

**Executive Committee of the
High Commissioner's Programme**

Distr. : Restricted
27 August 2013
English
Original: English and French

Standing Committee
58th meeting

**Report of the Independent Audit and Oversight
Committee, 2012-2013***Summary*

At its fifty-first meeting in June 2011, the Standing Committee decided to establish an Independent Audit and Oversight Committee, to “assist the High Commissioner and the Executive Committee in the exercise of their oversight responsibilities in accordance with relevant best practices, industry standards and the financial rules and staff regulations and rules applicable to UNHCR.” A/AC.96/1104, Annex II. Members were appointed in early 2012, and the Committee met four times between June 2012 and June 2013. This is the Committee’s first written report.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction	1-4	3
II. Summary of activities.....	5-12	3
III. Areas reviewed: conclusions and recommendations	13-22	4
A. Internal oversight activities.....	13-14	4
B. Internal control framework	15	5
C. Enterprise Risk Management.....	16-17	5
D. Accountability.....	18-19	5
E. Implementing Partnership Management Service	20-22	5
IV. Recognition of successful undertakings	23-32	6
A. International Public Sector Accounting Standards implementation.....	23-24	6
B. Preparation and presentation of financial statements.....	25	6
C. Internal Compliance and Accountability Committee.....	26-27	6
D. Other matters	28-29	7
V. Acknowledgement.....	33	7

I. Introduction

1. The Independent Audit and Oversight Committee (IAOC) of the United Nations High Commissioner for Refugees (UNHCR), hereafter referred to as “the Committee,” was established by decision of the Standing Committee at its fifty-first meeting. Subsequently, the High Commissioner, with the consent of the Executive Committee, appointed the following five members of the IAOC: Mr. Salleppan Kandasamy (Malaysia); Mr. Sam Karuhanga (Uganda/UK); Mr. Kenneth Langford (Switzerland); Mr. Verasak Liengsrirawat (Thailand); and Ms. Mari Simonen (Finland).
2. All IAOC members are independent from UNHCR and its management. The members of the IAOC were selected competitively and appointed based on their professional qualifications and experience with international organizations in the fields of oversight and management, particularly in the areas of governance, risk management, internal controls, financial management and reporting.
3. The Committee serves in an expert advisory capacity to assist the High Commissioner and the Executive Committee in exercising their respective oversight responsibilities. The Committee’s work in providing independent senior level advice is guided by its Terms of Reference; UNHCR’s policies; the financial, staff and other regulations and rules applicable to UNHCR; industry standards; and best practices, particularly within United Nations system organizations, that are relevant to UNHCR. In discharging its function, the Committee has engaged in the following activities: (i) reviewing the processes applied to planning of all oversight work within UNHCR and the execution of the work plans; (ii) reviewing the adequacy of resources applied to oversight work; (iii) reviewing the outcome of oversight work and management responses thereto; and (iv) reviewing management policies and procedures for the management of organizational risks and the internal controls that are established to manage risks and enhance performance and accountability.
4. This is the first annual report presented by the Committee, pursuant to Section 5 of its Terms of Reference (TOR). This report covers the work of the Committee for the period from June 2012 to June 2013.

II. Summary of activities

5. The Committee met in four formal sessions at UNHCR headquarters in Geneva, Switzerland. The meetings were held on 4-6 June 2012, 11-13 September 2012, 4-6 February 2013 and 4-6 June 2013. All members attended these sessions.
6. At its first meeting in June 2012, the IAOC established and approved the Rules of Procedure for the Committee and designated Mr. Verasak Liengsrirawat as the Chairperson and Mr. Kenneth Langford as the Vice-Chairperson for one year.
7. Pursuant to Section 4, Paragraph 8 of the TOR, Mr. Langford and Mr. Karuhanga were identified by the drawing of lots to serve a term of four years each, whereas, the other members will serve a term of three years.
8. In its four formal sessions, the Committee reviewed the following areas: (a) the internal audit function carried out by the United Nations Office of Internal Oversight Services/Internal Audit Division (OIOS/IAD) in Geneva; (b) the inspection and investigation function carried out by the Office of the Inspector General; (c) external audit carried out by the United Nations Board of Auditors; (d) the ethics function carried out by

the Ethics Office; (e) the control environment and internal control system; (f) the financial statements and reporting under International Public Sector Accounting Standards (IPSAS); and (g) Enterprise Risk Management (ERM).

9. At the end of each session, the Committee summarized and discussed its observations and recommendations with the High Commissioner and/or the Deputy High Commissioner. In addition, the Chairperson of the Committee provided an oral briefing to the Standing Committee at its 55th meeting on 18 September 2012 and, following the request from the Standing Committee, provided an informal interim briefing to interested members of the Standing Committee on 4 March 2013.

10. From its inception, the Committee paid special attention to the effectiveness and efficiency of the internal oversight services provided to the organization. At the same time, the Committee noted that UNHCR's management had also initiated actions to consider the effectiveness of the current arrangements with OIOS for the provision of internal audit services and the possibility of bringing "in-house" the internal audit function. Consequently, the Committee spent a substantial amount of time reviewing the issue of oversight and the proposals emanating from management to move to an "in-house" internal audit. The Committee made specific recommendations to the High Commissioner on how the issue could be managed and taken forward.

11. With regard to follow-up actions required from management on the critical recommendations made by oversight bodies, the Committee took note of the action taken by UNHCR through the establishment of Internal Compliance and Accountability Committee (ICAC). The ICAC's core responsibilities include that of "ensur[ing] the effectiveness of the organizational accountability by reviewing, prioritizing and monitoring outstanding critical recommendations identified by internal and external oversight bodies." The Committee welcomes management's initiative in this matter.

12. The Committee undertook an exercise during its June 2013 session to assess its effectiveness and review the appropriateness of its TOR. The results of the self-assessment and the recommendations that emerged from this exercise were reported to the High Commissioner.

III. Areas reviewed: conclusions and recommendations

A. Internal oversight activities

13. The work of the Committee was focused on the assessment of the effectiveness and efficiency of the internal oversight services provided to UNHCR. Consequently, the Committee spent considerable time and effort considering the issue of internal oversight and the proposal to bring "in-house" the internal audit function.

14. It is the opinion of the Committee that in the longer term, UNHCR would benefit from establishing a unified internal oversight service consisting of two main operational units: (i) an internal audit unit, which would incorporate or embrace the inspection function; and (ii) an investigations unit. The Committee recommended that a restructured internal oversight service should be led by a qualified and experienced oversight professional and further that the new internal audit function should comply with the International Professional Practices Framework promulgated by the Institute of Internal Auditors.

B. Internal control framework

15. The Committee noted that a number of elements of an internal control framework are in place in UNHCR. However, these elements appear to act independently and are neither comprehensive nor sufficiently integrated within a single transparent framework in one central repository. A comprehensive and integrated internal control framework is a core element of good governance that promotes and enhances accountability for proper management of risks and performance, particularly in large, complex and decentralized organizations. The control environment in such organizations normally encompasses all management responsibilities and is not just confined to financial management. The Committee has recommended that UNHCR adopt the internationally recognized internal controls standards of the Committee of Sponsoring Organizations of the Treadway Commission. This would assist the Office to consolidate all internal controls into one unified and transparent framework, consistent with international standards and best practices, so as to further enhance performance and risk management as well as accountability within the organization.

C. Enterprise Risk Management

16. In early 2012, UNHCR initiated action under the leadership of the Deputy High Commissioner and with support of senior level managers to establish a system of Enterprise Risk Management. The project team benefited from participation and discussion in meetings with other UN organizations to take into account experiences gained and lessons learnt. The team also conducted discussions involving five focus groups (including two in the context of field operations). These initiatives resulted in the identification of some 300 initial risks, which are expected to have to be/are intended to be analysed, prioritized, and classified to facilitate the establishment of an initial risk register. The risk register would constitute a preliminary assessment of UNHCR's corporate risks. A detailed accountability matrix is also expected to be developed in conjunction with ERM.

17. The Committee is of the opinion that it is important for UNHCR to maintain momentum in 2013, with support from senior management. The ERM Task Force should also leverage and capitalize on the work of the internal auditors (OIOS/IAD), the external auditors and others working in the same area.

D. Accountability

18. UNHCR has developed a system of accountability over the past years. Most significantly and notably, in May 2010, UNHCR completed its work on the Global Management Accountability Framework (GMAF), and it continues to enhance the issues on accountability, including work on mechanisms for monitoring, implementing personal accountability and operationalizing the GMAF.

19. The Committee recommended that UNHCR should not look into accountability in isolation, but rather integrate accountability with an internal control framework and enterprise risk management.

E. Implementing Partnership Management Service

20. Under the overall direction and guidance of the Controller, work is being undertaken by the Implementing Partnership Management Service (IPMS), Division of Financial and Administrative Management, in close collaboration with other stakeholders at headquarters

and in field offices, as well as with implementing partners, to improve and strengthen its policies, procedures and guidelines on (a) selection and retention of partners; (b) project agreements, including terms and conditions; (c) project monitoring and coordination; and (d) project closure, review and lessons learnt.

21. To date, a number of draft policies and procedures have been developed, including a web-based Partner Portal, which will be accessible by UNHCR and all implementing partners. Efforts were also made toward developing a risk-based approach in verification of partner's financial and programme performance. In this respect, the Committee noted that IPMS has received input from OIOS/IAD with regards to application of the risk methodology.

22. The Committee recognized that much work is still in progress and encouraged the continued development for enhancing controls and improving performance and accountability of implementing partners. In this regard, the Committee has advised that UNHCR's management should not underestimate the amount of resources that may be required to monitor the actual implementation of these new policies and procedures.

IV. Recognition on Successful Undertakings

A. International Public Sector Accounting Standards implementation

23. 2012 marked an important milestone as UNHCR prepared its annual financial statements in accordance with IPSAS for the first time. The financial statements prepared under IPSAS received an unqualified opinion from the United Nations Board of Auditors. The Committee would like to compliment UNHCR for this successful effort.

24. The Committee noted that the successful implementation of IPSAS was mainly due to the efforts and importance given to this project as an organizational priority supported by a dedicated IPSAS team, engagement and active participation of senior management, the Controller and the United Nations Board of Auditors, and delivery of relevant training for field and headquarters staff supporting the process.

B. Preparation and presentation of financial statements

25. The Committee compliments the efforts of the Controller and her staff in preparing the financial statements on time and obtaining an unqualified audit report. The Committee particularly noted the efforts of the Office of the Controller in responding to issues in a timely manner. For example during the process of finalization of the financial statements for 2012, substantial efforts were made by the Office of the Controller to determine and establish the fair value of inventory versus actual value of physical inventory. The Committee, in response to its reservations about the sustainability of such efforts, was informed that a set of guidelines and procedures is being developed to assign responsibility and accountability for such tasks to responsible parties and thereby ensure the future ability to generate accurate reports that are required for the preparation of the financial statements.

C. Internal Compliance and Accountability Committee

26. The core responsibility of the ICAC, chaired by the Deputy High Commissioner, is to ensure effective organizational accountability by reviewing, prioritizing and monitoring outstanding critical recommendations identified by internal and external oversight bodies.

27. The Committee noted that the ICAC has taken on a number of important agency-wide issues and recommendations from the oversight bodies and has addressed them effectively. This proactive approach to the recommendations of oversight bodies is likely to positively impact and improve UNHCR's operations.

D. Other Matters

External Auditors

28. The UN Board of Auditors is the external auditor for UNHCR. Currently, the UK National Audit Office, which is a member of the Board of Auditors, has been assigned the responsibility for the audit of UNHCR.

29. The Committee would like to compliment the Board of Auditors for undertaking timely reviews and providing valuable suggestions and recommendations at every stage of the implementation of IPSAS, including the adoption of specific policies and implementation methodologies, review of pro-forma as well as interim financial statements, and the related disclosures and notes.

Ethics Office

30. The Ethics Office is responsible for the strengthening of awareness of ethics issues at all levels of the organization and also administers UNHCR's financial disclosure program in cooperation with the UN Ethics Office.

31. The Ethics Office has had three Directors since it was established four years ago. With such high turnover, it would be a challenge to sustain continuity and enhance the effectiveness of the function, even with proper handover of the function to the respective successors appointed to the Office. Currently, a Director and an assistant are carrying out the ethics function.

32. The Committee recommended that UNHCR should ensure the continuity of the function, and further, given the limited human resources dedicated to the function, UNHCR may wish to develop a strategy for enhancing and sustaining the effectiveness of the function through a system of networking at regional levels, as well as closer coordination with the Ombudsman and the Division of Human Resources Management's Staff Welfare Section.

V. Acknowledgement

33. The Committee would like to express its appreciation for the support and cooperation rendered by the High Commissioner, Deputy High Commissioner and UNHCR staff and offices, including especially the Secretary of the Committee. The quality presentations and briefings made to the Committee have helped it enormously in fulfilling its responsibilities.