion of the MSRP/PS Supply Chain global roll-out in 2007, all asset recording, tracking and disposal is now in one system - replacing three previously non-aligned systems.

12. The physical verification of Headquarters' assets was completed in December 2007 and the update of the MSRP/PS asset modules is ongoing. Concerning the verification of assets by field offices, 66 per cent had confirmed that verification had been conducted in the course of 2007 or would be finalized before the end of the year. However, it must be recognized that under prevailing security conditions in some countries with large, remote and complex operations, annual verifications cannot always be completed before the end of the year. With regard to the quality of local asset management board submissions, the Asset Management Unit at Headquarters has systematically reviewed all decisions and provided authoritative guidance as required. During 2007, all outstanding prior year disposal cases were reviewed, resulting in the closure of more than 80 per cent of these cases by the end of 2007. This emphasis on asset disposals in 2007 was undertaken in parallel with the continuation of the incentive mechanism to provide field offices with the equivalent of 25 per cent of disposal income as budgetary relief to cover the administrative costs of disposals. In 2007, such disposals contributed some \$2 million to miscellaneous income that was available for further allocation to UNHCR's global programmes as a component of the end of the year carry-over.

13. Further enhancement of the MSRP/PS Financial and Supply Chain Systems in 2008 will help UNHCR to move towards achieving compliance with International Public Sector Accounting Standards (IPSAS) for asset management by 2010. The aim is to align the recording of assets with IPSAS capitalization policies as adopted by United Nations organizations. Asset management leadership, structures and capacities are also being reviewed to ensure clarity of ownership and adequate expertise for asset management at Headquarters and in the Field.

#### C. Staff in between assignments (SIBAs) policy

14. The Board reviewed the issue of "Staff In Between Assignments" (SIBAs) twice in 2007, during both the financial audit in March and the management audit in November. The Board reiterated its previous recommendations that UNHCR continue to implement a strict SIBA policy, with a view to providing every staff member with a full-time assignment in order to limit the costs for the organization.

15. While the majority of SIBAs are working on missions or temporary assignments in the Field and are as such fully cost-justified, UNHCR is committed to reducing the high SIBA incidence and minimizing associated costs. Action was taken in 2007 to strengthen the capacity of the Division of Human Resources Management to provide staff with structured advice, counselling and guidance on career advancement and development opportunities within and

outside the organization. A voluntary separation programme, together with a comparative review conducted in 2007, has eliminated SIBAs in the General Service category at Headquarters. Moving forward in 2008, stricter measures on the number of permissible compendia that professional staff will be eligible for will be introduced. A comprehensive review of UNHCR's workforce management and staffing profile requirements will also be undertaken as part of UNHCR's structural and management change process. This will be carried out following completion of the ongoing Field Review which is examining, *inter alia*, the issue of workforce composition. The result of these initiatives is expected to be a closer match between professional staff and the operational needs of the organization, bearing in mind also the requirements of regionalization and decentralization. Together with reform of the recruitment, postings and promotions processes, they will address the systemic factors that give rise to an unacceptably high incidence of SIBAs in the international professional category. Notwithstanding the outcome of these important initiatives, it must be recognized that, at any given time, there will be a number of staff who have completed a standard length of assignment in one duty station and are being appointed to another, in accordance with UNHCR's policy on the equitable rotation of staff.

### III. CONCLUSION

16. UNHCR believes that risk-based reporting on audit recommendations provides both Member States and UNHCR with an important primary focus on the initiation of mitigation strategies aimed at reducing, eliminating, or avoiding risks at the overall organizational level. Following the finalization of the 2007 accounts, consultations will take place with the Board of Auditors to select higher risk areas as a focus for the next reporting period.