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and administrative oversight

Report of the Board of Auditors to the General Assembly on the accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2007

Report by the High Commissioner

Addendum

Measures taken or proposed in response to the recommendations in the Report
of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds
administered by the United Nations High Commissioner for Refugees
for the year ended 31 December 2007

I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the main recommendations of the Board of Auditors, as set out in paragraph 8 of their Report (A/AC.96/1054), as well as other recommendations as detailed in paragraphs 10 to 143. Unless otherwise indicated, all references appearing below relate to the aforementioned Report.

Main recommendations

II. RECOMMENDATION 8 (a)

2. Reinforce its control mechanisms on the validity of unliquidated obligations and whether they are recorded in the proper period (para. 36);

Measures taken by the Administration

3. Unliquidated obligations include the use of accounting estimates, where exact amounts are unknown at the year-end deadline. Accordingly, there will continue to be adjustments to these estimates up to final settlement. In addition, operational circumstances in the Field require, in some instances, the postponement of certain activities. That was the case for some of the 2006 projects in the United Republic of Tanzania, and the reasons for the delays have been explained to the Auditors in the context of the responses to the Board with regard to that specific audit revision.

4. For field offices that have not yet migrated to the Management Systems Renewal Project (MSRP) at the end of 2006 (primarily those in Africa and in Afghanistan), unliquidated obligations in 2006 were booked through off-line manual procedures, without the benefit of systematic/MSRP tools to support approval processes. Similarly, systematic control on cancellations was limited.

5. Unliquidated obligations in 2007 were, on the other hand, recorded for the most part through the requisitioning and purchase ordering processes within the financial internal control framework. Accordingly, there were more stringent control mechanisms in place. The cancellation of all 2007 unliquidated obligations is being managed centrally by the Financial Control Section (FCS) in 2008. Analysis is being undertaken on a monthly basis and the reasons for significant variances to original estimates are duly documented and communicated to purchase order preparers and approvers, so that lessons are learned in order to better estimate the level of obligations at the end of 2008.

6. Additional efforts are being made in the second half of 2008 to ensure that only valid unliquidated obligations are retained at the end of the year. Balances of purchase orders raised in 2008 will be reviewed monthly and will be cancelled if no longer required. At the end of the

year, all significant balances will be scrutinized and sample testing for compliance with procedures will be carried out through to the supporting documentation that forms the basis for the raising of the commitment.

III. RECOMMENDATION 8 (b)

7. Urgently set up specific funding to balance the impact of accrued after-service liabilities, notably for health insurance (para. 43);

Measures taken by the Administration

8. UNHCR is studying various options for funding accrued after-service liabilities. The Office is looking at the funding mechanisms being considered or already used by other United Nations organizations and intends to be guided by the various approaches taken within the United Nations system. The Office presented an information paper to the June 2008 Standing Committee on the actions taken by various United Nations agencies to date, in relation to after-service health insurance, repatriation benefits and accrued annual leave. UNHCR will complete its analysis, consult with stakeholders and formulate a funding proposal by mid-2009 for the Standing Committee to consider.

IV. RECOMMENDATION 8 (c)

9. Update regularly the IPSAS adoption plan and the related budget (para. 52);

Measures taken by the Administration

10. The International Public Service Accounting Standards (IPSAS) adoption project plan was finalized in April 2008 and was approved by the Deputy High Commissioner in June 2008. The Steering Committee, which is the highest decision-making and supervisory body for the project, was constituted in June 2008, and held its first meeting in July 2008. The Steering Committee will approve all changes to policies and procedures brought about by IPSAS adoption. The Business Owners' Committee was formed and had its first meeting in July 2008. This Committee is tasked with the overall management of the project, including the budget and the phasing of the project, and with recommending changes to policies and procedures to the Steering Committee. The different working groups started meeting in August 2008. There is one P-4 Senior Finance Officer post dedicated to IPSAS adoption. Furthermore, a P-5 Senior Change Management Advisor will dedicate 50 per cent of his time to the IPSAS adoption project.

11. The original budget submitted for approval amounted to \$5.8 million over three years (2007-2009), and included provisions for the upgrade of MSRP PeopleSoft from Version 8.4 to Version 9 in the amount of \$3.1 million. UNHCR has decided to implement IPSAS using the PeopleSoft Version 8.4. UNHCR estimates that software changes in PeopleSoft Version 8.4 for IPSAS compliance will amount to \$0.5 million instead of the above-mentioned \$3.1 million.

With the 2009 budget revisions, the total budgeted cost for IPSAS implementation in UNHCR for 2008-2009 is \$1.7 million. This budget amount represents costs that are directly attributable to IPSAS adoption in UNHCR. It does not include the cost of staff participation in the Working Groups and in the UNHCR IPSAS adoption project Steering Committee and the Business Owners' Committee.

V. RECOMMENDATION 8 (d)

12. Allocate adequate resources to complete the clean-up of its assets database (para. 81);

Measures taken by the Administration

13. UNHCR agrees with the Board's recommendation. A recommendation has been made to outpost the Asset Management Unit (AMU) to Budapest, in order to empower the Unit while benefiting from the lower costs associated with the outposting to the Budapest location. In the budget plan for 2009, it is proposed that the existing P4 and G6 post be transferred from Geneva to Budapest and the creation of new posts has been requested, namely one P3 and two G6 posts.

VI. RECOMMENDATION 8 (e)

14. Periodically reconcile the amounts shown in the database for assets purchased with those shown in the general ledger (para. 84);

Measures taken by the Administration

15. UNHCR has started reconciliations of its database on purchased assets. An MSRP report for individual country data analysis is now available. The report can be run at any given time and provides detailed analysis of the countries' specific asset information. UNHCR will continue to monitor the follow-up actions to correct errors, update and complete the assets data on a regular basis. During the third quarter of 2008, UNHCR implemented a quarterly reconciliation of asset purchases with the General Ledger account balances.

VII. RECOMMENDATION 8 (f)

16. Disclose in its financial statements the value of expendable property unused at the end of the financial year (para. 89);

Measures taken by the Administration

17. UNHCR considers that there is no requirement under the United Nations System Accounting Standards (UNSAS) to make such disclosure, and since inventory is expensed under UNSAS such a disclosure could generate confusion amongst the users of UNHCR's Financial Statements, as well as with donors who would have received detailed reports of

expenditures. Additionally, no policy currently exists as to which elements of inventories would be treated as non-expendable property. UNHCR therefore considers that it is more practical and reasonable to develop appropriate policies in the context of the implementation of IPSAS which is scheduled for 1 January 2010.

VIII. RECOMMENDATION 8 (g)

18. Reassess its staffing needs in order to ensure that actual staffing does not exceed the authorized numbers (para. 97);

Measures taken by the Administration

19. Ensuring that the Office maintains an effective balance between positions and actual staffing is one of the policy priorities of the High Commissioner.

20. The comparative review mechanism for general service (GS) staff, in line with the United Nations Staff Rules, is implemented in field locations when required for locally recruited staff as per Staff Rule 109.1(c) (i). It has also been introduced for GS staff at Headquarters. Measures have been introduced to mitigate the impact of post discontinuation and reductions on the staff; which will in turn reduce the number of GS staff holders of indefinite contracts being drawn into a comparative review procedure. Such a procedure for international professional staff members may take place before mid-2009, with a view to properly aligning the number of positions and staff. This is among the proactive measures which are being taken to solve the complex problem of indefinite appointment-holders who are not appointed to regular positions within the context of UNHCR's rotational postings system. Before the middle of 2009, UNHCR will introduce appropriate procedures to address the imbalance between authorized positions and actual staffing.

IX. RECOMMENDATION 8 (h)

21. Carry out systematic and accurate budgetary monitoring of the budgetary costs of staff in between assignments (para. 106);

Measures taken by the Administration

22. This is a complex multifaceted task. UNHCR seeks to place staff in between assignments (SIBAs) on posts as a matter of priority. Pending their longer-term assignment, such staff can be temporarily charged to administrative budgets/cost centres or vacant posts where their services are rendered, as well as to centrally managed working/non-working SIBA administrative budgets/cost centres. UNHCR is currently looking into the process for charging SIBA-related costs, with the aim of better understanding the reasons behind the cost increase that was observed in 2007, and to ensure that charges in 2008 have been appropriately booked for budget management and cost analysis purposes. This exercise will be completed by the end of 2008.

X. RECOMMENDATION 8 (i)

23. **Address the long outstanding advances to implementing partners (para. 118);**

Measures taken by the Administration

24. UNHCR has commenced the closing process for these older implementing partner agreements. During this process, any necessary accounting adjustments will be identified, verified and booked. The process will be completed before the end of 2008.

XI. RECOMMENDATION 8 (j)

25. **Pursue its effort to further improve the rate of audit certificates for the expenditure incurred by its implementing partners (para. 123);**

Measures taken by the Administration

26. UNHCR will reinforce the procedures implemented at the end of 2007 to ensure that external audit firms are contracted well in advance of the project end date, and preferably no later than the fourth quarter of the approved project period. Where no local external audit firms are identified, alternative solutions will be sought. For large implementing partner agreements, interim audits will be considered, taking into account possible increased costs and resources available, to reduce the duration of final audits. Centralized monitoring of compliance with procedures will be carried out regularly by the Financial Control Section during the financial year, the annual closure of accounts, and as part of post closure/audit monitoring and follow-up. Finally, UNHCR will again actively monitor the completion of 2008 implementing partner agreements and the outcomes of consequent external audits.

XII. RECOMMENDATION 8 (k)

27. **Provide a standardized template to local offices to ensure that audit certificates are in conformity with reporting standards (para. 126);**

Measures taken by the Administration

28. A cross-functional project, including the Division of External Relations (DER) and the Division of Financial and Administrative Management (DFAM) is in progress to develop standard guidelines and indicators that can be applied to assess implementing partners' financial management capacity and risks, both at the selection stage and during the post-implementation assessment.

29. The matrix of indicators is being developed to provide implementing partners' auditors with standard Terms of Reference. It is expected that such standards will improve the quality of audits and audit certification. UNHCR plans to provide these guidelines, indicators and standardized template to all field offices by the end of the third quarter of 2008.

XIII. RECOMMENDATION 8 (l)

30. Conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the 2008 financial statements (para. 130);

Measures taken by the Administration

31. This recommendation is in line with an inter-office memorandum on Implementing Partner Audit Certification – Roles, Responsibilities and Accountabilities (IOM/064-FOM/067/2007) dated 20 October 2007, establishing policies that include the following aspects:

(a) For Representatives/Heads of Offices in receipt of a qualified opinion for their sub-projects to immediately inform:(i) the Bureau Director; and (ii) the Financial Control Section/DFAM.

(b) Financial Control Section will request and/or assist field offices to draw up the matrix for the follow-up on external audit recommendations per partner (UNHCR Manual Chapter 4, Annex 8.8 Audit Guidelines, Attachment G, December 2004).

(c) The analysis and assessment of audit certificates, with special focus on those that contain a qualified audit opinion, will be made through discussions and negotiations between field offices and implementing partners, with further advice provided by the concerned Regional Bureau, the Secretariat and Inter-Agency Service, audit firms and the Financial Control Section. Where such assessments reveal that there is a valid cause to make financial adjustments with implementing partners, the appropriate accounting entries will be booked and follow-up actions will be taken. Such assessments will also be used to further improve the implementing partner audit processes.

XIV. RECOMMENDATION 8 (m)

32. Ensure that all the projects be effectively subject to an audit (para. 133);

Measures taken by the Administration

33. UNHCR agrees with the Board's recommendation, within the context of the budget thresholds applicable to the various types of implementing partners, which determine whether external audit is mandatory. Reporting has already been further enhanced to identify both individual and aggregate views of implementing partner agreements by implementing partner, in order to facilitate monitoring of compliance with relevant policy and procedures.

Other recommendations

XV. RECOMMENDATION Para. 57

34. The Board recommends that UNHCR review its accounting policy regarding the recognition of voluntary contributions as disclosed in note 2 (f) to the financial statements in order to bring it in line with paragraph 34 of the United Nations system accounting standards.

Measures taken by the Administration

35. Given that Governments have several layers, UNHCR has taken the position that all contributions from public sources, including regional governments and municipalities, are considered as part of the Government's contribution. UNHCR considers that it has consistently applied this approach. In the case of Spain, the Government explicitly requested UNHCR to record the contributions in question as governmental contributions.

36. As regards foundations, banks, etc., exceptions have been made in the case of contributions from some reputable foundations, since these donors will liquidate their pledges only as and when UNHCR has proven it has implemented the project, and the funds have been expended. If UNHCR does not record the totality of such pledges, it cannot guarantee the spending in the absence of the pledges being part of the overall funds available.

37. UNHCR will consider the above circumstances when the Office's Financial Rules are revised in relation to IPSAS compliance.

XVI. RECOMMENDATION Para. 65

38. UNHCR agreed with the Board's reiterated recommendation that it monitor the closing of bank accounts and implement controls to ensure the effective oversight of field office bank accounts.

Measures taken by the Administration

39. The Financial Control Section (FCS) regularly reviews activity in field office bank accounts. Where accounts are dormant, FCS, in conjunction with Field Offices and Treasury Section, identifies any operational needs for the retention of these accounts, which will be documented and periodically updated. Where no further operational need is substantiated, FCS proceeds to inactivate the General Ledger account in MSRP, after verification of the final bank reconciliation, and upon notification that the balance is nil. Treasury Section subsequently instructs the bank to cancel the designated bank signatories and requests the closure of the bank account.

XVII. RECOMMENDATION Para. 67

40. **The Board recommends that UNHCR address the control weakness related to the Management Systems Renewal Project system's entry access to the write-off account so that only authorized staff from the Finance Section could record entries in it.**

Measures taken by the Administration

41. The recommendation would be very costly to implement in UNHCR's MSRP/PeopleSoft system. Instead, two UNHCR professional staff in the FCS will closely monitor on a monthly basis all accounting entries in the write-off account.

XVIII. RECOMMENDATION Para. 69

42. **UNHCR agreed with the Board's reiterated recommendation to implement controls to avoid negative balances in petty cash accounts.**

Measures taken by the Administration

43. UNHCR has reinforced existing petty cash controls and taken corrective actions to clear the negative petty cash balances. Petty cash transactions are closely examined, negative balances are identified in the monthly closure process and concerned field offices are advised, and monitored, on corrective actions to be taken. Cash counts are also being conducted by Field Offices. These measures taken have significantly reduced the number of negative balances. It is anticipated that there will be no negative balances at the end of the year.

XIX. RECOMMENDATION Para. 73

44. **UNHCR agreed with the Board's recommendation that it should ensure that field offices better align procurement planning with actual requirements.**

Measures taken by the Administration

45. During 2007 and with the roll-out of MSRP, UNHCR initiated and completed the revision of the procurement planning to align it with actual requirements. Procurement planning by field offices is now directly linked to the budget submissions which are made on the basis of the requirements in the Field. This is monitored and reflected in the procurement planning tool which was developed as a query in MSRP. This query has been rolled out to the field offices with an explanation on how to use it. Subsequent to the field

offices having entered their approved budget into the system, the Supply Management Service is using the planning tool (MSRP query) centrally to establish a UNHCR-wide procurement plan which is posted on UNHCR's Intranet site.

XX. RECOMMENDATION Para. 101

46. The Board recommends that UNHCR conduct an ex-post evaluation of the relocation to Budapest to measure compliance with the objectives defined in terms of overall savings and efficiency of the new organization.

Measures taken by the Administration

47. UNHCR is committed to constantly measuring compliance with the qualitative and quantitative objectives of the outposting process. In this regard, it is worth noting that, notwithstanding the recent salary increases in both Geneva and Budapest, UNHCR is currently on track to achieving the planned savings. In addition, as stated by the former Director for Structural and Management Change during the 41st meeting of the Standing Committee, the transparency exercised by UNHCR throughout the change process will continue and financial information already provided to the Standing Committee will be comprehensively updated once the outposting exercise has been completed.

48. With regard to qualitative achievements, UNHCR is in the process of contracting two external consultancies to evaluate human resources and supply management functions, not least in the wake of the 2007 outposting process. The review of the human resources functions will be jointly supervised by the Directors of the Division of Human Resources Management and the Office for Organizational Development and Management, while the supply management evaluation will be supervised by the Assistant High Commissioner for Operations. Other less measurable qualitative gains include the continued streamlining of services at Headquarters through process efficiencies made possible by the implementation of MSRP and other new technologies, and strengthened donor confidence through a demonstrated commitment to reforming the organization and reducing UNHCR's administrative costs.

XXI. RECOMMENDATION Para. 110

49. UNHCR agreed with the Board's recommendation that it carry out an in-depth review as to the reasons for the 2007 increase in the budgetary cost of staff in between assignments.

Measures taken by the Administration

50. This is a complex, multifaceted task. UNHCR seeks to place staff in between assignments (SIBAs) on posts as a matter of priority. Pending their longer-term assignment, such staff can be temporarily charged to administrative budgets/cost centres or vacant posts where their services are rendered, as well as to centrally managed working/non-working SIBA administrative budgets/cost centres. UNHCR is currently looking into the process for charging

SIBA-related costs, with the aim of better understanding the reasons behind the cost increase that was observed in 2007, and to ensure that charges in 2008 have been appropriately booked for budget management and cost analysis purposes. This exercise will be completed by the end of 2008.

XXII. RECOMMENDATION Para. 136

51. UNHCR agreed with the Board's recommendation to include in its agreements signed with implementing partners, every time it is feasible, a list of equipment made available to them and that the local UNHCR office regularly update that list.

Measures taken by the Administration

52. The list of equipment made available to implementing partners is always registered in a formal document called the Right of Use Agreement which is signed by both parties. In Appendix 8 of Chapter 4 of the UNHCR Manual, under Article 6.10 "Use of Assets", it is stated that, "Where UNHCR provides a right of use of assets and physical structures under this Agreement, this will be specified in a separate Agreement entitled "The Agreement for the Receipt and the Right of Use of UNHCR Assets" (hereinafter referred to as the "Right of Use Agreement"). Assets shall be defined as any item of property valued at US\$ 1,500 or more per unit, or the equivalent in local currency at the United Nations official rate of exchange, and having a serviceable life of at least five years and owned by UNHCR regardless of its funding source or user, including in-kind donations. Vehicles and boats, plant, telecommunications, computer and security equipment, elsewhere termed "special items," shall be regarded as assets irrespective of their acquisition value."

53. The Right of Use Agreement is part of the sub-agreement. UNHCR will issue instructions on the correct implementation of the Right of Use agreements by the end of 2008. It should be noted that in MSRP/PeopleSoft, all assets included in these agreements are already recorded with implementing partners as custodians. The information can thus be obtained easily by printing the report for the specific custodian to monitor the status of these assets or enquire about the relevant Right of Use Agreements signed.
