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Consideration of reports on the work of the Standing Committee

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Accounts for the year 2011 as contained in the Report of the Board of Auditors to the General Assembly on the accounts of the Voluntary Funds administered by the UNHCR for the period ended December 2011

Report by the High Commissioner

Addendum

**Main risk areas and measures taken in response to the
Report of the Board of Auditors for 2011***

* Late submission due to the late release of A/67/5/Add.5, on which this document is based

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I. Introduction

1. The objective of this report is to provide an overview of the key findings of the Board of Auditors in their audit of the accounts of voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2011¹, as well as measures taken or proposed by the Office in response to the main recommendations.
2. This is the first year in which two related reports, *i.e.*, the *Summary report on main risk areas raised in the Report of the Board of Auditors* and the report on *Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by UNHCR*, have been merged into one document. The present report therefore incorporates the substance of both and eliminates unnecessary duplication.
3. For the audit of the financial statements for 2011, the Board of Auditors reported on key findings and recommendations in the following five areas: (i) preparation of financial statements; (ii) financial management; (iii) progress towards implementation of International Public Sector Accounting Standards (IPSAS); (iv) organization risk management; and (v) procurement.
4. This document reviews the key findings and main recommendations made by the Board of Auditors for these five areas, including an analysis of each, and highlights the key risks identified. It also outlines how UNHCR plans to address the identified risks. A total of 33 recommendations have been reported by the Board of Auditors on the accounts for the year 2011, all of which have been accepted by UNHCR.
5. In respect of 25 outstanding recommendations from 2010 and previous years, an update on follow-up actions and implementation status are available on UNHCR's website at www.unhcr.org/excom, under Standing Committee documentation.

II. Key findings relating to the 2011 accounts audit and risks

A. Preparation of financial statements

6. The Board of Auditors acknowledged that UNHCR was well prepared for the final audit of its 2011 financial statements and that high quality draft financial statements for audit, supported by a clear audit trail, were presented.
7. UNHCR will continue to enhance its procedures to provide high quality financial statements including through a detailed year-end account closure process. The process will continue to encompass data reconciliation, preparation of comprehensive supporting schedules and a detailed management review of draft financial statements.

B. Financial management

8. With regard to financial management, the Board of Auditors noted some significant improvements compared with prior years. Yet, some weaknesses in control and financial management were identified. In particular, the Board noted that weaknesses and inconsistencies in compliance with UNHCR's implementing partner (IP) verification

¹ A/67/5/Add.5, *Voluntary funds administered by the United Nations High Commissioner for Refugees, Financial report and audited financial statements for the year ended 31 December 2011 and Report of the Board of Auditors*, as referenced in A/AC.96/1111.

framework continued to exist. As in 2010, the Board identified deficiencies in UNHCR's monitoring and control of implementing partners.

9. UNHCR views monitoring of projects implemented by partners as a key activity to safeguard its resources; ensure quality interventions for persons of concern; and jointly identify with partners opportunities for capacity development. The type and frequency of monitoring activities should be tailored to the risk exposure in respect of the environment, as well as to the partner and project. UNHCR agrees with the Board of Auditors that an effective monitoring approach should not only consider the verification of financial accounts, but also the quality of performance/delivery of the expected results, as well as the effective and efficient use of resources. In addition, monitoring activities must be linked to other management activities such as partner selection and implementation of audit certification for partners. UNHCR acknowledges that this is an area of high risk which should be addressed diligently.

10. Against this background and as part of developing an enhanced framework for implementation with partners", UNHCR has established a robust action plan including the following: (i) an analysis of current practices and gaps, lessons learned, leading practices and benchmarking with similar organizations; (ii) the development of a risk-based monitoring approach and supporting tools; (iii) a consultation process involving a field reference group, including several partners, to vet the proposed risk-based monitoring approach and tools; (iv) a mission to a selected field operation to provide training for piloting the approach; (v) the development of guidance and the refinement of the approach and tools; (vi) the development of training packages in project control (IP management/monitoring) for UNHCR staff; and (vii) the provision of instructions, training/online learning and reference materials to the Field. Some of these actions are already underway and UNHCR expects the approach to be fully implemented by early 2014.

Key risk identified: IP management, monitoring and control

C. Progress towards implementation of International Public Sector Accounting Standards

11. The Board of Auditors noted increased and concerted efforts by UNHCR to prepare for the implementation of IPSAS from 1 January 2012. The Board further noted that UNHCR has established firm plans for establishing the opening balances and for dry-run initiatives throughout 2012. However, the Board remained concerned about the readiness and robustness of UNHCR's inventory systems and its assets registers, in particular its property assets. Also, the Board recommended that UNHCR identify and document the expected benefits of IPSAS implementation.

12. UNHCR considers the implementation of IPSAS a management priority. The first dry run of IPSAS compliant-procedures and financial statements has taken place with a trial closure in May 2012, which was audited by the Board in July 2012. The initial findings of the Board were that UNHCR was well prepared for the audit but found some weaknesses in the opening balances for inventories. The Board reviewed the draft IPSAS-compliant financial statements, notes disclosure and compliance with accounting policies, and provided advice for UNHCR which will be taken into consideration in the next trial closure as at September 2012. The Board was generally pleased with the progress being made by UNHCR in the implementation of IPSAS.

13. With regard to the readiness and robustness of UNHCR's inventory systems and its asset registers, in 2011 UNHCR continued efforts to cleanse its asset data and improve the reliability of its records. This included mid-year and year-end valuation exercises and

necessary write-offs. Missions were undertaken to 21 countries where activities included physical verifications with the aim to cleanse inventory and Property Plant and Equipment data, and training/guidance for supply staff for write-offs of damaged and unusable stock. In its report on the 2011 accounts, the Board recommended that UNHCR identify any systematic shortcomings in existing systems and working practices and establish enhanced systems and controls for generating assets data. To address this concern, UNHCR is analyzing the root causes for discrepancies and is correcting or capturing any weaknesses in its enterprise resource planning system MSRP (Management Systems Renewal Project) or in its working practices. UNHCR acknowledges that its inventory systems and property asset registers remain risk areas in the successful implementation of IPSAS.

14. As recommended by the Board, UNHCR has identified the benefits that IPSAS brings to management and is actively promoting them to staff and stakeholders. Furthermore, a formalized benefits realization methodology is being developed.

Key risk identified: Inventory systems and property asset management

D. Organization risk management

15. The Board noted that UNHCR has not yet implemented a systematic organization-wide approach to risk management.

16. In mid-2011, UNHCR agreed to implement the Board's recommendation to adopt a simple enterprise risk management (ERM) framework which would not pose additional burdens on the Field. Soon thereafter, UNHCR undertook research on the implementation of ERM in both the private and public sectors and in other UN organizations, in order to prepare a concept paper for the adoption of ERM in UNHCR. The concept paper and proposals for implementation were considered by the Senior Management Committee and endorsed by the High Commissioner in May 2012.

17. UNHCR agreed with the Board's recommendation to examine ways to implement ERM, initially through "light-touch" risk identification and mitigation arrangements, not engaging all staff and country offices and focusing only on high-impact/high-probability risks. This project approach will build on internationally recognized frameworks and existing materials developed by other public sector entities and UN agencies. It will also be scalable, with some of the more complex aspects of ERM being developed in later years once risk management experience and skills have grown within the organization. Finally, and to ensure that risk management is embedded within the organization, it is vital that ERM is ultimately built into existing or planned business processes such as Results Based Management and those related to good governance.

18. While the development of a simple ERM framework and methodology may be achieved by the end of 2012, it will be imperative to test the methodology, tools and learning materials in both the Field and at Headquarters locations prior to global implementation. To this end, two workshops in the Field and one involving the main divisions at Headquarters are planned before the end of 2012. A workshop will also be held with the Senior Management Committee during which a draft risk register (2012) will be established that will be refined when the ERM methodology is implemented worldwide (2013 and beyond). The draft risk register will highlight the key high-impact/high-probability risks and will inform risk ownership and mitigation priorities. Preparation for this exercise will involve the Field and Headquarters. During 2013, ten major country operations and the main Headquarters Divisions will receive training through targeted risk assessment exercises. By the end of 2013 an additional 50 staff worldwide should also have received training and will be expected to rollout the ERM framework in their respective country locations thereafter.

19. The project will be implemented under the leadership of the Deputy High Commissioner. It will be managed from UNHCR's Global Service Centre in Budapest and a small project advisory team will be constituted to support and advise the project manager. A draft risk policy has been prepared and is currently under consideration. It outlines governance mechanisms and roles and responsibilities related to ERM. Initial resources to commence activities were allocated in June 2012, and a dedicated project manager with ERM competence has already been identified.

Key risk identified: absence of enterprise risk management framework

E. Procurement

20. The Board of Auditors selected procurement for detailed examination in 2011. As a result of this examination, the Board identified the need to improve the level of professionalism and training for supply officers in UNHCR. The Board also noted the lack of structured data on the performance of the procurement function, in particular on the timeliness and completeness of delivery by suppliers, which exposes UNHCR to poor value procurement and fraud. Finally the Board identified the need to implement and use viable key performance indicators at the country level.

21. UNHCR's Supply Management Services (SMS) has defined competency building for supply staff as one of its priorities for the coming years. SMS has established a comprehensive action plan, including a knowledge/competency framework and training strategy to be implemented with the support of the Global Learning Centre. The development of an induction course for staff being newly assigned to supply posts is already at an advanced stage and is expected to be launched during the third quarter of 2012. In addition, a number of supply staff at various levels have completed or will enroll in an accredited course on Public Procurement and Supply. SMS also intends to map UNHCR supply staff working around the globe against recognized supply qualifications, as a way to identify gaps in knowledge and additional requirements.

22. On supplier performance, UNHCR concurs with the Board's recommendation and SMS has included the collation of supplier performance information in its objectives for 2012. On the implementation of key performance indicators (KPIs) at the country level for performance measurement in procurement, UNHCR is currently reviewing KPIs related to shipment tracking as well as measures for emergency versus non-emergency delivery performance. In addition, UNHCR is planning to develop an approach to enhance the KPIs for supply chain professional competencies. Finally, UNHCR will propose minimum standard KPIs and standard supply reports for each operation.

Key risks identified: (i) low level of professionalism and training for supply officers; (ii) lack of structured data on the performance of procurement function; and (iii) absence of key performance indicators at the country level.

III. Main recommendations

A. Recommendation (paragraph 13)

23. The Board recommends that UNHCR "examine ways to implement risk management promptly, initially through light-touch risk identification and mitigation arrangements that do not engage all staff and country offices but focus only on high impact and/or high probability risks identified by selected focus groups."

Measures taken by the Administration

24. UNHCR accepts the Board's recommendation to look at ways to implement Enterprise Risk Management (ERM) more quickly. By the end of 2012, the Senior Management Committee will be trained in ERM and a draft corporate risk register will be developed, which will be updated as the worldwide rollout at Headquarters and in the Field takes place. At the same time, a simple ERM framework and methodology will be developed, as well as tool kits and guidance materials. Communication and learning strategies and will be tested both in the Field and at Headquarters prior to global implementation. The implementation of the methodology and framework in ten major operations and in the main divisions at Headquarters is planned for 2013.

B. Recommendation (paragraph 77)

25. The Board recommends that "the Supply Management Service use its work in 2011 to: (a) identify any systematic shortcomings in existing systems and working practices; and (b) establish enhanced systems and controls for generating asset data."

Measures taken by the Administration

26. With regard to part (a) of the recommendation, UNHCR's Supply Management Service (SMS) is analyzing the root causes for discrepancies identified during the physical verification of assets and through other means on an ongoing basis. With regard to part (b) of the recommendation, any weaknesses in UNHCR's enterprise resource planning system MSRP, or in its working practices, are being corrected or captured in exception reports. Also, SMS will review purchase orders issued on a daily basis to ensure that parameters related to Property Plant and Equipment (PPE) purchases are correctly set. UNHCR plans to implement this recommendation by the end of 2012.

C. Recommendation (paragraph 84)

27. The Board notes that "most of the findings for 2011 relate to weaknesses that have been previously identified, and therefore reiterates and reinforces its recommendations that UNHCR establish common tools and checklists which should be used when undertaking implementing partner verification, and that staff undertaking financial monitoring visits receive appropriate training and be conversant with the rules and procedures governing implementing partners."

Measures taken by the Administration

28. UNHCR is pursuing a comprehensive approach to address this recommendation as detailed in paragraphs 8-10 above. This includes the analysis of current practices and gaps; the development of a risk-based monitoring approach and supporting tools; a consultation process, involving a field reference group, to review the proposed monitoring approach and supporting tools; the piloting of the approach in one selected field location; and the development of instructions, guidance and training. The process is being led by the Implementing Partner Management Service within the Division of Financial and Administrative Management; UNHCR plans to implement this recommendation by the end of the third quarter of 2013. Regular reviews will take place to incorporate lessons learned.

D. Recommendation (paragraph 120)

29. The Board recommends that UNHCR “prioritize: (a) improved recording on its enterprise resource planning system (MSRP) by local supply teams or, if this is not achieved, reversion by the Supply Management Service to centralized shipment tracking in order to provide a viable delivery time measure; (b) comparability between the emergency and non-emergency delivery performance measures maintained by the Supply Management Service; (c) capturing aspects of professional competence within the staffing indicator maintained by the Supply Management Service; and (d) cascading the corporate key performance indicators developed by the Supply Management Service to form a basis for country-level reporting on supply performance.”

Measures taken by the Administration

30. In order to comprehensively address the various aspects of the recommendation, UNHCR is reviewing the key performance indicators (KPIs) related to shipment tracking in order to determine the respective responsibilities for each process step. As part of its ongoing work to enhance emergency response, UNHCR is also determining measures for non-emergency vs. emergency delivery performance. In addition, UNHCR plans to develop an approach to enhance the KPIs for supply chain professional competencies. Finally, UNHCR will propose minimum standard KPIs and standard supply reports for each operation. A task force will be created for that purpose with members from SMS and senior supply officers from the Field.

E. Recommendation (paragraph 138)

31. The Board recommends that the “UNHCR Supply Management Service: (a) implement its plans to create reliable supplier performance information as quickly as possible; and (b) systematically use this information to manage supplier performance and contracts and make evidence-based decisions in awarding framework agreements.”

Measures taken by the Administration

32. UNHCR concurs with the Board’s recommendation and has included the collation of supplier performance information in its objectives for 2012. In that context, UNHCR will contact the respective working groups of the UN High-Level Committee on Management (HLCM) to evaluate the good practices of other UN entities. Once available, the supplier performance information will be used to systematically manage supplier performance and contracts and to make informed supplier selection decisions. In addition, the recently established Quality Assurance Unit within the Supply Management Service has already started to collect data on the quality of core relief items and to provide feedback on its assessments to suppliers. UNHCR plans to implement this recommendation by the end of the first quarter of 2013.

F. Recommendation (paragraph 158)

33. The Board recommends that “UNHCR develop a clear strategy for extending the range of support to the field for the procurement of key services based on: (a) analysis of the extent of expenditure on services such as security, telephony, fuel supply or vehicle maintenance across the country network; (b) analysis of the extent to which global suppliers have a market presence in key UNHCR locations, and expert advice on the extent of

savings that could be achieved from more consistent contracting and the consolidation of global buying power; and (c) feedback from supply officers in the field on priorities for the establishment of global framework agreements”

Measures taken by the Administration

34. The majority of services procured locally are subject to local regulations or availability. Therefore, a grouping of orders is not feasible or practical in the majority of cases. However, for fuel supply and vehicle maintenance, UNHCR will explore the possibility of combined sourcing as part of a later stage of the fleet management project. SMS will seek input from supply officers in the Field in order to determine priorities for establishing Global Frameworks. UNHCR plans to implement this recommendation by the end of the second quarter of 2013.

G. Recommendation (paragraph 160)

35. The Board also recommends that “the strategy for contracting services incorporate: (a) clear prioritization as to which services will be examined and tested in each year from 2012 to 2015; and (b) approval from the Contracts Committee of the choices made, and for the commitment of in-house and consultancy resources to developing and letting frameworks.”

Measures taken by the Administration

36. The focus of UNHCR is currently on the rationalization of vehicle procurement, where the most significant savings are anticipated and which involves considerable resources. Once the fleet management project is implemented, other groups of services or goods, such as generators, will be considered. The required approval from the Contracts Committee will be obtained.

IV. Other recommendations

A. Recommendation (paragraph 16)

37. The Board reiterates “the need for UNHCR to enhance its monthly financial closure processes to include, for example, documented review and validation of asset and liability balances, review of income and expenditure against budgets, and sign-off by the relevant responsible officers at headquarters and in the field of the components of the trial balance for which they are responsible.”

Measures taken by the Administration

38. UNHCR has worked to identify and prioritize the areas that should be subject to review and has started to develop a comprehensive, documented review process for key financial statement parameters at Headquarters. This will entail review and sign-off by nominated responsible officers of their assigned material balances at month end, together with an explanation of significant variances. This will subsequently be supplemented by the roll out of a similar process in the Field by the fourth quarter of 2012.

B. Recommendation (paragraph 26)

39. The Board recommends that “UNHCR (a) review its working capital requirements, including the adequacy of the \$50 million ceiling currently applied to the Working Capital and Guarantee Fund; and (b) manage its programmes and cash flows with the aim of maintaining its average unencumbered cash holdings at a level equivalent to no more than two months of expenditure.”

Measures taken by the Administration

40. With regard to part (a) of the recommendation, UNHCR has already started reviewing the adequacy of the \$50 million ceiling currently applied, and conclusions and proposals will be submitted to the Executive Committee for consideration in 2013. As for part (b) of the recommendation, UNHCR’s unencumbered cash holding does not exceed a level equivalent to two months expenditure, and UNHCR will continue to maintain this level.

C. Recommendation (paragraph 30)

41. The Board recommends that UNHCR “enhance its internal financial reporting by developing a thorough understanding of the key information needs required at each level of management, including variance analysis and a dashboard of key indicators for senior management, with sufficient narrative to focus attention on the areas that require attention.”

Measures taken by the Administration

42. UNHCR agrees with the recommendation and acknowledges the importance of quality internal financial reporting. UNHCR will work toward improving its internal financial reporting, taking due account of the points advised by the Board. UNHCR plans to take the necessary actions to address this recommendation by the second quarter of 2013.

D. Recommendation (paragraph 34)

43. The Board recommends that UNHCR analyze “the causes of the writes-off and allowances for doubtful accounts recorded in 2011 and introduce monthly reviews of working capital balances in order to safeguard its assets.”

Measures taken by the Administration

44. UNHCR has started to analyze the cause of the writes-off and allowances for doubtful accounts which were recorded in 2011. Ageing reports of key current assets and current liabilities will be developed and scrutinized as part of the review and sign-off process for monthly financial closure as advised and recommended by the Board.

E. Recommendation (paragraph 39)

45. The Board recommends that UNHCR “develop appropriate job descriptions and prioritize the recruitment of suitably qualified personnel for appointment to the approved additional finance and project control posts as soon as practicable.”

Measures taken by the Administration

46. The High Commissioner approved the creation of 50 finance, administrative/finance and project control positions to supplement the financial management capacity in the Field. These positions will be filled through a phased approach, taking into consideration the biennial budget cycle as well as resource availability. For the first 24 positions, the recruitment process is scheduled to be completed by the end of 2012. Job descriptions for these positions have already been revised.

F. Recommendation (paragraph 46)

47. The Board recommends that “UNHCR: (a) implement appropriate high-level financial controls for monitoring activities in the field and review its existing accountability structures to identify and ensure that an appropriate internal controls framework exists and is in operation; and (b) benchmark its accountability structure against similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control.”

Measures taken by the Administration

48. To address part (a) of this recommendation, UNHCR plans to address the gaps in internal controls with regard to financial management by updating the delegation of authority plan (DOAP) and by updating and revising its financial manual. On accountability structure and as recommended in part (b), UNHCR will work towards a framework which takes into account the reality in the Field and its practicality. UNHCR also plans to look at best practices from other devolved organizations operating in the humanitarian field. However, due to the very unique profile of UNHCR, its emergency nature, funding structure and operational environment, it is unlikely that the Office will find sufficiently similar organizations against which UNHCR can benchmark its accountability structure.

G. Recommendation (paragraph 48)

49. The Board also recommends that “UNHCR: (a) review and update its current anti-fraud policies and procedures to ensure its fraud detection and monitoring systems are appropriate; and (b) develop comprehensive guidance which addresses anti-money-laundering.”

Measures taken by the Administration

50. On part (a) of the recommendation, UNHCR will review and update its current anti-fraud policies and procedures in coordination with relevant functional divisions. On part (b) UNHCR is in the process of finalizing a concept paper which will lay the basis for developing and implementing guidance on anti-money laundering. The concept paper will cover the timeline for a policy; procedures; implementation and compliance; training; and reporting on anti-money laundering. It will provide a basis for internal discussions within UNHCR, and consultations within the UN and with other relevant organizations. This will allow the Office to receive further guidance in developing a project plan, also taking into account UNHCR’s risk and exposure to money laundering.

H. Recommendation (paragraph 52)

51. The Board “reiterates its previous recommendation that UNHCR develop robust and documented quality control procedures to validate the integrity of the data supplied to its actuaries.”

Measures taken by the Administration

52. UNHCR will enhance its control procedures to validate the integrity of data, including those received by third parties, such as the United Nations Staff Mutual Insurance Society, managed by the United Nations Office at Geneva (UNOG). In this respect, necessary measures are being taken, including clarifications with third parties on the exact data required, aimed at having a preliminary in-depth analysis of data prior to validation. UNHCR will work with internal and external providers of actuarial valuation data well in advance of the exercise for the closing of the 2012 accounts, in order to highlight previous data omissions and inaccuracies and work towards a quality set of data for the 2012 accounts.

I. Recommendation (paragraph 59)

53. The Board reiterates its previous recommendation that UNHCR should continue to “subject all bank accounts to a regular and critical challenge and close any unnecessary accounts.”

Measures taken by the Administration

54. UNHCR already periodically reviews the number of bank accounts that are required by the nature of the accounts: operations; foreign exchange requirements; investment accounts; private sector fundraising campaigns; and cash accounts. In this connection, UNHCR will (i) review and establish a target of a required number of bank accounts for all regions by the nature of the bank accounts, and (ii) on a continuous basis close all identified inactive and unnecessary bank accounts. Bank activity reports highlighting those bank accounts which could potentially be closed will be developed and examined as part of the forthcoming quarterly accounts close review.

J. Recommendation (paragraph 63)

55. The Board recommends that “UNHCR, building upon the progress made in terms of performing daily bank reconciliations on high-value accounts, explore the costs and benefits of extending, where feasible, this practice across major bank accounts outside headquarters.”

Measures taken by the Administration

56. UNHCR has continued to make progress and establish good practices for performing daily reconciliations on high value Headquarters’ accounts. Also, UNHCR has strengthened its oversight of bank reconciliations performed at the Field level to validate field controls and compliance on a monthly basis. However, there are some technical limitations in the UNHCR enterprise resource planning system (PeopleSoft MSRP) at the level of the general ledger module that make it difficult to extend the current approach across all accounts for all countries in a highly decentralized functional environment. It is

not feasible for field offices to perform bank reconciliations on a daily basis without significant additional staff resources as well as technical and system upgrades. UNHCR will, however, explore the costs and benefits of extending this practice for major bank accounts outside Headquarters.

K. Recommendation (paragraph 66)

57. The Board recommends “that: (a) the Division of Financial and Administrative Management of UNHCR develop and provide to all relevant staff members programmes of training on month-end and year-end cut-off in bank reconciliation processes and ensure compliance through test checks of bank reconciliations; and (b) UNHCR, in its monthly review of bank reconciliations, ensure that transactions are posted to the correct financial period and, during 2012, address the weakness identified.”

Measures taken by the Administration

58. In respect of part (a) of the recommendation, UNHCR currently issues detailed instructions on year-end cut-off in bank reconciliation processes, which are also used for month-end cut-off. To address the concern of the Board, UNHCR will further expand the scope of the existing online bank reconciliation trainings, and guidance on the cut-off procedure for bank reconciliation will be reinforced in the forthcoming monthly close memoranda issued during the third and fourth quarters of 2012. With regard to part (b) of the recommendation and with subsequent clarification from the auditors that UNHCR should review bank reconciliations on the basis of a sampling, UNHCR will establish a monthly review procedure on a sampling basis.

L. Recommendation (paragraph 70)

59. The Board recommends that UNHCR “review the attributed useful economic lives of assets, giving particular attention to the useful lives of vehicles in light of the proposed fleet management policy currently under development.”

Measures taken by the Administration

60. UNHCR, through its Supply Management Service (SMS), will review the useful economic lives of its assets, particularly light vehicles, taking into account technical parameters and the conditions in which they are operating. In addition, SMS, in coordination with the country operations, will review whether Property, Plant and Equipment (PPE) items acquired in 1995 or before are still in use.

M. Recommendation (paragraph 73)

61. The Board recommends that UNHCR “(a) monitor compliance by country offices with the terms of rights of use agreements; and (b) issue instructions to representatives reasserting their responsibility to maintain accurate and up-to-date records of UNHCR assets loaned to implementing partners.”

Measures taken by the Administration

62. UNHCR will provide further guidance to field operations on their responsibilities related to assets on loan to implementing partners. In addition, UNHCR will, as it did

during 2011, include assets loaned to UNHCR's implementing partners in its physical verification exercise of Property, Plant and Equipment (PPE). UNHCR plans to implement this recommendation by the end of 2012.

N. Recommendation (paragraph 97)

63. The Board recommends that UNHCR "continue to work to cleanse its asset register, focusing initially on those assets with a residual value."

Measures taken by the Administration

64. UNHCR will concentrate the physical verification exercise in 2012 on assets with a residual value. In addition, UNHCR will perform analytical reviews to determine the correctness of data related to such assets. It is planned that this recommendation should be implemented by the end of 2012.

O. Recommendation (paragraph 100)

65. "The Board reiterates its previous recommendation that UNHCR clearly identify the objectives and envisaged benefits of the IPSAS project and develop a methodology to formally track and manage benefits realization."

Measures taken by the Administration

66. A list of key performance indicators (KPIs) has been defined to monitor data and compliance with procedures. In addition, and in accordance with the Board's recommendation, UNHCR has identified the benefits that IPSAS brings to management and is actively promoting the envisaged benefits to its staff and various stakeholders. A formal benefits realization methodology, as recommended by the Board, is being developed and will be presented to the IPSAS Steering Committee for endorsement. UNHCR plans to implement this recommendation by the fourth quarter of 2012.

P. Recommendation (paragraph 106)

67. The Board recommends that "the supply function structure and the accountability lines recommended by the Supply Management Service, already applied in some countries, be applied consistently throughout the UNHCR network."

Measures taken by the Administration

68. UNHCR agrees with the need to apply the structure recommended by SMS in all country operations. The lines of accountability for supply staff in the Field will be strengthened by establishing a process of joint objective setting between field operations, local supply staff and SMS. In addition, SMS will provide regular feedback on the performance of supply officers, in agreement with the Regional Bureau Directors.

Q. Recommendation (paragraph 115)

69. The Board recommends that "UNHCR: (a) assess the need for basic induction training in procurement or supply management across its cadre of supply officers, giving priority to officers in a management role; (b) establish the number and distribution of supply staff holding relevant and recognized professional procurement qualifications; and

(c) consider the extent to which the number of supply staff should be increased by external recruitment or by requiring professional study and qualification linked to career progression to senior supply posts.”

Measures taken by the Administration

70. SMS has defined competency building for supply staff as one of its priorities for the next few years. The action plans include the development of a knowledge or competency framework and a training strategy to be developed jointly with the Global Learning Centre. The development of an induction course for staff being newly assigned to supply posts is already at an advanced stage and is expected to be launched during the third quarter of 2012. In addition, a number of supply staff at various levels have already completed or will enroll in an accredited course on Public Procurement and Supply. As part of this strategy SMS and the Global Learning Centre will also launch a levelled certification programme for supply officers with the objective of making certification a condition for appointments to selected positions. SMS will also map UNHCR supply staff working around the globe against recognized supply (not only procurement) qualifications, as a way to identify gaps in knowledge and additional requirements. However, and in view of the decentralized system in UNHCR, supply staff in the Field are selected by senior management in field operations, *i.e.* local Representatives. SMS has no authority regarding the assignment and recruitment of staff in the Field or in defining the criteria for selecting staff, although it is responsible for providing technical clearance for the recruitment of supply staff.

R. Recommendation (paragraph 124)

71. The Board recommends that UNHCR, in the guidance issued by the Supply Management Service, reiterate “the need for country-level supply officers to assess the scope for grouping orders, identifying the most beneficial routes of supply and, where appropriate, the development of national framework agreements.”

Measures taken by the Administration

72. In coordination with the country-level supply functions, UNHCR plans to identify a core set of goods and services for which National Framework Agreements should be established. The standard operating procedures to be developed for country-level procurement will include guidance about the grouping of orders and identifying best routes. UNHCR plans to implement this recommendation by the end of the first quarter of 2013.

S. Recommendation (paragraph 130)

73. The Board recommends that UNHCR “investigate the potential to institute quantified analysis of warehouse requirements for all major non-food item and material deliveries that are in the pipeline in MRSP financial management system.”

Measures taken by the Administration

74. UNHCR will investigate whether MSRP has the capacity and functionality to institute a quantified analysis of warehouse requirements. In addition, UNHCR plans to perform a review of its warehouse locations with the aim of further optimizing the number of locations based on operational need.

T. Recommendation (paragraph 131)

75. The Board also recommends that “UNHCR require supply staff to verify that there is access to sufficient warehouse capacity before ordering large quantities of goods.”

Measures taken by the Administration

76. UNHCR has created the position of a Senior Planning Officer (Supply Chain) at Headquarters. Once the position is filled, the incumbent will be responsible for coordination with the Field on best replenishment solutions, the monitoring of ordered quantities and the evaluation of warehouse capacity on a continuous basis. Guidance on best replenishment solutions and evaluation of warehouse capacity before ordering large quantities will also be formalized in the revised version of the UNHCR Supply Chain Manual.

U. Recommendation (paragraph 142)

77. The Board recommends that UNHCR “avoid duplicated and divergent effort by different country offices by: (a) defining the information to be collated and retained for tracking supplier performance in terms of the timeliness, quality and completeness of consignment delivery; and (b) developing an easy-to-use template for supply units to capture such data consistently.”

Measures taken by the Administration

78. UNHCR concurs with the Board’s recommendation and plans to (i) define the information to be collated to track on-time delivery, quality and completeness, and (ii) develop a user-friendly template for tracking supplier performance in country operations. UNHCR plans to implement this recommendation by the end of the first quarter of 2013.

V. Recommendation (paragraph 149)

79. The Board recommends that UNHCR “emphasize in its guidance to supply officers the underlying planning principle that the collective uncertainties in regard to tendering, supplier performance, logistics, scope for government intervention and involvement by multiple partners will tend to extend practical lead times for medical supplies well beyond theoretical durations. In some cases, this will demand earlier requisitioning.”

Measures taken by the Administration

80. The newly established planning function within SMS will, once the position is filled, provide guidance and develop operating procedures on how to anticipate potential delivery delays, which can be caused by weather conditions, customs procedures, security requirements and other reasons, in the requisition and order process. UNHCR will also consider the adequacy of safety stock levels in this context.

W. Recommendation (paragraph 150)

81. The Board also recommends that “UNHCR require its country operations, as part of annual work planning, to assess whether they have the necessary expertise and are sufficient scale to act as the procurer of medical supplies, and whether an alternative agency is better placed to procure such specialist items.”

Measures taken by the Administration

82. The procurement of medical supplies is not one of UNHCR's core activities. UNHCR has established a process of cooperation with other agencies. In the event the Office has to procure medical supplies in exceptional situations, UNHCR will continue to consult with expert agencies through the health section. UNHCR considers this recommendation implemented.

X. Recommendation (paragraph 155)

83. The Board recommends that UNHCR "amend its Supply Manual to require country supply teams to regularly market test key locally procured services according to specific cycles."

Measures taken by the Administration

84. It is established practice within UNHCR operations to market-test procured services on a regular basis, and UNHCR concurs with the Board that this requirement should be formalized. This requirement will therefore be included in the updated version of UNHCR's Supply Chain Manual. The Local Contract Committees are charged to review compliance with this requirement.

Y. Recommendation (paragraph 163)

85. The Board recommends that where global framework agreements are not found to be feasible, UNHCR "consider the production of generic service specifications for adaptation by local supply officers on a country-by-country basis."

Measures taken by the Administration

86. Along with other UN agencies, UNHCR participates in a working group that develops standard requirements for common services. On this basis, UNHCR will define standard terms of reference for key services and share them with country operations. Templates for Requests for Proposals (RFPs) are available on the UNHCR intranet. UNHCR will, however, perform a thorough review of the service categories as a basis upon which to develop generic service specifications.

Z. Recommendation (paragraph 187)

87. The Board recommends that "a) [UNHCR] perform a comprehensive appraisal of the provision of internal audit services, examining the costs and benefits of a range of possible options for addressing the weaknesses identified; and b) on determining the preferred response, it develop a full business case and timetable for the implementation of revised arrangements that preserve the strengths of the current arrangement and ensure the continuation of internal audit activity through any transitional period."

Measures taken by the Administration

88. UNHCR intends to commission an independent assessment of the options for the provision of internal audit services as recommended, and plans to complete this assessment by the end of 2012.

III. Conclusion

89. UNHCR appreciates the value of the audit work of the Board of Auditors. Its findings and recommendations allow the Office to identify risk areas to which it is exposed. UNHCR has accepted all recommendations and will endeavour to implement them under an agreed timeline, giving priority to areas identified as higher risks.
