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REPORTS ON THE WORK OF THE STANDING COMMITTEE:
PROGRAMME BUDGETS, MANAGEMENT, FINANCIAL CONTROL
AND ADMINISTRATIVE OVERSIGHT

Internal Audit in UNHCR
(2005 – 2006)

Report by the Office of Internal Oversight Services

I. AUDIT ACTIVITIES

1. This report reviews the internal audit activities of the Office of the United Nations High Commissioner for Refugees (UNHCR) and the results achieved for the period from 1 July 2005 to 30 June 2006 by the United Nations Office of Internal Oversight Services (OIOS). During this period, 28 audits were completed: 22 in country operations and six at Headquarters.

A. Mandate and mission

2. OIOS assumes the internal audit function for UNHCR on the basis of a Memorandum of Understanding concluded on 24 July 2001. The OIOS (UNHCR Audit Service) consists of auditors based in Geneva and Nairobi. As required, resident auditors are posted in major emergency operations. In 2005/2006, one resident auditor was assigned to the Sudan and Burundi operations.

3. UNHCR's annual internal audit plan is developed in close consultation with management, the Oversight Committee, the Inspector General's Office and the United Nations Board of Auditors to ensure proper coordination between oversight functions. The plan includes

periodic audit reviews of country operations, which are carried out depending on the size and nature of the operation and the assessed level of risk involved. At Headquarters, in-depth reviews of functional areas are conducted to assess the operational effectiveness and adequacy of policies and procedures. Global audits are also conducted and selected on the basis of higher risk areas emerging from OIOS' findings in field operations. The audit plan is sufficiently flexible to accommodate ad hoc requests by management and emerging risks as they are identified.

4. Internal audit provides the High Commissioner with independent, objective assurance of the Office's efficient use of funds; the reliability and integrity of financial and operational information; the safeguarding of assets; the compliance with established rules and policies; the achievement of programme objectives; and other issues which may have implications for the management of UNHCR's resources. Where assurance cannot be given, OIOS provides information on problems identified and makes recommendations on how to address them. Whenever feasible, OIOS identifies quantifiable savings and recoveries.

B. Budget and staffing resources

5. As at 30 June 2006, UNHCR provided funds for a total of 16 posts: 13 Professional and three General Service staff. For 2005, the cost of audit services was approximately US\$ 2 million. The audit budget for 2006, including the cost of the resident auditor for the Sudan and Burundi operations, amounts to US\$ 2.6 million.

C. Quality assurance

6. OIOS seeks regular feedback from managers on their satisfaction with the audit services provided and on areas for improvement. After the issuance of the final audit report, the manager concerned is requested to complete a Client Satisfaction Survey. During the reporting period, 18 completed surveys were received (a response rate of 70 per cent). In 32 per cent of the cases, managers assessed the audit services as excellent, 57 per cent as good and 11 per cent as fair.

7. To ensure compliance with the International Standards for the Professional Practice of Internal Auditing, an internal quality self-assessment of the OIOS' internal audit of UNHCR was conducted in 2005. The aim of the assessment was to appraise the quality of the audit work performed and benchmark it against best practices to determine opportunities for improvements. The quality self-assessment was validated by a peer review by the Office of Internal Audit of the United Nations Children's Fund (UNICEF). It was their opinion that the OIOS internal audits of UNHCR were conducted in accordance with recognized international auditing standards. The assessment identified opportunities to increase efficiency and effectiveness by revising UNHCR's internal audit processes.

8. The Board of Auditors also conducted an audit of UNHCR's internal audit activities, expanding on the work already done in the quality self-assessment. The Board assessed that it could place reliance on the work undertaken.

D. Financial data and reports for audit purposes

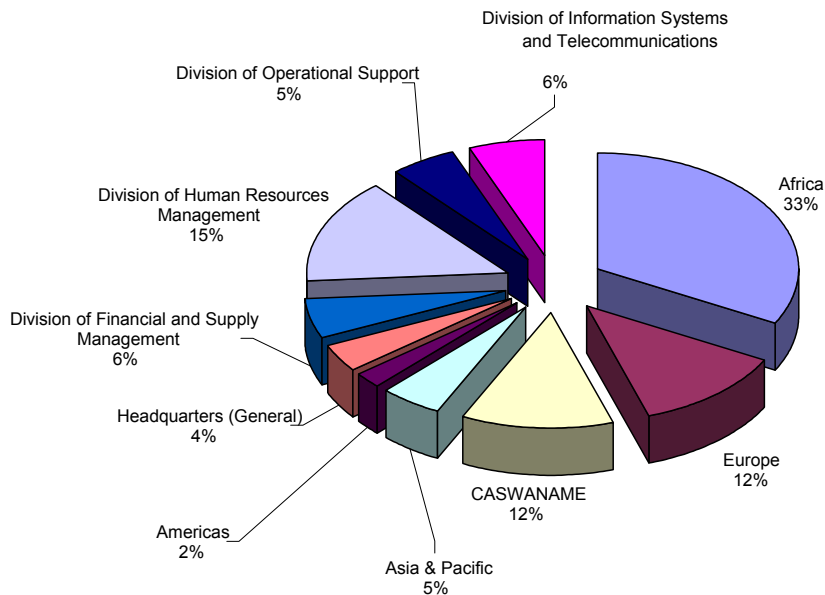
9. In the preparation for audit assignments, OIOS requires access to various UNHCR financial and other reports. This is required for sample selection; for assurance of the completeness and accuracy of data; for variance analysis; and for the detection of unusual transactions, trends and/or fluctuations in expenditure patterns. The Management Systems Renewal Project (MSRP) still provides limited analytical data and reports for the purposes of audit. In general, reports and the use of reports generated from MSRP continue to be identified by OIOS as an area requiring improvement. This impacts on OIOS' work and on management's supervisory and monitoring ability.

10. In order to facilitate internal audits, OIOS is in the process of developing analytical tools to assist in the evaluation of data across multiple dimensions, and provide auditors with the necessary flexibility in the application of operational and other data for audit purposes.

E. Summary of audited activities and audit reports

11. During the period, OIOS covered operations and activities with expenditure amounting to US\$ 172 million. OIOS audited processes and activities in the following 22 UNHCR operations: Algeria, Belgium, Benin, Bulgaria, Congo (Republic of the), Djibouti, Ghana, Hungary, Indonesia, Kenya, Kosovo (Serbia), the Libyan Arab Jamahiriya, Nepal, Pakistan, Rwanda, Somalia, Sudan (two audits), the Syrian Arab Republic, The former Yugoslav Republic of Macedonia, Venezuela (Bolivarian Republic of), Western Sahara and Zambia. At Headquarters, OIOS audited: Medical Evacuation, Project Profile, Implementing Partner Audit Certification, the International Professional Roster, Retrenchment Benefits of Implementing Partners' Staff as well as a follow-up on Project Staff. The graph below illustrates the allocation of resources to the various geographical and functional areas of UNHCR. During the reporting period, 28 audit reports were issued (listed in Annex 1).

Chart 1: OIOS' Audit Resources spent 1 July 2005 to 30 June 2006



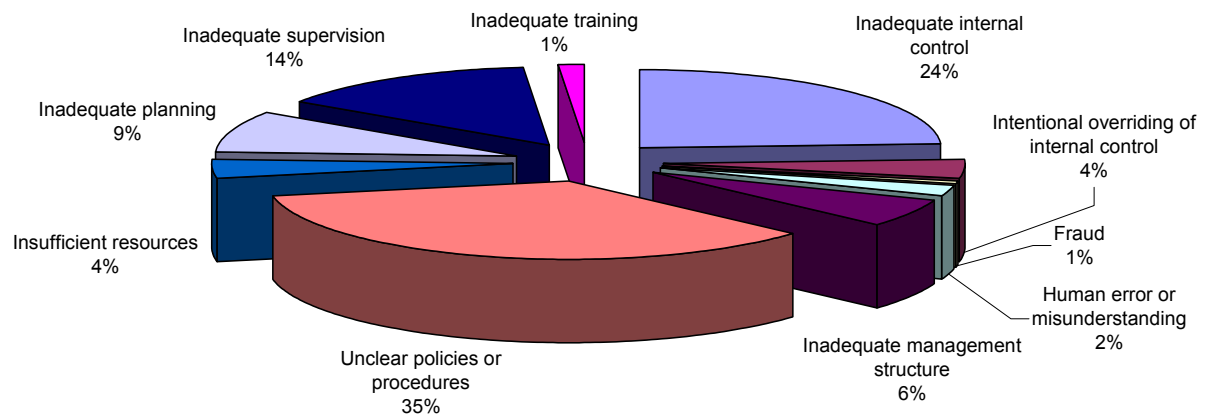
F. Overview of recommendations

12. Over the period, OIOS issued 136 recommendations, 71 of them critical, to improve accountability mechanisms and control systems, as well as to recommend the development or clarification of policies and procedures and workflow processes.

13. As of 30 June 2006, 91 recommendations were outstanding from this and previous years, of which 63 per cent were in the process of being implemented. Savings and recoveries amounting to US\$ 2.9 million were identified and US\$ 2.2 million were actually saved or recovered.

14. From all recommendations made, 35 per cent addressed the issue of unclear policies or procedures, while 24 per cent highlighted inadequate internal control systems (See Chart 2).

Chart 2: Cause of recommendations issued 1 July 2005 to 30 June 2006



15. Charts 3 and 4 show the status of implementation of recommendations issued since 2004. Of those where implementation measures have not yet started, 78 per cent are for recommendations recently issued for which OIOS has yet to receive information on the action taken by UNHCR.

16. Overall the charts show that UNHCR acts positively in implementing recommendations and has been timely in responding. While there are older recommendations that still need to be addressed, work on these has been initiated. OIOS appreciates that the development of new or revised policy changes takes time, as does following up with implementing partners. Also, in view of the ongoing work of UNHCR's Structural and Management Change Process, which may have an impact on how the recommendations will be implemented, OIOS has deferred the target date for response on some of the proposed actions to be taken to November 2006.

Chart 3: Status of Recommendations addressed to Headquarters
from 2004 to 2006

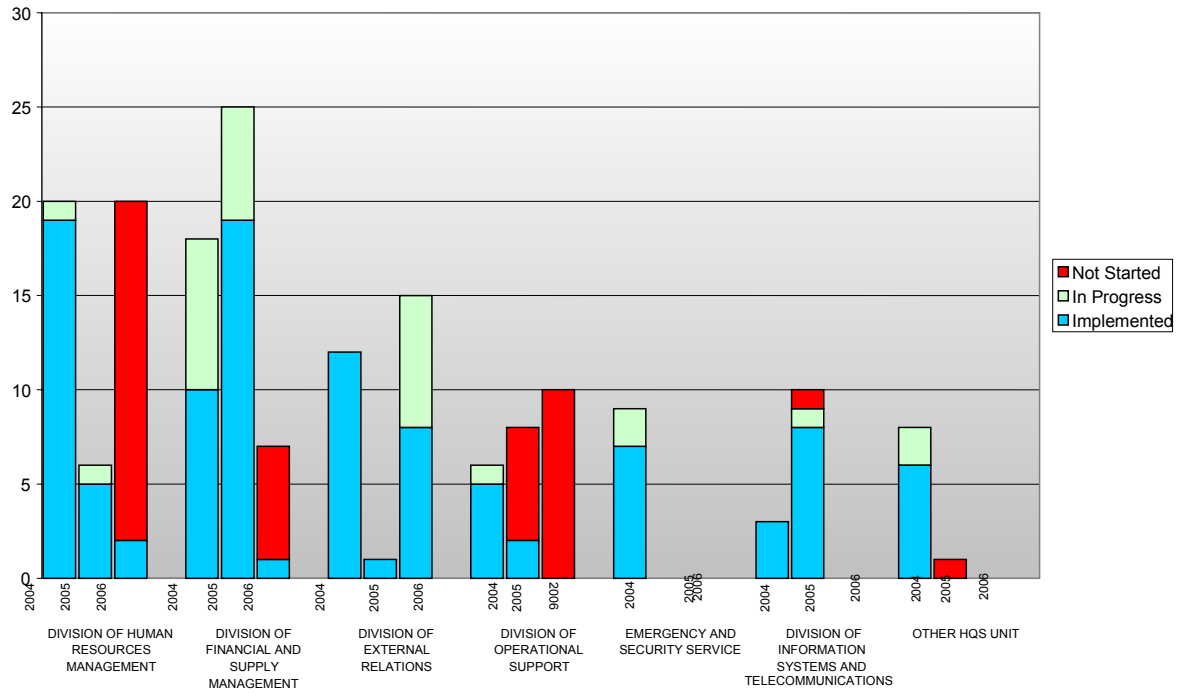
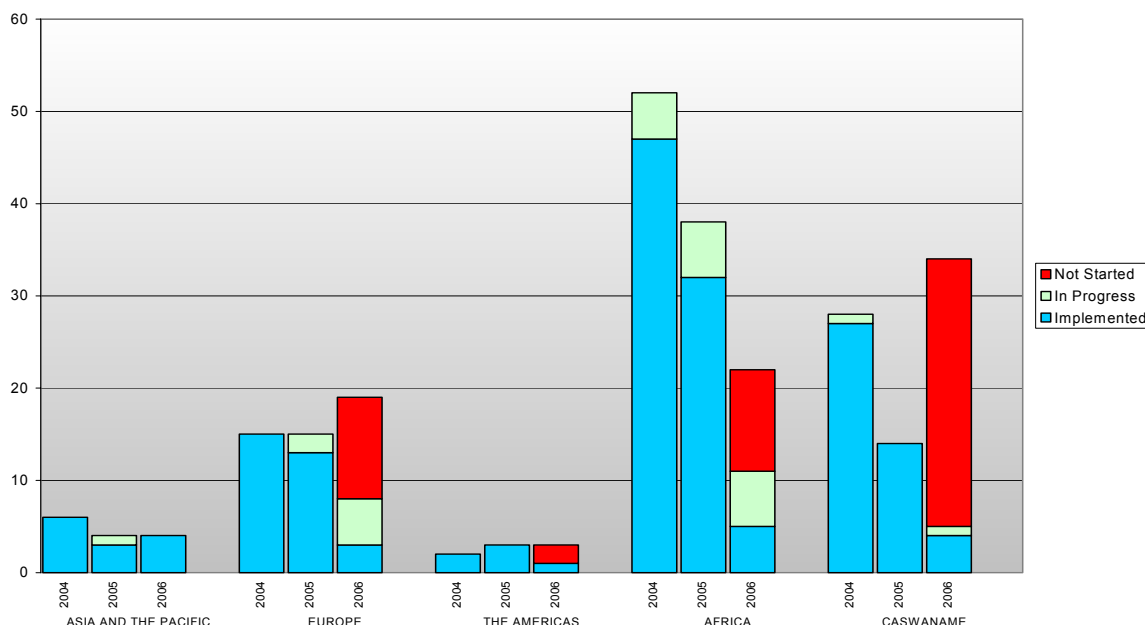


Chart 4: Status of Recommendations addressed to Bureaux
from 2004 to 2006



17. During the period a number of recommendations were closed without implementation mainly relating to VAT or other taxation issues. OIOS appreciates the exhaustive efforts made by UNHCR although in most cases they did not result in definitive promises from governments for either VAT reimbursement or a commitment to implement a system for future recoveries. Any positive action subsequently taken on these VAT-related issues at a global or country level will be reviewed and reported upon as appropriate. OIOS welcomes the efforts made by UNHCR in the introduction of clearer and more systematic procedures for recording, reporting on and following up on VAT-related issues.

II. AUDIT RESULTS

18. Systemic issues and trends have emerged from the audited activities of UNHCR's field operations. Action is required by management to ensure these do not remain as recurring risks to the effective achievement of UNHCR's objectives.

A. Implementing partners

Financial monitoring

19. The 2005 budget for implementing partners represented some US\$ 340 million. The use of these funds by partners continues to be assessed as a risk area for audit purposes. Over the period, funds delegated to implementing partners accounting for US\$ 41 million were audited. It was assessed that for 86 per cent of the funds (US\$ 36 million), assurance could be obtained that they were properly accounted for and used for the purposes intended. For the remaining balance, the accounting and internal control systems established were unreliable and assessed as not adequate to safeguard UNHCR funds and provide assurance that these were used to achieve UNHCR's objectives. For procurement, there was not always sufficient evidence of competitive

bidding, indicating inefficient procurement and uneconomical contracting.

20. Ideally, Representations should have mechanisms in place to identify and address most of the weaknesses so far observed through its regular monitoring and supervising responsibilities. Recurring issues identified over the period included overstatement of expenditure; lack of supporting documentation to verify expenditure; and inadequate budgetary control. The Field is responsible for managing and initiating appropriate controls to mitigate these risks. OIOS acknowledges that over the past three years, there have been improvements in the financial monitoring of partners' activities. Nonetheless, in the operations reviewed, a more structured and risk-based approach, with more focus on understanding the processes adopted by partners, is required.

Audit certificates

21. Independent audits of sub-projects are a key control for implementing partners' expenditure and the management of UNHCR's activities. OIOS conducted a review of the 2004 audit certification process of implementing partners' activities amounting to US\$ 305 million (representing partners with sub-projects that required an independent audit) to assess the adequacy of the current arrangements. OIOS acknowledges that 2004 was the first year of implementation for the new guidelines, but noted that the audit certification process is still delayed, with only 37 per cent coverage obtained three months after the July 2005 deadline. The major factors contributing to the low rate were a lack of planning by Representations resulting in a failure to engage auditors in a timely manner, as well as ineffective monitoring and follow-up by desks. Audit certificates were not submitted in a consistent, standardized format, making it difficult to compare the opinion expressed across audit certificates. There was still a lack of understanding of the difference between a qualified and unqualified opinion, and the importance of following up adverse reports. Also, there was no evidence of a systematic follow-up of management letters, even though some significant issues were highlighted.

Retrenchment benefits

22. UNHCR's contractual provisions and procedures on the payment of retrenchment benefits to implementing partner staff were not sufficiently clear. This has resulted in country offices resorting to agreements far exceeding the amount payable under mandated national law, and committing UNHCR in the long term to payments worth millions of US dollars. There is a potential risk of further disputes and/or unusual type of agreements being entered into that do not adequately safeguard UNHCR's interests if the matter continues to be handled inconsistently. Clearer guidelines should be issued to ensure that legal and financial ramifications including future potential liabilities are thoroughly reviewed and considered prior to any field office agreeing on a formula/policy for the payment of retrenchment benefits. UNHCR has already agreed to draft such guidelines.

B. Supply and logistics

Procurement

23. Supply and logistics planning and delivery are key components for effective UNHCR operations. Reviews in the Field highlighted that procurement processes in 13 operations were not fully compliant with existing rules and procedures, whether directly undertaken by UNHCR, or via implementing partners. In some instances there was an absence of competitive bidding and thus in the transparency of supplier selection. There was disregard for thresholds for approval and a lack of documentation to substantiate that efficient purchasing was undertaken. Procurement planning needed to be more effective; goods were not always available when required; and goods were procured locally instead of internationally, resulting in inefficient purchasing. OIOS commented on the need to strengthen supply management to better mitigate risk. UNHCR agreed that action was required to improve supply management.

Fuel management

24. The purchasing and management of fuel has been identified as a high-risk area. Some large emergency operations are not properly managing this, leading to significant discrepancies between the book stock balance and the amounts physically verified. Due to the risks noted, OIOS will conduct in-depth reviews of fuel management as part of a global review of UNHCR fleet management, a focus area for 2006 and 2007 audits. UNHCR agreed this was a high-risk area and stated that mechanisms are being established and tools are being developed in order to assist field operations in managing this activity.

Asset management

25. Inherent problems continue with UNHCR's management of assets, with less than satisfactory controls established in 65 per cent of the operations audited. Despite UNHCR's considerable efforts to review its asset records from a headquarters perspective, the absence of physical verifications and data updating, as well as the lack of priority given to these tasks, call into question the reliability of UNHCR's asset records.

C. Human resources

Staffing and posting

26. Further attention is still required by UNHCR to ensure that the staffing and posting process is more effective, particularly for emergency situations. Vacancies in key management positions and delays in staffing have adversely affected the implementation of activities.

27. The establishment and start-up of the International Professional Roster has been a good new initiative. It has been well managed and closely monitored. The Roster has helped UNHCR meet certain recruitment and staff advancement needs.

28. The administration of the Mobility and Hardship Allowance generally complied with UNHCR's rules, except for the automatic two-year extension of the non-removal element, which should have only been granted on a case-by-case basis. Discontinuation of such a practice could generate savings.

Contracting of personnel

29. OIOS identified that at the field level at least 50 persons have been hired under irregular contracts. These contracts varied considerably in nature and content. Such an approach to employing personnel is an open invitation for dissatisfaction among staff and might possibly have legal repercussions. There is no central depository for UNHCR's ad hoc staffing arrangements meaning that "staffing" numbers are still not properly presented.

D. Security and safety

Security standards

30. The awareness of the need for sound security measures for UNHCR staff has been considerably heightened in recent years. Many offices took positive action to enhance security; however, there were still field offices where controls were lax and the necessary enhanced security measures had not been established, many citing budgetary constraints. For all the operations reviewed, only a few were generally or fully compliant with Minimum Operating Security Standards (MOSS).

Medical evacuation

31. There is an upward trend both in the number and cost of medical evacuations. The fundamental principles were not always applied, resulting in unnecessary costs to UNHCR. Medevac authorized destinations differed in some cases from those of the United Nations in favour of more expensive countries. In the Field, medical evacuation plans were not always developed to ensure that personnel were organized and trained to execute them in an effective and coordinated manner. In the Field, crucial documents listing vital details on medical evacuation were either not completed or could not be found on file. The medical evacuation guidelines were not sufficiently clear and some phases were too complex, resulting in numerous cases of misinterpretation and overpayments. For the review, the UNHCR Medical Service did not give access to administrative information relating to medical evacuation cases, invoking medical confidentiality, as the medical and administrative records were filed together and could not be segregated. OIOS welcomes the fact that the issue of access to medical administrative data has now been clarified and is no longer contested. OIOS regrets, however, that this led to a delay in the audit and resulted in a scope limitation. A follow-up review of the now available records is being considered, as OIOS was unable to assess the effectiveness of the Medical Service control systems.

Avian Influenza pandemic in humans

32. As part of a horizontal OIOS audit, a very brief review (snap-shot audit) was conducted of UNHCR's preparedness for an Avian Influenza pandemic in humans. Although the results of the review have still to be confirmed, it is indicated that UNHCR's contingency planning was on track and reasonable assurance could be provided that appropriate measures had been taken in accordance with the guidelines issued by the United Nations Medical Services in 2005.

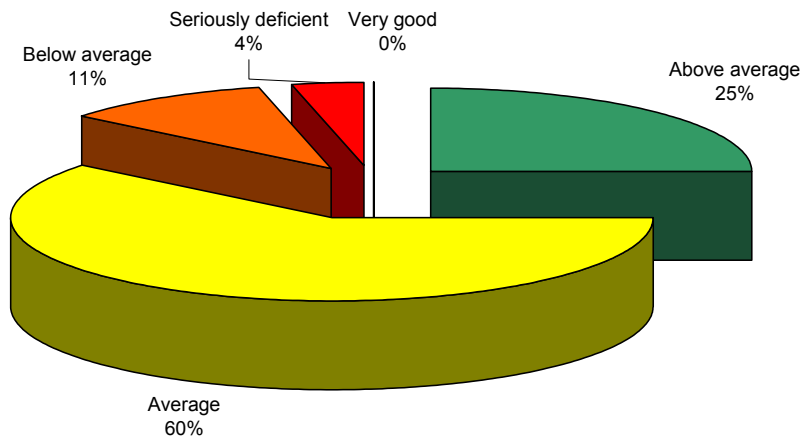
E. Project Profile - proGres

33. Project Profile was the development of software applications and guidelines, techniques and tools for the registration of persons of concern to UNHCR. OIOS assessed the project as successful in achieving its initial objectives. Nonetheless, for the new registration process/system to be effective and sustainable and to achieve its long-term objectives, UNHCR needs to ensure that sufficient attention is given and oversight is provided to field offices to make sure they adequately budget for the necessary technological requirements and the required level of skilled staff. UNHCR still has to address issues such as senior management support, resources and building on project results. Without ensuring the future viability and development of the project, especially in the current tight financial situation, there is a risk that the system may be too complicated and expensive to be sustained in the long term.

F. Summary of results

34. OIOS continues to apply a measurement system to rate the effectiveness of the application of key internal controls in audited operations. This facilitates benchmarking between country operations; provides management with assurance that activities are well or adequately administered; and assists in identifying operations where prompt corrective action is required. In the 28 audit reports issued in 2005/2006, some 60 per cent of the audited operations were rated as “average”, while 25 per cent were “above average” or “very good”, and 15 per cent were “below average” or “deficient”. Since 2005, following recommendations by the United Nations Board of Auditors, all audits rated at “below average” or “deficient” are brought to the attention of the Oversight Committee where the main control failures and emerging risks are highlighted.

Chart 5: Rating for audited operations 1 July 2005 to 30 June 2006

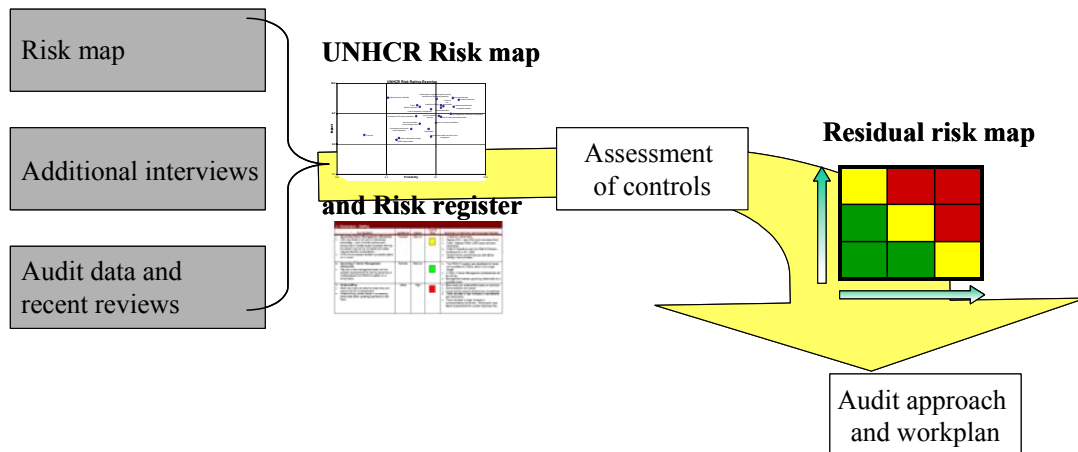


III. STRATEGIC INITIATIVES

A. UNHCR Risk assessment

35. UNHCR, with the assistance of an external consultancy, has initiated a Risk Management Framework, and an initial risk map has been established, based on interviews and workshops with management.

36. OIOS aims to build on this to develop its risk-based audit plans that will determine priorities of the internal audit activity, which is consistent with UNHCR's global objectives. It will also ensure that audit resources are focused on higher risk areas; determine what and how often processes and activities should be audited; and assist in selecting/recruiting and training of auditors to ensure they have the correct skills and experience. In the forthcoming period, a dedicated team has been assigned to validate the risk map, feeding in additional information on risks gathered through audits in recent years; source the risks into auditable entities; and assess the controls in place to mitigate the risks initially identified. This multi-year exercise will result in an updated map of the residual risks and a risk-based audit plan for UNHCR's activities, starting in 2008.



B. IT Management

37. During the second quarter of 2006, OIOS initiated a review of UNHCR's ICT management function to assess governance and strategic planning and to obtain an overall assessment of all the key ICT risk areas. The findings and recommendations will be presented to management in the third quarter of 2006, and will be fed into the UNHCR risk assessment.

C. Donor requirements

38. Due to emerging issues with regard to donor reporting, as well as a recent review of UNHCR's Fundraising Unit in Belgium, the need for OIOS auditors to become more aware of donors' earmarking, and corresponding implementing and reporting requirements, has been highlighted. This will be a focus area for forthcoming audits.

D. Enhancements to the audit process

39. As a result of the recent quality self-assessment, the Board of Auditors' review and other external reviews of OIOS, processes and professional practices are being enhanced and further developed. Systematic use of an electronic working papers system should ensure an enhanced audit process to enable reports to be issued in a more timely manner to UNHCR's management.

UNHCR AUDIT SERVICE

List of Reports Issued

	<u>Title</u>	<u>Date of Report</u>
1.	Operations in Iraq	08/08/05
2.	Operations in Iraq – Trust Fund	11/08/05
3.	Operations in Greece	19/08/05
4.	Operations in Myanmar	26/08/05
5.	Operations in Burundi	29/08/05
6.	Mobility and Hardship Allowance	29/08/05
7.	Tsunami Relief Operation in Sri Lanka	31/08/05
8.	Operations in Jordan	13/09/05
9.	Retrenchment Benefits for IP staff (Pakistan)	06/10/05
10.	Operations in Cameroon	30/10/05
11.	Operations in Ecuador	16/11/05
12.	Operations in Indonesia	20/12/05
13.	Operations in Venezuela	28/12/05
14.	Operations in Somalia	30/12/05
15.	Operations in Syria	09/02/06
16.	Operations in Rwanda	21/02/06
17.	Implementing Partner Audit Certification Review	05/05/06
18.	Retrenchment Benefits Implementing Partner Staff	09/05/06
19.	Operations in Kosovo	09/05/06
20.	Medical Evacuation	16/05/06
21.	Project Profile	17/05/06
22.	Togo Emergency - Ghana	16/05/06
23.	Togo Emergency – Benin	06/06/06
24.	Follow-up on Project Staff	06/06/05
25.	International Professional Roster	13/06/06
26.	Operations in Libya	28/06/06
27.	Assistance to Western Saharan Refugees	30/06/06
28.	Operations in Hungary	30/06/06