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REPORT ON INTERNAL AUDIT IN UNHCR
2004 – 2005

I. AUDIT ACTIVITIES

1.   This report reviews the activities and results achieved by the UNHCR Audit Service of the Office of the United Nations Office of Internal Oversight Services (OIOS) between 1 July 2004 and 30 June 2005. During this period, OIOS completed 32 audits: 27 country operations and 5 headquarters assignments.

Mandate and mission

2.   OIOS assumes the internal audit function for UNHCR on the basis of a Memorandum of Understanding concluded on 24 July 2001. Internal audit is conducted by a dedicated UNHCR Audit Service, which forms part of Internal Audit Division II that is headquartered at Geneva. The Service consists of auditors based in Geneva and in Nairobi (to cover UNHCR operations in Africa). As required, resident auditors are posted in major emergency operations. Since September 2004, a resident auditor has been assigned to the Sudan and Burundi operations.

3.   The UNHCR Audit Service works in close cooperation with UNHCR's Inspector General's Office and liaises with the United Nations Board of Auditors to ensure coordination between external and internal audit.

4.   UNHCR's internal audit plan is developed in close consultation with management, the Oversight Committee, the Inspector General's Office and the United Nations Board of Auditors. The plan includes periodic audit reviews of country operations, which are carried out depending on the size and nature of the operation and the potential risks involved. At headquarters, in-depth reviews of certain functional areas, programmes or systems are conducted to assess the

operational effectiveness and adequacy of polices and procedures. The audit plan is sufficiently flexible to include ad hoc requests by management if assessed as viable and urgent in nature, and to include emerging risks as they are identified. Last year, OIOS was unable to perform a planned audit of one country operation, even after persistent follow-up by UNHCR headquarters as well as at the field level, because the auditor assigned to the project was unable to obtain the necessary visa.

5.   Internal audit provides the High Commissioner with independent, objective assurance of the Office's efficient use of funds; the reliability and integrity of financial and operational information; the safeguarding of assets; the compliance with established rules and policies; the achievement of programme objectives; and other issues which may have implications for the management of UNHCR's resources. Where assurance cannot be given, OIOS provides information on problems identified and makes recommendations on how to address them. Whenever feasible, OIOS identifies quantifiable savings and recoveries.

<u>Budget and staffing resources</u>

6.   As at 30 June 2005, the UNHCR Audit Service had a total of 16 posts, 13 professional and 3 at the General Service level. For 2004 the cost of audit services was approximately US$ 2.1 million. The audit budget for 2005, including the cost of the resident auditor for the Sudan and Burundi operations, amounts to some US$ 2.8 million.

<u>Quality assurance</u>

7.   OIOS seeks regular feedback from managers on their satisfaction with the audit services provided and on potential areas for further improvement. After the issuance of the final audit report, the manager concerned is requested to complete a Client Satisfaction Survey. During the reporting period, 20 completed surveys were received (a response rate of 70 per cent). In 45 per cent of the cases, managers assessed the audit services as excellent, 50 per cent as good and 5 per cent (one case) as poor. The results of the Client Satisfaction Surveys are periodically reported back to the Oversight Committee.

8.   To ensure compliance with the International Standards for the Professional Practice of Internal Auditing, an internal quality assessment of the UNHCR Audit Service is being conducted in 2005. The aim of the assessment is to appraise the quality of the audit work performed by the UNHCR Audit Service, as well as to determine opportunities for improvements. This will be done by benchmarking practices and achievements against relevant best practices in the internal auditing profession. The results of the assessment will be validated by an external reviewer to determine the level of compliance with recommended standards and practices and provide recommendations for enhancing the UNHCR Audit Service. This evaluation will also prepare the UNHCR Audit Service for the external audit envisaged by the United Nations Board of Auditors.

Financial data and reports for audit purposes

9.   In preparation of audit assignments, the UNHCR Audit Service requires access to various UNHCR financial and other reports. This is required for sample selection, for assurance as to the completeness and accuracy of data, for variance analysis and for the detection of unusual transactions, trends and/or fluctuations in expenditure patterns. Regrettably, the Management Systems Renewal Project (MSRP) has not so far provided the data and reports required for audit purposes that were previously available under UNHCR's legacy systems. OIOS appreciates that the MSRP team has been working to solve this problem, however the results obtained so far are less than satisfactory. If not resolved, this issue will create a major impediment to the proper planning and execution of audit assignments, particularly for field audits. It should be highlighted that many of the reports requested by OIOS are also very relevant for programme and financial monitoring by UNHCR management.

Summary of audited activities and audit reports

10.   During the reporting period, the UNHCR Audit Service covered operations and activities with expenditure amounting to US$ 362 million, or 34 per cent of UNHCR's total expenditure of US$ 1,063 million in 2004. OIOS audited operations in 26 countries: Austria, Bangladesh, Burundi, Cameroon, Chad, Costa Rica, Ecuador, Germany, Greece, Guinea, Iraq, Jordan, Kenya, Liberia, Mexico, Myanmar, Pakistan, Senegal, Sierra Leone, Spain, Sri Lanka, Sudan (two audits), Sweden, Switzerland, Yemen and Zimbabwe. At headquarters, OIOS audited UNHCR's Payroll, Mobility and Hardship Allowance and various aspects of the Management Systems Renewal Project (MSRP) and conducted a Comparative Review of the Desk Function. OIOS also reviewed two international NGOs at their headquarters to assess their systems and procedures and provide advice on how to comply with UNHCR requirements. The allocation of resources to the various geographical and functional areas (see Chart 1) reflects UNHCR's operational priorities.

Chart 1

OIOS, UNHCR Audit Service
Audit Resources spent 1 July 2004 to 30 June 2005
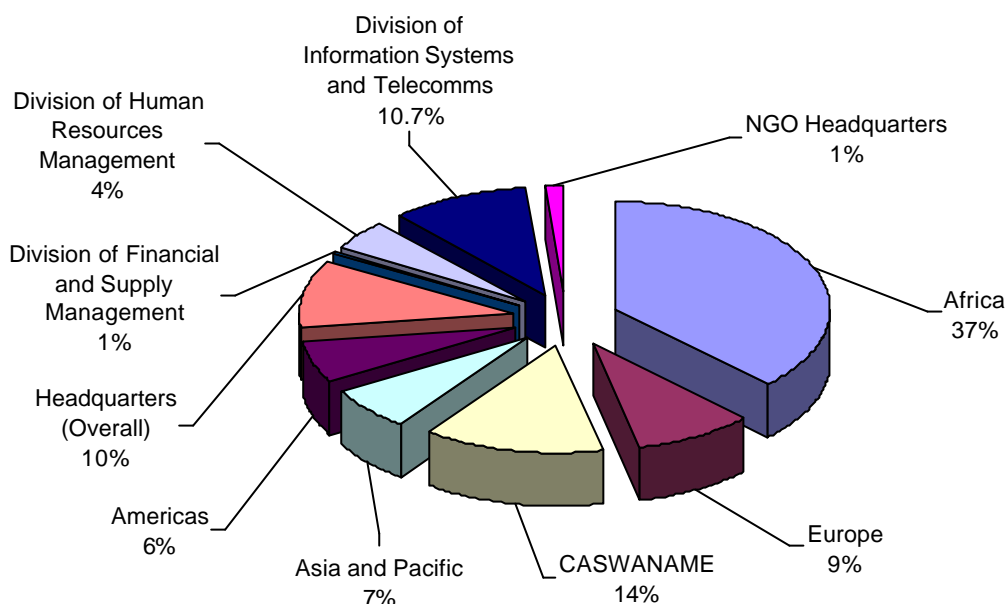
11.   During the reporting period, the UNHCR Audit Service issued a total of 31 final Audit Reports (listed in Annex 1). Based on General Assembly resolution A/RES/59/272, any Member State may request that the Audit Report be made available in its final version.

Overview of recommendations

12.   During the period, the UNHCR Audit Service issued 138 recommendations, of which 70 were classified as critical. These included calls for the development/clarification of policies and procedures, the improvement of workflow processes and the enhancement of internal controls to correct systemic deficiencies and savings and recoveries. Of these, 31 per cent have already been implemented, while for an additional 19 per cent, the implementation has started and is in progress. Most of the audit recommendations were in the functional areas of programme and project management, financial management, information and communications technology systems and procurement.

13.   A further 452 recommendations were made in interim communications to line managers. These communications enabled managers to take immediate action to address areas of concern raised by OIOS, as well as clarify points and give comments on the decisions made and activities being undertaken. Issues that are not adequately dealt with in this process, and are significant in nature, are carried forward and included in the final audit report.

14.   Chart 2 shows the audit recommendations in reports issued between 1 July 2004 and 30 June 2005 by functional area. Chart 3 shows the rate of implementation of critical recommendations issued since 1 July 2000.

15.   The UNHCR Audit Service, in close cooperation with the UNHCR Audit Coordinator in the Controller's Office, vigorously follows up on outstanding audit recommendations. For those recommendations not yet fully implemented, managers are required to provide an update on the implementation progress made on a six-monthly basis. The very active role of the Audit Coordinator in the follow up process is one major factor that has contributed to the overall positive implementation rate.

Chart 2

**UNHCR Audit Service
Audit Recommendations in Reports Issued between
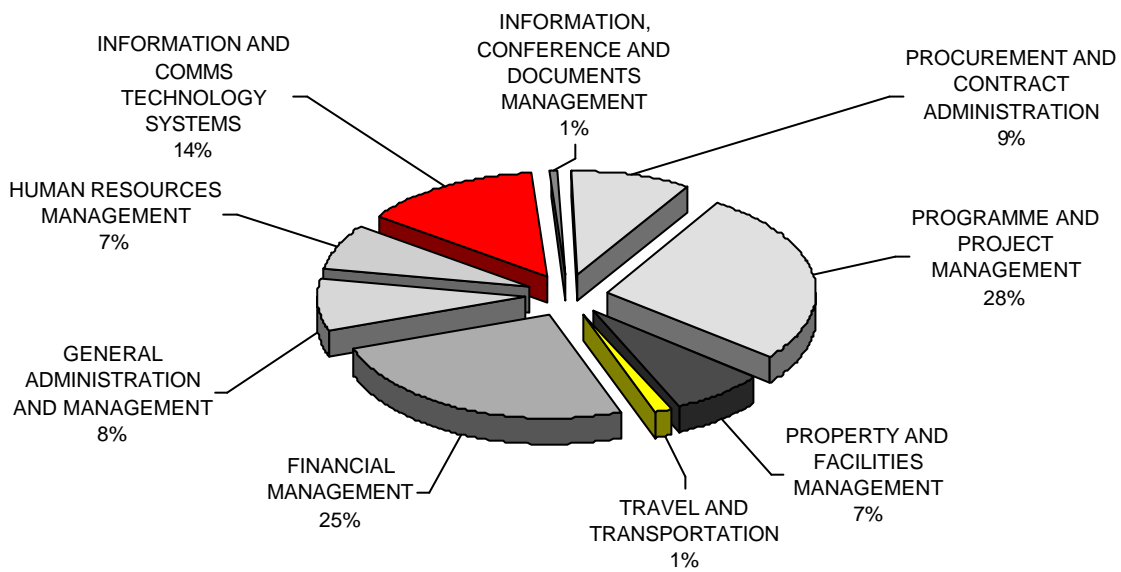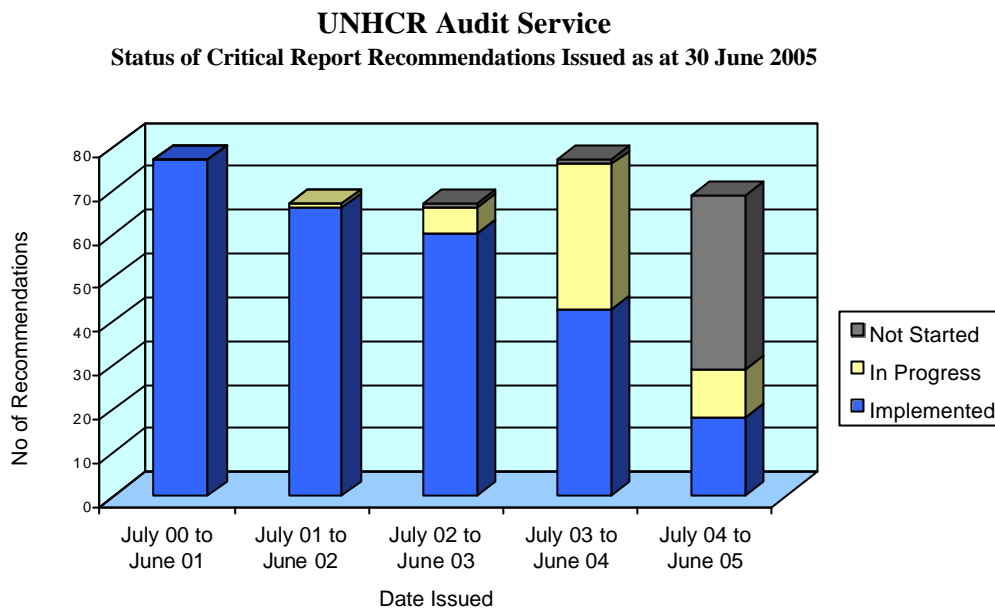1 July 2004 and 30 June 2005 by Functional Area**

INFORMATION AND COMMS TECHNOLOGY SYSTEMS 14%

INFORMATION, CONFERENCE AND DOCUMENTS MANAGEMENT 1%

PROCUREMENT AND CONTRACT ADMINISTRATION 9%

HUMAN RESOURCES MANAGEMENT 7%

PROGRAMME AND PROJECT MANAGEMENT 28%

GENERAL ADMINISTRATION AND MANAGEMENT 8%

PROPERTY AND FACILITIES MANAGEMENT 7%

FINANCIAL MANAGEMENT 25%

TRAVEL AND TRANSPORTATION 1%

Chart 3

UNHCR Audit Service
Status of Critical Report Recommendations Issued as at 30 June 2005

16.   While Chart 3 shows that a significant number of recommendations have not yet been implemented, some 78 per cent of them relate to reports just recently issued for which the expected date for reply has not yet been reached. It is also appreciated that some of the recommendations call for the development or revision of policies and procedural guidance, which take time to develop; others may require extensive follow-up with third parties such as implementing partners and government bodies.

17.   On a periodic basis OIOS reports to the UNHCR Oversight Committee with critical recommendations to which management's response or its rate of implementation is not satisfactory. The issues are discussed and appropriate action is assigned. This mechanism ensures more expeditious implementation of recommendations and provides a platform where high-level information can be brought to the attention of senior management.

18.   OIOS is pleased to note that considerable effort has been made during the reporting period to address some of the long-standing critical recommendations. For example, guidelines to assist management and staff involved in recruiting and managing consultants were issued, a consultant has been hired to assist in drafting a new policy on urban refugees, and policy guidelines on the use of United Nations Volunteers (UNVs) in UNHCR have been issued and a "Handbook on United Nations Volunteers in UNHCR" is being finalized. Despite substantial efforts however there are still a number of outstanding recommendations in relation to taxes and duties imposed by governments on goods and services procured from UNHCR funds. Regrettably, in many cases, taxes and other duties continue to be levied with no regard to the privileges and immunities of the United Nations, and significant amounts due for reimbursement to UNHCR continue to remain outstanding and may well further increase. The UNHCR Legal Affairs Section and, in many cases, the United Nations Office of Legal Affairs, continue to follow up on these issues.

19.   Based on the audits undertaken, OIOS recommended savings and recoveries totalling approximately US$ 3.4 million. The potential savings and recoveries identified exceeded by far the cost of the UNHCR Audit Service. Actual savings and recoveries during the period, resulting from audits during the current and prior reporting periods totalled US$ 2.1 million. The process of recovery is ongoing and may extend over several years.

II. AUDIT RESULTS

Emergency and large/complex field operations

20.   Systemic issues and trends have emerged from the audited activities of UNHCR's higher risk operations (emergency or large and complex) where UNHCR's visibility is high.

Staffing

21.   OIOS appreciates that UNHCR is acutely aware that the success of an operation depends on having appropriate staffing levels and expertise deployed on a timely basis, as well as ensuring a manageable level of continuity of staff. In some operations however this was not always achieved. As reported last year much effort has been made by UNHCR to improve and streamline the process for the deployment of staff to emergency operations, however the initiatives have not been entirely successful. OIOS is finding that suitably qualified and experienced staff are not always "in the right place at the right time" to ensure UNHCR operations are effective from the outset.

22.   OIOS found that the fast track model for the deployment of staff was not fully effective: in one operation, staff deployments should have been completed by the end of March 2004, but in July 2004 some of the key personnel were just arriving. In another operation, over 20 posts were vacant. OIOS observed that junior and inexperienced staff were delegated significant responsibilities often without sufficient support and guidance from their managers. For some of the larger operations in hardship areas, key positions were not filled, sometimes for extended periods, resulting in insufficient attention to important high-risk activities.

Procurement

23.   A significant level of procurement is conducted by UNHCR field offices and implementing partners. Considering the amounts involved, the systems and procedures adopted in some operations to initiate, manage and control procurement activities were ineffective, and sometimes deficient. Procurement activities were not always properly planned resulting in inefficiencies and in some cases inferior quality goods at higher prices. Some partners procured goods without proper competitive bidding, others could not provide documentation to support the actual cost of the goods procured although substantial amounts were charged to UNHCR.

III. ISSUES EMERGING FROM FIELD OPERATIONS (LARGE AND SMALL)

Asset management

24.   The management of assets continued to be a problem area in many field operations. In more than 50 per cent of the operations audited, internal controls in this area were assessed as weak and ineffective. Periodical physical verifications were not conducted, and asset values were incorrectly recorded with data in some cases inflated by millions of dollars. Assets of a considerable value could not be traced, nor could their existence be confirmed. OIOS appreciates the continual efforts made by UNHCR to address this issue, but at present, UNHCR's asset records still cannot be entirely relied upon.

Implementing partners

25.   UNHCR delegates the spending of a significant portion of its funds to implementing partners: in 2004 this amounted to an estimated US$ 330 million (figures were not available in MSRP). OIOS generally includes a review of partners' activities (financial and performance) in the audit scope. For 80 per cent of the partners audited in the period (accountable for US$ 91 million) assurance could be provided that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. For the remaining 20 per cent (US$ 27 million) reasonable assurance could not be taken. This resulted mainly from the lack of adequate accounting systems to control and manage UNHCR funds, from serious weaknesses in internal controls and/or from a lack of documentation to support the expenditure charged.

Project monitoring

26.   While it was reported last year that there was a general improvement in UNHCR's systematic monitoring of implementing partners' activities, it emerged from the operations audited in this period that insufficient attention was given by some offices. For eleven country operations, OIOS found that project financial monitoring needed to be improved; in some cases it was ineffective and not systematically conducted, in others it was absent and/or only a "desk review" was conducted. On a positive note however, in some of the operations where OIOS had identified this function as weak immediate action has been taken.

Performance measurement

27.   OIOS appreciates the work already done by UNHCR in the development of guidelines and tools for results-based management to enhance UNHCR's capacity to assess, monitor and report on the impact of the key activities. Nonetheless, OIOS found that many operations have not yet developed SMART (specific, measurable, achievable, relevant, time-bound) performance objectives and related indicators to allow comparison and benchmarking and to measure progress over a period of time. OIOS often found that the performance indicators used were unrealistic or not measurable.

IV. FOCUS AREAS OF FIELD AUDITS

Medical Insurance Plan

28.   As a focus area for field audits OIOS reviewed the Medical Insurance Plan (MIP), an area already identified by UNHCR as high-risk. OIOS found that strong internal controls were not always in place, the rules were sometimes incorrectly interpreted, and many offices had not compiled a standard list of recommended hospitals, physicians and pharmacies to ensure staff members receive the best medical care at favourable prices. There were no standard price lists of treatment, drugs and medicines and therefore information was not available as a benchmark to ensure that only reasonable amounts were reimbursed.

Security and safety

29.   OIOS continued its review of the level of compliance of UNHCR field offices with UNHCR's security policy, with the aim of bringing any areas of concern to the attention of UNHCR senior management. OIOS is pleased to note that for all the operations reviewed, due attention had been given to security and safety issues, with representatives and the majority of staff interviewed fully aware of their responsibilities in this area. Additional work was required by many offices however to ensure full Minimum Operating Security Standards (MOSS) compliance.

Headquarters audits

30.   The following reports on headquarters audits were issued during the period.

UNHCR's Committee on Contracts

31.   The Committee focuses on meeting emergency-oriented procurement requirements, and was found to be working effectively with cases approved in a diligent manner. It was recommended that the rules, procedures and composition of the Committee be updated to better meet operational requirements and to ensure efficiency and effectiveness. Action was required to improve both the quality and timeliness of submissions to the committee. Delayed submissions meant that, in some instances, insufficient time was given to review the information and ensure that fully informed decisions were made. Immediate action was taken to address OIOS' recommendations.

Iraq Programme

32.   UNHCR invested heavily in emergency preparedness for Iraq, with the bulk of the expenditure relating to the deployment of staff and the procurement of non-food items and assets. The review identified some systemic problems with UNHCR's procedures for financial management, monitoring and reporting. For example, it was not possible to match salary costs and travel expenditure to the individual staff members concerned. To address these systemic deficiencies, the Iraq Support Unit maintained additional records to meet donor-reporting requirements. OIOS was assured that these issues were being addressed by the implementation of the Management Systems Renewal Project (MSRP).

Comparative review of the desk function

33.   OIOS conducted a comparative review of the desk function: the key organizational structure in UNHCR ensuring liaison between field operations and headquarters. The desk is involved in most of UNHCR's internal mechanisms and processes. To ensure more efficient and effective desks and in order to rationalize them, OIOS recommended that the desk structures be reviewed with the aim to develop a standard. For emergency and special operations, criteria for establishing new desks or units were required, as well as determining if specialist expertise such as supply management and telecommunications should be assigned to the desk or remain in the functional unit. Desk positions require staff to multi-task, but it was found that those assigned to this undertake this role did not always have the skills and knowledge to be effective from the outset. Enhanced training programmes were required. It was recommended that the roles and responsibilities be more clearly established to enable desks to focus more on essential functions such as strategy, analysis and evaluation. The responsibilities in processes such as procurement, staffing and donor relations needed to be reviewed and clarified.

UNHCR payroll

34.   Payroll services were transferred from UNOG to UNHCR as of 31 December 2003. OIOS found that personal clearance action forms were not processed in a timely manner, but noted that initiatives have been taken to simplify the process. The monthly Duty Status Summary reports were not always submitted and therefore, there was no control to ensure completeness and accuracy of payroll amendments. Moreover, as the personnel (PIOUS) and payroll systems are independent, reconciliation between the different sources of data is essential prior to migrating to MSRP. Insufficient attention had been given to clear the overpayment accounts to separated staff of nearly US$ 330,000, some dating back for years. OIOS was pleased to note however that UNHCR have drafted instructions to reinforce the procedures to ensure the correct treatment of salary-related transactions. This should significantly improve the responsible staff members' understanding of payroll-related transactions.

Post-implementation review of MSRP Finance and Supply Modules

35.   MSRP objectives had been established early on, but the related quantifiable goals were not fully developed, making the benchmarking of results difficult as the legacy systems' work processes had not been sufficiently measured and documented. Project management needed to be strengthened; the Governance Board did not meet frequently enough to ensure effective reporting on performance, certain reports essential for managing UNHCR activities (available under the legacy system FMIS) had not been fully developed in MSRP, and the change management function was not fully effective.

36.   Operationally, some difficulties were encountered during the first year of MSRP, resulting in the need for considerable manual intervention. Part of this was due to the fact that MSRP has not yet been rolled out to the field, thus making manual reconciliations necessary. The audit demonstrated that internal controls in some areas could be strengthened. There was a

need to introduce validation checks on the integrity of data, as well as conducting periodic reconciliation to improve transparency and provide assurance on the completeness and accuracy of expenditure. MSRP lacks certain functionalities, which forced the development of ad-hoc systems to fill the gap.

37.   Overall, a security policy for MSRP should be developed. It could also serve as the starting point for a general UNHCR security policy on ICT matters.

Summary of results

38.   OIOS continues to apply a measurement system to rate the effectiveness of the application of key internal controls in audited operations. This facilitates benchmarking between country operations, provides management with assurance that activities are well or adequately administered, and assists in identifying operations in which prompt corrective action is required. In the 31 audit reports issued in 2004/2005, some 52 per cent of the audited operations were rated as average, while 29 per cent were above average or very good, and 19 per cent were below average or deficient. Since 2005, following recommendations by the United Nations Board of Auditors, all audits rated at "below average" or "deficient" are brought to the attention of the Oversight Committee where the main control failures and emerging risks are highlighted.

UNHCR Audit Service
Audit Assessments of UNHCR Operations Based on
Audit Reports by Date Issued
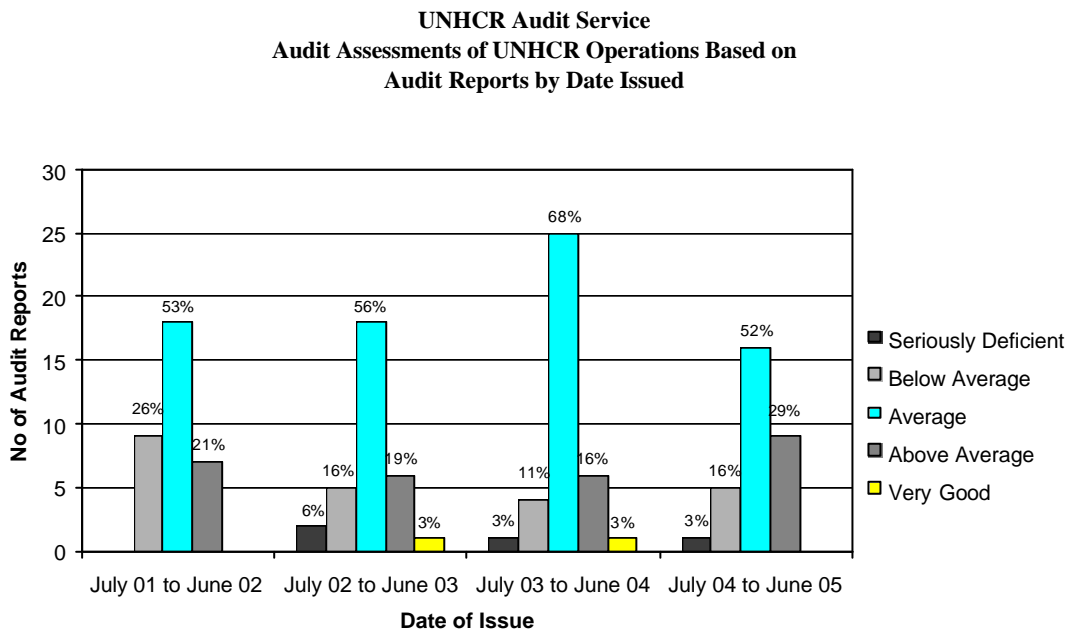
UNHCR Audit Service
Audit Assessments of UNHCR Operations Based on
Audit Reports Issued from 1 July 2002 to 30 June 2005
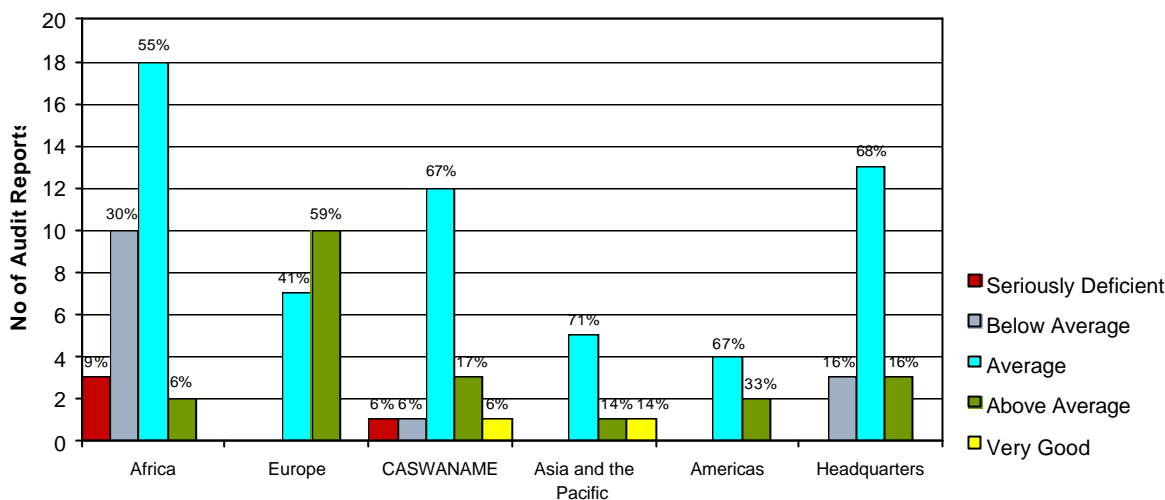
V. STRATEGIC INITIATIVES

UNHCR risk management framework

39.   Given the role internal audit should play in evaluating and improving risk management and control systems the UNHCR Audit Service embarked, in late 2004, on a risk management pilot project. This is to assist UNHCR to adopt a systematic approach to identifying, assessing, understanding and taking action on risks to ensure UNHCR's objectives are achieved. The pilot commenced in early 2005 with the Division of Financial and Supply Management.

40.   Subsequently, in response to the offer by PriceWaterhouseCoopers (PwC) of *pro bono* services to assist the United Nations System in the tsunami relief operation, it has been agreed that the services available for UNHCR would be used for the development of a UNHCR-specific risk management framework. Building on the work already started by the UNHCR Audit Service, the project will start during the summer with a series of interviews and workshops. The project with PwC will be co-sponsored by the Division of Financial Supply Management and the UNHCR Audit Service.

Risk assessment – tsunami relief operation in Sri Lanka

41.   The UNHCR Audit Service and the Inspector General's Office conducted a joint risk assessment of the 2005 tsunami relief project in Sri Lanka. The aim of the assessment was to identify events/actions representing risks that could prevent UNHCR's achievement of the project objectives including its timely and effective completion. It also evaluated the adequacy and effectiveness of the systems and controls established for the tsunami relief operation. Special focus was placed on an assessment of the efforts made to incorporate and implement measures to address the increased risks and vulnerabilities for women created by the tsunami disaster.

UNHCR Audit Service
List of Reports Issued
1 July 2004 – 30 Jun 2005

1	Chad Emergency Operation	06-Jul-04
2	Operations in Albania	28-Jul-04
3	Operations in Ukraine	10-Aug-04
4	Operations in Afghanistan	17-Aug-04
5	UNHCR Committee On Contracts	17-Aug-04
6	Operations in Liberia	24-Aug-04
7	Operations in Turkmenistan	24-Aug-04
8	Operations in Malawi	30-Sep-04
9	Operations in Zimbabwe	30-Sep-04
10	Operations in Central African Republic	30-Sep-04
11	Supplementary Programme For Iraq	30-Sep-04
12	Operations in Zambia	05-Oct-04
13	Operations in Tunisia	16-Nov-04
14	Operations in Sierra Leone	19-Nov-04
15	Operations in Kenya	25-Nov-04
16	Operations in Senegal	25-Nov-04
17	UNHCR Payroll	08-Dec-04
18	Operations in Sweden (Regional Office)	31-Jan-05
19	Operations in Yemen	22-Mar-05
20	Operations in Bangladesh	15-Apr-05
21	Post Implementation Review of MSRP - Finance Modules	20-Apr-05
22	Chad Emergency Operation (Follow-Up)	20-May-05
23	Operations in Mexico	26-May-05
24	Comparative Review Of The Desk Function	30-May-05
25	Operations in Costa Rica	30-May-05
26	Post Implementation Review of MSRP - Project Management & Supply Chain	07-Jun-05
27	Operations in Switzerland	09-Jun-05
28	Operations in Germany	22-Jun-05
29	Operations in Austria	22-Jun-05
30	Operations in Sudan	28-Jun-05
31	Operations in Guinea	29-Jun-05