

FOLLOW-UP TO THE RECOMMENDATIONS OF THE BOARD OF AUDITORS
ON THE ACCOUNTS FOR 2007 AND PREVIOUS YEARS

I. INTRODUCTION

1. Following the United Nations Board of Auditors' report on UNHCR's accounts for the year 2007, UNHCR and the Board agreed on four high risk areas as the focus of reporting by the Office, namely: implementing partner audit certification; asset management (non-expendable property); staff-in-between assignments policy; and end-of-service and post-retirement benefits and liabilities. This document provides an update on action taken and planned in response to the Board's recommendations for these four high risk areas. Concerning the follow-up on other remaining recommendations contained in the Board's respective reports on UNHCR's accounts for the years 2007 and 2006, detailed matrices indicating actions taken to date have been placed on UNHCR's website (www.unhcr.org/excom).

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

- (a) the Board's 2006 report on UNHCR's 2005 accounts has been closed;
- (b) the Board's 2007 report on UNHCR's 2006 accounts remains open, pending the closure of five recommendations, related mainly to: global centralization of payment release, which is being implemented by region; the reconciliation of bank accounts and negative petty cash balances in the Field; the update of the assets database and improvement of the monitoring of Local Asset Management Board (LAMB) decisions; and lastly, the synchronization of implementing partner audit certification data between the *LiveLink* document management system and the Management Systems Renewal Project (MSRP). In 2008, UNHCR has made progress in implementing the Board's recommendations. The global centralization of payment release is expected to be fully implemented by the end of 2009. UNHCR has established updated procedures on bank account administration, and has developed a system for monitoring LAMB cases in the Field. In 2008, UNHCR was not able to develop an interface between the two software programmes, *LiveLink* and MSRP; however, information contained in the two systems is now regularly and manually compared and reconciled; and
- (c) the Board's 2008 report on UNHCR's 2007 accounts, issued in July 2008 contained 21 recommendations, 13 of which relate to the four risk areas outlined below. The remaining recommendations are related to the implementation of International Public Sector Accounting Standards (IPSAS) anticipated for 2010; the closure of bank accounts; negative petty cash balances; and the correction of wrong entries under the "write-off" account. UNHCR has

made significant progress against many of the outlined recommendations in the Board's 2008 report. This progress will be assessed during the Board of Auditors' visit to UNHCR in March 2009.

II. MAIN RISK AREAS IDENTIFIED BY AUDIT AND ACTION TAKEN

A. Implementing partner audit certification

3. The Office has monitored and reinforced its procedures regarding implementing partner audit certification processes, building on the Board of Auditors' comments and agreed actions in the course of the past two years of audits. UNHCR conducted a survey during the second half of 2008 to check the status of engagement of audit firms in the Field. The result of this survey revealed that all country offices with sub-projects due for external audit certification had contracted audit firms for the 2008 sub-projects audit exercise. In some locations the audit had already started or the process had been initiated by December 2008. Statistics from MSRP also indicated that 76 per cent of 2007 audit certificates had been received by 20 January 2009, compared to 28 per cent received by the same date in 2008. Additionally, UNHCR is developing standard Terms of Reference (TORs) to be used by external audit firms in the Field in order to harmonize the structure and content of information included in the audit reports. The ultimate goal of this process is to facilitate the monitoring of comparable audit reports and to highlight risks associated with the various partnerships. Furthermore, processes have been streamlined to make optimal use of MSRP and the *LiveLink* documents management system, so that audit information is available to the Finance Section and senior management in a timely manner. Reporting has been enhanced to allow easier monitoring of sub-projects subject to audit certification and the tracking of qualified audit opinions and related follow-up.

4. These statistics demonstrate that UNHCR has made significant progress towards improving the financial reporting of sub-projects. With regard to the qualitative review of audit opinions, UNHCR's Financial Control Section (FCS) continues to work on the analysis of audit certificates with field offices and the relevant desks at Headquarters in order to address the reasons for qualification. FCS is also determining, with the assistance of field managers, any financial impact of the qualification. Solutions for the development of the technical interface between MSRP and *LiveLink*, as originally requested by the Board of Auditors, also continue to be pursued. Pending this solution, UNHCR is manually comparing and reconciling information contained in the two systems.

B. Asset management (non-expendable property)

5. The Board of Auditors noted in its report on UNHCR's Financial Statements for 2007 that UNHCR had pursued efforts to clean up its non-expendable property database. Although some deficiencies still arose on the accuracy of the disclosure of UNHCR's non-expendable property in the notes to UNHCR's Financial Statements, the impact of these deficiencies was considered to be immaterial by the External Auditors. UNHCR has decided to outpost the Asset Management Unit (AMU) to the Global Service Centre in Budapest to have the unit physically closer to the Supply Management Service (SMS) and the Financial Control Section (FCS). This will further improve the efficiency of the unit in cleaning up the database and ensuring that asset management procedures are better integrated between the asset management and financial modules in MSRP. AMU is currently in the process of moving to Budapest and is expected to be fully operational as of March 2009. As part of the continuing efforts to clean up the database, UNHCR has implemented a quarterly reconciliation between the database and non-expendable property purchased and recorded in the general ledger during the financial year.

6. AMU has identified six areas of specific focus namely: a) purchases that have not been recorded in the asset management module; b) assets with status “received (not in service)” for more than six months; c) assets with status “in transit” for more than six months; d) GS-45 (asset disposal forms) that are “open” for more than one year; e) verification of assets over 15 years old that are still listed as “in service”; and f) periodic asset verification. For each of these areas, AMU has developed a set of reports that are being issued to the Field on a monthly basis. In addition, management reports have been developed to provide an overview of the progress of the ongoing clean-up. AMU estimates that this exercise will be finalized by June 2009. The reconciliation with the general ledger will only be completed once transaction processing between the asset module and the general ledger has been turned on. This is foreseen as part of the IPSAS implementation, scheduled for completion by end 2009. UNHCR has, in addition, established a database for LAMB activity in the Field and can now produce related monthly statistics. Upon further development of the database, it is foreseen that all cases considered for disposal by the LAMBs will be followed up by the AMU until disposed.

7. AMU and an IPSAS working group on asset management are in the process of revising the threshold for assets to be in line with IPSAS policies and the practice of other United Nations agencies. In 2008, UNHCR issued directives regarding a new policy on inventories, non-expendable property, and serial tracking of items. These directives are intended to introduce UNHCR’s policy with regard to inventoried items in warehouses; to provide instructions for the inventory data clean-up; and to define clearly serially tracked items and introduce the policy on their administration and management. Also as part of the IPSAS-compliance project, the AMU is planning to coordinate a full review of non-expendable property for every country during 2009. Furthermore, the IPSAS working group, the Supply Management Services (SMS) and the Division of Financial and Administrative Management (DFAM) are working together on revising the item master in MSRP to align the default account codes for non-expendable property items with the accounting rules used by the Budget and Finance Services in the general ledger.

C. Staff-in-between assignments policy

8. The Board stressed the need for UNHCR to reassess its staffing needs in order to: ensure that actual staffing does not exceed the authorized numbers; carry out systematic and accurate budgetary monitoring of the budgetary costs of staff in between assignments (SIBAs), taking into account remuneration as well as benefits and allowances; and undertake an in-depth review as to the reasons for the 2007 increase in the budgetary cost of SIBAs.

9. Ensuring that the Office maintains an effective balance between positions and actual staffing is one of the policy priorities of the High Commissioner. The comparative review mechanism, in accordance with the United Nations Staff Rules, is implemented regularly for locally recruited staff in field locations. Since 2007, it has also been introduced for general service staff at Headquarters. A variety of measures have been introduced to mitigate the impact of post discontinuation and reductions on the staff, which will in turn reduce the number of general service staff who hold indefinite contracts being drawn into a comparative review procedure. In an effort to align staff members and posts in the professional category and to reduce the number SIBAs, in 2008, the Division of Human Resources Management (DHRM) issued an internal memorandum (IOM/FOM IOM/070-FOM/072/2008 and corr.1) on policy and transitional measures to identify suitable assignments for SIBAs in the international professional category. This policy aims to reduce the number of SIBAs, in particular non-working SIBAs. DHRM started implementing this policy in October 2008. As the issue of SIBAs has been

partially linked to the current posting system, DHRM has also developed a new human resources framework for joint staff-management consultations, and has established a Career Management Support Section which will begin functioning in the first half of 2009. These measures are aimed at resolving the situation of indefinite-appointment holders who are not appointed to regular positions within the context of UNHCR's rotational postings system. UNHCR reiterates that, at any given time, there will be a number of staff without a post who have completed a standard length of assignment in one duty station and are being appointed to another, in accordance with UNHCR's policy on the equitable rotation of staff.

10. UNHCR completed the analysis relating to the 2007 increase of the cost of SIBAs by the end of 2008. As a result, new measures have been adopted to control the charges against the non-working SIBA account. DHRM is also closely monitoring all temporary assignments to ensure that all charges are against vacant positions or covered by alternative budgets when appropriate. This will avoid the previously encountered inflation of the number of SIBAs charged to one cost centre. DHRM makes every effort to reduce the number of non-working SIBAs by facilitating their deployment on missions and temporary assignments; however, authorization for external recruitment for short-term assignments is still granted on an exceptional basis when no SIBA staff member with a suitable profile is available.

D. End-of-service and post-retirement benefits and liabilities

11. The Board recommended that UNHCR urgently set up specific funding to balance the impact of accrued after-service liabilities, notably for health insurance. UNHCR has recognized provisions for after-service health insurance, repatriation benefits and accrued annual leave, in accordance with instructions from the Controller of the United Nations in March 2007. These liabilities were recorded in the 2007 accounts.

12. UNHCR is studying various options for funding accrued after-service liabilities. The Office is looking at the funding mechanisms being considered or already used by other United Nations organizations and intends to be guided by the approach that United Nations system organizations will take as regards funding end-of-service and post-retirement liabilities. UNHCR presented an information paper to the June 2008 Standing Committee on the action taken so far, and will hold consultations with key stakeholders on the matter. By mid-2009, the Office intends to present a proposal to the Executive Committee on a funding mechanism for these liabilities. Until such time as a formal funding mechanism is adopted, UNHCR will continue to follow the current "pay-as-you-go" approach, and report the liabilities and related disbursements under the Staff Benefits Fund in the accounts. As part of the annual After Service Health Insurance and repatriation benefits actuarial valuation, UNHCR has asked the actuaries to provide projections of end-of-service and post-retirement benefits liabilities within five to ten years.

III. CONCLUSION

13. UNHCR has taken measures to mitigate and address the high risk areas identified during the audit of the 2007 financial accounts, as well as other audit recommendations from prior years. These measures have been implemented in close cooperation with the Board of Auditors, which is providing the necessary direction and advice on financial and management matters.
