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REPORT OF THE BOARD OF AUDITORS ON THE FINANCIAL STATEMENTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 2005*

* An annex contains follow-up actions by the Administrator to implement the Board's recommendations for 2004 as well as the comments of the Board

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I. Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the Office of the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2005. The Board has also reviewed the operations of the voluntary funds administered by the High Commissioner at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) at Geneva and at seven field offices.

The Board's main findings are as follows:

(a) For amounts paid to implementing partners in 2005, totalling $340 million, reported in the financial statements as at 31 December 2005, no audit certificate was available at UNHCR and therefore at the time when the financial statements for 2005 were prepared and signed, UNHCR did not have reasonable assurance on the proper use of funds disbursed to them;

(b) With an excess of expenditure over income at year-end amounting to $32 million, the financial position of UNHCR had weakened. A contributing factor was the appreciation of the United States dollar during the course of the year by 15 per cent against other major donor currencies that resulted in a foreign exchange currency adjustment of $36 million loss (even if over a longer period, from 1991 to 2005, the foreign exchange impact resulted in a gain amounting to $42.2 million);

(c) For the past six years also, expenditure was higher than income and the financial position of UNHCR may raise questions as to its ability to continue this trend. The Board is concerned about the sustainability of expenditure vis-à-vis income evolution;

(d) There were still 113 staff in between assignments, on average for six months, representing a significant cost for the organization;

(e) UNHCR lacked efficient tools for its treasury information and its cash forecasting, limiting its possibility of managing its Treasury in the best possible way;

(f) There was no formalized foreign-exchange risk policy. The restricted foreign-exchange risk policy of UNHCR was based on the governance structure of voluntary contributions and recording pledges as income. UNHCR faces a global exposure as payments and receipts are not made in the same currencies and at the same period. UNHCR had no strategies to cover this gap but considered it did need to further formalize a comprehensive foreign-exchange risk policy;

(g) Completed travels were posted as unliquidated obligations at year-end and had not been settled six months after their completion;

(h) The amounts in previous-year subprojects covered by audit certificates increased from 53 per cent in mid-June 2005 to 67 per cent in mid-June 2006;

(i) UNHCR had not completely phased out the use of "project staff" by the deadline set in 2001 for it to do so;

(j) For fund-raising activities, UNHCR devoted insufficient resources to income-generating activities, unlike other successful United Nations organizations in that field. UNHCR did not properly define or monitor performance indicators for fund-raising activities;

(k) UNHCR signed agreements that are not in compliance with United Nations rules for staff, suppliers and audit arrangements;

(l) The UNHCR internal audit service did not devote all the agreed resources to the audit of UNHCR;

(m) For tsunami-related operations, the needs assessment could not be properly conducted and therefore UNHCR could not spend all the resources it had requested, or stored items that it had purchased in excess;

(n) The UNHCR procurement service had little information on procurement conducted by field offices and implementing partners;

(o) Some staff in the procurement service had been working there for more than 10 years.

The Board made recommendations to improve financial management and reporting and programme management in respect of the above findings and of a number of less significant issues. UNHCR has actively responded to most recommendations, although some have not yet been implemented. By May 2006, the Administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations is provided in paragraph 12 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2005, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 2005 had been incurred for the purposes approved by the Executive Committee; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the voluntary funds administered by the High Commissioner for Refugees presented fairly the financial position as at 31 December 2005 and the results of operations for the year ended in accordance with the United Nations System Accounting Standards. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5 and article 11.4 of the Financial Rules for voluntary funds administered by the High Commissioner for Refugees, principally on the management of fund-raising, treasury and internal audit. The audit was carried out at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) in Geneva and at its offices in the Democratic Republic of the Congo, the United States of America (Washington, D.C.), India, the People's Republic of China, Japan, Indonesia and Sri Lanka for the same period.

4. The General Assembly requested the Board to follow up on previous recommendations and to report to it accordingly. These matters are addressed in paragraphs 8 to 11 below.

5. The Board continued its practice of reporting the results of specific audits through management letters containing audit findings and recommendations to the Administration. This practice allowed an ongoing dialogue with the Administration.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

7. A summary of the Board's main recommendations is contained in paragraph 12 below. Its detailed findings are discussed in paragraphs 14 to 284.

1. Previous recommendations not fully implemented

(a) Year ended 31 December 2004

8. For the year ended 31 December 2004 (see A/60/5/Add.5), of a total of 64 recommendations, 19 (30 per cent) had been implemented by May 2006, 39 (61 per cent) were under implementation and six (5 per cent) remained unimplemented. The comments of the Board have been summarized in annex I to the present chapter.

9. The Board invites the Administration to assign specific responsibility and establish an achievable time frame for the execution of previous recommendations that have not yet been fully implemented, as requested by the General Assembly in paragraph 8 of its resolution 59/264.

(b) Ageing of previous recommendations

10. The Board evaluated the ageing of its previous recommendations that were not yet fully implemented, as requested by the Advisory Committee on Administrative and Budgetary Questions (see A/59/736, para. 8 and A/60/387, paras. 12 and 20).

11. Of the 70 recommendations not yet fully implemented, 42 (60 per cent) relate to 2004; 22 (31 per cent) to 2003; four (6 per cent) to 2002; and two (3 per cent) to 1996. The Board's further comments on these specific outstanding recommendations are addressed elsewhere in the present report.

2. Main recommendations

12. The Board's main recommendations are that UNHCR:

(a) Implement a strategy to increase its reserves (para. 40);

(b) Automate process and control including risk-management functionalities as part of the Enterprise Resource Planning system (para. 58);

(c) Enhance its Treasury forecasts (para. 69);

(d) Develop strategies and guidelines to cover its foreign exchange risk (para. 82);

(e) Apply proper segregation of duties between transaction execution, confirmation, recording, reporting and control and for banking management (para. 89);

(f) Clear the unliquidated obligations for completed travel in a timely manner (para. 92);

(g) Review the timetable for the submission of audit certificates, in order to secure reasonable assurance on the reported use of funds by implementing partners prior to the final audit of its financial statements (para. 118);

(h) Review its priorities in order to ensure that sufficient resources are devoted to income-generating activities, with a view to increasing the fund-raising income (para. 134);

(i) The UNHCR Audit Service of the Office of Internal Oversight Services ensure that resources funded by UNHCR are actually available and allocated to the provision of internal audit services to UNHCR, in compliance with the memorandum of understanding signed in 2001 (para. 188);

(j) Conduct an evaluation of its tsunami operations with a view to applying lessons learned to future operations concerning natural disasters (para. 225);

(k) Improve its knowledge of procurement activities throughout the organization (para. 260);

(l) Improve the rotation and mobility of staff involved in procurement functions, in line with best practices (para. 280).

13. The Board's other recommendations appear in paragraphs 15, 23, 42, 51, 53, 61, 65, 74, 77, 95, 98, 102, 104, 110, 115, 123, 131, 138, 144, 148, 152, 155, 158, 163, 168, 174, 178, 183, 194, 200, 203, 206, 209, 211, 214, 216, 220, 222, 233, 238, 241, 248, 252, 256, 260, 263, 268, 271, 274, 276, 280 and 284.

B. Special requests from the General Assembly and the Advisory Committee on Administrative and Budgetary Questions

1. Biennial cycle

14. The Advisory Committee on Administrative and Budgetary Questions had concurred (see A/AC.96/992/Add.2 of 27 September 2004) with the past recommendation of the General Assembly, reiterated by the Joint Inspection Unit, that UNHCR should modify its programme budget and external audit cycles from annual to biennial, in alignment with the United Nations regular budget (see JIU/REP/2004/4). Following a report by the Office of the United Nations High Commissioner for Refugees (EC/55/SC/CRP.20 of 30 August 2005), the Executive Committee of UNHCR decided, at its fifty-sixth session, to move to a biennial programme/budget cycle as of the biennium 2008-2009 and requested UNHCR to begin the necessary preparatory work, including a revision of its Financial Rules, for preliminary consideration at the thirty-ninth meeting of the Standing Committee (July 2007).

15. The Board noted that the proposed implementation by the United Nations of the International Public Sector Accounting Standards would require an annual accounting cycle. The Board encourages UNHCR to consider any impact such a development may have on its budgeting process.

2. Regular budget

16. In its resolution 58/153 of 22 December 2003, the General Assembly recalled paragraph 20 of the statute of the Office of the High Commissioner ("The Office of the High Commissioner shall be financed under the budget of the United Nations") and called for its application. In 2004, the United Nations regular budget met 37 per cent of UNHCR management and administration costs and 8 per cent of its programme support costs. The management and administration costs cover the organizational units, whose primary function is the maintenance of the identity and direction of UNHCR and the welfare and security of its staff, including the units that carry out the functions of executive direction, organizational policy and evaluation, external relations, information and administration.

17. In 2005, there was an improvement in the effort to increase the regular budget share of UNHCR funding with figures amounting respectively to 45 per cent of management and administration costs instead of 37 per cent, and 14.9 per cent of programme support costs, instead of eight per cent (see note 5 to the financial statements). This increase was, however, due to the provision of an amount of $5.13 million from the regular budget to cover the enhancement of security measures at UNHCR headquarters. If this amount is discounted, the balance still represents an improvement, but a less significant one. UNHCR explained in response to the Board's previous report that it agreed with the United Nations Secretariat that the gradual increase in the regular budget share of its funding should continue until paragraph 20 of the statute was fully implemented.

3. Governance

18. The Board noted in its previous report that the General Assembly, in paragraph 6 of its resolution 57/278 of 20 December 2002,[1] had requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system. The disclosure of governance structures, principles and accountability in the financial statements is a United Nations system-wide issue, which has been referred to the Task Force on Accounting Standards by the High-Level Committee on Management of the United Nations System Chief Executives Board for Coordination for consideration, with a view to providing guidance to all United Nations agencies. UNHCR awaits the inter-agency conclusions and, in the interim, has for the second time mentioned in the financial report (chap. I of the present document) that it has undertaken to review governance issues. It has done so through an

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[1] The General Assembly reiterated its request in its resolution 59/264 of 23 December 2004.

independent review of the senior management structure contracted to a Geneva-based consultancy, the report of which was considered by the Standing Committee at its March 2006 session.

19. The Board noted that at last these issues would be covered by the comprehensive review of governance arrangements conducted in response to decisions of the September 2005 World Summit (see A/60/568).

4. Staff in between assignments

20. The Advisory Committee on Administrative and Budgetary Questions stated in paragraph 9 of its report of 28 September 2005 (A/60/387):

"With regard to UNHCR 'staff in between assignments', the Advisory Committee notes that the Board has made specific recommendations in its previous report concerning the practice of retaining staff members who were without assignment after the expiration of their standard assignment, on special leave with full pay ... The Committee had requested UNHCR to take urgent action to comply with the recommendations of the Board. Upon enquiry, the Board informed the Committee that follow-up in this respect would be forthcoming. The Committee looks forward to an update on the situation of staff in between assignments in the Board's follow-up report."

21. UNHCR reported that the number of staff in between assignments was as displayed in the table below and had decreased by 40 per cent since 2003 (from a total of 187 to 113 in the Professional category).

Table 1
Number and cost of staff in between assignments

Grade	*2003*	*%*	*2004*	*%*	*2005*	*%*	*2003-2005 (percentage)*
D-1	7	4	3	2	5	4	-29
P-5	32	17	24	16	24	21	-25
P-4	75	40	36	24	47	42	-37
P-3	58	31	84	56	33	29	-43
P-2	15	8	3	2	4	4	-73
Total	**187**		**150**		**113**		**-40**
P-4 step VI average cost if gross salary used	**8 558 616.00**		**6 865 200.00**		**5 171 784.00**		**-40**
P-4 step VI gross salary	**91 536**						

Source: UNHCR.

22. On average, staff in between assignments were without assignment for six months. Using an average salary (P-4, step VI gross), the estimated cost for the organization of staff in between assignments has diminished but remains high: \$8.5 million in 2003 and \$5 million in 2005.

23. The Board reiterates its recommendation made in its 2003 report that UNHCR implement a strict "staff in between assignments" policy, with a view to providing every staff member with a full-time assignment in order to limit the cost for the organization.

24. UNHCR adopted new rules of procedure and procedural guidelines of the Appointment, Postings and Promotions Board (APPB), which address the situation of staff members who are without posts for a protracted period. These new rules, which entered into force in November 2003, incorporate provisions for the Administration to make demonstrated effort to identify suitable posts for staff in between assignment (paras. 99-110). These rules were reinforced in May 2006: staff members are required to apply for posts in the two biannual compendia prior to the expiry of their standard assignment or in the first compendium following the discontinuation or reclassification of the post they are encumbering. In a letter to all staff on 8 March 2006, the High Commissioner assigned to the organization the objective of ensuring "that staff members without assignments are offered posts corresponding to their grades and competency profiles".

5. Oversight Committee

25. In its 2004 report (A/59/400), the Advisory Committee on Administrative and Budgetary Questions indicated that the administrations should continue to introduce and strengthen effective monitoring tools as well as to assign responsibility at the highest level of their management structure for implementation and follow-up of the Board's recommendations. At UNHCR this is done mainly through the UNHCR Oversight Committee.

26. In its 2005 report (A/60/5/Add.5), the Board concluded that the Oversight Committee played a useful role within the management structure, but did not constitute an independent audit committee that could operate parallel to it. UNHCR planned to review the activities of the Oversight Committee to keep them in line with audit oversight arrangements at the United Nations Secretariat. This should be done following the comprehensive review of oversight mentioned above.

C. Detailed findings and recommendations

1. Financial overview

27. Table 2 provides the figures of the statement on income and expenditure and changes in reserves and fund balances over the past five years. The expenditure increased to $1.14 billion in 2005, including that funded by a contribution from the United Nations regular budget (a 7 per cent increase), while income amounted to $1.11 billion (a 10 per cent variance). With a deficit of $32 million, the financial situation of UNHCR has deteriorated again. This was mainly due, as explained below (paras. 78-82), to a currency exchange loss of $36 million. Reserves at year-end decreased to $133 million. Reserves at year-end reached 1.4 months of expenditure, compared to an average of 1.9 months for the period from 2000 until 2005.

Table 2
Statement of income and expenditure and changes in reserves and fund balances for 2000 to 2004

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2005/2004 variance (percentage)*	*2005/2000 variance (percentage)*
	(millions of United States dollars)							
Total income	710	775	858	1 006	1 007	1 112	10.4	56.6
Total expenditure (on an accrual basis)	784	783	908	985	1 065	1 144	7.4	45.9
Excess (shortfall) of income over expenditure	-74	-8	-50	21	-58	-32	-44.8	-56.8
Prior-year adjustments[a]	57	29	21	30	29	23	-19.9	-59.6
Reserve and fund balances end of year	128	149	120	171	142	133	-6.4	3.7
Reserves/expenditures/months	2.0	2.3	1.6	2.1	1.6	1.4		

[a] Includes adjustments to prior-year contributions and expenditure and cancellations of prior-year obligations.

28. The most significant increases were recorded under staff costs, which rose by 13.5 per cent after a 21.6 per cent increase in 2004 (notably temporary posts, +32.5 per cent). UNHCR explained that the increase in the number of staff was due to the need to have more protection and security staff in the field and that a reason for staff costs unique to UNHCR was the fact that a significant percentage (over 44%) of staff were assigned to hardship duty stations, resulting in much higher staff costs due to more frequent rotation, special leave, shorter periods between home leave, etc.

29. When reviewing the evolution of staffing since January 2004, the Board noted that, with a total of 6,661 posts (5,500 regular staff members, 1,059 short-term staff and 102 Junior Professional Officers) as at 1 January 2006, the overall UNHCR staffing level had increased by 13 per cent since January 2004. UNHCR also explained the increase by the regularization of project staff and the regularization of temporary assistance, which concerned almost 1,000 staff in aggregate.

30. The increasing staff costs have, moreover, been identified by UNHCR as one of the main structural causes for the deterioration of its financial position, together with the declining share of implementing partners in overall programme implementation, declining fund balances and the high costs incurred by the localization of UNHCR headquarters in Geneva, to which the negative impact of foreign exchange fluctuations in 2005 should be added. UNHCR analysis and concerns were shared with the member States during the 35th meeting of the Standing Committee, in February 2006. UNHCR also announced that it would "propose to reduce some 400 positions under the proposed annual programme budget for 2007".

Table 3
Evolution of expenditure by category

Object of expenditure	*2004*	*2005*	*Evolution (percentage*
	(millions of United States dollars)		
Staff costs	375 560 716	426 414 261	13.5
Services	305 004 366	320 546 722	5.1
Implementing partners' advances	-2 787 486	8 042 775	
Goods, supplies and materials	120 446 715	135 534 629	12.5
General operating expenses	71 401 707	76 848 369	7.6
Joint United Nations activity contributions	13 025 308	16 259 072	24.8
Total	**1 065 026 334**	**1 144 687 952**	**7.5**

31. There were 19.2 million persons of concern to UNHCR at the beginning of 2005, compared to 17.1 million at the beginning of 2004. Consequently, although expenditure per person of concern slightly decreased from 2004 to 2005, from $62.3 to $59.6 per person of concern (refugees, asylum-seekers, internally displaced persons and others), it remained higher than in the period 2000-2003, when $42 was spent per person of concern.

Table 4
Persons of concern

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2005/2004 variance (percentage)*
Number of persons of concern at beginning of year (millions)	20.8	22.0	20.0	20.9	17.1	19.5	14
Expenditure/person of concern (United States dollars)	37.7	35.6	45.4	47.1	62.3	58.7	(4.3)

Source: UNHCR.

32. The financial position of UNHCR may raise questions as to whether this trend can be continued. The Board is concerned about the sustainability of expenditure vis-à-vis income evolution. As shown in table 5, for the past six years, expenditure was higher than income, which lead to stagnating reserve and fund balances at the end of the year.

Table 5
Excess and shortfall of income over expenditure compared to reserves and fund balances, end of year

	2001	*2002*	*2003*	*2004*	*2005*		
	(millions of United States dollars)					*2005/2004 variance (percentage)*	*2005/2001 variance (percentage)*
Excess (shortfall) of income over expenditure	(8)	(50)	21	(58)	(32)	(44.8)	300
Reserve and fund[a] balances, end of year	149	120	171	142	133	(6.4)	(11)

[a] Excluding prior year adjustments.

33. The Board noted, however, that the UNHCR management was aware of the situation, had disclosed it to its Standing Committee and had taken measures to address the situation (see paras. 34-37 below). Also, as stated in note 10 to the financial statements during the annual pledging conference in December 2005, Governments pledged $354 million towards the annual programme budget of UNHCR for 2006. Consistent with prudent accounting principles, these pledges will be recognized as income in 2006 and have not been accounted for in the financial statements for 2005 as deferred income.

34. UNHCR explained to the Standing Committee in March 2006 that the situation was due to the depletion of reserves, the growing gap between the increasing budgets and funding, steadily increasing inflexible staff costs, the concentration of expensive staff resources in Geneva and a weak defence mechanism against the volatile foreign exchange market, inter alia. These elements are detailed below.

35. During the course of 2005, as a precaution against funding shortfalls, a series of caps were imposed on programme budgets and non-staff administrative costs, including a 95 per cent cap imposed early in 2005 on programme and support budgets, further increased in June 2005 to 92.5 per cent for programme budgets and 90 per cent for non-staff administrative costs, which led to a $37.6 million saving.

36. However, as reported to the Standing Committee at its 35th meeting, these measures proved insufficient to offset exchange rate losses incurred during the year in view of the strengthening of the United States dollar. Furthermore, an amount of $2.3 million of annual budget income was transferred to the supplementary programme for repatriation and reintegration of Burundian refugees. Thus, at the end of 2005, UNHCR had to borrow $12.1 million from the Working Capital and Guarantee Fund, while carrying over $7.6 million in fully earmarked funds.

37. For 2006, a 20 per cent annual programme budget cap was introduced on all programme budgets and non-staff administrative costs at the very beginning of the year, on the basis of the 2006 Executive Committee approval. However, as UNHCR underlined to the Standing Committee, the current financial situation of UNHCR remains worrying. Current income projections fall well short of requirements. Donors are therefore being urged to respond generously to the High Commissioner's appeal for resources to meet in full the approved 2006 annual programme budget, as well as the requirements of the 2006 supplementary programme budgets.

38. The Board noted that UNHCR could limit the effects of some adverse factors by:

- Managing better the foreign exchange exposure due to the delays it faces for its contributions (see para. 85 below);
- Limiting the growth of staff expenditures by addressing more vigorously the costs of staff in between assignments (see para. 23 above);
- Improve the planning and financial information on procurement expenditures (see para. 252 below).

39. The Board noted in previous years that $133 million in reserves could not cover, and by far, the $464 million in long-term liabilities for staff after-service liabilities (as reflected in table 7). Voluntarily funded organizations such as UNHCR are particularly vulnerable to the risk of a downturn in income, which could lead to significant expenditure in termination

costs, while no funds are set aside to cover them. By the end of 2005, such liabilities amounted to more than twice the $133 million in reserves. UNHCR had discussed this matter with other United Nations organizations and was still awaiting the report of the United Nations Secretariat. The Board has repeatedly reported this issue, with no result so far other than an improved actuarial computation.

40. The Board recommends that UNHCR implement a strategy to increase its reserves.

41. At the end of 2005, as at the end of 2004, the assets-to-liabilities ratio remained low, at 2:1, with assets of $245 million and short-term liabilities of $112 million. Other key financial indicators are reflected in table 6.

Table 6
Ratios of key financial indicators

	2002	*2003*	*2004*	*2005*
Assets/liabilities	2.1	2.4	2.2	2.2
Contributions outstanding/assets[a]	0.29	0.25	0.31	0.32
Cash and term deposits/assets[b]	0.61	0.66	0.56	0.54
Cash and term deposits/liabilities[c]	1.31	1.58	1.19	1.19
Unliquidated obligations/liabilities[d]	0.74	0.71	0.75	0.73

[a] A low indicator depicts a healthy financial position.
[b] A high indicator depicts a healthy financial position.
[c] A low indicator is a reflection that insufficient cash is available to settle debts.
[d] A low indicator is a positive reflection that obligations are being liquidated.

Table 7
Comparison of reserves and staff liabilities
(Millions of United States dollars)

		2002	*2003*	*2004*	*2005*
Reserves	Not earmarked	**50**	**78**	**74**	**46**
Liabilities	After-service health insurance	120	136	175	249
	Accrued annual leave	22	25	28	24
	Termination benefits	121	129	133	145
Total liabilities		**263**	**290**	**336**	**464**
Unfunded liabilities		**213**	**212**	**262**	**418**

42. UNHCR agreed with the Board's recommendation that the United Nations Secretariat and UNHCR take steps without further delay to provide proper funding for end-of-service and post-retirement benefit liabilities.

2. United Nations System Accounting Standards

43. The Board assessed the extent to which the UNHCR financial statements for the year ended 31 December 2005 conformed to the United Nations System Accounting Standards. The review indicated that the financial statements were consistent with the standards.

3. Programme management and support costs

(a) Operational and administrative expenditure

44. In paragraph 46 of its previous report,[2] the Board recommended that UNHCR monitor the adequacy of the level of its non-programme expenditure. Table 8 shows programme expenditure as broken down by UNHCR into programme support and administrative expenditure. In order to assess the share of administrative expenditure, the table includes the expenditure funded from the United Nations regular budget (line D), which relates to headquarters administrative expenditure. On the other hand, it excludes expenditure of the Medical Insurance Plan and of the Working Capital Fund. Table 8 shows that the relative shares of these expenditure categories have remained constant over recent years. UNHCR agreed with the Board's recommendation that it continue to monitor the adequacy of the level of its non-programme expenditure.

Table 8
Expenditure

Series	*Type of assistance*	*2001*	*2002*	*2003*	*2004*	*2005*	*2005/2001 variance (percentage)*
		(Millions of United States dollars)					
A	**Programme expenditure**	**550.5**	**663.1**	**686**	**729.3**	**784.1**	**42**
	Programme support	188.0	198.6	218.2	249.2	263.3	40
	Management and administration	34.8	43.6	43.1	48	47.0	35
B	**Subtotal, programme support and management administration**	**222.8**	**242.2**	**261.3**	**297.2**	**310.3**	**39**
C	Expenditure funded by voluntary contributions	773.4	905.4	950.8	1 026.5	1 094.5	41
D	Regular budget expenditure (900-series costs)	20.4	21.0	28.2	27.7	38.5	88
E	**Total expenditure (C+D)**	**793.8**	**926.4**	**979**	**1 054.2**	**1 132.9**	**43**

[2] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5E* (A/59/5/Add.5), chap. II.

Series	Type of assistance	2001	2002	2003	2004	2005	2005/2001 variance (percentage)
		(Millions of United States dollars)					
E-A	Non-programme expenditure	243.3	263.3	293	324.9	348.8	43
	Programme expenditure/total expenditure (percentage)	69	72	70	69	69.3	
	Non-programme expenditure/total expenditure (percentage)	31	28	30	31	30.7	

(b) Payments to the United Nations Development Programme

45. UNHCR paid $18.2 million to the United Nations Development Programme (UNDP) in seven instalments, for services rendered in the field in 2005. Funds were disbursed upon receipt of a request from UNDP. The amount of the advance paid was determined by previous expenditure patterns.

46. In paragraph 69 of its previous report,[2] the Board recommended that UNHCR revise the memorandum of understanding with UNDP, including on reporting, reconciliation and settlement of disputes. The memorandum has still not been reviewed, but UNHCR explained that during the meeting of the Task Force on Accounting Standards, held in Geneva on 8 and 9 November 2005, issues concerning problems that all United Nations organizations are having with UNDP on the reporting and reconciliation of the Service Clearing Account had been discussed. UNDP had reviewed the problems it had been encountering and had indicated that those problems should be resolved by the first half of 2006. Based on the positive exchange of views at the meeting, the management felt that it would be more appropriate to reschedule the review of the UNHCR/UNDP memorandum of understanding to the second half of 2006.

47. The method used by UNHCR to account for advances to third parties is not consistent, since advances to UNDP are not recorded in the same way as advances to implementing partners, for example. (In the case of implementing partners, advances paid are recorded as an expenditure, settled through a sub-ledger account upon reception of monitoring reports, whereas for UNDP the advances are posted in a suspense account.) The method used by UNHCR to account for such advances to UNDP for third parties was not consistent with the way UNHCR accounted for advances to other partners. The Board had recommended in paragraph 71 of its previous report[2] that UNHCR review the accounting for advances to UNDP. UNHCR continued to disagree with this recommendation and explained that advances to UNDP could not be recorded in 2005 in the same way as advances to implementing partners because the services delivered by implementing partners were under the umbrella of specific projects at the country and programme level. No specific project, agreement or sub-agreement was signed at the local level with UNDP.

4. Treasury management

48. As at 31 December 2005, the Treasury Section was managing a treasury position of $133 million. During 2005, it generated interest income of $2.2 million. At the end of 2004, the figures were $150 million for the total position and $1.8 million for interest income.

(a) Delegation of authority

49. According to the UNHCR Manual, chapter 2, section 8.6, the Treasury is responsible for cash management, ensuring a smooth cash flow whilst safeguarding and maximizing the Office's cash resources, and the recording of income in the UNHCR accounts.

50. The Board noted that there was no specific delegation of authority from the Controller to the Treasurer for any of the treasury transactions (managing bank accounts, executing and authorizing payments, executing financial transactions with banks, managing treasury risks).

51. UNHCR agreed with the Board's recommendation that it implement appropriate delegation of authority for proper treasury management.

(b) Treasury risk-management control

52. There was no formalized independent function of risk-management control (usually called middle-office). The Treasurer was taking charge of preparing management reports, performing risk analysis and evaluating controls on risk management. This was not in line with proper segregation of duties. There was also a lack of management information, such as treasury forecasts, daily/weekly income and positions analysis and sensitivity analysis.

53. UNHCR agreed with the Board's recommendation that it ensure that risk management is correctly performed and compile information essential for efficient cash management.

(c) Treasury information systems

54. The Management Systems Renewal Project (MSRP), which is an enterprise resource planning (ERP) system, and an Access database have been used as treasury information systems (TIS). The MSRP cash-management function records all financial transactions related to headquarters bank accounts within the MSRP general ledger. UNHCR also uses an Access database to record bank movements and investments.

55. The management agreed that the MSRP cash-management module was not sufficiently and adequately customized to meet the Treasury's functional and risk management requirements, and could not provide full-fledged TIS. However, UNHCR did not use the ERP treasury module fully. Transactions have been manually recorded in both systems (pledges received, payments to the vendors or to the field offices, interest received/paid, investments,

foreign-exchange transactions). The Treasury recorded manually its bank balances, including in- and outflows, on a "cash book" spreadsheet and its investments on a "journal" spreadsheet.

56. These manual tools and processes are inadequate for the management of treasury operations, as compared to best, automated practices. They present the risk of errors through double recording of information, although none were noted. The tools did not provide daily risk indicators and information.

57. At the time of the Board's audit, the Treasury planned to implement during the course of the biennium 2006-2007 full-fledged TIS main treasury cash management systems, integrating global centralized cash inflows and outflows, treasury risk management, investment, and foreign exchange applications. The implementation would also entail building MSRP interfaces to banking platforms and producing standard Treasury control reports. The TIS solutions would address automation of bank reconciliations, cash forecasting, foreign exchange revaluation and cash and investment accounting.

58. The Board will keep under review the implementation of automated process and control including risk-management functionalities as part of the enterprise resource planning system.

(d) Automated credit limits

59. Credit limits are individual investment and deposit ceilings allocated to each bank (the total amount of funds that may be entrusted to a single bank). The UNHCR cash-management guidelines and procedures (Rev.2) on investments and foreign exchange define different thresholds of investment according to a bank's ratings. These bank ratings are obtained from an international credit-rating agency. At the time of the Board's review, the credit limits were as follows: $60 million for banks rated F1+, $30 million for banks rated F1 and $15 million for banks rated F2.[3]

60. The Treasury regularly monitored rating changes and checked whether deposits and current account holdings were above any allowed risk exposure. To do so, the Treasury Assistant regularly updated these ratings within MSRP, which automatically updated the credit limits. However, the system did not prevent the recording of a new transaction if the amount exceeded the limit.

61. UNHCR agreed with the Board's recommendation that it review the possibility of automatically preventing any transaction being recorded in MSRP if the credit limits (the individual investment and deposit ceiling allocated to each bank) are reached.

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[3] F ratings cover bank debt quality. F1: best quality or outstanding; F2: good quality; F3: average; B: speculative; C: high risk of default; and D: defaulted on all its financial liabilities.

(e) Payments process

62. Once validated by the accounting department, payments were manually entered into the bank electronic systems. This process was time-consuming and had not been enhanced by an automatic interface between MSRP and the bank electronic systems.

63. Payments of salaries paid in dollars (around 500 per month) were individually entered in the bank electronic systems. The payroll information system did not enable UNHCR to gather them in one payment order.

64. UNHCR planned to implement the human resources module of MSRP, which would facilitate the payroll administration process. However, the human resources module would also need to be interfaced with the cash-management module and with TIS as well.

65. UNHCR agreed with the Board's recommendation that it take into account the need for interfaces with MSRP when selecting a new treasury information system.

(f) Treasury forecasts

66. UNHCR did not have appropriate tools for cash forecasts:

(a) Either for the long term (one year for instance), the medium term (one month) or the short-term (one week), there was no formalized treasury forecast process. Only the annual budget provided a forecast of expenses and receipts.

(b) As far as expenses were concerned, the Treasury was aware of forecast payments around 30 days before the payments would be made (headquarters suppliers' payments) and through field requests for payments. However, there were no systematic cash forecasts made in the field and then no centralization of field offices' cash forecasts. When a field office requested a payment, the payment had to be executed within two or three days.

(c) Cash inflows were not forecast either, as they relied on pledges for which the payment date was not always known.

67. This led to less than optimal cash management: funds were invested for shorter periods than they would have been with better visibility.

68. UNHCR planned to implement MSRP fully at the field level in 2007. Together with the implementation of the treasury information system, scheduled for the end of 2006, and the centralization of payments at headquarters, scheduled for 2007, this would make a comprehensive cash-flow forecasting process possible.

69. UNHCR agreed with the Board's recommendation that it enhance its treasury forecasts.

(g) Cash management policy

70. According to the current cash-management guidelines and procedures (Rev.2) on investments and foreign exchange, approved by the UNHCR Investment Committee on 28 January 2005, the two main goals of cash management are to ensure that UNHCR meets its financial liabilities when due and that investable balances and investment income are maximized.

71. UNHCR headquarters manages the inflows from donor contributions, the outflows financing the field offices and operations, and payments to vendors and staff. Only the headquarters Treasury was authorized to carry out treasury operations. Field offices were not allowed to keep contributions or donations, or to invest locally.

72. The above-mentioned cash-management guidelines and procedures do not adequately address the organization of cash management between headquarters and field offices nor provide detailed guidance on matters such as the amounts authorized to be kept in bank accounts (in headquarters and field office accounts).

73. The Treasury has been preparing a centralization project, including cash pooling and centralization of payments. This project, scheduled to be operational by 2008, would call for a review of the cash-management policies. The management indicated that centralization would make possible direct routing of payment vouchers through MSRP from the field to headquarters Treasury for final cash release.

74. UNHCR agreed with the Board's recommendation that it prepare guidelines for its management of the new centralized pooling policy.

75. At the time of the Board's review, UNHCR had 412 bank accounts: 18 bank accounts in 12 banks for headquarters and 394 bank accounts, in 182 banks, in the field. Total banking costs organization-wide amounted to $478,709 as at 31 December 2005. The Treasury supervised field offices' bank accounts by authorizing new openings and ensuring proper signatories were in place. UNHCR has not determined the banks with which the Treasury and the field offices should work. There was no indicator of banking services used per bank (number and amounts of bank transfers, foreign exchange transactions, deposits, amount of bank fees and amount of commission).

76. Furthermore, UNHCR did not put cash pooling agreements in place, either for headquarters or for field accounts. The Treasury had balanced headquarters bank accounts through manual transfers, while field offices bank accounts were not managed in line with best Treasury practices. Therefore bank accounts were rarely close to zero at day's end. The

UNHCR Treasury computed the equivalent in United States dollars of weekly average current account holdings. From January to June 2005, UNHCR held $58 million on average in its bank accounts (January: $39 million; February: $50 million; March: $70 million; April: $56 million; May: $62 million; and June: $67 million). These bank accounts bear interest (on the basis of the currency's one-day interest rate, such as the Federal Funds rate for the United States dollar), but UNHCR did not seek to optimize returns through investing these holdings on term deposit.

77. UNHCR agreed with the Board's recommendation that it review and enhance (i) its cash-management policy and (ii) its banking relationships with the field offices and the related guidelines.

(h) Foreign exchange risk policy

78. The main components of the foreign exchange exposure of UNHCR consist of: the time lag between when pledges are received and paid, the monthly revaluation of monetary assets, currency conversions (expenditure driven), differences between the exchange rates used in the preparation of the budget and the United Nations monthly operational rate of exchange and, in general, the time lag between the recording of income and expenditure. As at 31 December 2005, UNHCR had incurred a foreign-exchange loss of $36 million, composed of realized losses of $12 million and unrealized losses of $24 million (derived from accounts receivable and bank balances).

79. There is no formalized foreign exchange risk policy. UNHCR faces global exposure as payments and receipts are not made in the same currencies and in the same period. Exchange rate fluctuations on UNHCR operations are in the long run "neutral". From 1991 to 2001, the combined net exchange gains and losses were zero. UNHCR did find, however, based on a study of 2004 annual cash flows, that it faced a significant risk. It had structurally euro-zone currencies for 18 per cent of its budget (euro, Swiss franc, Nordic country currencies), and pounds sterling for 6 per cent of its budget. This gap created a risk exposure in the event of depreciation of euro-zone currencies or the pound sterling.

80. UNHCR had no strategies to cover this gap, such as forward sales of euros or dollars. The management did not hedge against future disbursements, because it considered itself as largely "naturally hedged" versus currencies in its portfolio.

81. UNHCR was reviewing its risk policy and objectives, and exploring what strategy would be appropriate to mitigate important risks and what new accounting procedures it would entail. The management was of the view that the lack of exact confirmation of the timing of receipt of expected pledges and cash from the donors so far precluded it from hedging against foreign exchange exposure at a reasonable cost and risk. It considered that, without this precise information, it might incur costs by engaging in complex financial

instruments and bearing the risk of non-payment of cash contributions. The Board is of the view that, notwithstanding constraints, there is room for the introduction of some profitable hedging coverage.

82. UNHCR agreed with the Board's recommendation that it further examine and review important fundamentals that are affecting foreign exchange management in order to develop strategies and guidelines to cover its foreign exchange risks.

(i) Monitoring of the payment of contributions

83. Of the global \$36 million of losses on currency exchange adjustments as at 31 December 2005, a net (after deduction of \$5 million due to treasury transactions) realized loss of \$17 million was linked to the payment of voluntary contributions expressed in non-dollar currencies. The breakdown of this amount by main currencies is shown in the table below.

Table 9
Losses on currency exchange adjustments linked to the payment of voluntary contributions expressed in non-dollar currencies

Currency of the contribution	*Currency exchange loss incurred in 2005*
Norwegian crown	418 349
British pound	2 671 377
Swedish crown	7 679 179
Danish crown	867 349

84. In the case of a rise in the United States dollar, as in 2005, the time lag between pledges being made and the receipt of their payment is a key factor that generates substantial losses on contributions expressed in non-dollar currencies. The loss of \$17 million referred to above was mainly due to external factors (appreciation of the dollar) but was also due to management factors, in particular insufficient follow-up of the payment of voluntary contributions. There was no shared monitoring system made available in a suitable form to all members of staff involved in the management of income (treasury, finance, relationship with donors) that would enable them to be fully aware of the potential financial consequences of any delay.

85. UNHCR agreed with the Board's recommendation that it ensure thorough and proper monitoring of unpaid pledges, in order to limit delays in payment.

(j) Segregation of duties

86. Within the Treasury, the "Front Office" was in charge of treasury operations: banking and cash management, authorization of payments, foreign exchange and investments/deposit transactions, etc. There was no real segregation of duties within the front office as the same person, the Senior Finance Assistant, could execute a transaction, confirm it, record it within MSRP and prepare the payment. Furthermore, when the Senior Finance Assistant was absent, the Treasury Assistant performed these tasks.

87. The system did not provide sufficient segregation of the preparation, validation and authorization of replenishment. The segregation of duties was respected for vendor payments but not for replenishment payments. For example, it was possible for the same officer to modify a bank account number, approve the change and then prepare payments on that bank account.

88. UNHCR explained that the future Treasury Information System (TIS) with its enforced approval hierarchies and accounting interfaces with MSRP would ensure complete and accurate transaction recording in compliance with the segregation of duties.

89. UNHCR agreed with the Board's recommendation that it apply proper segregation of duties between transaction execution, confirmation, recording, reporting and control and for banking management.

5. Unliquidated obligations

(a) Travel authorizations

90. The obligations outstanding at 31 December 2004 amounted to $81 million, a decrease of 11 per cent over the previous year. The Board's review showed a general improvement in the management of unliquidated obligations as compared to previous years, with the exception of travel authorizations.

91. At year-end, travel authorizations posted as unliquidated obligations represented approximately $3.5 million, or 4.3 per cent of the total amount of unliquidated obligations, and were supported by 6,435 transactions. As at 31 March 2006, only 763 of those transactions were closed. More than 32 per cent of the global amount of transactions were initiated before the end of the first half of 2005. Completed travel was not cleared from the accounts at the end of the year, however. As a result, a significant amount of unliquidated obligations remained in the account at year-end, although the travel had occurred and the expenditures had been disbursed.

92. The Board recommends that UNHCR clear the unliquidated obligations for completed travel in a timely manner.

93. UNHCR indicated that this issue would be addressed by a travel reform, which would ensure simpler, more accurate and consistent treatment of travel-related payments.

(b) Follow-up of old travel authorizations

94. The Board noted that in spite of the process review launched regularly by the travel unit to clear travel advances still not settled three months after the date of the end of a mission, a large number of old transactions remained uncleared or pending. This was also due to field offices that sent justifications of significant delays. This was contrary to United Nations administrative instruction ST/AI/2000/20 and UNHCR guidelines for travel claims, which provided that travel claims should be submitted within two weeks of the completion of travel.

95. The Board recommends that UNHCR comply with instructions and guidelines relating to the time limit for the settlement of travel claims and recover travel advances in due time through payroll deductions, in line with administrative instruction ST/AI/2000/20 and with its own instructions (IOM/037/Add.1-FOM/037/Add.1/2006 of 6 June 2006).

6. Expendable and non-expendable property

(a) Headquarters assets

96. Non-expendable property disclosed in note 14 to the financial statements amounted to $372.75 million based on the acquisition value of assets and $101.39 million in respect of their depreciated value.

97. As at 31 March 2006, the number of headquarters assets recorded was 12,863, at a total acquisition value of $14.66 million and a depreciated value of $5.71 million. UNHCR performed a physical verification at the end of 2005 and noted that it was not possible to locate 2,549 assets with a total acquisition value of $1.4 million and a depreciated value of $127,523.

98. UNHCR agreed with the Board's recommendation that it maintain an accurate inventory record and perform annual physical verifications.

7. Write-off of losses of cash, receivables and property

99. UNHCR wrote off $1.18 million in cash, receivables and property in 2005 in accordance with UNHCR financial rules 10.6 and 10.7. Of this total, $0.22 million was written off in respect of unrecoverable balances due from various entities and theft/losses of cash, and $0.96 million with regard to non-expendable property.

(a) Write-offs of losses of cash

100. For the five cases of write-off of cash reported in 2005 the Board noted that the signature of the High Commissioner had been obtained for those exceeding $10,000 in accordance with the UNHCR financial rules, except in one case, for an amount of $12,700.

(b) Write-off of overpayments to staff

101. An amount of $187,648 related to non-recovery of amounts overpaid to or due from a total of 91 ex-staff members at various UNHCR locations. The Board noted that there were 12 out of a sample of 26 cases, amounting to $110,034 (59 per cent of the total), for which UNHCR could not provide evidence of efforts made to recover the overpaid amount.

102. UNHCR agreed with the Board's recommendation that it fully document efforts to recover amounts due from overpaid staff.

(c) Write-off of property

103. Write-off of property decided in 2005 covered 89 assets, with a total value of $957,157. In most cases the write-off was for wear and tear (39 per cent), but looting represented the greatest part of the value (67 per cent). The Board noted that not all write-off decisions taken locally had been reported to the headquarters asset management board. That was the case in Sri Lanka, Thailand and Angola.

104. UNHCR agreed with the Board's recommendation that it improve its procedures in order to obtain accurate reports on property write-offs. UNHCR reported it had taken action by requesting all offices in the field for regular updates on their local asset management board cases.

8. Ex gratia payments

105. UNHCR financial rule 10.5 defines ex gratia payments as those "where, although no legal liability on UNHCR exists, the moral obligation is such as to make payment desirable in the interest of UNHCR". There were 11 such transactions, amounting to $10,075, in 2005.

9. Implementing partners' expenditure

106. In 2005, UNHCR paid a total of $340 million to its implementing partners. As at 31 December 2005, the balance for which implementing partners had not provided justification of the proper use of funds amounted to $121 million, or 36 per cent of the total funded. For comparative purposes, as at 31 December 2004, $127.8 million (or 34 per cent of the total paid to implementing partners in 2004) had not been reported on and $118.9 million (or 39

per cent of the total paid to implementing partners in 2003) remained outstanding as at 31 December 2003. As at 9 June 2006, the outstanding balance amounted to $8.7 million, which is an evolution similar to that of previous years.

(a) Audit certificates

107. UNHCR requires its implementing partners (total amount of programmes: $784.1 million) to supply audit certificates delivered by external auditing firms on their local operations funded by UNHCR. The certificates are compulsory for partners having projects with an annual aggregate value of $100,000 and above, except for United Nations and related agencies, for which there is direct external audit coverage. In its reports for 2001 and 2002, the Board expressed its concern about the recurrent, unsatisfactorily low percentage of audit certificates received.

108. As at 1 April 2006, UNHCR had received audit certificates for approximately 80 per cent of expenditure incurred by its implementing partners in 2002 and for 79 per cent of expenditure incurred in 2003. The remaining balances for which implementing partners have not complied with UNHCR audit requirements amounted to $66.7 million in 2002 and $68.5 million in 2003.

109. In 2004, UNHCR disbursed a total of $348.6 million to all its implementing partners for the implementation of 1,276 subprojects. As at 15 June 2006, more than one year after the liquidation of 2004 projects, 67.4 per cent of the amount paid to implementing partners was covered by audit certificates, an improvement compared to the previous year (in 2005, for projects implemented in 2003 the coverage rate was 52.7 per cent of the disbursements), but remained under the rate of 68.5 per cent of disbursements covered achieved at the end of January 2004 for projects implemented in 2002. In spite of the application of new rules that were meant to improve the monitoring of expenditure incurred by implementing partners and according to which auditing firms have to be engaged directly by UNHCR, proper audit coverage of expenditure incurred by implementing partners has still not been achieved.

110. **The Board recommends that UNHCR review mechanisms for the audit of expenditure incurred by its implementing partners and assess the efficiency of the new procedures introduced in 2004.**

111. UNHCR indicated that the UNHCR Audit Service of the Office of Internal Oversight Services had conducted a review of UNHCR implementing partners' audit certification of 2004 subprojects and that they would address the concerns raised in the review by the end of 2006.

112. The Board noted weaknesses in the monitoring of audit certificates and found that less information was available during its 2006 audit visit than during the previous years'. In particular, owing to poor reporting facilities in MSRP, the following information was not

available for 2004: the number of partners and subprojects by category of implementing partner (intergovernmental and United Nations agencies, governmental partner, international and local non-governmental organizations) and the breakdown of disbursements and audit certificates by category of implementing partner. UNHCR explained that implementing partner categories were currently available in MSRP. However, the audit certificate data had to be manually recorded and owing to higher priorities, the information corresponding to 2004 projects was currently being recorded and thus audit certification by partner category was not yet complete.

113. In its two previous reports,[4] the Board pointed out that the rules for partner audit certification were inadequate to provide assurance about the proper use of funds, because UNHCR did not centrally monitor qualified opinions or disclaimers of opinion issued by external auditors on the financial statements of subprojects. In March 2005, UNHCR indicated that as of 2005, i.e., for audit certificates covering 2004 expenditure, statistics on qualified and negative opinions would be centrally available.

114. At the time of the Board's 2006 audit visit, UNHCR still did not provide any confirmation to that effect. UNHCR explained that, for 2004, sub-agreement data had been uploaded in MSRP. The data was to be verified by a group of headquarters programme assistants. A timetable for the closing of 2004 subprojects and the recording of audit reports would be developed shortly.

115. **The Board recommends that UNHCR enhance the monitoring of audit certificates covering expenditure incurred by its implementing partners and ensure that all appropriate tools (MSRP) are developed promptly.**

116. Regarding amounts paid to implementing partners in 2005 and reported in the financial statements as at 31 December 2005, no audit certificate was available at UNHCR at the time of the Board's audit. In application of new rules on the submission of audit certificates, effective in 2005 for expenditure incurred in 2004, audit certificates are required within six months of the final date for liquidation of commitments, which means that no certificates would be submitted before July 2006. Therefore, at the time the financial statements for 2005 were prepared and signed, UNHCR did not have reasonable assurance on the proper use of funds disbursed to implementing partners.

117. UNHCR believed that the current rule requiring production of the audit certification for implementing partners "within six months of the final date for liquidation of commitments" could not be amended to obtain it before the finalization of the financial

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4 *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 5E* (A/58/Add.5) and *Official Records of the General Assembly, Fifty-ninth Session*, *Supplement No. 5E* (A/59/5/Add.5).

statements. In the opinion of UNHCR, reviewing the rule was not realistic as UNHCR usually closed its accounts by March of each year, while the final subproject monitoring reports are usually received by mid-February from the implementing partners in the field.

118. The Board recommends that UNHCR review the timetable for the submission of audit certificates, in order to secure reasonable assurance on the reported use of funds by implementing partners prior to the final audit of its financial statements and to disclose any relevant concerns regarding this usage in the notes to the financial statements.

119. UNHCR indicated that, currently, audit certificates should be submitted within six months of the final date for liquidation of commitments. Therefore, for most subprojects, audit certificates should be received by the end of July each year. However, UNHCR agreed to initiate a review of the existing procedures with a view to improving its rules to enable it to analyse in a more timely manner the subproject audit certificates and any impact they might have on the internal controls of the organization and the quality of the spending of funds.

10. Project personnel

120. UNHCR had hired project staff either through implementing partners it funded for tasks normally done by UNHCR staff, or directly by signing irregular service contracts, normally meant for procuring specific services, to carry out staff or implementing-partner functions. In 2002, the Board had noted that UNHCR employed, beyond its staffing table of 5,505 posts, some 1,099 project staff members as at 31 December 2001.[5]

121. In September 2001, UNHCR issued instructions (IOM/81/2001-FOM/74/2001) that all project staff arrangements should be phased out by 31 December 2004. For functions under direct UNHCR supervision, staff should be recruited under the United Nations Staff Rules and Regulations against a post on the official UNHCR staffing table or under a fixed-term contract not exceeding 364 days. In its 2003 report[6] the Board recommended that UNHCR complete the phasing out of project staff as scheduled, while ensuring through close monitoring that no such irregular arrangements were again developed. As of May 2006, the recommendation was not fully implemented.

122. For two of the deployment schemes in the event of emergency ("surge" and "resettlement"), UNHCR has signed agreements with two non-governmental organizations, which maintain a recruitment roster of individuals available for rapid mobilization and deployment and recruit them when requested to do so by UNHCR offices. UNHCR signs a sub-agreement with the non-governmental organizations for each such deployment. Staff recruited under such agreements perform functions similar to those normally done by

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5 Not including United Nations Volunteers. There were 440 United Nations Volunteers as at 15 June 2005.

6 *Official Records of the General Assembly, Fifty-eight Session, Supplement No. 5E* (A/58/5/Add.5), chap. II, para. 82.

UNHCR regular staff members and therefore can be seen as project staff although UNHCR considers these two deployment schemes as “rapid deployment schemes [providing] additional workforces [that have] clear terms of reference”. Beyond their functional merits, these arrangements do not comply with the staff policy, as already mentioned in the internal audit report of 5 July 2001 and by the Board of Auditors.

123. UNHCR agreed with the Board’s reiterated recommendation that it review the matter of project personnel arrangements and issue an instruction to ensure the compliance of the deployment schemes with the above-mentioned instruction on staff employment.

11. Division of External Relations

124. UNHCR depends on voluntary contributions for 98 per cent of its resources. The Board examined how the UNHCR Division of External Relations, in charge of donor mobilization, managed fund-raising activities. The Board’s main findings were that UNHCR should:

(a) Define its priorities in order to ensure that sufficient resources are devoted to income-generating activities;

(b) Enhance the definition and the monitoring of performance indicators for the Division;

(c) Evaluate the impact of its fund-raising tools;

(d) Monitor field offices’ activities in this area;

(e) Pursue its efforts to increase the portion of unearmarked contributions in its total resources; and

(f) Refrain from signing agreements that are not in compliance with United Nations rules for staff, suppliers and audit arrangements.

125. The main role of the Division is to mobilize public, political and financial support for the work of the organization. In accordance with chapter 2, paragraph 6.1.3 of the UNHCR Manual, the Division of External Relations seeks to establish and maintain effective means of communication for the Office as a whole with its external interlocutors: United Nations agencies, members of the Executive Committee and observers of the Standing Committee, international and inter-governmental organizations, public donors, the private sector (individuals, corporations and foundations), the media, non-governmental organizations, academic and research institutions, and the public at large. The Division reports directly to the Deputy High Commissioner.

126. Public education and awareness-raising activities include four main pillars: World Refugee Day, the Goodwill Ambassador Programme, the Nansen Refugee Award and the Youth Outreach Programme. The Division of External Relations is also in charge of the

provision of mass information to refugee/returnee populations; the management, preservation and reproduction of UNHCR records and archives; and the provision of visibility items for field operations.

127. To carry out these functions, the Division was allocated a total budget of $14.5 million for 2005 and it employed 107 staff members (50 Professional and above, 50 General Service and 7 Junior Professional Officers), out of a total of 120 authorized posts.

128. The overall performance of the Division in respect of fund-raising activities (Governments and the private sector) is analysed in the table below:

Table 10
Fund-raising ratios

	2001	*2002*	*2003*	*2004*	*2005*
A Funding target[a] (millions of US$)	1 015.5	1 057.0	1 166.9	1 232.9	1 359.0
B Government contributions (millions of US$)	762.5	795.4	909.7	936.0	957.8
C Private sector (millions of US$)	16.7	18.7	19.2	26.3	34.5
D Contributions in kind (millions of US$)	7.7	6.0	6.8	13.2	NA
E = B+C+D Total voluntary contributions (millions of US$)	**779.2**	**815.8**	**928.9**	**962.3**	**992.3**
Total/target (E/A), percentage	77	78	80	79	73
F Persons of concern (millions)	22	20.0	20.9	17.1	19.5
G Staffing, Division of External Relations (actual)	111	110	106	97	107
H Staffing, DRRM (actual)	29	26	25	22	28
I Staffing, PSPA (actual)	21	21	19	15	12
Contributions/persons of concern (US$) E/F	35	41	44	56	51
Government contributions/DRRM staff (millions of US$) B/H	26	31	36	43	34
Private contributions/PSPA staff (millions of US$)	0.80	0.89	1.01	1.75	2.8
Volume of contributions/Division of External Relations staff (millions of US$)	7.09	7.46	8.83	10.06	9.06

	2001	2002	2003	2004	2005
Voluntary contributions/DRRM+PSPA staff (millions of US$)	15.74	17.45	21.27	26.36	24.48

Note: DRRM, Donor Relations and Resource Mobilization Service; PSPA, Private Sector and Public Affairs Service.
[a]Includes supplementary programmes.

129. The performance of the Division, as measured by the amount of contributions obtained per staff employed, has improved over the years.

(a) Vacant posts

130. Within the Division, the Private Sector and Public Affairs Service had a vacancy rate of 21 per cent and faced a difficult situation, considering the critical importance of fund-raising activities. The Division of External Relations explained that because of the specialized skills and knowledge required for this unit and because personnel with such qualifications, classified as “expert”, could not be easily found in the existing workforce within the organization, an extra effort was required to identify a suitable candidate (often from external candidates). This required a much longer process, four to five months instead of three to four months, attributed to the current human resources policies (for example, all internal General Service candidates need to be reviewed first, before external recruitment was initiated). It presented a risk of missed funding opportunities for UNHCR.

131. The Board recommends that UNHCR take all appropriate measures to fill vacant posts promptly.

(b) Financial position

132. Funds from the private sector increased by 107 per cent between 2001 and 2005, from $16.7 million to $34.5 million, but in the meantime their proportion remained constant, representing only 2 to 3 per cent of total contributions paid to UNHCR. With a target of $32 million (including tsunami income) from private donors in 2005 (out of expected contributions amounting to $1.36 billion), the trend did not change in 2005.

(c) Budget

133. A total of $9.2 million, excluding staff costs, was allocated to the Division of External Relations in 2005. Since 2001, “project” expenditure has represented some 80 per cent of annual expenditure. “Projects” encompass the main activity areas of the Division of External Relations outlined above. Overall, expenditure increased by 51 per cent between 2001 and

2004, faster for projects (54 per cent) than for section costs (42 per cent). However, that trend was reversed in 2005, with obligation levels ($9.2 million) significantly below the value of 2004 expenditure ($10.5 million).

134. The Board recommends that UNHCR review its priorities in order to ensure that sufficient resources are devoted to income-generating activities, with a view to increasing the fund-raising income.

(d) Fund-raising mandate

135. Fund-raising is an essential part of UNHCR activities. It derives from the UNHCR basic texts that it has the same importance, as a legislative mandate, as protection and assistance,[7] and should have been treated as such.

136. In particular, it should have been afforded the same treatment and presentation given to protection and assistance in the medium-term plan, as well as in the United Nations biennial programme budget, and the Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation (ST/SGB/2000/8) should have been abided by. These regulations and rules continue to apply, mutatis mutandis, to the "biennial programme plan" which substitutes for the medium-term plan on a trial basis as the principal policy guideline of the United Nations.

137. Based on the above, fund-raising costs are not operational or support costs, but "administrative expenditures relating to the functioning of the Office of the High Commissioner", as stated in article 20 of the statute of UNHCR.

138. UNHCR agreed with the Board's recommendation that it position and manage its fund-raising activities on a par with its other legislative mandates.

(e) Performance management

139. There was no "workplan" as such in official use within the Division of External Relations. The Division used a variety of documents, of a more or less informal nature, that had become more homogeneous and formal from year to year since 2003.

140. For 2004, a table showed the allocation of responsibilities within the Division, by way of columns dedicated to strategic goals, objectives, deliverables/key measurable indicators and responsible services or units. But two basic elements were missing: a time frame and quantitative targets for the expected accomplishments. A review of the 58 indicators presented showed that 11 of them (+19 per cent) were more indicators of foreseen UNHCR

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7 See General Assembly resolutions 319 (IV) (para. 2 and annex); 428 (V) and its annex (statute of UNHCR); 832 (IX); and 46/182, annex (paras. 31 and 32).

activity than of impact on the targets. Out of the other 47 indicators, 14 (24 per cent) were measurable; for 14 others (24 per cent), the performance could be checked but not measured; and the last 19 (33 per cent) were not measurable.

141. In March-April 2005, "objective-setting matrixes" were produced by each administrative unit, using a common format and aiming at linking for 2006 the objectives of each unit with a number of outputs, key indicators, assumptions and constraints, and a time frame.

142. The Division of External Relations had no performance report. The report of the Secretary-General on programme performance of the United Nations for the biennium 2002-2003, only referred to a high level of output achievement (98 per cent) for UNHCR globally (A/59/69, Part two, sect. 23).

143. The analysis of proposed indicators showed that within the Division of External Relations, as well as within the whole of UNHCR, there was room for their improvement. They could be enhanced in terms of significance (impact on the targeted partners or audience rather than on UNHCR output), time line of the expected accomplishments in a predefined quantitative range (during and after the period concerned) and clearly defined targets to be monitored.

144. **The Board recommends that UNHCR enhance the performance management tools of the Division of External Relations.**

(f) Strengthening governmental donors' contributions

145. UNHCR has a concentrated number of donors: three donors have been providing 50 per cent of the income from Governments; eight donors, 80 per cent; and 12 donors, 90 per cent. Since 2003, the Division of External Relations has defined the following objectives, described in its various guidelines and other internal documents: to strengthen relations with the 10 top donors; to widen the donor base to reduce excessive dependency; to seek complementary sources of funding and develop inter-agency process and appeal; and to increase predictable, flexible, early and full funding of the Executive Committee-approved budget.

146. The Division of External Relations has produced different tools to sensitize the staff to governmental fund-raising issues. A guide for donors on contributions in kind was published in October 2000 and sent to concerned bureaux during emergencies.

147. A guide for field offices on donor relations and resource mobilization issued in July 2003 is the only reference tool available and has been widely distributed. In 2005, a strategic planning workbook was presented to Senior Management Committee members at a meeting

of regional representatives in Geneva and to the staff during visits to the field and to donor countries. The Division of External Relations was unable to measure use of the handbook and its impact on the staff's fund-raising knowledge.

148. UNHCR agreed with the Board's recommendation that it evaluate the impact of its fund-raising tools.

149. The amount of governmental contributions increased by 36 per cent between 2000 and 2004. The objective of strengthening relations with top donors has been implemented with regard to European institutions and Member States, which have increased their contributions. The objective of widening the donor base was achieved. The pledging conference mobilized a record of $317 million from 32 donors for UNHCR operations in 2004 and $405.4 million from 48 donors in 2005. The Board also noted improvements in the timing of pledges (19 per cent of the total budget was pledged in January in 2000, 38 per cent in 2005) and in the amount of contributions announced before the start of the budget year: $168 million in 2000, $358 million in 2004 and $354 million in 2005.

150. The Division of External Relations organized regular contacts, consultations and briefings with donors, aimed at keeping top donors involved and widening the donor base. Specific efforts were made in 2003 and 2004 to reduce the gap between actual and potential contributions by approaching Governments that were more likely to improve their contribution. In 2005, UNHCR identified countries to be targeted to increase contributions in the coming years.

(g) Earmarked contributions

151. Increasing earmarked contributions over the years have been the result of real zero growth rate budgets. Such contributions entail the risk of donor-driven projects and activities and constitute a threat to organizations' mandates. At 18 per cent, the ratio of unearmarked contributions to total contributions remained in 2004 under the objective of 25 per cent of total contributions, but the objective was exceeded in 2005.

152. **The Board recommends that UNHCR pursue its efforts to increase the portion of unearmarked contributions in its funding.**

(h) The Global Appeal

153. One of the main tools used with donors is the Global Appeal. The global report sent to donors annually on the overall activities of UNHCR uses the same frame as the global appeal. The Board reviewed all the production process and its consistency with the consolidated inter-agency appeal process without noting any discrepancy.

154. The Division of External Relations had no data on field external/internal distribution of the reports, beyond feedback on shortage or excess of copies. The Electronic Publishing Unit measured access on the website. The figures were 39,629 visits for the 2004 Global Report and 19,347 for the 2005 Global Appeal. As the interface has recently been modified, the Unit could not follow the trend for previous years.

155. UNHCR agreed with the Board's recommendation that it track more accurately the distribution of its reports or electronic access to its reports in the field and through the Electronic Publishing Unit.

(i) Fund-raising activities of field offices

156. The guide on donor relations and resource mobilization underlines the role of field offices in promoting donor relations, but the Division of External Relations did not monitor systematically field office fund-raising. It had no statistics such as on donor briefings organized at the field level.

157. This led to the issuance by the Executive Office in November 2005 of an inter-office memorandum specifying reporting requirements for field offices, while the Division of External Relations has encouraged field offices to undertake fund-raising vis-à-vis several sources (the private sector, non-governmental organizations, governmental donor embassies).

158. UNHCR agreed with the Board's recommendation that it improve its monitoring of the fund-raising activities and outcomes of the field offices.

(j) Donor agreements/reporting

159. Agreements with donors and the ensuing reporting were not harmonized for all donors. Some Governments have signed bilateral agreements with UNHCR, which provide a global frame for funding and reporting, but others rely only on the Global Appeal and the Global Report. Some donors also asked for individual submission agreements, which specify additional funding and reporting requirements. The Board reviewed all the global agreements and found several differences.

160. Their template varied significantly from one country to another with regard to duration, accuracy of donors' commitment and of the description of the UNHCR mandate and objectives, the level of reporting requirements and specific requirements, which entailed cumbersome and time-consuming monitoring and reporting work.

161. Some agreements included clauses or objectives likely to contravene United Nations rules. For example, the agreement with the United States of America required UNHCR to increase the percentage of its American staff to 13 per cent of all Professional staff and to provide equitable access to procurement opportunities for American suppliers. UNHCR has

signed a similar agreement with Denmark. Such clauses are contrary to Article 101 of the Charter of the United Nations, United Nations Financial Regulation 3.11 and article 3.1 of the Financial Rules for Voluntary Funds administered by the High Commissioner for Refugees.

162. The Financial Administration Framework Agreement of 28 April 2003 between the European Union and the United Nations Secretariat contains a verification clause in accordance with which the Commission may perform on-site visits, receive all relevant financial information and seek clarification, including by the verification of documents, at UNHCR and for other funds and programmes concerned by the Financial Administration Framework Agreement. This clause raises the risk of a breach of the United Nations single audit principle, as reaffirmed over the years by the Secretary-General, the General Assembly and the Panel of External Auditors of the United Nations, leading to costly and cumbersome duplication of audits.

163. The Board recommends that UNHCR adopt a basic template for global agreements with donors and refrain from signing agreements that are not in compliance with United Nations rules for staff, suppliers and audit arrangements.

(k) Private-sector fund-raising

164. The Senior Management Committee approved the initial private-sector fund-raising strategy in 2002. The Private Sector and Public Affairs Service developed a business plan but it was not formerly adopted. The strategy was discussed during the most recent retreat, in July 2005, of the SMC, which set a target that should be an increase to between 10 and 20 per cent of the UNHCR budget in five years' time (i.e. between \$100 million and \$200 million) — of funds from the private sector, ideally sustainable resources from individuals rather than corporations.

165. The 2005 fund-raising was more successful than anticipated, reaching \$32 million compared to the initial target of \$23 million and a 5.2 return on investment ratio compared to an objective of 4.

166. The 2006 budget for the Private Sector and Public Affairs Service decreased to \$3.6 million, compared to the \$6.1 million spent in 2004. This runs contrary to the strategy referred to above and presents the risk of further jeopardizing the UNHCR share of private-sector fund-raising.

167. For comparative purposes, in 2004, UNICEF had 216 staff members dedicated to fund-raising, not including the staff of 36 national committees, compared to 16 at UNHCR, and that fund-raising provided 26 per cent of its 2004 budget, compared to the 1.9 per cent that fund-raising provided to the UNHCR budget. UNICEF fund-raisers also rely on a dedicated "investment" fund, which reinvests a share of the money raised in private-sector fund-raising

activities. UNHCR has been considering establishing such a fund-raising development programme, through an income growth fund mechanism, which was not yet in place at the time of the Board's audit (November 2005).

Table 11
Comparison of UNICEF and UNHCR private-sector fund-raising activities

	2004	
	UNHCR	*UNICEF*
Private-sector fund-raising staff	16	216
Total staff	6 885	6 397
Portion of staff dedicated to fund-raising	0.2%	3.4%
Net operating private-sector fund-raising income	20	509
Ratio of funds raised per staff post (million $)	1.25	2.38
Budget in private-sector fund-raising operating expenses	5.3	18.6
Private-sector fund-raising "investment" funds	0	14.2
Total private-sector fund-raising expenditure	5.3	33.8
Ratio of return on investment	3.77	14.5
Total expenditure (million $)	1 032	1 969
Portion of fund-raising in global budget	1.9%	26%
Goodwill Ambassadors		
International	5	27
Regional		4
National		194
Total	5	225
National Associations	5	37

Source: UNHCR Division of External Relations, UNICEF website.

168. The Board recommends that UNHCR allocate fund-raising means in line with its objectives, within a consistent, multi-year fund-raising plan.

(l) Other external relations activities

a. Goodwill Ambassadors

169. UNHCR recently re-entered the Goodwill Ambassador arena. Today, five UNHCR Goodwill Ambassadors with very different professional and personal backgrounds contribute their talents to advocate for refugees: Barbara Hendricks (designated in 1987), Adel Imam (2000), Angelina Jolie (2001), Giorgio Armani (2002) and Julien Clerc (2003).

170. In comparison, UNICEF relies on 27 international ambassadors, 4 regional ambassadors and 194 national ambassadors in 60 countries, while the Secretary-General has sometimes called upon former Heads of State as his representatives.

b. Nansen Award

171. Formerly known as the Nansen Medal, this award, created in 1954, was named after the Norwegian Arctic explorer Fridtj of Nansen, appointed in 1921 by the League of Nations to be the very first High Commissioner for Refugees. The Award consists of a medal and of a $100,000 prize since 1979 funded under the Annual Budget. It is handed out by a Committee chaired by the High Commissioner and composed of individuals designated by Governments and international organizations yearly to a person or group for outstanding services in supporting refugee causes. The UNHCR management explained that the primary target group was not the general public but the stakeholders, who are also very important to UNHCR ability to continue to operate. The return on investment appears to be limited, in fund-raising impact terms, owing to limited media exposure.

c. World Refugee Day

172. The Division of External Relations tries to evaluate the impact of World Refugee Day by evaluating the financial value of all television spots concerning World Refugee Day broadcast around the world in 2004. It represented the equivalent of $1.56 million. As $0.3 million were invested, the return on investment would have been 5 to 1 for the media coverage of the event. But no major countries, apart from Australia and Italy, were listed by the Division, which clearly impeded the impact of the media coverage for fund-raising, and UNHCR had no data on the actual fund-raising impact, if any.

d. The State of the World's Refugees

173. The State of the World's *Refugees* was described in chapter 2 of the UNHCR Manual as "one of UNHCR's main flagship publications", to be published once every two years. However, the previous edition was published in 2000, while the latest edition (a project that started at the end of 2004) was published in April 2006.

174. The Board recommends that UNHCR enhance its analysis of the objectives and resources for activities such as the Goodwill Ambassadors, the Nansen Award, World Refugee Day and *The State of the World's Refugees*, in terms of public awareness and expected fund-raising performance.

12. UNHCR Internal Audit Service

175. The UNHCR Audit Service of the Office of Internal Oversight Services was established in 1998 as a dedicated internal audit service for UNHCR, reporting directly to the Under-Secretary-General, Office of Internal Oversight Services, on the basis of article 12 of the UNHCR Financial Rules, which states: "All financial transactions and related activities covered by these rules shall be subject to audit by the UNHCR Audit Service of OIOS". From 2003 until the end of 2005, the UNHCR Audit Service formed part of the Internal Audit Division II of the Office of Internal Oversight Services.

176. The UNHCR Audit Service carried out a self-study for quality assessment in August-September 2005 to determine its level of compliance with the international standards. The self-assessment was based on guidelines and procedures recommended by The Institute of Internal Auditors in its *Quality Assessment Manual* (4th edition, 2002), with independent validation. An external team from UNICEF, led by the Director of the UNICEF Office of Internal Audit, conducted the independent validation of this self-assessment from 31 October to 3 November 2005. It was able to express an opinion on and validate the work done and the conclusions reached by the team conducting the self-assessment.

(a) Quality self-assessment

177. The self-assessment team concluded that, overall, the UNHCR Audit Service of the Office of Internal Oversight Services "generally complies"[8] with the Institute of Internal Auditors Standards and with most of the individual series within those Standards. For those series of the Standards where there was judged to be "partial compliance" the self-assessment team concluded that (a) there still was not a significant impairment of the UNHCR Audit Service's "ability to discharge its responsibilities" and (b) the UNHCR Audit Service could continue to use in its reports the statement that the underlying audits were conducted in accordance with the Institute of Internal Auditors Standards. Although the opinion was that the UNHCR Audit Service generally complied with the Institute of Internal Auditors Standards, remedial actions were required in some areas.

178. The Board recommends that the UNHCR Audit Service of the Office of Internal Oversight Services implement all the recommendations contained in its quality self-assessment report.

(b) Staffing issues

179. The UNHCR Audit Service had no detailed staffing analysis, assessment of staffing needs or determination of the adequate level of human resources required for the performance of internal audit services.

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8 Quality self-assessment of the UNHCR Audit Service, 21 December 2005.

180. In his report on experiences learned from the use of resident auditors at peacekeeping missions (A/55/735), the Secretary-General stated that to ensure adequate internal audit coverage of peacekeeping mission operations, the Office of Internal Oversight Services had recommended that a resident auditor at the P-4 or P-3 level be assigned for each $100 million of annual budgeted expenditure and also, for those missions with annual budget exceeding $200 million, that an auditing assistant at the G-6 or G-7 level be assigned.

181. The Board is of the view that the number of auditors per $100 million of budgeted expenditure is only one indicator to be used in the allocation of resources. This indicator must be refined after consideration of factors such as risk and complexity of operations.

182. However, at the time the memorandum of understanding between the Office of Internal Oversight Services and UNHCR was signed, UNHCR annual expenditure amounted to $801 million (see the financial statements for 2001), compared to $1,144 million for 2005, a 42 per cent increase. Despite this significant evolution, provisions of the memorandum of understanding relating to the level of resources required in order to provide for adequate audit coverage have not been reviewed since 2001.

183. **The Board recommends that UNHCR, in conjunction with the Office of Internal Oversight Services, refine its basis for allocating resources for the audit of its missions.**

(c) Resources management

184. The Board reviewed compliance with the Institute of Internal Auditors Standard 2030 “Resource management”: “The chief audit executive should ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan”.

(d) Completion of audit plans

185. Compared to previous years, adjustments made to the 2005 audit plans, in terms of days cancelled and added, were significant: on the basis of an initial total of 1,585 days, 27 per cent of budgeted days were postponed or cancelled, while additional reviews representing a total of 18 per cent of the budgeted days were conducted. In 2004, cancellations and additions had each represented 5 per cent of the budgeted days, 7 per cent in 2003. Overall, out of a total of 41 assignments planned in 2005, in accordance with the approved audit plan, a total of 36 were expected to have been conducted or to be in progress by the end of the year, including 8 audits not planned initially (representing 285 auditor-days), while 14 assignments had to be cancelled or postponed (representing 430 auditor-days). It was also necessary to increase the budget for some of the audits conducted, which led to a total of 1,527 auditor-days for 2005 (or 96 per cent of the original budget).

(e) Available resources (compliance with the memorandum of understanding)

186. In paragraph 13 of the memorandum of understanding, UNHCR and the Office of Internal Oversight Services agreed that an adequate audit coverage of the current activities of UNHCR required funds sufficient to cover the cost of at least 15 posts (1 D-1, 1 P-5, 5 P-4, 5 P-2/3, 3 General Service). Two resident auditors were subsequently added, equivalent to one position (Afghanistan/Pakistan and the Sudan/Burundi).[9] However, the Board noted that, according to the staff list provided by the UNHCR Audit Service, the actual staffing of the section was not in line with the memorandum of understanding and the equivalent of two and a half posts were not filled.

187. The Board noted that the Chief of Service, being simultaneously the Director of Internal Audit Division II, dedicated only half of his time to the UNHCR Audit Service, while fully funded by UNHCR. The UNHCR Audit Service indicated that that was done at the request of the previous Under-Secretary-General, Office of Internal Oversight Services, and was initially anticipated to last for only a short period. Unfortunately, owing to unforeseen staffing/budgeting problems in New York, the situation became protracted. To compensate for that, staff members from other sections in Internal Audit Division II had been allocated to UNHCR audits, including a senior auditor at the P-5 level and auditors at the P-4 and P-2/3 levels.

188. The UNHCR Audit Service of the Office of Internal Oversight Services agreed with the Board's recommendation that it ensure that resources funded by UNHCR are actually available and allocated to the provision of internal audit services to UNHCR, in compliance with the memorandum of understanding signed in 2001.

189. One P-4 (Geneva) and one P-3 (Nairobi) posts funded by UNHCR were not filled. The UNHCR Audit Service of the Office of Internal Oversight Services explained that the vacant posts had not been filled in a timely manner, mainly because of the constraints implied by the United Nations recruitment and promotion system. It planned to ensure further, within the constraints of the United Nations recruitment process, that posts are filled in a timely manner.

(f) Information and communication technology audit capabilities

190. In paragraph 263 of its 2004 report,[10] the Board recommended that the Office of Internal Oversight Services ensure that it obtain the required resources to effectively perform information and communication technology audits. The UNHCR Audit Service of the Office of Internal Oversight Services had two auditors with information technology capabilities

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9 The UNHCR Audit Service of the Office of Internal Oversight Services indicated that on a continuous basis there was only one resident auditor at a time, since the Afghanistan/Pakistan post and the Sudan/Burundi post have not been funded in parallel. Therefore, they were not funded for 24 months, but for a total of 12 months.

10 *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), chap. II.

(Certified Information Systems Auditors). Two others, assigned from Internal Audit Division II, were periodically involved in information and communication technology audits for UNHCR.

191. The UNHCR Audit Service was completing its information and communication technology audit strategy and planned to re-evaluate information and communication technology audit requirements. The UNHCR Audit Service indicated that specialist skills (information and communication technology or other skills) would be taken into consideration in future recruitment decisions.

(g) Risk assessment

192. The Institute of Internal Auditors Standard 2010 states: “the internal audit activity’s plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.” According to the audit manual developed by the UNHCR Audit Service, “UNHCR internal audit activities shall be carried out according to annual and medium-term audit plans to be prepared by the Chief of Service and other appropriate staff. These audit plans should reflect the UNHCR Audit Service general audit strategy and objectives for the period involved. The plan should be risk-based, with priority given to audit subjects classified as high-risk.” At the time the self-assessment was conducted, the UNHCR Audit Service risk-analysis was based on the “UNHCR audit cycle” for field operations, and on the “UNHCR audit strategy” for headquarters. In June 2006, the UNHCR Audit Service reported that a risk assessment was in progress.

193. The review of UNHCR operations and the selection of field operations and headquarters departments/topics to be audited are determined on the basis of the assumption that higher value, complex and emergency operations pose the highest risks. According to UNHCR, annual planning is established by considering not only the financial volumes at stake, but also the ratings of previous audits (average, below average etc.), the working environment, the visibility of the operations, changes in management, management information and audit findings by other oversight bodies.

194. The UNHCR Audit Service of the Office of Internal Oversight Services agreed with the Board’s recommendation that it document its risk-assessment framework.

195. However, notwithstanding criteria actually considered to decide on the review of UNHCR operations, annual audit plans were not backed by a documented risk-analysis. The audit cycle aimed primarily at managing audit activities with limited resources, while not compromising the quality and scope of the audit work and providing adequate audit coverage.

Considering financial volumes at stake as one of the main criteria for evaluating risks,[11] it provides limited guidance on how to conduct the risk-analysis and cannot be seen as a risk assessment per se, in line with the Institute of Internal Auditors requirements.

196. The risk-management framework had also to be developed. With the assistance of a consultant, who agreed to provide pro bono services and the UNHCR Audit Service, UNHCR has been working since 2004 towards a systematic approach to identify, assess and understand risks. As of April 2006, the project was still in progress. In addition, at the time of our review, the UNHCR Audit Service was working on the development of the UNHCR risk profile, in conjunction with a larger, Office of Internal Oversight Services high-level risk-assessment exercise, for the 2007 audit plan.

(h) Delays in the issuance of audit reports

197. In paragraph 267 of its 2004 report,[12] the Board recommended that the Office of Internal Oversight Services address the causes of delays in reporting its audit results in order to ensure the issuance of reports in a timely manner. Despite some progress, the UNHCR Audit Service of the Office of Internal Oversight Services could further implement that recommendation.

198. Paragraph 10 of the memorandum of understanding concluded with UNHCR for the provision of internal audit services states that the UNHCR Audit Service will endeavour to submit, within four months from completion of the audit fieldwork, a final audit report to UNHCR senior management. In 2005, the average delay between the end of fieldwork and the issuance of a report was 105 calendar days, against 183 days in 2000, 142 days in 2002 and 112 days in 2004. Overall, the UNHCR Audit Service was below the aforementioned four-month target.

199. For benchmarking purposes, current and common practice is an average of 30 calendar days from completion of field work to issuance of the final audit report.[13] The delays therefore often remained long, despite significant efforts.

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[11] *"As a rule, the available audit resources will be concentrated on those programmes which absorb the bulk of UNHCR resources. This approach follows materiality aspects and aims at giving UNHCR management reasonable assurance on its financially significant programmes. The goal of such an audit approach would not be to cover as many country programmes as possible, but to cover as much of the financial volume as possible"* (*Source*: UNHCR Audit Service of the Office of Internal Oversight Services, "The UNHCR internal audit cycle", Rev. July 2002, para. 4).

[12] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), chap. II.

[13] *Source*: Global Auditing Information Network maintained by the Institute of Internal Auditors.

200. The UNHCR Audit Service of the Office of Internal Oversight Services agreed with the Board's recommendation that it further reduce the average time between the end of fieldwork and the issuance of the final audit report.

(i) Language of reporting

201. The Institute of Internal Auditors Standard 2400 states: "Internal auditors should communicate the engagement results." In 2005, the UNHCR Audit Service of the Office of Internal Oversight Services reviewed UNHCR field operations in 26 countries, including 8 French-speaking countries. French is one of the two working languages of the United Nations. The UNHCR Audit Service has not so far considered providing UNHCR with reports in French, even when French is the official or commonly-spoken language of the audited UNHCR office. This may hinder understanding of the report and the dissemination of best practices and recommendations made by the UNHCR Audit Service.

202. The UNHCR Audit Service partially agreed and planned to provide in French the summaries of those audit reports dealing with UNHCR operations in French-speaking countries. However, it does not have the translation skills or resources to translate complete audit reports.

203. **The Board recommends that, where appropriate, the Office of Internal Oversight Services provide its reports in both the working languages of the United Nations.**

13. Information and communication technology fraud prevention and management

204. The Board reviewed information and communication technology fraud prevention and management at UNHCR and noted some shortcomings. While agreeing with some of the Board's recommendations, UNHCR also indicated that in view of the current funding restrictions and the "no-staff-growth" policy, it was envisaged that it would not be realistic for the recommendations to be implemented before the end of 2007 and then on the condition that its information and communication technology governance board provided the relevant approvals. However, until then, UNHCR anticipated that major risks for critical systems would be kept under control.

(a) Policies and compliance

205. UNHCR accepts that the Secretary-General's bulletin on use of information and communication technology resources and data (ST/SGB/2004/15) and other policies may not be updated fast enough to keep up with emerging information and communication technology risks and new forms of fraud, such as "phishing", a scam to steal valuable information such as credit card numbers, social security numbers, log-ins and passwords targeting organizations through their staff.

206. The Board recommends that UNHCR review its security policies every year to determine if they continue to address risks properly.

207. UNHCR reported that it would develop a formally documented information security policy.

208. UNHCR also stated that it did not have policies concerning the classification of documents. This is not compliant with the requirements of International Standards Organization (ISO) standard 17799, section 3. Consisting of 11 sections, ISO standard 17799 has been adopted as an international standard for a code of practice for the management of information security, although it has not yet been adopted by the United Nations. While not mandatory, the implications of not adopting this standard are that UNHCR may be failing to protect its information assets adequately.

209. The Board recommends that UNHCR develop policies concerning the classification of documents and/or data, including the related access rights.

210. Responsibility for validating the credentials and trustworthiness of people before granting them access to networks and systems rests with the hiring manager. There is no approach other than following up the three referees nominated by candidates for a staff position and nothing is done specifically with reference to the engagement of interns, consultants and contractors. This practice appears to apply to individuals granted extensive rights, such as those of creating accounts and assigning access rights to others.

211. UNHCR agreed with the Board’s recommendation that it implement stronger procedures to validate credentials, including for non-staff, particularly for individuals granted privileged access rights (database and systems administrators, and other types of superuser).

212. UNHCR indicated that it had commenced implementing a programme whereby all technical staff with high-level privileges with regard to production systems were briefed by the Inspector General’s Office and signed a specific oath of confidentiality, supplementary to the standard contract which all staff signed when they join the United Nations. UNHCR also reported that for non-staff, the issue would be addressed in the new information security policy.

(b) Building protective features into computer systems

213. UNHCR applies four sets of security practices for different classes of applications: MSRP (PeopleSoft), field applications, personal computer applications and mainframe applications. UNHCR has taken several steps to ensure applications are designed and managed to protect the security and confidentiality of data.

214. UNHCR agreed with the Board's recommendation that it enhance independent validation of security practices for its applications.

215. UNHCR has a security administration function in the Business Solutions Services to grant access to applications and their data but there are no documented practices for the segregation of duties for identity management.

216. UNHCR agreed with the Board's recommendation that it adopt a policy concerning all aspects of identity management (who can request an identification, definition of what services and data a person can access, exception management, changes in personnel, cancellation of access rights).

217. Access to systems is controlled through a combination of user name and password. Despite the ready availability of keystroke loggers and other forms of spy ware, UNHCR has not yet considered alternatives to authenticate system users and did not enforce password maintenance rules owing to user resistance, except for MSRP. UNHCR considered that it followed industry practices appropriate to the assessed level of risks.

218. UNHCR did not conduct tests with password-breaking software. While it recognized that authentication measures other than passwords involved additional cost, such tests could give UNHCR an indication of the current trustworthiness of their current practices.

219. In the absence of proper checks on password sharing and disclosure, there was no factual knowledge of the extent of the problem, although UNHCR admitted that the writing down of passwords continues to be practised.

220. The Board recommends that UNHCR, together with other United Nations organizations, conduct tests with password-breaking software in the immediate future to determine if reliance on passwords provides an adequate level of security.

221. UNHCR did not provide reports indicating that formal tests have been conducted to match available access rights with the actual persons who should be authorized, although the Controller requested that this should be done. It is therefore not clear what is the extent of dormant accounts or that the access rights of individuals who have left the organization have been duly terminated. UNHCR planned to strengthen the mechanism for recording the assignment of security roles within major systems. For applications developed or customized outside the organization, UNHCR stated that the integrity of access to functionality or data was not tested.

222. UNHCR agreed with the Board's recommendation that it test the integrity of access to functionality or data in all applications developed or customized outside the organization.

14. Tsunami relief-related operations

223. On 26 December 2004, a 9.0 magnitude undersea earthquake occurred off the west coast of the northern Indonesian island of Sumatra. The earthquake initiated a set of massive tsunamis, up to 10 metres in height, which subsequently devastated coastal towns and villages across South and South-East Asia. The disaster led to the deaths of over 168,000 persons and the displacement of several million. In Indonesia, the death toll surpassed 115,000 and the Ministry of Health initially reported that the number of displaced was over 610,000. In Sri Lanka, the disaster killed more than 35,000, destroyed about 65,000 houses and seriously damaged 40,000 others, and displaced more than 550,000 persons.

(a) Evaluation

224. With the tsunami, UNHCR participated in an operation that was not in its refugee protection-related mandate. UNHCR responded to a major natural disaster and to the Secretary-General's request that all United Nations organizations participate. After the emergency, with the large amounts requested through the flash appeal, UNHCR found itself with funds to use not directly linked to its mandate. Despite this unusual situation, no specific UNHCR evaluation has been conducted in order to apply lessons learned to the future involvement of UNHCR in relief operations arising from natural disasters.

225. The Board recommends that UNHCR conduct an evaluation of its tsunami operations in order to apply lessons learned to future operations concerning natural disasters.

(b) Contributions received

226. As shown in table 14, UNHCR received more than $59 million for tsunami relief operations. Contributions in kind received for the tsunami were not, however, monitored properly to give the full amount of resources available for UNHCR operations. In Sri Lanka, contributions in kind were valued at $0.6 million, but there was no documentation of the valuation. In Indonesia, it was only after the Board's audit that UNHCR reported in its financial statements on what it considered the main contribution in kind received for relief operations in Indonesia: $3.3 million received from the Government of Switzerland. Other contributions in kind received in Indonesia have not been valued and reported in the financial statements, such as the use of military means provided by the Governments of Indonesia and the United States, transport provided by private companies or clearing services.

Table 12
Contributions received by UNHCR for its tsunami-related operations
(United States dollars)

	Total	*Regional*[a]	*Indonesia*	*Sri Lanka*	*Somalia*
Contributions					
Australia	774 593			774 593	
Canada	2 432 575	1 612 903	606 557	213 115	
Denmark	1 824 818			1 824 818	
European Commission	3 668 630			3 668 630	
Germany	6 209 150		4 575 163	1 633 987	
Greece	3 823 174		3 823 174		
Ireland	678 426	678 426			
Italy	265 252				265 252
Japan	15 000 000		13 000 000	2 000 000	
Liechtenstein	26 549	26 549			
Luxembourg	1 017 639	1 017 639			
Netherlands	1 854 000			1 854 000	
New Zealand	2 130 300	2 130 300			
Norway	5 163 651	5 163 651			
Saudi Arabia	500 000		500 000		
Spain[b]	153 579	153 579			
Switzerland	515 987				515 987
United Kingdom	818 823		766 284	52 539	
Private donors	12 361 254	2 610 486	6 156 073	3 475 594	119 101
Total	**59 218 401**	**13 393 533**	**29 427 251**	**15 497 276**	**900 341**

[a] Regional funds can be used in any of the three countries.
[b] Contributions from Spanish autonomous communities and other public administrations channelled through España con ACNUR.

(c) Expenditures

227. The Board noted that the above-mentioned income exceeded the expenditure on tsunami-related operations for 2005. In Indonesia, the rate of expenditure was quite low as at 31 January 2006: 46 per cent of the budgeted expenditure had been spent, with only 51 per

cent of it spent on tsunami relief operations. In Sri Lanka, as at 31 December 2005, out of the $15.5 million received for the tsunami relief operations, $9.5 million had been spent, 61 per cent of the contributions received.

Table 13
Contributions and expenditures received by UNHCR for its tsunami-related operations

(millions of United States dollars)

	Contributions received	*Needs assessment*	*Expenditures*	*Expenditures/ contributions*
Total UNHCR	59.2	60	34	57%
Indonesia	29.4	42	19.3	66%
Sri Lanka	15.5	15.3	9.5	61%

228. In both Sri Lanka and Indonesia, the Board noted delays in the implementation of the programmes that followed the emergency phase and which had justified the amounts requested in the flash appeal. These delays explain why most of the funds had not been disbursed or committed at the end of 2005, in Indonesia.

229. In Sri Lanka, UNHCR was committed to constructing a total of 4,400 shelters in Ampara and Jaffna districts, through its implementing partners. By May 2005, only 252 (or 6 per cent of the total planned) had been erected. However, the objective was met at the end of 2005.

230. In Indonesia, the post-emergency programme, prepared after UNHCR was authorized to work again in Banda Aceh, scheduled the construction of 1,144 houses, to be finished and handed over to the beneficiaries before mid-May 2006. At the time of the Board’s visit, as at 31 January 2006, no house had yet been built and only 20 per cent of the plots had been marked. UNHCR indicated that by mid-June 2006, 843 house sites had been plotted, 494 houses were at different stages of construction, 94 houses had been handed over to beneficiaries and an additional 23 houses were in the final stages of completion.

231. In both cases, these delays were explained by legal (identification of owners and beneficiaries, changes in land management policy), environmental (lack of raw materials and workforce) and insufficient in-house expertise. The Board noted also that building houses after a natural disaster was not part of the core mandate of UNHCR and therefore the organization did not have the relevant skills immediately available in-house to conduct such programmes.

232. Given the low rate of implementation, the proportion of administrative costs (not including the support costs in the project expenditures) was high. In Indonesia, 36 per cent of the funds disbursed were for administrative purposes. Overall, when committed funds were included, administrative costs represented 13 per cent of project costs. The pace of implementation and the high administrative costs in 2005 due to the delays in implementation of the project, for which most funds were committed, could be a matter of concern for donors.

233. **The Board recommends that UNHCR take appropriate measures to spend in line with the relevant assessments.**

(d) Contingency planning

234. While recognizing that responding to emergencies occasioned by natural disasters is not the primary responsibility of UNHCR and that the tsunami disaster cannot be seen as a typical emergency for UNHCR, the Board reviewed preparatory measures and procedures applied by UNHCR in Sri Lanka and in Indonesia for facing emergency situations.

235. The Board noted that the 2003 contingency plan drafted by UNHCR, Sri Lanka addressing politically related scenarios had not been formally endorsed and disseminated to UNHCR staff, and had not been updated until early 2006, when continuous degradation of the security situation in Northern and Eastern Sri Lanka raised fears of a return to civil war and subsequent mass movements of internally displaced persons.

236. In December 2002, UNHCR, Indonesia finalized an emergency preparedness project under the supervision of the Association of Southeast Asian Nations (ASEAN) Committee on Disaster Management to promote closer coordination on emergency-preparedness and response. This programme included emergency management training and contingency planning workshops in Indonesia, Malaysia, the Philippines and Timor-Leste. Twenty-two training workshops, including two regional ones, in Manila in August 2003 and Brunei Darussalam in December 2003, were organized for more than 500 official participants.

237. The Board, however, did not find evidence that these training programmes and workshops have been of specific use for the tsunami recovery management. UNHCR staff in Sri Lanka have not benefited from any training on emergency preparedness and response since 1 January 2003.

238. **The Board recommends that UNHCR maintain updated contingency plans and ensure their effectiveness for the performance of its mandate.**

(e) Needs assessment

239. The Board observed that the funding requirements in the flash appeal were not supported by an accurate assessment of needs. In Indonesia, the funding requirements went from $1.8 million to $60 million between 28 December 2004 and 6 January 2005, when the United Nations launched the Flash Appeal for the Indian Ocean Earthquake-Tsunami, 2005. In Sri Lanka, UNHCR estimated by the end of December 2004 that its participation in tsunami relief efforts during the first three to six months, for the provision of non-food relief items and shelter material to 25,000 families (approximately 100,000 individuals), would require $7.9 million. On 6 January 2005, UNHCR requirements for Sri Lanka had almost doubled and reached $15.3 million.

240. While acknowledging the difficulties faced by all agencies involved in assessing clearly and expeditiously the scale of the disaster and the actual needs to be covered during the relief operations, the Board notes also that it was not provided during its audits with detailed budgets regarding the use of funds requested. Except for a few indications on the justifications for the amounts required, there was no comprehensive view of the total needs assessed, on the basis of which quantities to be delivered by UNHCR were decided upon.

241. The Board recommends that UNHCR draw lessons from the tsunami emergency in respect of needs assessment and funding requirements.

242. UNHCR explained that the magnitude of the disaster, the level of devastation and chaos, changed government priorities, and lack of basic information on affected communities had all been contributing factors to why funding requirements could not be based on proper assessments. In addition, when the flash appeal was first issued, appealing agencies were neither aware nor able to assess the level of private-sector funds that were pouring into affected areas, channelled through agencies and private companies. The situation was reassessed when local governments organized coordination between the aid communities, with clear definition of tasks between agencies.

243. In an ideal world, a clear needs assessment should be reflected in the funding requirements. However, since the first UNHCR staff member arrived in Banda Aceh on 2 January 2005 and the flash appeal was finalized on 5 January for issuance by the United Nations Secretary-General on 6 January, and given that the tsunami had destroyed the roads and bridges down the west coast and that UNHCR was unable to gain access to a helicopter for an aerial needs assessment until 7 January, there was no way a detailed needs assessment could be undertaken before the flash appeal. The needs in the flash appeal were based on the inter-agency needs assessment on 31 December 2004 and on assessment reports gathered from other agencies.

(f) Emergency deployment

244. During the emergency phase, UNHCR delivered promptly non-food relief items to tsunami victims, within the limits of stocks available. The Board noted, however, some areas of improvement in stock management.

245. In Indonesia, although UNHCR was not the first on site, owing to the harsh conditions of road and the non-availability of air transportation, it was at work as of 1 January 2005. The Board noted that vehicles in stock were not appropriate (left-hand drive vehicles).

246. UNHCR managed to deploy additional staff to the affected areas. Staff mobilization was, however, quite protracted. For instance, in Sri Lanka, the maximum resources were deployed in May and June 2005 although the emergency phase was already over.

247. In addition, the Board noted that the qualifications of staff were not always in line with the needs. In Indonesia, for example, the terms of reference for the head of field office/team leader in one sub-office mentioned as a required skill "programme experience, particularly in the shelter rebuilding area". The staff member eventually appointed had outstanding experience in security questions, but had never before monitored a rebuilding activity, especially of houses.

248. The Board recommends that UNHCR review tsunami lessons learned to enhance its procedures for emergency deployments.

249. UNHCR indicated that standby agreements with operational partners were one of the strategies explored by UNHCR for increasing its response capacity.

(g) Stock management

250. In Sri Lanka, to respond to unsubstantiated requests, UNHCR bought tents and sarongs in excess of needs. Although beyond the responsibility of UNHCR,[14] these purchases led to the waste of $1.3 million of tsunami funds (or more than 10 per cent of tsunami-related funds in Sri Lanka) to the detriment of the tsunami victims.

251. In Indonesia, the Board noted important stocks still awaiting use: 18,074 items valued at $321,250 procured three to five months prior to the Board's visit had not been utilized; neither had two containers of telecommunications equipment (one complete satellite system, five mini-sat telephones, 28 battery chargers, 18 repeaters, 11 inverters) stored in the warehouse since October 2005. Not putting them to immediate use was not a prudent way of managing valuable resources, not to mention the risks associated with long storage.

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14 Buying in excess of needs was the result of a governmental requirement and UNHCR was not responsible for that.

252. The Board recommends that UNHCR improve its needs assessments for non-food supplies in order to minimize the stocks in the warehouse, optimize the use of the non-food supplies and redeploy unused stocks.

253. UNHCR reported it was looking into ways to improve its contingency planning, stock pre-positioning and stockpiling in order to improve the quality and timing of the UNHCR response and to manage resources better.

(h) Relations with the military

254. UNHCR used military means in the emergency phase. Most notably in Indonesia, UNHCR used Swiss helicopters but also United States army vehicles or Indonesian army vehicles. The Board noted that there was a lack of agreement between the United Nations and military forces, apart from a memorandum of understanding between UNHCR and the Swiss army.

255. UNHCR was guided by a reference paper on “Civil-military relationship in complex emergencies” endorsed by the Inter-Agency Standing Committee Working Group in June 2004, as well as the “Guidelines on the use of military and civil defence assets to support United Nations humanitarian activities in complex emergencies” of March 2003. UNHCR was in the process of reviewing existing standby agreements to increase its response and intervention capacity.

256. The Board recommends that UNHCR, together with other United Nations agencies, consider concluding advance agreements with military forces in order to improve coordination in emergency phases.

15. Procurement management

257. In its report for the period ended 31 December 2004 (A/60/387), the Advisory Committee on Administrative and Budgetary Questions mentioned:

“With regard to UNHCR procurement activities, the Board notes that some field offices did not develop procurement plans, vendor rosters and purchase order logs. Also, competitive bidding was not always used. During the deliberations, the Advisory Committee was informed by the Board that competitive bidding was not always used because goods and services had to be obtained at short notice during crisis situations. The Committee notes that this in itself does not necessarily constitute a violation of the Organization’s financial regulations and rules. In this respect, financial rule 105.16 specifies situations where competitive bidding may not be in the best interest of the Organization, including exigency situations. The Committee looks forward to further details on this matter in the Board’s follow-up report on UNHCR.”

(a) Procurement activity in UNHCR

258. The Board noted that UNHCR had limited knowledge of its overall procurement activities. Its Supply Management Service at headquarters had detailed data on procurement at headquarters but had limited or no information on total procurement managed by field offices and implementing partners. According to an estimate by the Supply Management Service, this limited accurate data on approximately 36 per cent of UNHCR procurement.

259. The total amount of procurement carried out by UNHCR headquarters in 2005 amounted to $112 million; it had doubled since 2000. Of those purchases, 10 per cent were intended for the Sudan, 7 per cent for Chad and 5.5 per cent for Burundi. Since 2004, the highest value items are “Other transport”, “Terrain vehicles” and “Information technology services”. They represented approximately one third of total purchases by headquarters.

260. UNHCR agreed with the Board’s recommendation that it improve its knowledge of procurement activities throughout the organization.

(b) Lack of a procurement plan

261. There was no procurement plan at UNHCR headquarters. For field offices, the Board noted that, since 2003, on average 50 procurement plans, or those of 43 per cent of all field offices, were sent yearly to headquarters for analysis.

262. Such practices are contrary to the UNHCR Manual, which specifies that such plans are essential to provide the Supply Management Service with the information needed to understand global requirements, ensure quality support to operations and establish strategic arrangements that reduce costs.

263. UNHCR agreed with the Board’s recommendation to establish annual procurement plans.

(c) Tests on procurements

264. The Board reviewed a sample representing $25.1 million, 22 per cent of the amount purchased in 2005, and six valid frame agreements,[15] or 13 per cent of the existing frame agreements.

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[15] Frame agreements are established for goods and services for which, based on planning data such as purchasing plans and analysis of history data, UNHCR expects frequent requisitions over a defined period of time. While actual quantities and the timing are not definitely known in advance, commitment from the vendor is still needed.

(d) Conditions of date/hour for the submission of tenders

265. In any invitation to tender launched, the definition of a date/hour beyond which UNHCR would not accept any more offers is a crucial element of the procedure. It allows equity in the treatment of tenders and guarantees the rigour and transparency of the procedure, thus limiting any dispute by a prospective contractor.

266. The Board noted that for two invitations to tender (for the Storage Area Network procurement and the implementation of the build and deploy phase of Human Resources and Payroll) some bids were received after the deadlines. They were, however, considered. This was justified and accepted by the Committee on Contracts in the interest of the organization.

(e) Committee on Contracts

267. The Board noted that cases for the selection of five vendors for a total amount of $1.3 million had not submitted for the Committee's prior approval. That was in contravention of the UNHCR rules on procurement, which require that contracts entered into with a single vendor in the previous 12-month period which, in total, amount to $200,000 should be submitted to the Committee.[16]

268. UNHCR agreed with the Board's recommendation that it establish a threshold warning system to monitor compliance with the rules of referral to the Committee on Contracts.

(f) Local committees on contracts and receiving reports from the field

269. Out of 118 country offices 76 have established a local committee on contracts. In spite of the recommendations repeatedly made by the Office of Internal Oversight Services, the Board noted that local committees on contracts do not all send their minutes and terms of reference to the headquarters Committee on Contracts. The Board also noted that, in 2005, six vendors selected by field offices were not referred to the headquarters Committee on Contracts, although the amounts involved were above the $150,000 threshold set in the UNHCR Manual.[17]

270. Through the review of purchase order files, the Board noted only a few receiving reports from consignees justifying the receipt of goods and services purchased by the Procurement and Contracts Section. Field offices delay or do not send these reports proving the delivery and the correct reception of the goods.

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[16] Chapter 8, section 2.5.4.1 of the UNHCR Manual refers.

[17] Idem.

271. UNHCR agreed with the Board's recommendation that it improve the reporting and functioning of local committees on contracts and remind the field offices of their obligation to inform headquarters of the correct reception of the goods sent to them.

(g) Competitive procedure after a waiver of competitive bidding

272. The purchases in 2005 that were not subject to competitive bidding represented a total of $27.5 million for 31 transactions, or 24 per cent of 2005 procurement. Four principal cases account for 69 per cent of the total, with a value of $18.95 million.

273. The explanations provided to the Committee on Contracts to justify the waiver of competitive bidding were in line with the provisions of chapter 8, paragraph 2.5.3.3 of the UNHCR Manual on waivers of competitive bidding.

274. The Board nevertheless recommends that UNHCR limit the use of waivers of competitive bidding.

(h) Management of vendors

275. UNHCR considers that "establishing and maintaining a database of potential vendors is a critical part of sourcing".[18] However, the Board noted that the financial stability of none of the vendors in the sample reviewed had been assessed, contrary to requirements of the UNHCR Manual on procurement.[19]

276. UNHCR agreed with the Board's recommendation that it systematically conduct an analysis of the financial stability of its vendors, subject to the feasibility of assessing vendors in remote locations.

277. When reviewing the vendor databases for headquarters and field offices, the Board noted that 1,084 (68 per cent) and 2,815 (78 per cent) respectively of the vendors recorded as active had not been used in the previous three years, and should therefore be considered as inactive, in line with UNHCR requirements.[20] Databases should be updated accordingly. There was no vendor review committee in the Supply Management Service.

278. UNHCR agreed with the Board's recommendation that it update its vendor databases and create a vendor review committee or extend the role of the Committee on Contracts.

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[18] Chapter 8, section 2.2.2 of the UNHCR Manual refers.

[19] Chapter 8, section 2.2.2.1.2 of the UNHCR Manual refers.

[20] Chapter 8, section 2.2.2.1 of the UNHCR Manual refers.

(i) Seniority of staff

279. The Board noted that as at 15 March 2006 the average duration in function for procurement staff was about nine years. A total of 14 staff members (out of 24) have been directly involved in the procurement process for more than five years, including six for more than 15 years. For instance, the current Chief of the Procurement and Contracts Section entered the Supply Management Service in 1993 and three procurement assistants have been assigned to procurement functions at UNHCR for more than 20 years.

280. UNHCR agreed with the Board's recommendation that it improve the rotation and mobility of staff involved in procurement functions, in line with best practices.

16. Fraud and presumptive fraud

281. As required under the Financial Regulations and Rules of the United Nations, which are applicable in the absence of any specific rules on this matter in the financial rules of UNHCR, the Administration reported 14 cases of fraud and presumptive fraud to the Board of Auditors for the financial period ended 31 December 2005. For 2004, UNHCR had reported five such cases and 19 specific resettlement cases to the Board.

282. The cases referred to below remained pending and the potential losses had yet to be determined by UNHCR. UNHCR reported that it had recovered $7,207 out of $169,156 of alleged fraudulent losses by 31 December 2005.

(a) In four cases, staff members were alleged to have certified false information or submitted fake certificates in respect of education grants. The total amount of losses was fixed at $105,456 while only $7,207 was recovered. In two cases, the allegation was not substantiated, in one case the investigation was not finalized and in one case a staff member was separated from service;

(b) In three cases, staff members were alleged to have submitted fraudulent medical insurance claims based on false documents ($1,800). Disciplinary measures were implemented, including separation from service, but as at 31 May 2006 the funds remained unrecovered;

(c) In four cases, staff members were alleged to have stolen funds ($61,900) from the organization. The funds have not been recovered but disciplinary measures have been undertaken: in two cases the investigation was not finalized and in two cases there were summary dismissals;

(d) In three cases, staff members were alleged to have taken bribes from refugees in return for their resettlement submission or from vendors to facilitate the competitive bidding. These damages were not the cause of direct losses for UNHCR. In one case, the allegation was not substantiated and in two cases disciplinary measures were in progress.

283. UNHCR could not inform the Board of the controls that had been implemented to prevent the recurrence of such cases, except in one case where the Regional Representative of UNHCR was advised to organize routine meetings of colleagues at the Cairo Office to promote familiarization with staff rules and regulations. The UNHCR Inspector General's Office, however, indicated that its Investigation Unit was proactively working on strengthening its counter-fraud role through prevention by means of, inter alia, awareness-raising and education. In January 2005, the Investigation Unit launched the Investigation Learning Programme to develop skills and confidence of some 100 staff to assist in undertaking investigations into allegations of misconduct against staff members. In February 2006, UNHCR launched the "Accountability Portal", initiated by the Investigation Unit. The portal is accessible to all staff from the HCR Intranet. It serves as a repository of information relating to the human and financial resources of UNHCR. Furthermore, the portal provides links to important sources of information, including the Fraud Bulletin.

284. The Board recommends that UNHCR continue to strengthen controls and procedures to identify and mitigate the risk of fraud.

D. Acknowledgement

285. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner and his staff.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Lead Auditor

(*Signed*) Guillermo N. **Caragué**
Chairman, Philippine Commission on Audit
Chairman of the Board

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

July 2006

Note: Mr. Séguin has signed the English and French versions of the report of the Board of Auditors; the other members of the Board have signed only the English version.

Status of implementation of recommendations of the Board for the financial period ended 31 December 2004[a]

Topic	*Financial period first reported*	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Relevant paragraphs in the present report*
A. Financial issues						
After-service liabilities[b]	2000		Para. 53		1	
Disclosure in financial report	2003	Para. 58	Para. 20		2	
Accounting for currency exchange	2003		Para. 97		1	
Expenditure[b]	2004	Para. 87			1	
Cash and bank	2004	Paras. 89 and 91			2	
Deferred charges	2004	Para. 93			1	
Memorandum of understanding with United Nations Development Programme	2004		Para. 69	Para. 71	2	
Contributions	2004	Paras. 74, 81 and 83	Paras. 77 and 79		5	
B. Management issues						
Division of International Protection	2004	Paras. 139, 143, 150, 172, 180, 182, 191, 197 and 201	Paras. 147, 156, 161, 168, 170, 178, 186, 188, 195 and 203	Paras. 163, 166, 175 and 184	23	
Statistics	2003		Para. 251		1	
Results-based management	2004		Paras. 208, 211, 216, 224, 235, 238 and 242	Para. 214	8	
Project personnel	2002		Para. 129		1	
Information and communication technology	2003		Paras. 245, 247 and 249		3	
Field office management	2004	Para. 273	Paras. 253, 255, 257, 259, 261, 265 and 268		8	
Oversight Committee	2004	Para. 35	Paras. 31 and 38		3	
Implementing partners	2004		Para. 109		1	
Asset management[b]	1996		Para. 102		1	
Total		**19**	**39**	**6**	**64**	
Percentage		**30**	**61**	**9**		

[a] See *Official Records of the General Assembly, Sixtieth Session, Supplement No. 5E* (A/60/5/Add.5), chap. II; para. 122 was overtaken by events.
[b] Reiteration of 2002 recommendation.

II. Audit opinion

We have audited the accompanying financial statements of the Office of the United Nations High Commissioner for Refugees, comprising statements numbered I to III, schedules numbered 1 to 5 and the supporting notes for the year ended 31 December 2005. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency, and in conformity with international standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the High Commissioner, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the United Nations High Commissioner for Refugees as at 31 December 2005 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations System Accounting Standards.

Furthermore, in our opinion, the transactions of the funds of the High Commissioner for Refugees that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations High Commissioner for Refugees.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Lead Auditor

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit
Chairman of the Board

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

28 July 2006

Note: The members of the Board of Auditors have signed only the English version of the audit opinion.