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Internal Audit in the Office of the United Nations High Commissioner for Refugees (2007-2008)

Summary

This report summarizes the internal audit activities pertaining to the Office of the United Nations High Commissioner for Refugees (UNHCR) and the results achieved during the period 1 July 2007 to 30 June 2008 by the United Nations Office of Internal Oversight Services (OIOS).

During the period, OIOS took a number of initiatives to improve the quality and effectiveness of internal audit services provided to UNHCR. These included the introduction of risk-based audit planning, the improvement of professional practices, the establishment of an Information and Communication Technology Audit Section, and the launching of a database system to streamline monitoring of the implementation of OIOS recommendations.

OIOS issued 13 audit reports (11 audit reports of UNHCR field operations and 2 audit reports relating to UNHCR Headquarters) during the period which included 201 recommendations to improve internal controls, governance processes, and organizational efficiency and effectiveness. In these audits, OIOS reviewed the adequacy and effectiveness of internal controls established by UNHCR,

including compliance with relevant rules, regulations and procedures. The audits focused on the following areas:

- **Programme management, including implementing partners.** Programme management was covered in all of the audits of field operations during the period. In particular, given that a large part of UNHCR's activities is delegated to partners, OIOS reviewed UNHCR's management of implementing partners as well as the capacity of partners to achieve the established objectives, maintain adequate project records, and report on the use of funds received from UNHCR. OIOS recommended that UNHCR carry out more effective financial and performance monitoring of the activities of implementing partners and ensure better follow up of recommendations made by the external auditors (see paragraphs 16 to 22).
- **Procurement and asset management.** Procurement has been identified as a high-risk area in UNHCR. In view of the potential for inefficiency and uneconomical purchasing, procurement activities continue to be covered in field audits. Asset management has also repeatedly been reported by OIOS as a problem area in many field operations and continues to be a high-risk area, due to the inadequacy of internal controls over the recording and safeguarding of assets (see paragraphs 23 and 24).
- **Human resources management.** Due to difficulty in identifying competent staff, many field posts remained vacant. Based on OIOS' recommendation, UNHCR revised the staffing structure in the Democratic Republic of the Congo to adequately address operational requirements (see paragraph 25).
- **Travel and transportation.** OIOS' audit of UNHCR official travel found that internal controls in the travel process could be further strengthened. A review of fleet management showed that there were opportunities for improving UNHCR fleet capabilities and achieving efficiency gains (see paragraphs 26 and 27).
- **Safety and security.** OIOS audits during the period found non-compliance with the Minimum Operating Security Standards (MOSS) in many of the field operations audited (see paragraph 28).

I. INTRODUCTION

1. The Office of Internal Oversight Services' (OIOS) Internal Audit Division (IAD) provides internal audit services to the Office of the United Nations High Commissioner for Refugees (UNHCR) based on a "Letter of Agreement on the Provision of Audit Services" signed in March 2007. IAD adheres to the Institute of Internal Auditors' (IIA) Professional Practices Framework. In accordance with this Framework, IAD conducts internal audit assignments in accordance with the International Standards for the Professional Practice of Internal Auditing. The IIA defines internal auditing as "...an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

2. Under the Agreement, UNHCR funds 17 posts: 14 Professional and 3 General Service staff. The UNHCR Audit Section of OIOS also comprises resident auditors assigned to major emergency operations in the Sudan and in the Democratic Republic of the Congo. For 2007, the budget for audit services provided by UNHCR totalled \$3.2 million. Several auditor posts remained vacant for an extended period of time mainly due to the delay in identifying and recruiting qualified candidates.

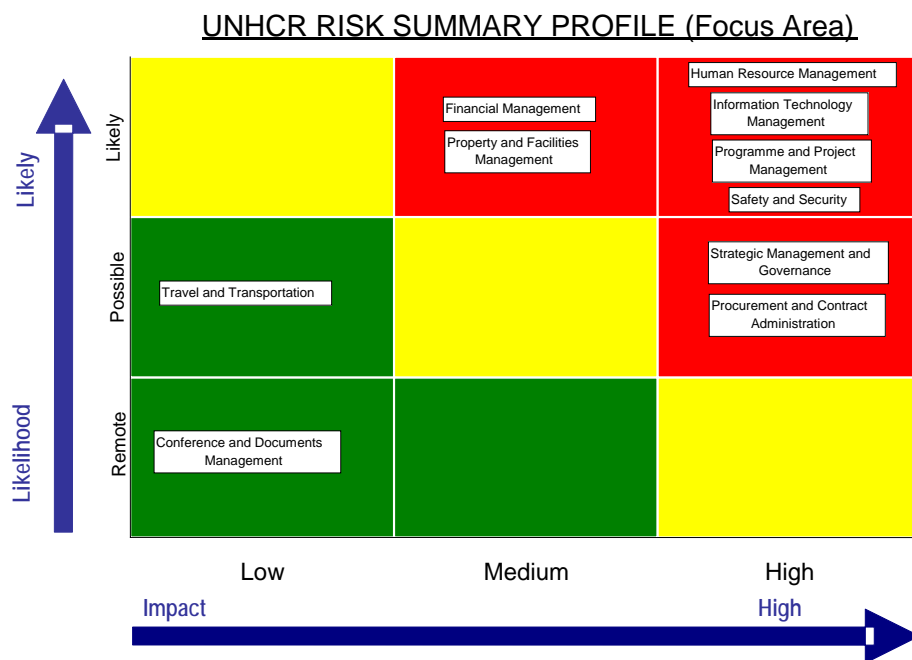
II. INTERNAL AUDIT INITIATIVES

3. During the period under review, OIOS continued its efforts to assist UNHCR in strengthening internal controls and improving risk management. OIOS also took a number of initiatives to improve the quality and effectiveness of internal audit services provided to UNHCR, as explained below.

A. Risk-based audit planning

4. In accordance with the International Standards for the Professional Practice of Internal Auditing, which require that audit engagements be based on a risk assessment undertaken at least annually, OIOS carried out a risk assessment exercise to identify the high-risk areas to be covered during 2008. This process enables OIOS to ensure that the areas posing the greatest risk to UNHCR are included in the annual audit plan. OIOS will continue to focus on risk-based audit planning in order to add value to the organization and improve UNHCR operations. Figure 1 depicts the risk profile of UNHCR.

Figure 1



B. Improving professional practices and professional development of audit staff

5. OIOS undertook a number of measures to improve the professional practices and work methods of its auditors. These included the introduction of a risk assessment methodology consistent with best practices in the internal audit profession, updating of the audit management process, revision of the internal audit manual, and the introduction of standard forms and templates used by OIOS auditors.

6. In addition, OIOS organized a number of training programmes to improve the competencies and skills of audit staff. These included training courses on interviewing skills, information technology (IT) controls, statistical sampling, risk assessment, risk-based audit planning, and fundamentals of audit for audit assistants.

7. With the support of UNHCR, staff of the UNHCR Audit Section participated in a two-day workshop/information session on the Management Systems Renewal Project (MSRP). This workshop was useful in developing audit plans and programmes for assignments.

C. Information and communication technology

8. The establishment of an Information and Communication Technology (ICT) Audit Section within OIOS' Internal Audit Division in New York has contributed to strengthening the capacity of OIOS to conduct ICT audits and provide additional value-added services to UNHCR. During 2008, OIOS has planned to conduct two IT audits which will be jointly performed by the ICT Audit Section and the UNHCR Audit Section. The first such audit of IT security was conducted in May 2008 and the second, covering the Payroll/Human Resources Management Module of MSRP, is planned for September 2008.

D. Monitoring the implementation of recommendations

9. To streamline the process of monitoring the implementation of recommendations, OIOS launched a database system known as IssueTrack. The next phase of IssueTrack will make it a web-based system, with online access to UNHCR's audit focal point. This will enable UNHCR's audit focal point to view and update the status of recommendations online, and engage in a dialogue with OIOS on the progress in implementing recommendations. It will also enable UNHCR to generate management reports summarizing the status of audit recommendations. This web-based system is expected to be tested in September 2008 and launched by the end of 2008.

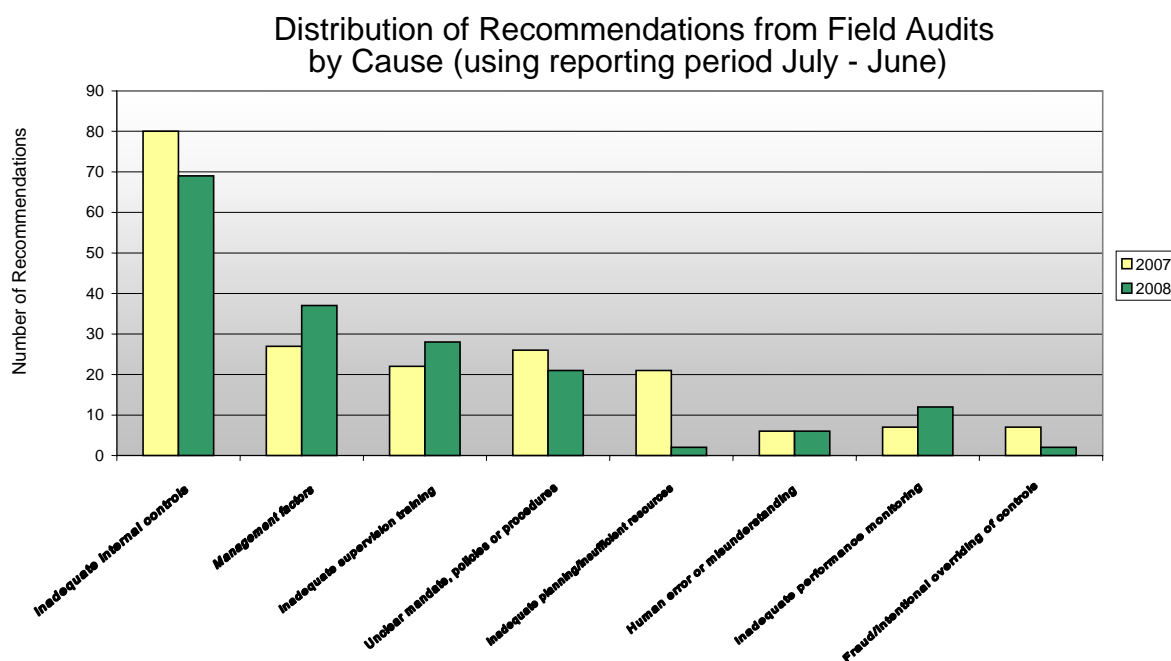
III. SUMMARY OF THE MAIN AUDIT RESULTS

10. During the period, OIOS audits covered operations and activities with a total value of approximately \$386 million in 12 field operations: Côte d'Ivoire, the Democratic Republic of the Congo, Jordan (Iraq Emergency Operation), Kenya, Kuwait (Iraq Emergency Operation), the Philippines, Romania, Russian Federation, South Africa, the Sudan, Southern Sudan and Thailand. At Headquarters OIOS audited UNHCR's Asset Management Board and IT security. Thirteen audit reports were issued during the period (see Annex 1), most of which pertained to audits started during the previous reporting period.

11. As in previous years, OIOS assessed the adequacy and effectiveness of key internal controls in the audited operations. For this period, 85 per cent of the audited operations were assessed as average or above, providing assurance to management that the activities were generally satisfactorily managed. However, 15 per cent were assessed as below average.

A. Internal control

12. OIOS' review of 12 field operations showed that UNHCR was exposed to the risk of not achieving its project objectives, as effective internal controls were not always in place. In most cases, the underlying cause came from a weak internal control environment, in particular the attitude, awareness and action of management and staff concerning the importance of control. Control environment factors include the integrity and ethical values; commitment to competence; management's philosophy and operating style; organization structure; delegation of authority and responsibility; and human resources policies.

Figure 2

13. In many cases OIOS identified that staff, including staff of implementing partners (IPs), needed training in order to be fully conversant with UNHCR's rules and procedures. As in previous years, OIOS found vacancies had been unfilled for a long time in key positions, recruitment of staff was not always transparent and in compliance with the relevant rules and procedures, and over-reliance on United Nations Volunteers (UNVs) resulted in some UNVs carrying out core functions and having supervisory responsibilities.

14. OIOS also observed that a weak system of internal control was the cause in some cases of inaccurate reporting, overpayments to staff, poor value for money in purchasing, low levels of project implementation and possible loss through fraud.

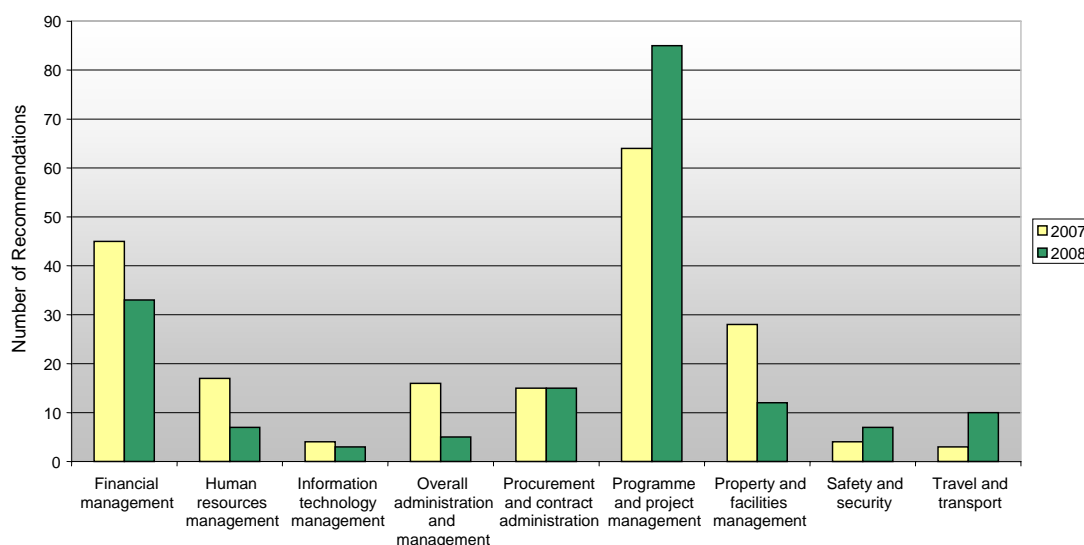
15. In many recommendations, OIOS urged UNHCR to strengthen its internal control mechanisms in order to minimize the risk of non-compliance with rules and procedures and to reinforce the level of its project monitoring and supervisory role over implementing partners, to ensure better implementation of projects.

B. Programme management, including Implementing Partners

16. Most of the recommendations issued during the period related to programme activities, particularly the management of the relations with the IPs (see Figure 3).

Figure 3

Distribution of Recommendations from Field Audits
by Focus Areas (using reporting period July - June)



17. The 2007 expenditure for IPs represented some \$428 million. During the period under review, funds disbursed to IPs amounting to \$156 million were covered in the audits. OIOS assessed that for 80 per cent of the funds, assurance could be obtained that they were properly accounted for and used in accordance with the Sub-Project Agreements. For the remaining 20 per cent, the accounting and internal control systems established were unreliable and not adequate to safeguard UNHCR funds and provide assurance that they were being used to achieve UNHCR's objectives.

18. A fraud case related to the distribution of cash assistance was reported for further action. Major internal control weaknesses were noted in this activity directly implemented by UNHCR.

19. As stated in previous reports to the Executive Committee, a number of critical weaknesses identified are recurring issues. Some of the findings during this period include the lack of adequate internal control systems established by partners to monitor and control UNHCR funds. In some cases, accounting and budgetary controls were weak and needed improvement; supporting documentation was insufficient or not available; procurement practices did not comply with UNHCR's procedures; training and capacity building of some IPs were needed; and management of revolving funds for micro-credits needed improvement.

20. OIOS believes that many of the identified weaknesses should have been discovered through UNHCR's regular financial and performance monitoring, including the documentation of the monitoring procedures performed. In most cases, project monitoring was not done in a timely manner to ensure that remedial action was being taken to improve systems and procedures

and to alert management if set targets would not be met. In one case, the Sub-Project Monitoring Reports (SPMRs) had not been verified and approved by the Representative.

21. A systematic follow-up on the implementation of recommendations issued by the external auditors engaged by UNHCR to certify the accounts of IPs was not in place. Although it is a useful management tool, it was not effectively used. OIOS also recommended in some cases to extend the terms of reference of the external auditors to better cover issues such as currency exchange or transfer of cash in a country where banking infrastructures are deficient.

22. OIOS also frequently recommended enhancing UNHCR's contribution to the IPs' capacity building, improving the IP selection process and reducing the number of IPs, and developing methods for monitoring the IPs' performance. OIOS reported several cases where the IPs did not report on contributions received from other sources which may be used on UNHCR funded projects, leading to duplication of assistance.

C. Procurement and asset management

23. OIOS found during this period that implementing partner procurement continues to be inefficient because the partners do not always follow the UNHCR IP Procurement Guidelines. OIOS identified a number of cases where there was no evidence that goods had been received, or competitive tendering had taken place or that best value for money had been obtained. In addition, insufficient recovery of Value Added Tax paid remains an issue of concern for OIOS.

24. Many of the field offices needed to strengthen internal controls over assets, warehouses and fuel. As in previous years, UNHCR's asset data was not up-to-date. Data was sometimes found to be unreliable and incomplete, and often there were inadequate internal controls to safeguard them against loss and theft.

D. Human resources management

25. In view of UNHCR's on-going Structural and Management Change project, some of the planned audit assignments at Headquarters mainly related to human resources management have been postponed to subsequent years. However, in the course of the audits of field operations, OIOS found that many posts remained vacant mainly due to difficulties in appointing competent staff, resulting in over-reliance on non-UNHCR staff. In the Democratic Republic of the Congo, where OIOS recommended that UNHCR find a sustainable solution to the staffing situation, UNHCR subsequently revised the structure of staffing to adequately address operational requirements. New offices were established, a total of 38 additional posts were created and several other posts were upgraded.

E. Travel and transportation

26. From an audit of UNHCR official travel, OIOS concluded that although the administration of travel claims was assessed as average, the travel process could be further improved by strengthening internal controls, including more timely submission of claims and expediting the recovery of outstanding receivables.

27. OIOS also audited UNHCR's fleet management. Over \$100 million is spent annually by UNHCR on transport and logistics activities. OIOS found many opportunities for UNHCR to improve its fleet capabilities and to achieve efficiency gains by introducing global supervision and monitoring of these activities.

F. Safety and security

28. Many of the field operations audited during the period were not Minimum Operating Security Standards (MOSS) compliant. Telecommunication was found deficient in a country where the security of staff working in remote areas was of a great concern. UNHCR took immediate action to remedy this problem by purchasing and distributing the necessary material.

IV. STATUS OF AUDIT RECOMMENDATIONS

29. OIOS issued 201 recommendations during this period, 73 of them critical, to improve control systems and accountability mechanisms, as well as to develop or clarify policies and procedures and workflow processes. Twenty-seven recommendations were from Headquarters related audit assignments and a total of 174 resulted from audits of UNHCR field operations. As at 30 June 2008, 82 per cent of these recommendations were implemented or were in the progress of being implemented.

V. ACKNOWLEDGEMENT

30. OIOS wishes to express its appreciation for the continued cooperation extended to the auditors by the management and staff of UNHCR during the period under review.

Annex

	<u>Title of Audit Assignment</u>	<u>Date of Report</u>
1	UNHCR Fleet Management	6 July 2007
2	Operations in Colombia	18 July 2007
3	Operations in Mozambique	13 September 2007
4	Operations in Czech Republic	14 September 2007
5	Operations in Lebanon and the Syrian Arab Republic	19 September 2007
6	UNHCR Official Travel	18 October 2007
7	Operations in Brazil	18 October 2007
8	Operations in Chad	16 November 2007
9	Operations in Guinea	16 November 2007
10	Operations in Argentina	24 January 2008
11	Operations in Côte d'Ivoire	9 April 2008
12	Operations in Armenia	14 May 2008
13	Operations in the Democratic Republic of the Congo	20 May 2008
