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Programme budgets, management, financial control

and administrative oversight

Report of the Board of Auditors to the General Assembly on the accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2009

Report by the High Commissioner

Addendum

**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 the United Nations High
Commissioner for Refugees for the year ended
31 December 2009***

* Late submission due to late receipt of the Report of the Board of Auditors on 2 September 2010

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction.....	1	3
II. Recommendations (a) and (b)	2-3	3
III. Recommendation (c)	5--6	3
IV. Recommendation (d).....	7	4
V. Recommendation (e)	10-11	4
VI. Recommendation (f).....	12-14	4
VII. Recommendation (g).....	15-16	5
VIII. Recommendation (h).....	17-18	5
IX. Recommendation (i).....	19-26	5
X. Recommendation (j).....	27-28	7
XI. Recommendation (k).....	29-30	7
XII. Recommendation para. 31.....	31-32	7
XIII. Recommendation para. 54.....	33-34	8
XIV. Recommendation para. 57.....	35-36	8
XV. Recommendation para. 84.....	37-44	8
XVI. Recommendation para. 89.....	45-46	9
XVII. Recommendation para. 96.....	47-48	10
XVIII. Recommendation para. 123.....	49-52	10
XIX. Recommendation para. 126.....	53-54	11
XX. Recommendation para. 130.....	55-56	11
XXI. Recommendation para. 134.....	57-58	11
XXII. Recommendation para. 139.....	59-60	11
XXIII. Recommendation para. 151.....	61-64	12
XXIV. Recommendation para. 184.....	65-66	12

I. Introduction

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, this document informs of measures taken or to be taken by the United Nations High Commissioner for Refugees (UNHCR) in response to the recommendations of the Board of Auditors. It first addresses the main recommendations set out in Chapter I of their Report (A/AC.96/1086), and then provides responses to other recommendations as detailed in paragraphs 31 to 184 below. Unless otherwise indicated, all references appearing below relate to the aforementioned Report.

Main recommendations:

II. Recommendations (a) and (b)

2. “The Board recommends that UNHCR intensify the efforts of the working groups in charge of preparing for IPSAS in order to comply with the target of full implementation in 2012.” (para. 27)

3. “The Board recommends that UNHCR analyse the reasons why certain working groups have made no progress on preparation for the transition to IPSAS and make specific efforts to improve the low rates.” (para. 33)

Measures taken by the Administration

4. UNHCR has reported to the Standing Committee of the Executive Committee of the High Commissioner’s Programme on the constraints to implementation of the International Public Sector Accounting Standards (IPSAS), in particular, shifted priorities owing to the introduction of the new results-based budgetary framework, as well as a lack of sufficient skilled human resources. Efforts to identify the right expertise and fill vacant positions are ongoing but moving slowly. The management is aware of the reasons for the delays in certain IPSAS working groups and is taking the necessary action to assure IPSAS implementation for the year 2012.

III. Recommendation (c)

5. “The Board reiterates its previous recommendation that UNHCR comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms for controlling the validity of obligations.” (para. 60)

Measures taken by the Administration

6. In 2009, numerous training sessions were held in the Field to address problems with the recording of financial transactions, including obligations. To further address this recurring problem, in October 2010 UNHCR will hold a symposium for its senior finance staff in the Field. One of the topics to be covered during this conference is the year-end closure, covering areas such as explanations on the closure instructions, important dates for completion of year-end tasks, and discussion of recurring year-end closure problems, including cancellation or validation of obligations.

IV. Recommendation (d)

7. “The Board reiterates its previous recommendation that UNHCR set up specific funding for its accrued end-of-service and post-retirement liabilities.” (para. 73)

Measures taken by the Administration

8. UNHCR presented possible funding approaches at the 45th Meeting of the Standing Committee in June 2009, but a decision was not presented at that time, pending the outcome of the General Assembly decision on funding the liabilities of the United Nations Secretariat. Subsequently, in its resolution A/RES/64/241 adopted on 24 December 2009, the General Assembly deferred its decision on funding proposals for end-of-service and post-retirement liabilities until the 67th session of the General Assembly.

9. At the 48th Meeting of the Standing Committee in June 2010, UNHCR again put forward a series of funding options for consideration by Member States in conference room paper EC/61/SC/CRP.19. Member States expressed divergent views and asked to pursue discussions on the subject in informal consultations in September 2010. Subsequently, UNHCR hopes to have received sufficient guidance from Member States in order to be able to present a preferred funding option for end-of-service and post-retirement liabilities based on a cost estimate of various options.

V. Recommendation (e)

10. “UNHCR agreed with the Board’s recommendation that it prepare comparative statistics and indicators in order to measure the improvement in the quality of the services delivered by outposted units.” (para. 90)

Measures taken by the Administration

11. UNHCR agrees that comparative statistics and indicators will provide additional elements for appraising the quality of the services delivered after the outposting, and will establish appropriate performance indicators in the future.

VI. Recommendation (f)

12. “UNHCR agreed with the Board’s recommendation that it (a) ensure that bank reconciliations are exhaustive and (b) resolve unexplained differences between bank confirmation statements and the general ledger.” (para. 100)

Measures taken by the Administration

13. Since mid-2009, UNHCR has put in place a systematic and regular process for following up bank reconciliations. At the end of each month, a bank reconciliation status report is produced, showing when a bank reconciliation was last prepared and last approved for each of the UNHCR field bank accounts; this is used by the Financial Control Section (FCS) to check with the relevant field offices that appropriate action is taken. Also, for identified high-risk accounts, a more detailed review is undertaken, and the unexplained amounts, notes and explanations that are entered by the field offices in the Managing Systems, Resources and People (MSRP) bank-to-book reconciliation pages are scrutinized

closely by FCS staff and followed up upon with the field offices concerned. These measures started to be applied from mid-2009, and it is expected that the outstanding backlog will have been addressed by the end of September 2010.

14. In addition, in order to help ensure that bank reconciliations are properly done (including the resolution of unexplained differences), an on-line course on bank reconciliation is in the final stages of development by UNHCR's Global Learning Centre (GLC) and is expected to be ready by September 2010. This course is intended to provide step-by-step instructions to all staff responsible for bank reconciliations.

VII. Recommendation (g)

15. "The Board reiterates its previous recommendation that UNHCR continue its efforts to improve the rate of timely justification of advances granted to implementing partners." (para. 108)

Measures taken by the Administration

16. In March 2010, FCS started to review roles and accountabilities relating to financial transactions within the organization, and has identified that additional controls and monitoring of instalments made to partners are needed. Once this review is complete, discussions will be held with the Bureaux to determine how to further improve controls in this area. In addition, during the aforementioned symposium for UNHCR senior finance staff and at another such meeting for project control officers, the importance of recording implementing partner (IP) expenditure reports promptly will be stressed.

VIII. Recommendation (h)

17. "The Board reiterates its previous recommendations that UNHCR: (a) assess the instalments disbursed to implementing partners that have remained unreported for more than a year and (b) take appropriate measures to have them reported or recovered from the implementing partners." (para. 117)

Measures taken by the Administration

18. As noted in paragraph 113 of the Board of Auditors' report, as of 22 June 2010, the instalments not reported upon for more than one year had been reduced; all balances to be reported by partnerships concluded in 2006 and prior years had been reduced to zero; and for 2007, unreported balances were only \$275,586. Thus, UNHCR considers that very significant improvement has been achieved in addressing this issue. Efforts are continuing to ensure that balances are cleared on a timely basis.

IX. Recommendation (i)

19. "UNHCR agreed with the Board's recommendation that it: (a) record non-expendable property values in a timely and regular manner, as soon as they are recorded in the asset database; (b) take a full physical inventory of its non-expendable property in each field representation so as to match the assets present with the list of assets found in the database; and (c) monitor asset-disposal procedures more rigorously." (para. 153)

Measures taken by the Administration

20. Ensuring the accuracy and completeness of assets in the database is an ongoing process. Since mid-2009, UNHCR has been coordinating a full review of its non-expendable property for every country operation. The Board of Auditors noted improvements in asset management practices in paragraphs 143 to 145 of their report.

21. In UNHCR's response to the 2008 Board of Auditors' recommendation on this matter, it was reported that the necessary systems integration would be in place from 1 January 2010 to ensure integrity of data in the database. Unfortunately, owing to resource constraints caused by conflicting priorities, the IPSAS project has suffered delays and the systems and procedures were not in place as of 1 January as planned; hence, these measures will only be implemented in the last quarter of 2010, under the existing accounting standards. Staff are working continuously to ensure that the database is properly maintained. At the time of reporting, the clean-up of the database of non-expendable property was 95 per cent complete. The Asset Management Unit (AMU) in the Supply Management Section (SMS) will continue to work closely with the Field to finalize this clean-up exercise and ensure that the new procedures and systems functionality are put in place during 2010.

22. Furthermore, a system of monthly monitoring of all Property Plant and Equipment (PPE) has been in place since the beginning of 2009. In order to prevent incorrect registration of PPE, the functionality for adding assets directly into the database is only available to the Asset Management Unit in Budapest.

23. Regarding the asset disposal procedures mentioned in paragraph 152 (c) of the Board of Auditors' report, in January 2010 UNHCR introduced a system to monitor all disposals and verify that they have been correctly processed by the relevant Asset Management Boards.

24. In addition, UNHCR has implemented an improved tracking of meetings of the Headquarters Asset Management Board (HAMB) and Local Asset Management Board (LAMB). All HAMB meetings, and the vast majority of the LAMB meetings, are now registered in the document management system *LiveLink*. To ensure that no disposal in MSRP takes place without the minutes of the decisions being recorded, SMS is monitoring all GS-45 forms for asset disposals that do not have a record of a corresponding LAMB meeting. This also includes any follow-up taken after the HAMB/LAMB meeting. The system was introduced at the end of 2009 and has now been applied to all 2010 HAMB/LAMB cases.

25. Longer term, UNHCR intends to develop a new module in the MSRP system to improve the monitoring of Asset Management Board meetings. Development can only begin after all actions related to the new results-based budget framework and the IPSAS projects have been completed, i.e. after 2012.

26. With specific reference to the comments related to UNHCR's Representation in Kenya, assets referred to in paragraph 152 of the report have since been captured in the asset database. The Office has further reinforced internal checks by bar-coding newly acquired assets and improving coordination between the administration, supply and information and communications technology units to ensure that all assets are correctly reflected in the database. With regard to the physical inventory, the UNHCR Representation in Kenya has confirmed that the check-up was carried out, assets were verified by July 2009 and that asset reviews are regularly conducted on a yearly basis.

X. Recommendation (j)

27. “The Board reiterates its previous 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.” (para. 158)

Measures taken by the Administration

28. UNHCR reiterates the response provided to the 2008 Board of Auditors’ report on the same subject, and confirms that measures are being put in place to track and report on inventory in the financial statements for the year 2010. To this end, the inventory held at the end of 2009 was subjected to a physical count and a valuation exercise is under way to establish an opening balance for the accounts of 2010. SMS is currently improving the accuracy of the data and putting in place the technical modifications to MSRP that are required for it to “go live” as expected in the last quarter of 2010. Once the system changes are implemented, financial transactions will automatically occur whenever there is a corresponding movement of items in or out of the inventory, thereby ensuring that data in the financial system correctly reflects the value of inventory.

XI. Recommendation (k)

29. “The Board reiterates its previous recommendation that UNHCR continue its efforts to reduce the number of staff in between assignments and not on temporary duty.” (para. 173)

Measures taken by the Administration

30. UNHCR is intending to further explore a more effective policy on the issue of staff in-between assignments (SIBAs). To this effect, an Internal Audit assignment is currently in progress, the results of which will be reviewed in due course.

Other recommendations:

XII. Recommendation para. 31

31. “The Board recommends that UNHCR ensure that its revised financial rules, compliant with IPSAS, be adopted in conjunction with the entry into force of IPSAS.”

Measures taken by the Administration

32. In the most recent IPSAS implementation progress report (conference room paper EC/61/SC/CRP.18) presented to the Standing Committee in June 2010, UNHCR explained, in paragraphs 4 and 5, that further changes to UNHCR’s current version of the Financial Rules in A/AC.96/503/Rev.9 were not expected until such time as UNHCR was ready to fully implement IPSAS. In the meantime,, UNHCR intended to apply the relevant provisions of the United Nations Harmonized Financial Regulations and Rules for the purposes of IPSAS compliance.

XIII. Recommendation para. 54

33. “The Board recommends that UNHCR: (a) ensure that the responsible officials strictly comply with the closing instructions of the Organization; and (b) adjust its internal procedures in order to comply with the audit requirements.”

Measures taken by the Administration

34. Concerning point a), considerable efforts are exerted each year to ensure that year-end instructions are clear and understandable. In October 2010, at the aforementioned symposium for UNHCR senior finance staff in the Field, one of the topics to be covered will be the year-end closure, including explanations on the instructions, important points to observe and discussions on some of the year-end closure problems. Concerning point b), which aims to address difficulties experienced by the auditors in obtaining evidence of certain approvals and supporting documentation from field offices, UNHCR will continue to work closely with the auditors to ensure that the necessary evidence is provided on a timely basis.

XIV. Recommendation para. 57

35. “The Board recommends that UNHCR make every effort to expedite the clearing of unliquidated obligations against accounts payable whenever bills and invoices are available to substantiate the receipt of goods and services.”

Measures taken by the Administration

36. The correct recording of accounts payable and unliquidated obligations will be given additional emphasis in the year-end instructions. Field Offices will be reminded to pay more attention when entering data into MSRP and to record transactions in a timely manner. In addition, the symposium for senior finance staff in the Field will address this subject under year-end closure instructions.

XV. Recommendation para. 84

37. “The Board recommends that UNHCR modify the notes to its financial statements by including disclosure of the change in the main actuarial assumptions used for the valuation of the after-service health insurance liability, along with the reason for and the effect of this change.”

Measures taken by the Administration

38. Paragraph 79 of the report of the Board of Auditors acknowledges that the methodology used by UNHCR is compliant with ISPAS 25, however it recommends that the change in the discount rate should be disclosed.

39. The methodology used to establish the value of the discount rate for the purpose of the 2009 valuations complies with IPSAS 25, is consistent with the method used in previous years, and is consistent with the methods employed by the United Nations Secretariat. The information provided below demonstrates that the discount rate of 6.15 per

cent used for the 31 December 2009 valuation is supportable, both on economic grounds and in terms of consistency of approach.

40. The United Nations Secretariat has provided guidance in the form of a *Note on Discount Rate for Actuarial Valuation of End of Service Benefits for 31 December 2009*, wherein it is explained that the objective of selecting a discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flow to pay the accumulated benefits when due. IPSAS 25 is the standard used to determine the accounting disclosure requirements for employee benefits and it does not specify how the discount rate assumption should be selected.

41. The United Nations has historically established the discount rate by referring to rates of return on available high-quality fixed-income investments with cash flows that match the timing and amount of expected benefit payments. This approach complies with the general terms as outlined above and with the additional provisions contained in paragraphs 92 to 94 of IPSAS 25. UNHCR has consistently followed the approach adopted by the United Nations, which is consistent with the requirements and operational structures of the Office. As such, the main actuarial assumptions used for the valuation of the after-service health insurance have not changed, but the underlying rates leading to the determination of the discount rate have changed, and are explained further below.

42. The United Nations has, like most plan sponsors and actuaries, used spot rates associated with a yield curve of AA rated long-term corporate bonds, based on a benchmark of Citigroup pension discount curve in the United States of America and Euro Bonds in Europe. This methodology for development of the discount rate includes a number of steps which are set out in the guidance note. When the methodology was applied to the cash flows from ASHI for the year ended 31 December 2009, the result produced a discount rate of 6.15 per cent

43. The rate of 6.15 per cent is also in line with discount rate assumptions recently reported for December 2009 valuations by J.P. Morgan (range of discount rates considered appropriate for most pension plans based on the J.P. Morgan AA Yield Curve: 5.75 - 6.50 per cent) and Mercer (Index rates in the U.S. End-of-Month discount rate using Mercer Yield Curve for Mercer sample "average" plan: 6.03 per cent)

44. The rate used by UNHCR is based on high quality corporate bonds denominated in Euros, rounded to the nearest 5 basis points (the rate calculated before rounding was 6.17 per cent). The rate of 5.5 per cent first used in 2007, and then in 2008, was also based on Euro-denominated high quality corporate bonds, and was therefore consistent with the basis used in 2009.

XVI. Recommendation para. 89

45. "The Board recommends that before each structural reform, UNHCR establish detailed objectives, indicators and expected impact on management."

Measures taken by the Administration

46. UNHCR takes note of the Board of Auditors' recommendation.

XVII. Recommendation para. 96

47. “UNHCR agreed with the Board’s recommendation that it ensure that its practices in employing and assigning National Professional Officers comply with the criteria of the International Civil Service Commission and the resolutions of the General Assembly.”

Measures taken by the Administration

48. While taking due note and accepting the recommendation on the issue of National Professional Officers, UNHCR confirms that the majority of criteria (as determined by the International Civil Service Commission) for recruiting National Professional Officers at the Global Service Centre in Budapest were adhered to.

XVIII. Recommendation para. 123

49. “The Board reiterates its previous recommendation that UNHCR continue its efforts to obtain the audit certificates from implementing partners by 30 April of each year.”

Measures taken by the Administration

50. At the recommendation of the Board of Auditors, in 2006 UNHCR agreed to set the deadline for the receipt of audit certification at 30 April of each year, which constituted a reduction of three months compared to the earlier established due date of end of June. Since then, UNHCR has expended enormous efforts to ensure compliance by the due date and to provide guidance and support to operations and partners that experience difficulties. Despite these efforts, operational realities have proven that full compliance by the end of April is not feasible. Nevertheless, the concerted efforts have resulted in a remarkable improvement from previous years, and compliance progressed from 55.9 per cent at 30 April 2010 (compared to 15 per cent at the end of April 2009) to reach 98.8 per cent at 22 June 2010 and 98.9 per cent at 28 June 2010 (compared to 58.1 per cent at the end of June 2009).

51. In paragraph 119 of the Board of Auditors’ report, it was observed that audit certificates from prior years not received as of 22 June 2010 represented 6.1 per cent of the payments made in 2005; 11.5 per cent of the payments made in 2006; 0.5 per cent of the payments in 2007; and 0.7 per cent of the payments in 2008. UNHCR considers that a significant improvement has been made compared to the same time last year when the statistics were: 10 per cent of 2005 expenditure not supported by audit certificates; 14 per cent for 2006; and 17 per cent for 2007. UNHCR will continue efforts to improve the situation further by 31 December 2010.

52. While pursuing efforts to comply with the existing policies, UNHCR is concurrently exploring alternative cost-effective, realistic, and timely approaches in order to obtain assurance that funds are properly disbursed through implementing partner arrangements. A study began in February 2010 to review UNHCR’s current policy on implementing partner audit requirements; to identify root causes of deficiencies in implementing partner performance monitoring and compliance; and to research and benchmark policies and related oversight mechanisms across United Nations system agencies. A final report, containing alternative options, modalities for implementation, resource requirements and implications, will be available for consideration by management at the end of 2010.

XIX. Recommendation para. 126

53. “UNHCR agreed with the Board’s reiterated recommendation that it continue to make potential adjustments to prior-year expenditure in the financial statements.”

Measures taken by the Administration

54. UNHCR agrees that ongoing efforts to conduct an in-depth analysis of qualified audit certificates is necessary and will continue to take reasonable and appropriate measures to resolve the qualification matters.

XX. Recommendation para. 130

55. “The Board recommends that UNHCR guarantee that all anticipated audit certificates are included in its database.”

Measures taken by the Administration

56. In the course of the audit, UNHCR recognized that some offices had not duly recorded the project agreements in MSRP, and took measures to correct the situation at that time. It should be noted that, although some agreements were not recorded in the system, the related audit certificates had been received as required; therefore, there was no impact on the rate of IP audit compliance reported.

XXI. Recommendation para. 134

57. “UNHCR agreed with the Board’s recommendation to update the standard contract with its implementing partners.”

Measures taken by the Administration

58. UNHCR is in the process of reviewing existing formats governing sub-project agreements as part of the updating of Chapter 4 of the UNHCR Manual. New, updated and revised formats will be issued before the end of 2010 - in time for the 2011 implementation arrangements.

XXII. Recommendation para. 139

59. “UNHCR agreed with the Board’s recommendation that it put the monitoring of project implementation progress indicators on a formal footing and keep a record of the checks.”

Measures taken by the Administration

60. UNHCR fully appreciates the importance of monitoring the progress of project implementation against performance indicators established at the outset of the project. UNHCR has given monitoring of project implementation considerable emphasis in its internal guidelines on implementation issued in February 2010. As part of UNHCR's

commitment to results-based management (RBM) and to accommodate the associated results framework, a set of standardized performance indicators was integrated into duly revised sub-project agreement formats for 2010. When Chapter 4 of the UNHCR Manual is updated, additional guidance will be provided to field offices on the proper monitoring of the progress of the project, both on performance and impact, measured against set indicators drawn from UNHCR's results framework. Emphasis will also be attached to the proper recording of such periodic monitoring.

XXIII. Recommendation para. 151

61. "UNHCR agreed with the Board's recommendation that it: (a) obtain from its partners their annual inventories; (b) conduct conformity checks between the non-expendable property in its AssetTrak database and the non-expendable property on its partners' inventories during site visits; and (c) conduct checks during the site visits of the inventory of non-expendable property procured with UNHCR funds, as well as of the assets donated by UNHCR."

Measures taken by the Administration

62. During 2009 and 2010, UNHCR's Supply Management Service (SMS) liaised directly with UNHCR Representations in countries where annual implementing partner (IP) property listings were lacking, providing guidance and support to UNHCR staff to assist them in obtaining the requested reports, as well as to improve the conformity checks. Accordingly, the MSRP asset database now reflects the operational status of the majority of assets. As a measure for further improvement, SMS has also introduced a system of escalation for non-compliance.

63. With regard to the specific issues concerning the UNHCR Representation in Malaysia, mentioned in paragraphs 149 and 150 of the report, the office has reported that it has carried out all actions outlined in the relevant recommendations. All implementing partners holding assets in Malaysia have submitted their listings, including items donated by UNHCR and those purchased by the implementing partner using UNHCR funds. These lists have been checked by UNHCR and updated in MSRP. In addition, random checks of assets have been conducted during site visits and recorded through a monitoring check-list. Seven financial verification visits have been conducted in 2010.

64. The UNHCR Representation in the Syrian Arab Republic has also reported having made improvements since the time of the audit. Lists of IP assets are now duly signed and stamped by UNHCR and attached to final Implementing Partner Financial Reports.

XXIV. Recommendation para. 184

65. "UNHCR agreed with the Board's recommendation that, in collaboration with OIOS, it take appropriate measures to reduce the number of vacancies for internal auditors."

Measures taken by the Administration

66. UNHCR shares the Board's concerns on vacant internal audit positions, and has raised the issue with senior OIOS officials based in New York (October 2009) and in Geneva (May 2010, June 2010). UNHCR has ensured that adequate funding was put in

place to facilitate timely recruitment activities, since it does not participate in the recruitment process itself. OIOS has advised UNHCR that every effort will be made to fill the positions as expeditiously as possible. UNHCR is concerned that internal audit coverage is not being provided in key areas of programme activity and will continue to pursue the matter with senior officials of OIOS as a matter of priority.
