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and administrative oversight

### **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 2008**

Report by the Secretariat \*\*

\* Including the Audit Opinion.

\*\* Late submission due to late receipt of document.

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## I. REPORT OF THE BOARD OF AUDITORS

### *Summary*

The Board of Auditors has reviewed the operations and audited the financial statements of the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2008. The audit was carried out through field visits to UNHCR offices in Costa Rica, Croatia, Kyrgyzstan, Panama and the Bolivarian Republic of Venezuela, as well as a review of the financial transactions and operations at headquarters in Geneva and the Global Service Centre in Budapest.

The Board also addressed special requests made by the Advisory Committee on Administrative and Budgetary Questions and the General Assembly.

The Board has issued a qualified opinion on the financial statements for the year ended 31 December 2008, as set forth in chapter III. The qualification relates to the inclusion, in the figure of \$1.628 billion shown as total expenditure in statement I, the sum of \$498.6 million representing expenditure incurred by UNHCR on projects performed through implementing partners. This latter expenditure was subject to independent audits by third-party auditors. As at 29 June 2009, however, of the total amount of \$498.6 million that required audit certification, certificates covering \$252 million, or 50.5 per cent, had not been received by UNHCR, although the audit reports were generally due by 30 April 2009. In addition, concerning prior years, approximately 10 per cent of expenditure for 2005 had not yet been substantiated by audit certificates as at June 2009. Similarly, for 2006 and for 2007, 14 per cent and 17 per cent, respectively, were not covered. Further, of the audit certificates received by UNHCR for 2008, \$29.5 million, or 12 per cent of the value of audit certificates received, reflected qualified audit opinions. In the circumstances, the Board has been unable to obtain adequate assurance as to the validity of a significant portion of expenditure incurred through implementing partners. This matter has been emphasized by the Board in previous reports, and it recommended improvements to the controls over the management of expenditure incurred by implementing partners.

The Board has also emphasized in its opinion the following matters:

(a) Note 15 to the financial statements discloses the value of non-expendable property. This disclosure is based on use of a database, the shortcomings of which have been highlighted in the Board's previous reports. Even though some progress was observed, several anomalies have not been corrected. The Board expresses concern about the impact of these discrepancies on the accuracy of the amount disclosed as UNHCR assets;

(b) The value of expendable property inventories was not disclosed either on the face of the financial statements or in the notes, as required by the United Nations system accounting standards. UNHCR estimated the value of expendable property to be \$109.3 million as at 2 March 2009; however, the Board found that the expendable property database was not fully reliable;

(c) As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of \$130.1 million. This situation highlights the need for UNHCR to identify funding to cover these liabilities.

In its previous report, the Board issued a modified opinion with three emphases of matter relating to: (a) expenditure incurred by UNHCR through implementing partners, where UNHCR needed to improve further the rate of submission of audit certificates; (b) deficiency in the management of non-expendable property; and (c) absence of financing for end-of-service liabilities.

#### *Coordination with internal audit*

The Board coordinated the planning of the audit with the Office of Internal Oversight Services (OIOS) in order to avoid duplication of effort. In addition, the Board reviewed the internal audit coverage of the operations of OIOS to assess the extent to which reliance could be placed on its work.

#### *Follow-up on previous recommendations of the Board*

As requested by the Advisory Committee on Administrative and Budgetary Questions and in accordance with paragraph 7 of General Assembly resolution 59/264 A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and has indicated the financial periods in which the recommendations were first made. Of the 21 recommendations, 7 had been fully implemented (33 per cent), 11 had been partially implemented (53 per cent) and 3 had not been implemented (14 per cent).

#### *Financial overview*

Total income in 2008 was \$1.652 billion, while total expenditure amounted to \$1.628 billion, giving rise to a surplus (before adjustments) of \$23.7 million. Had it not been for the recognition of a charge of \$26 million, representing end-of-service and post-retirement liabilities, the surplus would have been \$49.7 million.

The cash-to-liabilities ratio stood at 0.58. As in 2007, this figure is much lower than in previous years, reflecting the provision made for end-of-service and other post-retirement liabilities.

#### *Statement of income and expenditure*

As at 31 December 2008, unliquidated obligations amounted to \$120.5 million, which represented 7.4 per cent of expenditure for the year. Although measures were taken by UNHCR to check the validity of obligations, the Board found instances of obligations raised, for a total amount of \$1.4 million, which did not relate to the 2008 financial year. This indicates that checks had still not been implemented with sufficient accuracy to completely rule out the risk of overstatement of expenditure.

*Statement of assets, liabilities, reserves and fund balances*

As at 31 December 2008, UNHCR assets amounted to \$458.3 million compared to \$401.5 million at the end of 2007, representing an increase of 14.1 per cent. Liabilities amounted to \$588.4 million as at 31 December 2008, compared to \$579.5 million at the end of 2007, an increase of 1.5 per cent. However, the level of liabilities increased by 338 per cent compared to the 2006 level because of the disclosure, since 2007, of accrued end-of-service and post-retirement liabilities, notably those for after-service health insurance benefits which amounted to \$369 million as at 31 December 2008. No funding had yet been found for the after-service health insurance benefits and end-of-service and post-retirement liabilities.

Modifications in the process for income recording after the relocation of the finance section to Budapest led to disruption in the recording of contributions. Payments received for contributions in 2008 were still being recorded in suspense accounts used to book contributions in advance, pending application of the deposits to the corresponding receivables. Consequently, contributions in advance and contributions receivable were overstated by \$29.9 million and \$28.6 million, respectively. Corrections were made upon discovery of the errors.

*After-service health insurance liabilities*

Total accrued liabilities for after-service health insurance benefits, estimated by actuarial valuation, amounted to \$307.8 million as at 31 December 2008. In accordance with the request of the General Assembly in its resolution 61/264, the Board validated the calculation of these liabilities by the actuaries.

*Progress towards the implementation of the International Public Sector Accounting Standards*

The Board noted that limited progress had been made regarding the transition to International Public Sector Accounting Standards. The Board expresses its concern about the lack of human resources assigned to this project. Also, it noted that UNHCR had not yet finalized its strategy for adapting its enterprise resource planning system to those Standards.

*Cash management*

As noted in previous reports, the Board found that bank accounts remained inactive without being closed and that petty cash accounts were subject to negative balances resulting from erroneous conversions of local currencies or errors in accounting records.

*Management of non-expendable property*

In its previous report, the Board issued an emphasis of matter on the deficient management of non-expendable property. As a result, UNHCR has continued to clean up the database concerned. The remaining anomalies suggest that the database clean-up was

not completed. The Board noted a discrepancy between the value of non-expendable property disclosed in the financial statements and the value calculated by the Board on the basis of the data communicated by UNHCR.

#### *Expendable property*

The value of expendable property held at the end of the year was neither disclosed in the financial statements nor in a note thereto, although the value of said stock was significant. As at 2 March 2009, UNHCR estimated its value at \$109.3 million.

#### *Human resources management*

After a steady increase between 2005 and 2007, the number of staff in between assignments decreased from 172 to 149 between 2007 and 2008, a decrease of 13.4 per cent, attributable mainly to voluntary separation. According to the UNHCR statistics, as at 31 December 2008, 99 staff in between assignments (or 66.4 per cent of the total) were working on temporary assignment. The other 50 (or 33.6 per cent) were on special leave with full pay. To encourage staff in between assignments to accept jobs, an instruction dated October 2008 provided that officials who refused three job offers in a row would be placed on unpaid leave.

#### *Programme and project management*

There was a deterioration in the rate of receipt for subproject reports from implementing partners. As at 31 December 2008, the percentage of reports received stood at 65.3, compared with 76.4 per cent at the end of 2007.

In terms of audit certificates received from third-party auditors, as at 29 June 2009, certificates for amounts totalling \$252 million, or 50.5 per cent of the total amount of \$498.6 million due for 2008, had not been received. Excluding projects for which extension of the liquidation period had been approved, the compliance rate was 58.1 per cent (\$224 million of \$385.7 million).

The Board also noted that long-outstanding instalments to implementing partners awaiting justification for more than one year still amounted to \$4.8 million.

#### *Internal audit activity*

Of 19 audits of UNHCR operations or field offices planned by OIOS for 2008, 13 assignments were carried out during the year (68 per cent of the total). In addition, of the 19 posts of auditors assigned to the UNHCR audit team, 8 had been vacant for at least three months. The key findings of OIOS are included in the body of the present report.

*Write-offs*

In accordance with regulation 6.4 of the Financial Regulations and Rules of the United Nations and article 10.6 of the Financial Rules for the Voluntary Funds administered by the High Commissioner, UNHCR submitted to the Board a statement of amounts written off. UNHCR wrote off liquid assets and non-expendable property valued at \$117,713 and \$818,642, respectively.

*Ex gratia payments*

As at 1 July 2008, the High Commissioner approved the payment of \$216,036 to compensate staff members or their families who were victims of the attacks that took place in Algiers on 11 December 2007.

*Cases of fraud and presumptive fraud investigated*

In accordance with paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules, the Board noted the cases of fraud and presumptive fraud which had taken place during 2008, which were communicated to it by UNHCR. The number of reports of investigations and cases of fraud in 2008 was lower than that in 2007, even though the number of cases increased. The Board considered that the decrease in the number of reports of investigations sent by the Office of the Inspector General could be explained by vacancies, the dispersion of its activities, and insufficient cooperation with OIOS.

*Recommendations*

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 9 of the present report.

## A. Introduction

### 1. **Mandate, scope and methodology**

1. The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR) and has reviewed its operations for the year ended 31 December 2008 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those 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 financial statements presented fairly the financial position of UNHCR as at 31 December 2008 and the results of operations and cash flows for the year then ended, in accordance with United Nations system accounting standards. This included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Rules for the Voluntary Funds administered by the United Nations High Commissioner for Refugees. The audit also 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 of UNHCR operations, in conformity with United Nations financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organization. The General Assembly had also requested the Board to follow up on previous recommendations and to report on it accordingly. These matters are addressed in paragraphs 11 to 18 below.

4. During its examination of the reports of the Board concerning the year ended 31 December 2007, the Advisory Committee on Administrative and Budgetary Questions made a number of requests (see A/63/474). The response to these requests is reflected in paragraphs 17, 118 and 137 of the present report.

5. The Board continued to report the results of its audits to the Administration in the form of management letters containing detailed observations and recommendations, a practice which allows for ongoing dialogue with the Administration. Five management letters were issued for the period under review.

6. Where observations in the present report refer to specific locations, such observations are limited to the locations specified. They in no way imply that they are applicable to other locations or that they do not exist also at other locations.

7. 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, the views of which have been appropriately reflected in the report.

## **2. Coordination with internal audit**

8. The Board continued to coordinate with the Office of Internal Oversight Services (OIOS) in the planning of its audits so as to avoid duplication of effort and to determine the extent of reliance that could be placed on its work. The results of the review by the Board of the internal audit activities are presented in section B.13 below.

## **3. Main recommendations**

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

(a) **Comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms for controlling the validity of obligations (para. 37);**

(b) **Set up specific funding for its accrued end-of-service and post-retirement liabilities, notably those related to after-service benefits (para. 61);**

(c) **Ensure that contributions received are subject to timely accounting processing by clearing the suspense accounts (para. 66);**

(d) **Approve a revised plan for the transition to the International Public Sector Accounting Standards, accompanied by a budget revised to include the cost of modernizing the software (para. 80);**

(e) **In preparing for the implementation of the International Public Sector Accounting Standards, review the control deficiencies identified in the recording of non-expendable property (para. 91);**

(f) **Continue its efforts to clean up its database for non-expendable property and establish a monitoring system for tracing all corrections made in the database during a financial year (para. 96);**

(g) **Disclose in future financial statements the value of expendable property unused at the end of the year in order to provide a more complete and accurate account of its assets (para. 106);**

(h) **Continue its efforts to reduce the number of staff in between assignments and not on temporary duty (para. 116);**

(i) **Continue its efforts to improve the rate of timely justification of the advances granted to implementing partners (para. 123);**

(j) **Assess the instalments made to implementing partners that have remained unjustified for more than one year and take appropriate measures to have them justified or recovered from the implementing partners (para. 127);**

(k) **Intensify its efforts to obtain the audit certificates from implementing partners by 30 April each year (para. 132);**

(l) **Intensify its efforts to conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the financial statements (para. 135);**

(m) **In collaboration with OIOS, take appropriate measures to reduce the time period for filling the vacant posts for internal auditors (para. 144).**

10. The Board's other recommendations appear in paragraphs 44, 47, 68, 83, 86 and 166.

## B. Detailed findings and recommendations

### 1. **Follow-up on previous recommendations of the Board**

11. In accordance with paragraph 7, section A, of General Assembly resolution 51/225, the Board examined the measures taken by UNHCR to implement the recommendations made in its report for the year ended 31 December 2007.<sup>1</sup> Of the 21 recommendations made, 7 had been fully implemented (33 per cent), 11 had been partially implemented (53 per cent) and 3 had not been implemented (14 per cent). More detailed information is provided in the annex to the present chapter.

#### *Partially implemented recommendations*

12. For the 11 recommendations not fully implemented, the Board noted that, in certain cases, their implementation depended on the introduction of medium-term projects involving in-depth reforms (e.g., funding of after-service and post-retirement liabilities). In some other cases, implementation was dependent on the ongoing upgrading of computerized databases (e.g., analysis of audit certificates, monitoring the cost of staff in between assignments, management of non-expendable property). The recommendation to assess the effects of relocation was ongoing, as the relocation was still under way.

13. On the other hand, in the Board's opinion, two recommendations could have been fully implemented had they been considered as a priority: verification of the validity of unliquidated obligations; and regular updating of the plan for implementing the International Public Sector Accounting Standards. These matters are further commented on in the relevant sections of the present report. UNHCR stated that it would endeavour to implement the recommendations that had not been fully implemented and that further resources would be assigned to implementing those of high priority.

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<sup>1</sup> *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5E (A/63/5/Add.5), chap. II.*

*Recommendations not implemented*

14. The three recommendations not yet implemented related to the obligation to disclose the value of expendable property in the financial statements, the closing of bank accounts and control over petty cash accounts. These matters have recurred over several years.

15. In regard to expendable property, paragraph 49 (iv) and the related appendices of the United Nations system accounting standards provide that the value of inventories, other than non-expendable equipment, furniture and motor vehicles, should be disclosed in the financial statements. UNHCR explained that its decision not to disclose the value of expendable property in the financial statements was a policy applied consistently by several United Nations organizations. Notwithstanding this, the Board has reverted to the matter in the present report.

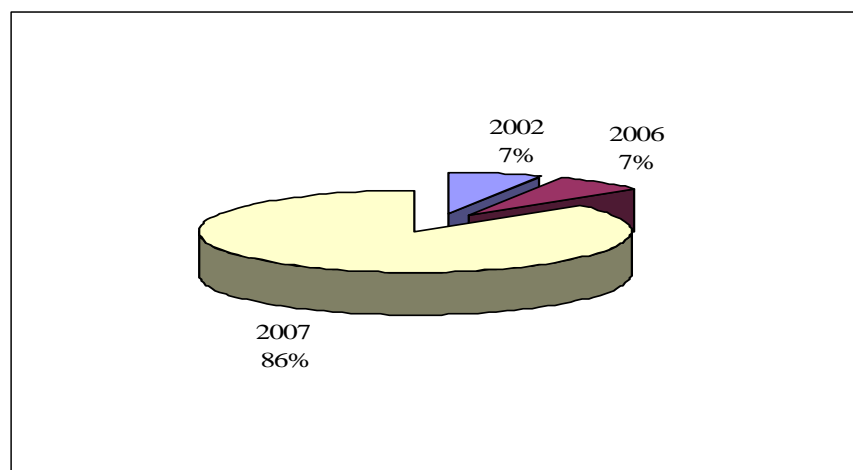
16. Concerning cash management, the Board has observed over several audits that bank accounts remained inactive for several years without being closed and that petty cash accounts showed negative balances. The Board has reverted to this matter also in the present report.

*Ageing of previous recommendations*

17. As requested by the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board analysed the ageing of its previous recommendations which were partially or not yet implemented. The years for which such recommendations were first made are indicated in the annex to the present chapter.

18. Of the 11 recommendations partially implemented and the 3 not implemented, 1 (7 per cent) was first raised in 2002, 1 (7 per cent) in 2006, and 12 (86 per cent) in 2007, as shown in figure II.I. Of the three recommendations not implemented, one was made for the financial year 2006 and two for 2007.

**Figure II.I**  
**Ageing of previous recommendations implemented only partially or not at all**



## 2. Financial overview

### *Key financial indicators*

19. The financial statements showed an excess of income over expenditure and an increase in cash. The analysis presented in table II.1 shows that there was a slight improvement of the ratio of cash to liabilities. This cash-to-liabilities ratio had been significantly reduced to 0.52 in 2007 compared to 1.68 as at 31 December 2006, because of the recognition in the financial statements, for the first time in 2007, of end-of-service and post-retirement liabilities.

**Table II.1**  
**Ratios of key financial indicators**

<i>Ratio</i>	<i>Financial year ended 31</i>				<i>Component of 2008 ratio<sup>a</sup></i>
	<i>December</i>				
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	
Contributions receivable/total assets <sup>b</sup>	0.32	0.20	0.17	0.18	81 585/458 320
Cash and term deposits/total assets <sup>c</sup>	0.54	0.68	0.75	0.75	342 127/458 320
Cash and term deposits/total liabilities <sup>d</sup>	1.19	1.68	0.52	0.58	342 127/588 430
Unliquidated obligations/total liabilities <sup>e</sup>	0.73	0.63	0.18	0.20	120 482/588 430

<sup>a</sup> Thousands of United States dollars.

<sup>b</sup> A low indicator depicts a healthy financial position.

<sup>c</sup> A high ratio depicts a healthy financial position.

<sup>d</sup> A low ratio indicates that cash is insufficient to settle debts.

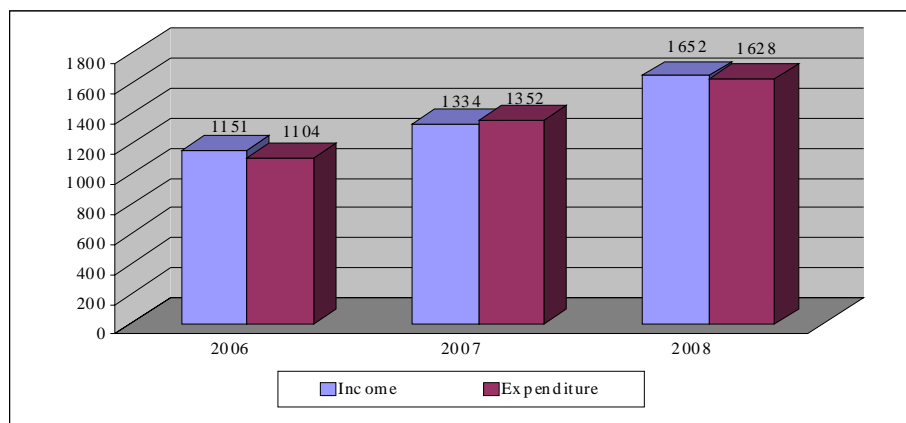
<sup>e</sup> A low ratio indicates that obligations are being liquidated.

20. This situation is the result of a change to accounting policy, which modified the level of liabilities of UNHCR. Since 2007, the United Nations has modified the mode of presentation of amounts for end-of-service and post-retirement liabilities. Whereas these amounts were disclosed previously only in a note to the financial statements, they are now disclosed on the face of the statements. This matter is examined in the relevant sections of the present report.

## 3. Statement of income and expenditure

21. Total income for 2008 amounted to \$1.652 billion, while total expenditure was \$1.628 billion, giving a surplus (before adjustment) of \$23.7 million. This surplus took into account a charge of \$26 million, representing the end-of-service and post-retirement liabilities provided for the same year. The corresponding data are given in figure II.II.

**Figure II.II**  
**Income and expenditure, 2006-2008**  
**(Millions of United States dollars)**



*Source:* UNHCR financial statements.

22. Because of the recognition of end-of-service and post-retirement liabilities for which no specific funding was provided by UNHCR and for which it had previously made no provision, an adjustment to the reserves and fund balances was recorded as at 31 December 2007, reflecting the accrued liabilities. This resulted in a negative amount of \$178.1 million for the reserves and fund balances at the end of 2007. In 2008, because of an excess of income over expenditure (after adjustments) of \$31.8 million and the cancellation of prior-years unliquidated obligations of \$16.2 million, the negative amount of the reserve and fund balances was reduced from \$178.1 million to \$130.1 million.

23. Total income, which amounted to \$1.652 billion in 2008 compared to \$1.334 billion in 2007, increased by 23.8 per cent. This was mainly explained by the increase in voluntary contributions received by UNHCR for its supplementary programmes. Voluntary contributions represented 98.6 per cent of UNHCR total income. The income of the Annual Programme Fund reached \$1.043 billion in 2008, compared to \$929.3 million in 2007, an increase of 12.3 per cent. At the same time, the resources for the Supplementary Programme Fund amounted to \$543.8 million, compared to \$332.8 million in 2007, an increase of 63.4 per cent. The main operations financed from supplementary resources in 2008 were those in the Syrian Arab Republic (\$107 million), the Sudan (\$70.8 million), Iraq (\$50.4 million), Jordan (\$44.5 million), the Democratic Republic of the Congo (\$25.2 million) and Georgia (\$15.5 million).

24. As part of voluntary contributions, the allocation from the United Nations Regular Budget Fund amounted to \$33.9 million (or 2.1 per cent of the total income of UNHCR), while in 2007 it amounted to \$37 million (or 2.8 per cent of total income). The trend observed over several years towards a reduced contribution from the regular budget of the United Nations (3.4 per cent of total resources in 2005, 2.8 per cent in 2006 and 2.8 per cent in 2007) is continuing.

25. Expenditure was \$1.628 billion in 2008, compared to \$1.352 billion in 2007, an increase of 20.4 per cent. Table II 2, drawn from note 5 to the financial statements, shows the distribution of expenditure according to category of Fund (Annual Programme, United Nations Regular Budget, Supplementary Programme, Junior Professional Officers, Medical Insurance Plan, Working Capital and Guarantee, Staff Benefits).

**Table II.2**  
**Breakdown of expenditure in 2008**  
**(Thousands of United States dollars)**

<i>Fund</i>	<i>Programme</i>	<i>Support to programme</i>	<i>Management and administration</i>	<i>Total</i>
Annual Programme	703 847	292 804	62 961	<b>1 059 612</b>
Supplementary Programme	467 248	25 700	—	<b>492 948</b>
United Nations Regular Budget	—	—	33 854	<b>33 854</b>
<b>Subtotal</b>	<b>1 171 095</b>	<b>318 504</b>	<b>96 815</b>	<b>1 586 414</b>
Junior Professional Officers	—	—	—	<b>11 060</b>
Medical Insurance Plan	—	—	—	<b>3 111</b>
Working Capital and Guarantee	—	—	—	<b>1 704</b>
Staff Benefits	—	—	—	<b>25 983</b>
<b>Grand total</b>	<b>1 171 095</b>	<b>318 504</b>	<b>96 815</b>	<b>1 628 272</b>

*Source:* Note 5 to the financial statements.

26. Overall, programme expenditure increased by 22.6 per cent (\$1.171 billion in 2008 compared to \$955.5 million in 2007), support for programme expenditure increased by 10.3 per cent (\$318.5 million compared to \$288.8 million) and expenditure for management and administration increased by 9.9 per cent (\$96.8 million compared to \$88.1 million).

27. Since partnerships are the mode of action favoured by UNHCR for implementing its operations on the ground, it is logical that the increase in programme expenditure would lead to an increase in payments to partners. Payments to implementing partners in 2007 increased by 36.9 per cent compared to 2006. As at 31 December 2008, these payments stood at \$531.5 million, 23.1 per cent above their level in 2007 (\$431.8 million). They represented 32.6 per cent of the total expenditure of UNHCR in 2008. However, the share of UNHCR payments that partners declared as having been spent by providing the appropriate supporting documents (\$347.2 million as at 31 December 2008) decreased, after having regularly increased over recent years. After having been at 64.4 per cent in 2005, 63 per cent in 2006, and 76.4 per cent in 2007, the rate of advances spent and justified by subproject monitoring reports decreased to 65.3 per cent, according to the figures contained in note 5 of the financial statements.

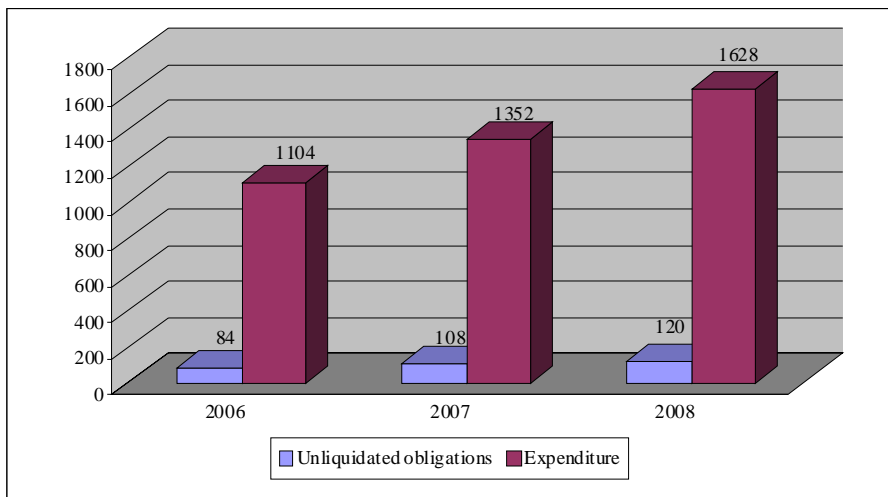
28. The rate of expenditure by implementing partners of the advances granted to them by UNHCR indicates that they are spent to carry out its programmes. The slowdown mentioned above must be compared with the significant increase in resources allocated to

programmes, mainly in the context of supplementary programmes during the year. This reversal of the trend is a source of concern for the Board and is the subject of a recommendation in paragraph 123 of the present report.

*Unliquidated obligations*

29. As at 31 December 2008, unliquidated obligations amounted to \$120.5 million, which represented 7.4 per cent of the total expenditure of UNHCR in 2008. Although unliquidated obligations increased by 11.6 per cent compared to the previous financial year (\$108 million), their proportion to total expenditure dropped slightly, from 8 per cent to 7.4 per cent. Figure II.III provides a comparison of unliquidated obligations to total expenditure in 2006, 2007 and 2008.

**Figure II.III**  
**Changes to unliquidated obligations and expenditure, 2006-2008**  
**(Millions of United States dollars)**



Source: UNHCR financial statements.

30. Paragraph 39 of the United Nations system accounting standards defines obligations as amounts of orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period and which will require payment during the same or future period.

31. In addition, financial rule 105.9 of the Financial Regulations and Rules of the United Nations states that an obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by the United Nations, and that all obligations must be supported by an appropriate obligating document.

32. In response to the recommendation of the Board in its previous report,<sup>2</sup> UNHCR had stated that it would continue its efforts to improve controls over the validity of unliquidated obligations at the end of the year, in particular by carrying out monthly reviews of unpaid purchase orders. Consequently, the Board reviewed the efforts made, as described below.

33. The amount of obligations raised prior to 2008 and cancelled by UNHCR in 2008 was \$16.2 million, compared with \$9.1 million in 2007. These cancellations represented 13.4 per cent of unliquidated obligations raised in 2008, compared with 10.8 per cent in 2007. This increase, of 78 per cent, in the cancellation of unliquidated obligations indicates that all rules might not have been strictly adhered to when these obligations were initially raised, but it also indicates that efforts were made by UNHCR to improve its control over the validity of obligations at year end, thus leading to the cancellations of unliquidated obligations.

34. The Board, however, established that purchase orders for a total value of \$351,953 should not have remained in the accounts as at 31 December 2008 since the corresponding obligations had been cancelled by the field offices.

35. These observations revealed that UNHCR should improve its efforts to check the validity of obligations raised. UNHCR indicated that, following the Board's audit, it had cancelled the obligations in question and had reviewed all purchase orders that might incorrectly remain in the accounts even if they were cancelled. The results of this review led UNHCR to cancel a total amount of \$1.4 million in unliquidated obligations for 2008, which was reflected in the corrected accounts.

36. The Board noted that measures had been taken to avoid cut-off errors and to check the validity of obligations. However, arising from the above-mentioned findings, the Board considers that these operations were not yet implemented with sufficient accuracy to rule out completely the risk of overstatement of unliquidated obligations, and therefore of UNHCR expenditure.

**37. The Board reiterates its recommendation that UNHCR comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms for controlling the validity of obligations.**

*Income from voluntary contributions*

38. As at 31 December 2008, voluntary contributions of \$1.628 billion represented 98.6 per cent of the total income of UNHCR. They increased by 24.8 per cent compared to 2007, when they reached \$1.305 billion.

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<sup>2</sup> Ibid., para. 36.

39. In its previous report,<sup>3</sup> the Board had observed that note 2 (f) to the financial statements made a distinction between pledges from Governments and pledges from other donors, one being recognized for their entire value and the others being recognized only at 50 per cent in the interest of prudent financial management. In accordance with paragraph 34 of the United Nations system accounting standards, voluntary contributions should not be recognized differently, depending on whether they were from Governments or from other donors but that, rather, provisions for slow or under-recovery should be considered, if necessary.

40. Paragraph 34 of the United Nations system accounting standards states that voluntary contributions formally pledged represent a good-faith commitment of the contributor for the period and/or programme to which they relate, and that such income should accordingly be recognized in that period. It also states that, in the interests of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required. Alternatively, the income may be recognized only when funds are received.

41. Consequently, the Board recommended that UNHCR review its accounting policy regarding the recognition of voluntary contributions in order to bring it in line with paragraph 34 of the United Nations system accounting standards.<sup>4</sup>

42. As a result, in 2008 UNHCR modified the note concerned (now note 2 (d)), by deleting the sentence reading, "In the interest of prudent financial management, up to one half of the value of firms pledges made by organizations of established repute is recognized as income". This means that all contributions, from whichever donor, are recognized for their total amount.

43. Note 2 (d) however, still mentions that pledges from Governments are fully recognized as income at the time of acceptance of the pledge. Consequently, the Board is of the view that the note in question does not reflect, as it should, the totality of the change although the new rule has been fully implemented by UNHCR.

**44. The Board recommends that UNHCR: (a) disclose any change in accounting policy in its notes for the financial year in which the changes are decided; and (b) disclose the effect of such a change in accounting policy, as required by paragraphs 18 and 19 of the United Nations system accounting standards.**

45. Although the Board recommended making provisions where necessary to comply with the concept of prudence referred to in paragraph 34 of the United Nations system accounting standards, UNHCR did not make a provision for contributions where recovery was doubtful. UNHCR considered that contributions recorded as income but not paid by the donor for a long time did not require such provision. Its policy concerning non-recoverable contributions was set out in note 2 (d) to the financial statements, which states

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<sup>3</sup> Ibid., paras. 53-56.

<sup>4</sup> Ibid., para. 57.

that pledges due are written off after five years unless the donor has reconfirmed the commitment in writing not more than 18 months before the end of the accounting period. No contribution was written off in 2008, whereas an amount of \$2.8 million in contributions had been written off in 2007.

46. The Board considers that to comply with paragraph 34 of the United Nations system accounting standards, UNHCR, instead of waiting five years to write off non-recoverable contributions, should every year make provision for contributions receivable for prior financial years, where collection is doubtful.

**47. The Board recommends that UNHCR review its policy concerning non-recoverable voluntary contributions to ensure compliance with paragraph 34 of the United Nations system accounting standards.**

48. UNHCR commented that it did not deem it necessary to provide for uncollectible voluntary contributions because past experience had shown that only on very rare occasions did voluntary contributions remain unpaid for more than five years.

#### **4. Statement of assets, liabilities, reserves and fund balances**

49. UNHCR assets increased from \$401.5 million at the end of 2007 to \$458.3 million as at 31 December 2008, or by 14.1 per cent. This growth in 2008 was mainly due to an increase of about 13.8 per cent in cash and term deposits.

50. As at 31 December 2008, UNHCR liabilities of \$588.4 million increased by 1.5 per cent compared to \$579.5 million in 2007, and by 338 per cent compared to \$134.4 million in 2006. As stated above, this increase is mainly explained by the recognition of end-of-service and post-retirement liabilities, which totalled \$369 million as at 31 December 2008.

51. UNHCR liabilities in the Staff Benefits Fund as at 31 December 2008 amounted to \$388.4 million, compared to \$374 million as at 31 December 2007. In addition to the benefits due on termination of service and after retirement which totalled \$369 million as at 31 December 2008 and comprised after-service health insurance liabilities of \$307.8 million, repatriation allowances of \$27.7 million and compensation for unused vacation days of \$33.5 million, UNHCR recognized an amount of \$19.4 million as a liability related to the two voluntary separation plans for its officials.

#### *Voluntary separation expenses*

52. The two voluntary separation plans formulated in 2007 and 2008 stemmed from the decision taken by UNHCR to reduce its staffing levels in order to contain staff costs which it considered too high. Expenses for voluntary departures to be paid stood at \$6.6 million as at 31 December 2007. This corresponded to the first plan, formulated in 2007. In 2008, a second plan concerning 164 persons was decided upon, for a cost of \$21.5 million.

*End-of-service and post-retirement liabilities*

53. Excluding voluntary departures, the outstanding amount due for benefits payable on termination of service and after retirement hardly changed from 2007 to 2008, increasing only slightly from \$367.5 million to \$369 million.

54. The United Nations system accounting standards require provision in the financial statements for end-of-service and post-retirement liabilities to the extent required by the financial policies of the organization. Until 2006, in accordance with the standards, UNHCR disclosed such liabilities in the notes to the financial statements. After a series of observations concerning the inappropriateness of this accounting treatment, particularly from the Board, the General Assembly decided to recognize these liabilities (resolution 60/255, sect. III). They were disclosed for the first time on the face of the UNHCR financial statements for the year ended 31 December 2007.

55. The recording of the liabilities was made without appropriate funding being simultaneously put in place. This contributed to a large extent to the negative fund and reserves balance of \$130.1 million as at 31 December 2008.

56. In its previous report,<sup>5</sup> the Board noted that, during its examination of the Secretary-General's report on the question of the liabilities and proposed funding for after-service health insurance, the Advisory Committee on Administrative and Budgetary Questions had considered the transfer of unencumbered balances and savings to entirely alternate uses, an inappropriate financial management practice (A/61/791, para. 12).

57. The Board also noted that UNHCR could not use the available funds if their usage was specifically restricted under the Financial Rules for the Voluntary Funds administered by the High Commissioner and if those rules did not contain any provision concerning funding the termination benefit fund.

58. In addition, even if UNHCR were to use the unearmarked funds for the after-service benefits, they would not be sufficient to cover total end-of-service and post-retirement liabilities.

59. Consequently, the Board recommended that UNHCR urgently set up specific funding to balance the impact of accrued after-service liabilities, notably health insurance. UNHCR explained that it would take the approach adopted by the United Nations to address the funding of liabilities related to end-of-service and post-retirement benefits.

60. As at March 2009, no new decision had been taken by the General Assembly on this matter so UNHCR did not take any actions either. According to UNHCR, funding scenarios would be examined at the meeting of its Standing Committee in June 2009.

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<sup>5</sup> Ibid., paras. 38-43.

61. **The Board reiterates its recommendation that UNHCR set up specific funding for its accrued end-of-service and post-retirement liabilities, notably those related to after-service benefits.**

62. The Board's observations on the evaluation of the liabilities for after-service health insurance benefits are presented in section 5 below.

*Contributions recorded as assets and liabilities*

63. Contributions are recorded in the UNHCR financial statements in two stages. When a contribution is announced by a donor, it is recorded, before even being paid, as income and simultaneously recorded to the asset side of the balance sheet as contributions receivable. When the same contribution is paid by the donor, its amount is recorded as cash and the corresponding contribution receivable must be offset. Pending application of the payment received to the corresponding contribution receivable, the payment is temporarily booked to the suspense accounts also used for contributions received in advance. At the end of the year, the suspense accounts are cleared out, along with the contributions receivable that have been collected. Any delay in the application of a payment to the corresponding contribution receivable results in an overstatement of assets and liabilities.

64. As at 31 December 2008, the above-mentioned suspense accounts should have had a zero balance. This was not, however, the case because of delays in processing the payments received. Consequently, the deposits recorded to these suspense accounts pending application to the corresponding contributions receivable were disclosed as contributions received in advance, whereas they were payments made for contributions related to 2008. Concurrently, the same contributions for which payments had been received were shown as receivable as at 31 December 2008. The overall consequence was an overstatement of both assets and liabilities.

65. Following the observations made by the Board at the time of the audit, the amount of contributions receivable recorded as assets was corrected by UNHCR and brought down from \$110.2 million to \$81.6 million, a decrease of \$28.6 million in the value of assets. The amount of contributions received in advance was corrected from \$78.8 million to \$48.9 million, a decrease of \$29.9 million in the value of liabilities.

66. **The Board recommends that UNHCR ensure that contributions received are subject to timely accounting processing by clearing the suspense accounts.**

67. The Board also observed several cases of erroneous payment entries (same payment entered twice, inaccurate amounts entered), which showed the difficulty that UNHCR had in applying deposits received to the correct contributions and which explained the delays in processing the suspense accounts. This indicates that the contributions booking system concerning resources had encountered weaknesses which should be addressed as a priority.

68. **The Board recommends that UNHCR implement appropriate internal control procedures to prevent errors in entering contributions and ensure the reliability of its system for recording income.**

#### **5. After-service health insurance liabilities**

69. After termination of service, staff who fulfil certain conditions are entitled to health insurance benefits. The total liability of UNHCR in relation to these benefits, calculated by an actuary, stood at \$307.8 million as at 31 December 2008 (\$308 million as at 31 December 2007).

70. Pursuant to the request made by the General Assembly in resolution 61/264, the Board examined the valuation of after-service health insurance liabilities. The Board considered the procedure for evaluating this amount, and particularly the report of the consulting actuary. UNHCR evaluated the liability by applying the actuarial methodology prescribed by the International Public Sector Accounting Standards (IPSAS 25), as requested by the General Assembly in paragraph 10 of the aforementioned resolution.

71. The Board examined the actuarial assumptions upon which the liability was valued. It observed that the discount rate chosen for the amount determined as at 31 December 2008 stood at 5.5 per cent — the same value as that used for the previous evaluation, in spite of the decrease in reference interest rates during the financial year. Between 31 December 2007 and 31 December 2008, the 30-year interest rate on the United States Treasury bond decreased from 4.45 per cent to 2.69 per cent (or by 176 basis points).

72. Choosing to maintain the discount rate at 5.5 per cent allowed better comparison of the liability over time. If the real value of long-term rates were to remain below this value of 5.5 per cent in the long run, it might result in re-evaluation of the benefits to be paid. The impact would be significant, as was shown by the sensitivity analysis carried out by the actuary as at 31 December 2008. A decrease by one point in the discount rate would correspond to a 22 per cent increase in the value of the liability.

#### **6. Progress towards the implementation of the International Public Sector Accounting Standards**

73. Pursuant to paragraph 14 of General Assembly resolution 61/233 A and following the observations of the Advisory Committee on Administrative and Budgetary Questions (A/63/474), the Board continued to review the efforts undertaken by UNHCR to prepare for the transition to the International Public Sector Accounting Standards and to adapt its enterprise resource planning system.

74. UNHCR set itself the objective of issuing financial statements that were compliant with the International Public Sector Accounting Standards as at 31 December 2010. To reach this goal, the procedures and information systems must be in place no later than 1 January 2010. To this end, the plan to implement the Standards was approved by the Deputy High Commissioner in June 2008. The total cost of their implementation was

estimated by UNHCR at \$3.2 million for the period 2007-2009. This amount was calculated taking into account training costs, consultants, staff members, information technology and logistics.

75. The most recent plan for the implementation of the Standards, updated in February 2009, specified the tasks assigned to the various teams responsible for the project. It gave a breakdown of these tasks, with a projected timetable for their realization and their rates of completion as at February 2009, as well as the overall rate of progress of the project. The Board noted that only limited progress had been made insofar as total actions planned. In fact, only the project planning stage showed significant progress (67 per cent of tasks accomplished). The other tasks carried out by the 10 working groups showed completion rates that varied from 0 to 7 per cent.

76. UNHCR made an evaluation of the risk of failure of the plan for transition. This evaluation highlighted that, of the 10 risk items identified, 5 were classified at a very high level of risk and 3 at a high level. The main risk concerned the lack of human resources assigned to the project.

77. UNHCR stated that, until February 2009, only one staff member had been working full time on the project and that three additional staff had been assigned in March 2009. Overall, four officials were working full time on the project and 26 worked part time. Staff members were yet to be assigned to most of the tasks specified by the plan.

78. In 2004, UNHCR changed its financial information system and implemented a new enterprise resource planning system (People Soft, Management Systems Renewal Project). UNHCR stated that this system would be compatible with the International Public Sector Accounting Standards, provided that modifications were made.

79. UNHCR commented that the enterprise resource planning would require some modifications and reconfiguration in order to be compliant with the Standards. The work of the teams is to study the existing system in order to determine which changes to make and to ensure that the necessary changes are put in place. Furthermore, UNHCR informed the Board that a comparison of existing systems and procedures, and the changes required to implement the Standards, was in progress. The results of this work were expected by the end of April 2009 and would be used for the adoption of a strategy and revised plan for the project. The budget for the project had also to be reviewed in light of the strategy adopted.

**80. The Board recommends that UNHCR approve a revised plan for the transition to the International Public Sector Accounting Standards, accompanied by a budget revised to include the cost of modernizing the software.**

## **7. Cash management**

81. As at 31 December 2008, UNHCR had 515 cash and term deposit bank accounts open in its books. According to regulation 4.1.1.8 of the UNHCR financial manual, a bank account not used for at least six months must be closed. The Board noted that, as was the

case, in 2006 and 2007, a number of inactive accounts remained open: as at 31 December 2008, 22 bank accounts with a total balance of \$94,423 had been inactive for one, two or three years.

82. In its previous report,<sup>6</sup> the Board reiterated its recommendation that UNHCR monitor the closing of bank accounts and implement controls to ensure the effective oversight of the bank accounts of field offices. UNHCR stated that the systems for checking the opening and closing of bank accounts had been improved and that most inactive bank accounts had been closed in 2008. In March 2009, however, the Board concluded that its recommendation had not been implemented.

**83. The Board once again reiterates its recommendation that UNHCR monitor the closing of bank accounts and implement controls to ensure the effective oversight of the bank accounts of field offices.**

84. UNHCR commented that it had started work on this issue and that 50 inactive bank accounts had been closed. The Board, however, is of the view the action taken does not yet fully address the recommendation.

85. In its reports for 2006 and 2007,<sup>7</sup> the Board noted the existence of petty cash accounts with a negative balance in UNHCR accounts. An examination of the 2008 trial balance showed that nine petty cash accounts had a negative balance, amounting to a total of \$39,442 as at 31 December 2008. In 2007, there were 14 such accounts totalling \$62,446, and, in 2006, there were 19 accounts amounting to \$27,011. Most of the negative balances resulted from erroneous conversions of local currencies or from errors in accounting records.

**86. The Board once again reiterates its recommendation that UNHCR implement controls to avoid negative balances in petty cash accounts.**

## **8. Management of non-expendable property**

87. In its previous report,<sup>8</sup> the Board issued an emphasis of matter relating to the management of non-expendable property, expressing its concern about the impact of deficiencies on the accuracy of property disclosure by UNHCR. This relates to deficiencies in the asset tracking system. OIOS also noted in its 2008 reports that asset management continued to be inefficient.

88. According to note 2 (m) to the financial statements, non-expendable property comprises assets with an original purchase price greater than or equal to \$1,500 and a useful life greater than or equal to five years, and all special items. Special items include

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<sup>6</sup> Ibid., para. 65.

<sup>7</sup> See, in particular, *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5E (A/63/5/Add.5)*, chap. II, para. 69.

<sup>8</sup> Ibid., chap. III.

vehicles, computer equipment, plant and equipment, telecommunications equipment, security equipment and generators, with a minimum acquisition value of \$100. According to note 15 to the financial statements, the purchase value of UNHCR non-expendable property as at 31 December 2008 was \$350.3 million and its net value was \$110.7 million, compared to \$330.2 million and \$96.6 million, respectively, as at 31 December 2007.

89. During the audit, the purchase value of non-expendable property was first recorded in note 15 to the financial statements as \$334.6 million instead of \$350.3 million, a discrepancy of \$15.7 million, and the depreciated value as \$104.7 million instead of \$110.7 million, a discrepancy of \$6 million.

90. These errors originated from the incomplete recording of items of property. These items either had been damaged, or had been received but were not yet being utilized. UNHCR corrected these omissions by modifying the amounts disclosed in note 15 to the financial statements. The Board emphasizes the need for UNHCR, in accordance with the Financial Regulations and Rules of the United Nations, to ensure complete and accurate recording of non-expendable property and reporting thereof. UNHCR acknowledged the existing weaknesses of the asset management system but explained that resolution of this issue was linked to the implementation of the International Public Sector Accounting Standards.

**91. The Board recommends that, in preparing for the implementation of the International Public Sector Accounting Standards, UNHCR review the control deficiencies identified in the recording of non-expendable property.**

92. The Board noted discrepancies between the acquisition price of non-expendable property as at 31 December 2008 and that mentioned in note 15 to the financial statements. Discrepancies were also noted in the depreciated value of non-expendable property. Similar discrepancies had also been noted at the end of 2007.

93. UNHCR continued its efforts to correct the erroneous data in its database for the recording of non-expendable property, as recommended by the Board during its previous audits when it highlighted serious inadequacies in the previous system (duplicate entries, erroneous data entered and anomalies in the depreciation rates applied).

94. In accordance a previous recommendation made by the Board,<sup>9</sup> the Asset Management Unit was strengthened in October 2008. The Unit consists of five persons who have been located in Budapest since 1 March 2009 and an official located in Geneva, who mainly provides clerical services to the Asset Management Board. In order to clean up the database for non-expendable property and in coordination with the various focal points, a system of monitoring was established to identify the assets for which no annual physical check had been carried out. A verification report has been sent every month to the Asset Management Board at headquarters since January 2009.

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<sup>9</sup> Ibid., chap. II, para. 81.

95. The Board acknowledged the efforts made by UNHCR to strengthen the Asset Management Unit, establish the ongoing monitoring of assets in the various offices and obtain a better overview of the non-expendable property situation. However, discrepancies remain. The asset management system does not allow UNHCR to make sure that all withdrawals of assets from the database made by each of the UNHCR country offices are performed following a decision of the Asset Management Board, the only body officially permitted to authorize the disposal of assets from the inventory, and to reflect such disposal in the accounts. Consequently, UNHCR was not able to trace all corrections made in the non-expendable property database in 2008.

**96. The Board recommends that UNHCR continue its efforts to clean up its database for non-expendable property and establish a monitoring system for tracing all corrections made in the database during a financial year.**

97. UNHCR premises are either leased or put at its disposal free of charge. In 2008, however, UNHCR purchased a building for its country office in Kinshasa at a cost of \$3.6 million, according to a sales contract dated 5 December 2008. This purchase was recorded as expenditure.

98. The Board considered that the value of the building should be disclosed as an asset. In accordance with paragraph 49 (v) of the United Nations system accounting standards, the value of such property should be disclosed, and the method of valuation (cost, valuation or nominal) should be clearly stated. As a result of the concern expressed by the Board, note 18 was added to the financial statements to disclose information on land and buildings owned by UNHCR. Although this initiative constituted an improvement compared to the previous situation of non-disclosure, the end result was not fully satisfactory. The reason for this is that note 18 only captured one item of property and, furthermore, in accordance with the United Nations system accounting standards, such property should be disclosed in the statement of assets, liabilities, reserves and fund balances.

99. UNHCR commented that it was common practice in the United Nations to expense land and buildings, because such treatment is allowed in the context of paragraph 1 of the foreword to the United Nations system accounting standards, which states:

“Where differences from the International Accounting Standards exist, it is mainly because of the essentially non-commercial nature of the organizations’ activities. Further important factors are the primacy of the regulations and the central place of approved budgets in the organizations’ operations, which make it necessary to focus the accounting within the framework of these mechanisms.”

UNHCR accounting thus mirrors the expensing of such costs in the budgets.

100. The Board will revert to this matter in its next report on UNHCR.

## **9. Expendable property**

101. As per note 2 (m) to the financial statements, equipment with an original purchase price of less than \$1,500 at the time of purchase and a serviceable life of less than five years is considered expendable property.

102. To fulfil its mandate, UNHCR holds items intended for distribution to refugees; the characteristics of such items put them in the category of expendable property.

103. In the selection and application of accounting policies, paragraph 5 of the United Nations system accounting standards advocates prudence, substance over form and materiality. In addition, paragraph 49 of those standards and the related appendices state that the value of inventories (other than non-expendable equipment, furniture and motor vehicles) should be disclosed at the end of the financial year in the financial statements.

104. In its previous report, the Board had noted that the value of expendable property had not been indicated in the financial statements or in the notes thereto, and it continues to express concern about the impact of this on UNHCR property disclosure and management of assets. UNHCR explained that the decision not to disclose the value of expendable property in the financial statements was a policy applied consistently and that this approach corresponded to that followed by other United Nations organizations.

105. UNHCR stated that it was working on finalizing a system for valuing inventory at the end of the year, with a view to implementing the International Public Sector Accounting Standards. However, it was currently only able to assess the value of expendable property held by it for distribution to refugees. UNHCR estimated this value to be \$109.3 million as at 2 March 2009.

**106. The Board reiterates its recommendation that UNHCR disclose in future financial statements the value of expendable property unused at the end of the year in order to provide a more complete and accurate account of its assets.**

## **10. Human resources management**

### *Staff in between assignments*

107. The term “staff in between assignments” refers to staff members who, after the expiration of an assignment, are without a new one and are on special leave with full pay. The term also applies to staff members on a normal assignment but who are waiting to begin service in the assigned position. The category of staff in between assignments also includes officials whose term of assignment has expired but who are considered still to be working under the assignment.

108. Most staff in between assignments have a permanent contract. Indeed, in 1999, a decision by the High Commissioner granted permanent contracts to all staff members. In the new context of staff cuts, this decision has increased the number of staff in between

assignments. The decision to grant permanent contracts to everybody was frozen in 2002. Since then, fixed-term contracts have been the only contractual arrangement for UNHCR staff.

109. The Board, which had been requested by the Advisory Committee on Budgetary and Administrative Questions to provide it with updated information on the situation of staff in between assignments (A/60/387, para. 9), further examined the practice.

110. An instruction issued on 16 September 2002 obliged officials on full salaries to accept temporary assignments for which they were qualified. Any refusal of a temporary job or assignment had to be duly justified. Most staff in between assignments are therefore performing temporary duties. A distinction should thus be made between staff in between assignments who are employed on temporary duty and those who are not.

111. The total number of staff in between assignments, including those carrying out temporary duties and those not working, is shown in table II.3.

**Table II.3**  
**Number of officials awaiting assignment (as at 31 December of each year)**

<i>Level</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
D-1	7	3	5	5	3	8
P-5	32	24	24	30	37	33
P-4	75	36	47	67	60	59
P-3	58	84	33	51	50	36
P-2	15	3	4	9	22	13
<b>Total</b>	<b>187</b>	<b>150</b>	<b>113</b>	<b>162</b>	<b>172</b>	<b>149</b>

*Source:* UNHCR.

112. After a steady increase from 2005 to 2007, the number of staff in between assignments decreased from 172 to 149 between 2007 and 2008, or by 13.4 per cent. This decrease mainly reflects the impact of the voluntary separation plan, which concerned 19 staff. According to UNHCR statistics, of the 149 staff in between assignments as at 31 December 2008, 107 had been waiting for one year or more: 72 for one year, 13 for two years, 18 for three years, 2 for four years and 2 for five years. As at 31 December 2008, 99 staff members were working on temporary assignments, or 66.4 per cent of the total. The other 50, or 33.6 per cent, were on special leave with full pay, including 4 who had specific medical conditions. The average period during which an official awaited an assignment increased from three months in 2007 to seven months in 2008.

*Policy to reduce the number of staff in between assignments*

113. UNHCR has taken certain measures to reduce the number of staff in between assignments. In November 2007, the Administration decided to review the comparative analysis mechanism, which was aimed at lessening the effect of job eliminations on the

number of staff awaiting new assignments. The mechanism finds assignments for staff members whose jobs have been eliminated and began in 2008 for staff members in general departments at headquarters.

114. In addition, a voluntary separation plan for the biennium 2008-2009 was put in place for all UNHCR staff members. At the time of the audit, 19 of the 164 staff members in between assignments had opted for voluntary separation under this plan, at a cost of \$2.4 million.

115. In spite of these initiatives, the issue of staff members refusing temporary duty was still pending at the end of 2008. UNHCR had implemented a policy in 2004, under which unpaid leave was given to staff members who refused temporary duty (self leave without pay). This policy was suspended in 2007, pending an assessment of its legality. Although the UNHCR legal department concluded that there was no objection to this policy, UNHCR did not apply it until 2008. An instruction dated 16 October 2008 finally established that a staff member in between assignments who refused three offers that were appropriate for his or her situation would be placed on unpaid leave. The effects of this instruction will be examined by the Board in its next report.

**116. UNHCR agreed with the Board's recommendation to continue its efforts to reduce the number of staff in between assignments and not on temporary duty.**

## **11. Programme and project management**

117. UNHCR implements the operations that fall within its mandate through a wide range of partners: United Nations entities and other international organizations in the context of bilateral partnerships; non-governmental organizations; universities and research institutes; eminent personalities; regional organizations; members of parliament; government departments; private sector entities; refugees; and receiving communities.

118. The Advisory Committee on Administrative and Budgetary Questions has encouraged the Board to continue its review of these arrangements and to provide updated information in its reports.

119. In 2008, the subprojects entrusted by UNHCR to partners represented \$531.5 million, or nearly 32.6 per cent of its expenditure of \$1.628 billion. The figures for 2007 were \$431.7 million and 32 per cent, respectively.

### *Justification of expenditure by implementing partners*

120. Instalments made to implementing partners are to be periodically examined by UNHCR on the basis of the subproject monitoring reports received from partners and accepted by UNHCR. As at 31 December 2008, the expenditure justified by UNHCR implementing partners through such reports amounted to \$347.2 million, compared to \$329.7 million for 2007. The difference between the value of the instalments made to implementing partners and that of the expenditure incurred by them and shown in their

subproject monitoring reports increased from \$102 million in 2007 to \$184.3 million in 2008. While 23.7 per cent of instalments to implementing partners had not been justified at 2007 closure, the percentage rose to 34.7 per cent in 2008.

121. A high rate of receipt of monitoring reports by implementing partners contributes to ensuring that the instalments made by UNHCR are being used properly. The Board therefore expresses its concern at the high risk of unjustified advances totalling \$184.3 million (11.3 per cent of total expenditure for 2008) in the financial statements of UNHCR.

122. UNHCR commented that, in accordance with its internal rules, the final subproject monitoring reports were generally received by mid-February of the following year but that their verification and recording in the accounting system of implementing partners required additional time. UNHCR stated that the unjustified balances for 2008 would be significantly reduced over the months to come. On 25 June 2009, UNHCR informed the Board that it had received subproject monitoring reports from implementing partners justifying expenditures up to an amount of \$501.7 million, representing 94.4 per cent of the instalments made to implementing partners in 2008.

**123. The Board recommends that UNHCR continue its efforts to improve the rate of timely justification of the advances granted to implementing partners.**

*Long-outstanding instalments*

124. In the absence in the UNHCR accounting system of receivable and payable accounts that could be used to record advances to implementing partners, "X21" balances, which record the difference between the instalments to partners and the expenditure justified, allow UNHCR to monitor the financial situation of each subproject or partner.

125. Table II.4 shows the X21 balances as at 31 December 2008 (in comparison with the closing balances of 2007), by the year in which the instalments were made.

**Table II.4**  
**Instalments pending justification**  
**(United States dollars)**

<i>As at 31 December</i>	<i>Instalments made in</i>				<i>Total, 2005- 2008</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	
2007	1 570 381	2 814 189	102 071 432		
2008	1 063 921	818 441	2 931 632	184 292 592	<b>189 106 586</b>

*Source:* UNHCR.

126. The Board noted that UNHCR had made progress in regularizing long-standing unjustified instalments, compared to the situation in 2008. However, as at 31 December 2008, partnerships which had been concluded in 2005 still showed an unjustified balance

of \$1,063,921, those concluded in 2006 showed a balance of \$818,441 and those concluded in 2007, a balance of \$2,931,632. The Board considers that instalments awaiting justification for more than one year and which amount to \$4.8 million require explanation and special measures.

**127. The Board recommends that UNHCR assess the instalments made to implementing partners that have remained unjustified for more than one year and take appropriate measures to have them justified or recovered from the implementing partners.**

#### *Audit certificates*

128. UNHCR requires its implementing partners to supply audit certificates, delivered by independent external auditors, for the local operations that it finances. Until 2006, certificates had to be produced within six months of the final date of liquidation of the subproject, but this period was reduced to three months for operations financed in 2007 by an instruction dated 20 October 2007. In its previous report,<sup>10</sup> the Board emphasized the need for UNHCR to increase significantly the proportion of certificates received so as to enable the Board to satisfy itself as to the validity of expenditure incurred by implementing partners.

129. Audit certificates representing a total amount of \$498.6 million were to be communicated by 30 April 2009. This amount is not equal to the total expenditure incurred by implementing partners as some are not required to submit audit certificates. As at 29 June 2009, in terms of the audit certificates due from third-party auditors, certificates representing \$252 million, or 50.5 per cent of the total amount of \$498.6 million due for 2008, had not been received. Excluding projects for which extension of the liquidation period was approved, the compliance rate was 58.1 per cent (\$224 million, out of \$385.7 million). As at 25 June 2008, the audit certificates that had not been received represented expenditure totalling \$156.6 million, or 51 per cent of the total amount due for 2007. These figures reflect little change as regards the timely submission of audit certificates.

130. Concerning advances made in years prior to 2008, as at 29 June 2009, the audit certificates not received represented 10 per cent of the payments made in 2005, 14 per cent of the payments made in 2006 and 17 per cent of the payments in 2007. The Board is of the view that these percentages are still lagging behind the expected levels, considering the period of time that has elapsed.

131. The Board, as part of its visits to UNHCR offices in Costa Rica, Croatia, Panama, the Bolivarian Republic of Venezuela and Kyrgyzstan, also made observations on the administration of implementing partners and audit certificates.

**132. The Board recommends that UNHCR intensify its efforts to obtain the audit certificates from implementing partners by 30 April each year.**

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<sup>10</sup> Ibid., chap. III.

133. As at 29 June 2009, the value of the audit certificates received for 2008 projects that contained qualified audit opinions on expenditure amounted to \$29.5 million, or 12 per cent of the value of all audit certificates received (the figure for 2007 was 12.3 per cent). The Board expresses concern about any qualified audit opinion received from project auditors, as such an opinion may indicate weaknesses in the management or control of projects delivered through implementing partners.

134. In 2008, the Board recommended that UNHCR conduct an in-depth analysis of audit certificates to ascertain whether corrections should be made to expenditure for prior years in the financial statements.<sup>11</sup> UNHCR replied that this analysis was in progress but was complex. The Board noted that UNHCR had assigned a staff member solely responsible for monitoring audit certificates and in particular responsible for analysing those received since January 2009.

**135. The Board reiterates its recommendation that UNHCR intensify its efforts to conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the financial statements.**

## **12. Internal audit activity**

136. In 2008, OIOS carried out 13 audits of the UNHCR operations and offices, as well as four headquarters audits, covering information technology security, the computerized module for managing human resources, risk assessment, the medical insurance plan and the Headquarters Asset Management Board, the latter being carried over from 2007. The activities of OIOS in 2008 included the audits programmed for that year, as well as audits carried forward from 2007. This resulted in the issuance in 2008 of nine final reports on field offices.

137. The Advisory Committee on Administrative and Budgetary Questions has expressed its concern at the low rate of completion of planned audit assignments and stressed that this needed to be reversed (A/63/474, para. 34).

138. On 28 November 2007, OIOS submitted its annual audit plan for 2008 to the Oversight Committee, indicating that 23 audits of operations and field offices were to be carried out. However, the Oversight Committee met again four months later, on 27 March 2008, to approve the plan, by which time the number of audits had been reduced to 19.

139. Of the 19 audits approved for 2008, 13 (68 per cent) were actually carried out during the year, in the Democratic Republic of the Congo, Iraq, Jordan, Malawi, Mauritania, Romania, South Africa, the Sudan (2), the Syrian Arab Republic (for Iraq), the United Republic of Tanzania, Thailand and Uganda. For the latter four, only draft versions of the reports were available at the time of the Board's audit.

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<sup>11</sup> Ibid., chap. II, para. 130.

140. The Office of Internal Oversight Services stated that it had postponed the six other audits, initially planned for Morocco, Pakistan, Somalia, Sri Lanka, Yemen and Afghanistan, mainly owing to lack of staff.

#### *Workforce*

141. The section of OIOS devoted to UNHCR audits is based in Geneva; it also has an office in Nairobi which is mainly responsible for covering operations in Africa. Furthermore, resident auditors are appointed on a case-by-case basis for the major emergency operations of UNHCR.

142. In 2008, the number of positions of OIOS staff devoted to UNHCR audits stood at 19: 12 in Geneva, 3 in Nairobi and 4 for resident auditors in Damascus, Khartoum, Kinshasa and Amman.

143. Of the 19 positions, 8 had been vacant for at least three months, representing 42 per cent of the authorized staffing level. The Board expresses concern that the delay in filling the vacancies has adversely impacted on the internal audit work programme of UNHCR and is therefore of the view that the issue should be addressed as a priority.

**144. The Board recommends that UNHCR, in collaboration with OIOS, take appropriate measures to reduce the time period for filling the vacant posts for internal auditors.**

145. UNHCR commented that it had constantly raised this issue with OIOS in the past two years and had offered some supplementary procedures to reduce the number of vacancies. OIOS had recently managed to fill all of the core positions in its unit in Geneva and had been working with a full human resource capacity since March 2009.

### **13. Internal audit findings**

146. The audits carried out by OIOS in 2008 for UNHCR field operations gave rise to 138 recommendations. All OIOS field audit reports contained a table summarizing all recommendations, specifying the actions needed to close them, their status of implementation and, for the reports issued from 18 September 2008 onwards, the risks covered and their rating (high, moderate or low).

147. The Board considered the conclusions of the internal audits when planning and carrying out its audit of UNHCR headquarters and field offices. The salient findings of OIOS are reproduced below.

#### *Headquarters Asset Management Board*

148. In its report on the UNHCR Headquarters Asset Management Board, OIOS found that the overall governance structure and functioning of the Board could be improved and that the support functions provided by the Asset Management Unit of the Board secretariat could be strengthened and more streamlined.

### *Management of programmes and operations*

149. In several reports, OIOS emphasized that immediate attention should be paid to improving the financial management of projects and the internal control of implementing partners. It noted that implementing partners did not always have the ability to properly manage the sums allocated to them, particularly in countries in which urgent operations meant they received a sudden and large increase in funds. OIOS also emphasized that not all of the expenditure of implementing partners was recorded in the accounts management and information system (Management Systems Renewal Project), that certain expenses were recorded without having been authorized and that, in several countries, there remained payments that had not been justified since 2006. Several reports stated that inspection visits to partners by UNHCR had not been documented and that there had been no particular follow-up of reservations issued by the external auditors.

### *Management of supplies*

150. The Office of Internal Oversight Services noted that, in some UNHCR country offices, the absence of pre-established criteria for evaluating offers reduced the transparency of the procurement process. It underlined the cumbersome and inadequate nature of procurement planning.

### *Asset management*

151. The Office of Internal Oversight Services noted that, in several countries, asset management continued to be inefficient. Some offices did not know the consolidated value of their assets or of the assets made available to partners, and the database for asset management had not been correctly updated. The documents granting rights for partners to use assets were also not available. Physical inventories had not been carried out in one country for several years. The UNHCR office in the Democratic Republic of the Congo was incapable of providing information on supplies valued at \$4 million that were stored in the United Republic of Tanzania, owing to the lack of an appropriate monitoring system. In its own verifications, the Board came to similar conclusions.

### *Human resources management*

152. The Office of Internal Oversight Services pointed out the lack of availability of staff members in emergency operations. Such vacancies were made worse by the high proportion of inexperienced staff members. In the operation in the Democratic Republic of the Congo, UNHCR had been unable to fill 65 of the 250 positions. Key posts were occupied by temporary staff members or by volunteers from the United Nations.

### *Information technology security*

153. The Office of Internal Oversight Services found that the information technology security policy need to be improved. It noted that while UNHCR had issued internal procedures on password management, electronic mail and the use of computer equipment,

significant gaps existed in implementing and monitoring those procedures. Several weaknesses were also detected in the delegation of financial authority policy: for example, the separation of functions did not completely prevent conflicts of responsibility.

#### **14. Write-offs**

154. In accordance with regulation 6.4 of the Financial Regulations and Rules of the United Nations and article 10.6 of the Financial Rules for the Voluntary Funds administered by the High Commissioner, UNHCR informed the Board that it had written off liquid assets and non-expendable property in the amounts of \$117,713 and \$818,642, respectively.

#### **15. Ex gratia payments**

155. In accordance with rule 105.12 of the Financial Regulations and Rules of the United Nations and rule 10.5 of the Financial Rules for the Voluntary Funds administered by the High Commissioner, the Board was informed that, on 1 July 2008, the High Commissioner had approved the payment of \$216,036 to compensate staff, or their families, who were victims of the attacks that took place in Algiers on 11 December 2007. Although the officials were not covered by the UNHCR malicious acts insurance policy, UNHCR considered that it had a moral obligation to make those payments. The payments were calculated based on the formula applied to staff members covered by the UNHCR insurance policy.

#### **16. Cases of fraud and presumptive fraud**

156. In accordance with paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules of the United Nations, the Board examined cases of fraud and alleged fraud that took place during 2008 and were communicated by UNHCR.

##### *Detailed description of cases*

157. A staff member serving at a field office was suspected of being involved in a fraud scheme consisting of registering local nationals as refugees, thereby allowing them access to a camp. No financial loss was recorded for UNHCR and no amount has been recovered.

158. A staff member was suspected of not having respected the measures applicable to the International Professional Roster examinations and, in particular, to have checked the reply to a question on an Excel application. The staff member received a letter of reprimand and was prohibited from taking the examination in 2007 and 2008. No financial loss was recorded for UNHCR and no amount has been recovered.

159. A staff member from a field office was suspected of having stolen telecommunications equipment, including 10 portable telephones, 12 radio receivers and 16 portable radio aerials. These items were stolen from the warehouse to which the person

in question was the only key holder. The value of the stolen objects was estimated at \$7,300. No amount was recovered because the Office of the Inspector General decided to suspend investigation, considering the resources to be devoted to the procedure were not proportional to the expected benefit.

160. A national United Nations Volunteer working in a field office was suspected of putting some pressure on a contractor. The intention was to obtain benefits in favour of the Volunteer's spouse. As an example of pressure, the Volunteer acknowledged having instructed the bank to block a funds transfer. No corrective measure was taken. However, the Office of the United Nations Volunteer programme in Bonn was informed, so that the staff member would not be employed by any other United Nations agency. No financial loss was recorded for UNHCR and no amount has been recovered.

161. A national United Nations Volunteer working in a field office carried out several activities to the detriment of UNHCR, in particular collecting money under a supply contract and when selling vehicles. Additional information showed that third parties had been victims of the activities of the person in question. No disciplinary measure was taken against the Volunteer, who was not a staff member. However, the Volunteer's contract was not renewed. The Office of the United Nations Volunteer programme in Bonn was informed. The money involved was estimated at \$80,000 for prejudice caused to third parties and \$7,500 for prejudice caused to UNHCR. No amount was recovered by UNHCR, which nevertheless informed the staff member that complaints might be filed by third parties.

162. A staff member was suspected of having stolen an electric oven, 93 gallons of fuel and 42 gallons of engine oil, the person in question being in charge of monitoring fuel. No corrective measure was taken against the person in question, who had resigned. The electric oven was returned and the human resources service gave its approval to the budget department for the cost of the fuel to be deducted from the last salary payment of the person in question.

#### *Changes to the number of cases of fraud investigated*

163. In 2008, the Office of the Inspector General received 279 allegations of fraud and other allegations of misconduct. It decided to further examine 113 of them and, by 31 December 2008, had completed 90 investigations. The investigations resulted in 18 preliminary investigation reports sent to the human resources department and 68 closure reports. The Office of the Inspector General judged that five cases fell outside its purview. As at 31 December 2008, six investigations for which a report was sent to the Division of Human Resources Management were given priority status. The corresponding data for 2007 were 212 alleged infractions, 123 investigations completed and 37 investigation reports sent, of which 15 concerned cases of fraud.

164. The number of reports of investigations and cases of fraud processed in 2008 was therefore reduced compared to 2007. The decrease in investigation reports could not be explained by the diminution in the number of cases reported to the Office of the Inspector General because the number increased between 2007 and 2008 (279 against 212).

*Activities of the Office of the Inspector General*

165. The Board visited the Office of the Inspector General, as part of its audit. Its findings led the Board to the opinion that the following considerations could contribute to explaining the decrease in the number of investigation reports sent by the Office:

(a) *Job vacancies.* The permanent staff of the Investigation Section of the Office saw a significant turnover, especially in 2008, which could have negatively impacted upon the productivity of the department. The head of investigations left at the end of 2007 and an experienced investigator left in mid-2008. The position of head of investigations remained vacant for more than three months in 2008, hindering the proper functioning of the Office;

(b) *Dispersion of resources.* Although the Office is charged by the instruction dated 3 November 2005 with making sure that alleged infractions involving persons directly and contractually related to UNHCR are the subject of an appropriate investigation, it has conducted investigations on behalf of other organizations of the United Nations system. The external activities of the Office result from its willingness to share its investigatory expertise with other international organizations and thus contribute to a collective effort to improve cooperation. However, the mandate of the Office contains no clauses that expressly specify the possibility of carrying out investigations and special enquiries for entities other than UNHCR. These services were provided free of charge, but they represented a direct cost for UNHCR that remains to be determined;

(c) *Insufficient cooperation with OIOS.* The instruction dated 3 November 2005 states that the Inspector General shall send to OIOS, where appropriate, cases of alleged infractions involving senior managers, including those occurring in the Office of the Inspector General. If the case involves other officials of that Office, the inspector must carefully examine any real or latent conflicts of interest before deciding whether the case should be sent to OIOS. A memorandum of understanding was concluded on 21 September 2006 between the Office of the Inspector General and OIOS, specifying the definition of senior management (staff members at the P-5 level or higher). Since the signature of this agreement, only nine cases have been submitted to OIOS. Of the six cases in 2008, OIOS recommended sending four, where the Office of the Inspector General considered that it might not have competence, to the United Nations Ethics Office. Between 2006 and 2008, the Office of the Inspector General requested private consultants to process four cases, considering that they did not fall within the competence of OIOS;

(d) *Limited resources devoted to training of staff.* Since 2004, only one training session has been organized, in 2005. The Board found that only 2.7 per cent of the budget for training was spent in 2007 and 0.5 per cent in 2006.

**166. The Board recommends that UNHCR: (a) expressly specify the conditions under which the Office of the Inspector General may participate in assignments on behalf of other international organizations, and recover the net costs of doing so; (b) enhance its cooperation with OIOS; and (c) increase its efforts concerning the training of investigators.**

C. Acknowledgements

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

*(Signed)* Terence **Nombembe**  
Auditor-General of the Republic of South Africa  
Chairman, United Nations Board of Auditors

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

*(Signed)* **Liu Jiayi**  
Auditor-General of the People's Republic of China

10 July 2009

**Annex**

**Status of implementation of the Board's recommendations  
for the year ended 31 December 2007**

<i>Subject</i>	<i>Paragraph reference<sup>a</sup></i>	<i>Financial period in which first made</i>	<i>Fully implemented</i>	<i>Partially implemented</i>	<i>Not implemented</i>	<i>Paragraph reference in the present report</i>
1. Unliquidated obligations	36	2007		×		32-37
2. After-service liabilities	43	2007		×		56-61
3. Plan for the implementation of the International Public Sector Accounting Standards	52	2007		×		75-80
4. Voluntary contributions	57	2007		×		45-47
5. Closing of bank accounts	65	2007			×	81-83
6. Loss of cash	67	2007	×			
7. Petty cash accounts	69	2006			×	85-86
8. Procurement planning	73	2007			×	
9. Assets database	81	2007	×			
10. Assets purchased reconciliation	84	2007		×		
11. Expendable property	89	2007			×	104-106
12. Staffing needs	97	2002		×		
13. Relocation to Budapest	101	2007		×		
14. Cost of staff in between assignments	106	2007		×		
15. Increase in cost of staff in between assignments	110	2007	×			
16. Long-outstanding advances	118	2007	×			
17. Rate of audit certificates	123	2007		×		132
18. Template of audit certificate	126	2007		×		
19. Analysis of audit certificates	130	2007		×		134-135
20. Compliance with audit thresholds	133	2007		×		
21. Equipment made available	136	2007	×			
<b>Total</b>	<b>21</b>		<b>7</b>	<b>11</b>	<b>3</b>	
<b>Percentage</b>	<b>100</b>		<b>33</b>	<b>53</b>	<b>14</b>	

<sup>a</sup> See *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5E (A/63/5/Add.5)*, chap. II.

## II. AUDIT OPINION

### *Report on the financial statements*

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the financial year ended 31 December 2008, which comprise the statement of income and expenditure and changes in reserves and fund balances as at 31 December 2008, the statement of assets, liabilities, reserves and funds balances, the statement of cash flows, schedules 1 to 5 to the accounts, annexes I and II and appendix, together with the notes to the financial statements.

### *Management's responsibility for the financial statements*

The Controller of UNHCR is responsible for the preparation and fair presentation of the financial statements of the Office, in accordance with the United Nations system accounting standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the preparation and fair presentation by the entity of the financial statements in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

Included in the figure of \$1.628 billion shown as total expenditure in statement I is the sum of \$498.6 million, representing expenditure incurred by UNHCR on projects performed through implementing partners. This latter expenditure was subject to independent audits by third-party auditors. However, as at 29 June 2009, of the total amount of \$498.6 million which required audit certification, certificates covering \$252 million, or 50.5 per cent, had not been received by UNHCR, although the audit reports were generally due by 30 April 2009 at the latest. In regard to prior years, as at June 2009, approximately 10 per cent of expenditure for 2005 had not yet been substantiated by audit certificates. Similarly, for 2006 and for 2007, 14 per cent and 17 per cent, respectively, had not yet been covered by audit certificates. Further, of the audit certificates received by UNHCR for 2008, \$29.5 million, or 12 per cent of the value of audit certificates received, reflected qualified audit opinions. In the circumstances, the Board has been unable to obtain adequate assurance as to the validity of a significant portion of the expenditure incurred through implementing partners. This matter has been emphasized by the Board in previous reports, in which it recommended improvements to the controls over the management of expenditure incurred by implementing partners.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to the expenditure incurred by implementing partners for which audit certificates were required to be submitted, the financial statements present fairly, in all material aspects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2008 and its financial performance and cash flows for the year then ended, in accordance with United Nations system accounting standards.

Without further qualifying the above-mentioned opinion, we draw attention to the following matters:

(a) Note 15 to the financial statements discloses the value of non-expendable property. This disclosure is based on use of a database, the shortcomings of which have been highlighted in the Board's previous reports. Even though some progress has been observed, several anomalies have not been corrected. The Board is concerned by the impact of these discrepancies on the accuracy of the amount disclosed as UNHCR assets;

(b) The value of expendable property inventories was not disclosed either on the face of the financial statements or in the notes, as required in paragraph 49 of the United Nations system accounting standards. UNHCR estimated the value of expendable property to be \$109.3 million as at 2 March 2009; however, the Board found that the expendable property database was not fully reliable;

(c) As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of \$130.1 million. This situation highlights the need for UNHCR to identify funding to cover these liabilities.

*Report on other legal and regulatory requirements*

In our opinion, the transactions of UNHCR for the year ended 31 December 2008 that have come to our notice, or which we have tested as part of our audit, have, in all significant respects, been carried out in accordance with the Financial Rules and Regulations of the United Nations and the Financial Rules for the Voluntary Funds administered by the United Nations High Commissioner for Refugees.

In accordance with article VII of the Financial Regulations and Rules, we have also issued a long-form report on the audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(Signed) Terence **Nombembe**  
Auditor-General of the Republic of South Africa  
Chairman, United Nations Board of Auditors

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

(Signed) **Liu Jiayi**  
Auditor-General of the People's Republic of China

10 July 2009

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