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Report of the Board of Auditors* on the Financial Statements of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2009

Report by the Secretariat**

* Including the Audit Opinion
** Late submission due to late receipt of document on 2 September 2010

Contents

Chapter I

Report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2009. The audit was carried out through field visits to UNHCR offices in Kenya, Malaysia and the Syrian Arab Republic, as well as a review of the financial transactions and operations at headquarters in Geneva and the Global Service Centre in Budapest.

Modified audit report

The Board issued a modified audit report with two emphases of matter on the financial statements for the period under review, as reflected in chapter I.

The emphases of matter related to the following:

(a) Note 16 to the financial statements discloses the value of non-expendable property as $343.61 million. This amount is based on a database whose shortcomings were highlighted in the Board's previous reports. Although UNHCR made significant improvement compared to past practice, the Board, in its visits to UNHCR field offices, found that the management of assets in the field could still be improved and that the non-expendable property database was still not fully reliable;

(b) As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of $159.9 million. This situation highlighted the need for UNHCR to identify funding to cover these liabilities.

In its previous report, for the year ended 31 December 2008,[a] the Board issued a modified opinion with one qualification and three emphases of matter.

The qualification relates to the unsatisfactory rate of receipt of audit certificates from third-party auditors in relation to nationally executed projects. The three emphases of matter relate to (a) deficiencies in the management of non-expendable property; (b) the non-disclosure of the value of expendable property either on the face of the financial statements or in the notes thereto; and (c) the absence of funding for end-of-service liabilities, including after-service health insurance.

These matters are discussed in the relevant sections of the present report.

Follow-up of previous recommendations

Of the 19 recommendations made for 2008, 8 (42 per cent) were fully implemented, 10 (53 per cent) were under implementation and 1 (5 per cent) was not implemented.

The Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and noted that eight recommendations related to 2007, while the remaining three were made in 2008.

Financial overview

For the period under review, total income was $1.803 billion, compared with $1.652 billion for the previous year, an increase of 9.1 per cent. Total expenditure amounted to $1.796 billion, compared with $1.628 billion for the previous year, an increase of 10.3 per cent. This resulted in an excess of income over expenditure of $7 million, compared with an excess of $24 million in the preceding year.

The key ratios depicted a healthy financial position. In particular, the cash-to-liabilities ratio, which was reduced in 2007 because of the recognition of end-of-service and post-retirement liabilities, had stabilized.

Progress towards the implementation of International Public Sector Accounting Standards

The Board noted that the initial International Public Sector Accounting Standards (IPSAS) implementation deadline included in the plan approved in June 2008 could not be met, given the delay resulting from a lack of skilled resources. That delay, as well as the difficulty of carrying out a phased implementation of IPSAS, led UNHCR to postpone full implementation to 1 January 2012.

Statement of income and expenditure

Voluntary contributions amounted to $1.762 billion, representing 97.7 per cent of UNHCR total income.

Statement of assets, liabilities and reserve and fund balances

The assets of UNHCR increased from $458.3 million at the end of 2008 to $508.9 million as at 31 December 2009, or 11 per cent. This growth in 2009 was due mainly to an increase of about 11.8 per cent in cash and term deposits (from $342.1 million as at 31 December 2008 to $382.6 million as at 31 December 2009).

The value of obligations raised prior to 2009 and cancelled by UNHCR in 2009 was $13.2 million, compared with $16.2 million in 2008. These cancellations represented 9 per cent of unliquidated obligations raised in 2009, compared with 13.4 per cent in 2008.

The Board examined a sample of 169 unliquidated obligations linked to purchase orders, totalling $37.8 million, or 26 per cent of the total unliquidated obligations as at 31 December 2009 ($145.6 million), to determine their validity. The transactions registered questionably as unliquidated obligations totalled $1,329,252, or 3.5 per cent of the entire sample. By extrapolation, the overstatement was likely to be $5.1 million. The Board is of the view that UNHCR needs to further intensify its efforts to reduce the extent of cancellation of unliquidated obligations.

End-of-service liabilities, including after-service health insurance

As at 31 December 2009, the end-of-service liabilities of UNHCR totalled $446.9 million, of which $347.4 million related to after-service health insurance, $65.5 million to repatriation benefits and $34 million to accrued annual leave. The Board is concerned that where the end-of-service and post-retirement liabilities are still not supported by an approved funding plan, there is a risk that UNHCR may not be in a financial position to fully meet its obligations as and when those liabilities become due.

Outposting operations to Budapest

Among the potential advantages justifying the outposting initiative, UNHCR identified planned improvements in the quality of service, in terms of both internal operations and the response to the needs expressed by refugees; and efficiency gains resulting from better allocation of resources. No further details were provided as to the nature, substance or extent of the efficiency improvements expected from outposting. At the audit date, UNHCR was still not in a position to provide information demonstrating the improvements in responsiveness and quality of the service. UNHCR had not acquired the means for measuring changes in the quality of service in order to ensure that the savings realized benefited UNHCR missions and did not have undesirable results.

Treasury management

As at 31 December 2009, UNHCR had $382.6 million in cash and term deposits in 465 active bank accounts (headquarters and field offices). As at 15 June 2010, the Board had received 367 bank confirmation statements on UNHCR accounts, representing $378.2 million, or 98.8 per cent, of all accounts that had balances in the trial balance ($378.2 million out of $382.6 million).

Programme and project management

Payments to implementing partners totalled $598.8 million, representing 33.3 per cent of UNHCR expenditure for 2009. As at 31 December 2009, amounts totalling $265.3 million remained unjustified by implementing partner financial monitoring reports. However, as at 22 June 2010, UNHCR had received such reports covering $577.9 million worth of expenditure, which represented 96.5 per cent of the total advances made by UNHCR to implementing partners.

Of the $542 million in expenditure by implementing partners requiring audit certificates from third-party auditors due in 2010 for 2009, certificates for amounts totalling $44 million, or 8 per cent of the total expenditure, had not been received as at 22 June 2010. This meant that the compliance rate was 92 per cent. Excluding projects with an approved liquidation period extension, the compliance rate was 98.8 per cent.

Non-expendable property management

Although UNHCR has shown evidence of improvement in managing non-expendable property, some deficiencies at various country offices were still not remedied. This matter was emphasized in the Board’s audit opinion for the year ended 31 December 2009.

Expendable property management

The value of expendable property inventories was still not disclosed either on the face of the financial statements or in the notes, as required in paragraph 49 of the United Nations system accounting standards. UNHCR was not able to provide an estimate of the value of expendable property.

Human resources management

The number of staff in between assignments was still an issue of concern, although various measures were taken in 2007, 2008 and 2009. As at 31 December 2009, 165 employees (2.4 per cent of the total) were in this position.

Internal audit function

The Office of Internal Oversight Services (OIOS) carried out 33 audits of the UNHCR operations and offices, as well as headquarters, covering financial management, human resources, information technology, logistics, procurement and contract administration, programme and project management, property and project management, safety and security, strategic management and governance. While in 2008 the completion rate for planned audits was 68 per cent (13 out of 19 projects), the rate was 69 per cent (33 out of 48 projects) in 2009. The key findings of OIOS are included in the body of the present report.

Disclosures by management

Management has made certain disclosures in section C of the present report as regards write-off of losses of cash, receivables and property; ex gratia payments; and cases of fraud and presumptive fraud.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are that UNHCR:

(a) **Intensify the efforts of the working groups in charge of preparing for the implementation of IPSAS in order to comply with the target of full implementation in 2012 (para. 27)**;

(b) **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 rate of progress (para. 33)**;

(c) **Comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms for controlling the validity of obligations (para. 60)**;

(d) **Set up specific funding for its accrued end-of-service and post-retirement liabilities (para. 73)**;

(e) **Prepare comparative statistics and indicators in order to measure the improvement in the quality of the services delivered by outposted units (para. 90)**;

(f) **Ensure that bank reconciliations are exhaustive and that unexplained differences between bank confirmation statements and the general ledger are resolved (para. 100)**;

(g) **Continue its efforts to improve the rate of timely justification of advances granted to implementing partners (para. 108)**;

(h) **Assess instalments disbursed to implementing partners that have remained unreported for more than a year and take appropriate measures to have them reported as recovered from the partners**;

(i) **Continue its efforts to obtain the audit certificates from implementing partners by 30 April of each year (para. 123)**;

(j) **Record non-expendable property values in a timely and regular manner, as soon as they are recorded in the asset database; 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**

monitor asset disposal procedures more rigorously (para. 153);

(k) **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)**;

(l) **Continue its efforts to reduce the number of staff in between assignments and not on temporary duty (para. 173)**.

The Board's other recommendations appear in paragraphs 31, 54, 57, 84, 89, 96, 123, 126, 130, 134, 139, 151 and 184.

[a] *Official Records of the General Assembly, Sixty-fourth Session, Supplement No. 5E* (A/64/5/Add.5), chap. II.

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR) and has reviewed its operations for the financial period from 1 January 2009 to 31 December 2009 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the Office of the United Nations High Commissioner for Refugees (UNHCR) as at 31 December 2009 and the results of its operations and cash flows for the year then ended, in accordance with the United Nations system accounting standards. This included an assessment to determine whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Rules for Voluntary Funds Administered by the United Nations High Commissioner for Refugees. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNHCR operations under financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNHCR operations. The General Assembly had also requested the Board to follow up on previous recommendations and to report to it accordingly. These matters are addressed in the relevant sections of this report.

4. The Board continues to report the results of audits to the Administration in the form of management letters containing detailed observations and recommendations. This practice allows for ongoing dialogue with the Administration. In this regard, three management letters were issued covering the period under review.

5. The Board coordinates with the Office of Internal Oversight Services (OIOS) in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that could be placed on the latter's work.

6. Where observations in the present report refer to specific locations, such observations are limited only to those locations specified.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly, including specific requests from the Assembly and the Advisory Committee on Administrative and Budgetary Questions. In particular, the Advisory Committee in its report A/63/474, requested the Board to:

(a) Strengthen its validation process with a view to improving its ability to evaluate results and impact of the efforts to implement the Board's recommendations;

(b) Continue to closely monitor the application of the International Public Sector Accounting Standards (IPSAS) and the preparatory processes for enterprise resource planning and for IPSAS;

(c) Follow up on the incomplete risk-based methodological framework of the Internal Audit Division of OIOS and the low rate of completion of planned assignments;

(d) Continue to place emphasis on the review of results-based budgeting and results-based management;

(e) Continue to follow up on the monitoring of audit processes and on the regular reviews of the nationally executed projects carried out by United Nations entities;

(f) Provide guidance to implement internal control procedures for non-expendable property.

8. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

9. The recommendations contained in this report do not address steps that UNHCR may wish to consider in respect of officials for instances of non-compliance with its Financial Rules, administrative instructions and other related directives.

B. Findings and recommendations

1. Follow-up of previous recommendations

10. Of the 19 recommendations made for 2008, 8 (42 per cent) were fully implemented, 10 (53 per cent) were under implementation and 1 (5 per cent) was not implemented. Details of the status of implementation of these recommendations are shown in the annex to the present report. This represented an improvement in the rate of implementation. For the 2007 financial period, the corresponding figures were, respectively, 7 (33 per cent), 11 (53 per cent) and 3 (14 per cent).

Recommendations under implementation

11. For the eight recommendations that were under implementation, the Board noted that in certain cases, implementation depended on the introduction of medium-term projects involving in-depth reforms (in respect of matters such as funding of after-service and post-retirement liabilities and number of staff in between assignments). In other cases, implementation was dependent on ongoing upgrading of computerized databases (in respect of matters such as analysis of audit certificates and management of non-expendable property).

12. On the other hand, the following recommendations could have, in the Board's view, been fully implemented: verification of the validity of unliquidated obligations, which remained inadequate despite the efforts expended; monitoring of bank account closings; and the adoption of appropriate measures to have instalments disbursed to implementing partners that have remained unjustified for more than one year justified or recovered from the implementing partners. Further

comment on these matters is found in the relevant sections of the present report. UNHCR stated that it would endeavour to implement the recommendations that were not fully implemented and that further resources would be assigned for implementing those with high priority.

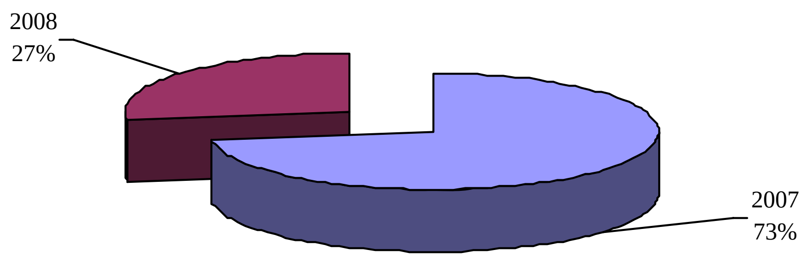
Recommendations not implemented

13. The recommendation not yet implemented relates to the obligation to disclose the value of expendable property in the financial statements. UNHCR explained that the decision not to disclose the value of expendable property in the financial statements was based on a policy applied consistently by several United Nations organizations. In addition, UNHCR considered that its current accounting system would not correctly account for its inventory. The Board has reverted to the matter in the present report.

Ageing of previous recommendations

14. In response to a request of the Advisory Committee on Administrative and Budgetary Questions (A/59/736, para. 8), the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented. Figure II.I shows the breakdown by financial period in which such recommendations were first made.

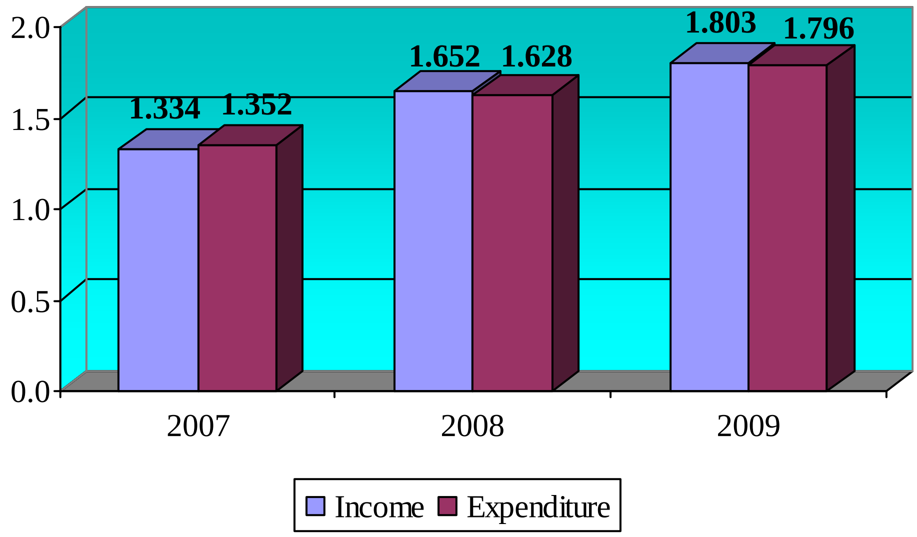
Figure II.I
Ageing of recommendations under implementation or not implemented



2. Financial overview

15. Total income for the period under review was $1.803 billion, while total expenditure amounted to $1.796 billion, giving an excess of $7 million. Comparative income and expenditures for the financial periods 2007, 2008 and 2009 are shown in Figure II.II.

Figure II.II
Comparative income and expenditure
(Billions of United States dollars)



Source : UNHCR financial statements.

16. The analysis of the key financial ratios is presented in table II.1. The cash-to-liabilities ratio has stabilized since 2007, when it was significantly reduced to 0.52:1, from 1.68:1 as at 31 December 2006, as a result of the recognition in the financial statements, for the first time in 2007, of end-of-service and post-retirement liabilities.

Table II.1
Ratios of key financial indicators

Ratio	*Financial year ending on 31 December:* 2006	2007	2008	2009	*Dividend and divisor of ratio for 2009*[a]
Contributions receivable/total assets[b]	0.20	0.17	0.18	0.17	88,455/508,902
Cash and term deposits/total assets[c]	0.68	0.75	0.75	0.75	382,615/508,902
Cash and term deposits/total liabilities[d]	1.68	0.52	0.58	0.57	382,615/668,890
Unliquidated obligations/total liabilities[e]	0.63	0.18	0.20	0.22	145,639/668,890

[a] Thousands of United States dollars.
[b] A low indicator depicts a healthy financial position.
[c] A high indicator depicts a healthy financial position.
[d] A low indicator indicates that insufficient cash is available to settle debts.
[e] A low indicator indicates that obligations are being liquidated.

3. Progress towards the implementation of the International Public Sector Accounting Standards

17. In accordance with General Assembly resolution 62/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report A/63/474, the Board continued to review the efforts undertaken by UNHCR to prepare for the transition to IPSAS and to adapt its enterprise resource planning system.

18. Initially UNHCR set itself the objective of issuing financial statements compliant with IPSAS as from 31 December 2010. In order to reach that goal, the procedures and information technology (IT) systems had to be in place no later than 1 January 2010. To that end, the plan to adopt IPSAS was approved by the Deputy High Commissioner in June 2008. The total cost of implementing IPSAS was estimated by UNHCR at $3.2 million for the period 2007-2009. This amount was calculated taking into account training costs, consultants, staff members, information technology and logistics.

19. The latest plan for the project to adopt IPSAS, updated in February 2009, specified the tasks assigned to the different teams responsible for the project. It gave a breakdown of these tasks, with a forecast timetable for their realization and rates of completion as at February 2009, as well as the overall rate of progress of the project. In its report on 2008,[1] the Board noted that only limited progress had been made in its total planned actions.

20. The Board noted during its verifications in March 2010 that the deadlines included in the revised plan could not be met, given the delay in the efforts of the working groups in charge of preparing for IPSAS. This delay, as well as the difficulty of carrying out a phased implementation of IPSAS, led UNHCR to postpone full implementation until 1 January 2011.

21. UNHCR explained that the delay resulted from insufficient resources originally being made available. UNHCR acknowledged that its working group was not composed of persons with the right skills and that the scope of the tasks to be done in preparation for the transition to IPSAS had not originally been correctly estimated. In addition, UNHCR stressed the existence of multiple priorities, including the preparation of its software to support results-based management and the preparation of the new budget structure that went into effect as from 1 January 2010.

22. Effective February 2009, UNHCR increased the number of working groups from 5 to 10. In April 2010, UNHCR hired an accounting expert for the project.

23. A request for additional funds in the amount of $2.8 million for 2010 and 2011 was made. As at the date of the audit, an additional amount of $2.4 million for 2010 had been approved, over and above the $0.9 million previously granted. The total resources allocated for 2010 therefore stood at $3.3 million.

24. Following the recommendation made by the Board in its previous report that UNHCR approve a revised plan for the transition to IPSAS, accompanied by a revised budget to include the cost of modernizing the enterprise resource planning system,[2] UNHCR decided to commit a third of the 2010 budget for IPSAS to the

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[1] *Official Records of the General Assembly, Sixty-fourth Session, Supplement No. 5E* (A/64/5/Add.5), chap. II.

[2] Ibid., para. 80.

update of the enterprise resource planning system. The estimated total costs for UNHCR to prepare for the transition to IPSAS over the period 2008-2011 were $5.1 million.

25. The Board expressed concern that the efforts made by UNHCR might be insufficient to meet the deadlines.

26. After the Board’s audit, as reported in the Standing Committee meeting of June 2010, UNHCR decided to defer the full implementation of IPSAS until 2012. This one-year postponement was likely to ease the schedule, but did not eliminate the Board’s concern considering the low rate of progress of the reform.

27. **The Board recommends that UNHCR intensify the efforts of the working groups in charge of preparing for the implementation of IPSAS in order to comply with the target of full implementation in 2012.**

Update of financial rules

28. In its report of 1 October 2009, the Advisory Committee on Administrative and Budgetary Questions recommended “that UNHCR submit to the Board its comprehensive revisions to the Financial Rules for full adoption of IPSAS when appropriate” (A/AC.96/1068/Add. 1, para. 30).

29. This recommendation had not been implemented by March 2010. The only changes UNHCR made in 2009 were to bring its Financial Rules for Voluntary Funds into compliance with the new budgetary rules that went into effect on 1 January 2010.

30. UNHCR indicated that five United Nations entities had engaged in drafting a set of harmonized financial regulations and rules that were fully compliant with IPSAS, and a final draft was due to be released in July 2010. It was expected that the draft regulations and rules would be presented to the legislative bodies and the Board for comments in November 2010. Following the completion of the formal approval process, UNHCR expected that it could proceed with the adoption of the approved United Nations harmonized regulations and rules in 2011, in line with the views expressed by the Advisory Committee. Considering the delays already experienced in the process, the Board was concerned that the revised financial rules might not be adopted in time for the entry into force of IPSAS.

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.**

32. UNHCR began monitoring progress on preparatory efforts for the transition to IPSAS. For each of the working groups, the tasks to be performed by designated employees are described and assigned a completion date. During the course of the verification by the Board in March 2010, progress on preparation work for the transition to IPSAS varied greatly, from 0 per cent for working group 1b, on the presentation of budget information, and working group 5c, on revenue recognition for exchange transactions, to 68 per cent for working group 3, on plant, property and equipment. Overall, the rate of progress for the transition to IPSAS was 51 per cent in February 2010.

33. **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 rate of progress.**

34. In its response, UNHCR indicated that progress towards IPSAS implementation had faced some difficulties related to identifying the right expertise for vacant positions. Management was taking the necessary action to remedy the issues.

4. Statement of income and expenditure

35. Total income increased to $1.803 billion in 2009, from $1.652 billion in 2008, an increase of 9.1 per cent. Voluntary contributions of $1.762 billion represented 97.7 per cent of the total income of UNHCR. They increased by 8.2 per cent from the level of 2008, when they reached $1.628 billion. This was explained mainly by the increase in voluntary contributions received by UNHCR for its supplementary programmes. Included in the figure of $1.802 billion was an amount of $1.037 billion for the Annual Programme Fund in 2009, compared with $1.043 billion in 2008, representing a decrease of 0.6 per cent (compared with a 12.3 per cent increase between 2007 and 2008). In addition, income for the Supplementary Programme Fund amounted to $672 million, compared to $543.8 million in 2008, an increase of 23.6 per cent. The main operations financed from supplementary resources in 2009 were those in Pakistan ($103.6 million), the Syrian Arab Republic ($95.6 million), Iraq ($88.8 million), the Sudan ($61.4 million), Jordan ($38.9 million) and the Democratic Republic of the Congo ($25 million).

36. As part of the voluntary contributions, the allocation from the United Nations Regular Budget Fund amounted to $46 million (2.6 per cent of the total income of UNHCR), compared to $33.9 million in 2008 (2.1 per cent of the total income of UNHCR), while it reached $37 million (2.8 per cent of total income) in 2007. The trend observed over several years was towards reduced contributions from the regular budget of the United Nations (3.4 per cent of total resources in 2005, 2.8 per cent in 2006, 2.8 per cent also in 2007 and 2.1 per cent in 2008).

37. Expenditure was $1.796 billion in 2009, compared to $1.628 billion in 2008, an increase of 10.3 per cent. Table II.2 shows the breakdown of expenditure by fund.

Table II.2
Breakdown of expenditure in 2009
(Thousands of United States dollars)

Fund	*Programme*	*Support to programme*	*Management and administration*	*Total*
Annual Programme Fund	724 712	276 848	60 409	1 061 969
Supplementary Programme Fund	602 429	31 946	—	634 375
United Nations Regular Budget Fund	—	—	46 031	46 031
Subtotal	**1 327 141**	**308 794**	**106 440**	**1 742 375**
Junior Professional Officers Fund				12 122
Medical Insurance Plan				3 536
Working Capital and Guarantee Fund				1 891
Staff Benefits Fund				35 754
Grand total				**1 795 678**

Source: Note 6 to the financial statements.

38. Overall, programme expenditure increased by 13.2 per cent (from $1.171 billion to $1.327 billion), support for programme decreased by 3 per cent (from $318.5 million to $308.8 million) and expenditure for management and administration increased by 9.9 per cent (from $96.8 million to $106.4 million).

39. Since partnerships are the mode of action favoured by UNHCR for implementing its operations on the ground, it is logical that the increase in programme expenditure leads to an increase in payments to partners. Payments to implementing partners in 2008 increased by 23 per cent from the 2007 level. As at 31 December 2009, such payments stood at $598.8 million, 12.7 per cent above their level in 2008 ($531.5 million). They represented 33.3 per cent of the total expenditure of UNHCR in 2009. However, the share of UNHCR payments that partners declared to have been spent and for which they provided the appropriate supporting documents was lower ($333.5 million as at 31 December 2009, versus $347.2 million as at 31 December 2008), confirming a trend begun in 2008 after regular increases over the previous years. After having been at 63 per cent in 2006, 76.4 per cent in 2007 and 65.3 per cent in 2008, the rates of advances spent and justified by subproject monitoring reports had returned to 55.7 per cent, according to the figures contained in note 6, to the financial statements, table 1, footnote a.

40. The slowdown mentioned must be compared with the increase in resources allocated to programmes, mainly in the context of supplementary programmes during the year. This declining trend is a source of concern for the Board and is discussed in the relevant section of this report.

41. Because of the recognition of end-of-service and post-retirement liabilities for which no specific funding was provided by UNHCR, an adjustment reflecting the accrued liabilities was recorded as at 31 December 2007 against the reserves and fund balances. This resulted in a negative balance of $178.1 million in the reserves and fund balances at the end of 2007. As at 31 December 2008, the reserves and fund balances showed a negative balance of $130.1 million. As at 31 December 2009, the negative balance amounted to $159.9 million.

42. A specific fund, entitled the Staff Benefits Fund, was established in 2007 to provide for end-of-service and post-retirement liabilities. As at 31 December 2009, the Staff Benefits Fund showed a negative balance of $446.9 million, compared with a negative balance of $369 million at the end of 2008. Further comments on this issue are found in the relevant section of the present report.

5. Statement of assets, liabilities and reserves and fund balances

43. UNHCR assets increased from $458.3 million at the end of 2008 to $508.9 million as at 31 December 2009. This 11 per cent growth in 2009 was due mainly to an increase of about 11.8 per cent in cash and term deposits.

44. As at 31 December 2009, total liabilities amounted to $668.9 million compared to $588.4 million at the end of the previous year, an increase of 13.7 per cent. This increase was due mainly to prior-period adjustments to correct the underestimated actuarial valuation of prior years, by a total amount of $72.2 million. As indicated in note 18 (e) to the financial statements, the actuarial valuation adjustment of $35.4 million for after-service health insurance was made to reflect correctly the effect of changes in the mortality assumption to match the assumption used by the United Nations Joint Staff Pension Fund relating to prior years. The actuarial valuation adjustment for repatriation benefits of $36.8 million reflects the change in the attribution period from the expected working lifetime to

the first 12 years of employment. Salary scales were also aligned to match those used by the United Nations for staff benefits.

45. UNHCR liabilities under the Staff Benefits Fund as at 31 December 2009 amounted to $448.4 million (broken down as follows: $347.4 million for liabilities for after-service health insurance, $65.5 million for repatriation benefits, $34 million for accrued annual leave and $1.5 million for the voluntary separation programme), while it was $388.4 million as at 31 December 2008.

Unliquidated obligations

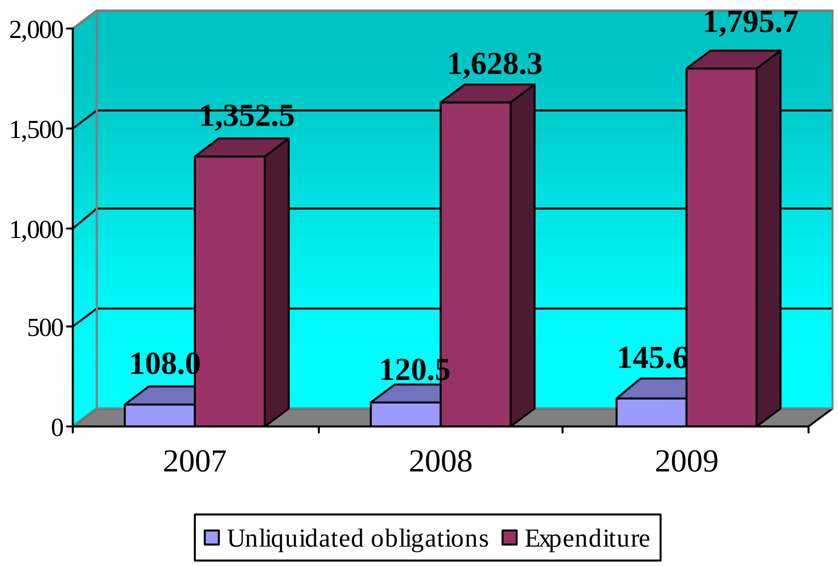
46. The savings on the cancellation of prior-period obligations for the period under review amounted to $13.2 million, compared with $16.2 million for the preceding financial period. These cancellations represented 9.1 per cent of the total unliquidated obligations as at the end of 2009, compared with 13.4 per cent in 2008.

47. As at 31 December 2009, unliquidated obligations amounted to $145.6 million, in 2009, an increase of 20.8 per cent from the $120.5 million of the previous financial year. Their proportion of total expenditure increased from 7.4 per cent to 8.1 per cent. In figure II.III, unliquidated obligations are compared to total expenditure for 2007, 2008 and 2009.

Figure II.III

Comparison of changes to unliquidated obligations and expenditure, 2007-2009

(Millions of United States dollars)



Source: UNCHR financial statements.

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

49. In addition, financial rule 105.9 of the Financial Regulations and Rules of the United Nations states that an obligation must be based on a formal contract, agreement, purchase order or other form of undertaking, or on a liability

recognized by the United Nations, and that all obligations must be supported by an appropriate obligating document.

50. In paragraph 37 of its previous report, the Board reiterated its recommendation that UNHCR comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms for controlling the validity of obligations. In response to the recommendations made by the Board in 2008, UNHCR has agreed to improve controls over the validity of unliquidated obligations, in particular by carrying out monthly reviews of unpaid purchase orders. The Board determined that the work of cancelling unliquidated obligations at year’s end to retain only those that relate to the financial period could be further improved.

51. Regulation 5.3 of the Financial Regulations and Rules of the United Nations states that appropriations shall remain available for 12 months following the end of the financial period to which they relate to the extent that they are required to discharge obligations in respect of goods supplied and services rendered in the financial period and to liquidate any other outstanding legal obligation of the financial period.

52. The instruction issued by UNHCR (IOM/054/2009) for the end of 2009 stated that an obligation could not be created after 21 December 2009. The deadline was set to ensure that all offices enter their obligations early and do not miss the end of the financial year. Exceptions to the deadline could be approved by the Controller.

53. The Board noted that 203 purchase orders, for a total of $10.9 million, or 7.5 per cent of the total of unliquidated obligations as at 31 December 2009 ($145.6 million), were made after 21 December 2009. Among the purchase orders resulting in unliquidated obligations, 10 issued by field offices, representing $88,810, could not be analysed to determine whether the UNHCR Controller had actually given special authorization, owing to the lack of supporting documents. Indeed, in 2008, UNHCR decided to decentralize the management of supporting documents to the country offices. Although this decision might seem relevant from a managerial point of view, it prevented the Board from getting the requested supporting documents in time for the audit.

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

55. The Board examined a sample of 169 unliquidated obligations linked to purchase orders totalling $37.8 million, or 26 per cent of the total of unliquidated obligations as at 31 December 2009 ($145.6 million), to determine their validity.

56. Once an obligation results in the provision of a service and the bill is received, the operation concerned ceases to be an unliquidated obligation and becomes an account payable. The Board has determined that the sample examined included transactions totalling $28,676 that had been billed several months before but that remained registered as unliquidated obligations, although they constituted accounts payable. These errors, which can be attributed to delays in entering billing data in the Management Systems Renewal Project accounting software, result in overestimating total unliquidated obligations and underestimating those of accounts payable in statement II.

57. **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.**

58. The Board has also established that some purchase orders should not have remained in the accounts as at 31 December 2009 for lack of a valid obligation:

(a) A total of $64,880 from unsigned purchase orders;

(b) A total of $132,007 from unauthorized purchase orders;

(c) A total of $183,936 from purchase orders whose issuance date was later than the billing date;

(d) A total of $261,800 from cancelled purchase orders;

(e) A total of $657,952 corresponding to purchase orders based on incomplete supporting documents.

59. In total, of the sample of 169 purchase orders totalling $37.8 million in unliquidated obligations examined by the Board, transactions registered questionably as unliquidated obligations totalled $1,329,252, or 3.5 per cent of the entire sample. By extrapolation, the overstatement was estimated to be $5.1 million.

60. **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.**

6. End-of-service liabilities, including after-service health insurance

61. UNHCR staff who fulfil the necessary statutory conditions have the right, after the end of service, to the following at the expense of the organization: after-service health insurance, repatriation benefits, which include the repatriation grant, travel and shipping, and accrued annual leave.

62. As at 31 December 2009, total liabilities reached $347.4 million for after-service health insurance, $65.5 million for repatriation benefits and $34 million for accrued annual leave, for a total of $446.9 million.

Funding policy for end-of-service liabilities

63. The United Nations system accounting standards require provisions in the financial statements for end-of-service and post-retirement liabilities, to the extent required by the financial policy of the organization. Until 2006, in accordance with these standards, UNHCR disclosed these liabilities in the notes to the financial statements. After a series of observations, particularly from the Board, concerning the inappropriateness of this accounting treatment, the General Assembly decided, in section III of its resolution 60/255, to recognize these liabilities. Consequently, they were disclosed for the first time on the face of the UNHCR financial statements as at 31 December 2007.

64. The recording of the liabilities was made without appropriate funding being simultaneously put in place. This contributed to a large extent to the negative fund and reserves balance of $130.1 million as at 31 December 2008 and of $159.9 million as at 31 December 2009.

65. In paragraph 56 of its previous report, the Board noted that during the examination of the Secretary-General's report on the question of the liabilities and proposed funding for after-service health insurance, the Advisory Committee

on Administrative and Budgetary Questions had considered that the transfer of unencumbered balances and savings to entirely alternative uses was an inappropriate financial management practice (A/61/791, para. 12).

66. The Board further observed that UNHCR could not use the available funds if their usage was specifically restricted under the Financial Rules for Voluntary Funds Administered by the High Commissioner and if those rules did not contain any provision concerning funding the termination benefit fund. In paragraph 58, the Board noted that in addition, even if UNHCR were to use the unearmarked funds for the after-service benefits, that would not be sufficient to cover the total liability for end-of-service and post-retirement liabilities.

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

68. The Board also noted that the new estimate as at 31 December 2009 for liabilities relating to repatriation benefits totalled $65.5 million, representing an annual charge of about $5 million. These liabilities have also reached a level that requires the implementation of appropriate financing.

69. The Standing Committee of UNHCR met in June 2010 and studied three alternatives for funding the liabilities, as outlined by the Secretary-General in his report A/64/366. The Medical Insurance Plan liability of $21.0 million was fully funded, as at 31 December 2009, from accumulated reserves of $34.4 million. Therefore, no additional funds were needed. The Medical Insurance Plan fund should be reviewed annually, on the basis of the actuarial data gathered, in order to assess the ongoing sustainability of the reserves. The options to consider in order to fund the remaining after-service health insurance liability of $326.4 million, excluding the Medical Insurance Plan, were as follows:

(a) To continue to apply the pay-as-you-go approach for the existing liabilities as at 31 December 2010, and to fund the liability for future periods starting on 1 January 2011. Reserves for funding future liabilities would be created by applying a charge to the posts of staff members with expected future service beyond 1 January 2011;

(b) Annual injections of funds to the reserve by transferring some of the unearmarked carry-over at the end of the year, the total amount of which would be subject to operational priorities and approval by the High Commissioner. In this case, a suggested target should be established at a recommended minimum, subject to the exigencies of operational requirements;

(c) A monthly payroll charge of 4 per cent on the net base salary of all Professional staff with effect from 1 January 2011, which would generate estimated funds of $5.0 million annually.

70. The objective is to build up the reserve to acceptable and agreed levels over the course of the next 30 years, contingent upon actual funds reserved each year, using one or more of the above options. A formal review could be undertaken every two years to assess the assumptions and projections made and the reserve balances held, and any required adjustment to the proposed funding strategy could be made on a biennial basis, in line with the budget cycle.

71. To build up a reserve to fund repatriation liabilities of $65.5 million, in line with current practice in the United Nations Secretariat and the six other funds and

programmes within the United Nations system, one option would be to add a 4 per cent charge to the organizational net payroll costs for Professional staff, thereby generating approximately $5.0 million per annum. Using this approach, it would take approximately 13 years to build a 100 per cent reserve fund, excluding any interest that may be earned on the fund.

72. As at the time of the audit however, no decision had been made with regard to the funding of the end-of-service and post-retirement liabilities. The Board was consequently concerned that where these liabilities were still not supported by an approved funding plan, there was a risk that UNHCR might not be in a financial position to fully meet its obligations with regard to end-of-service liabilities and post-retirement benefits as and when those liabilities become due.

73. **The Board reiterates its previous recommendation that UNHCR set up specific funding for its accrued end-of-service and post-retirement liabilities.**

Discount rate

74. Pursuant to the request made by the General Assembly in its resolution 61/264, the Board validated the valuations of after-service health insurance and repatriation benefit liabilities. The Board considered the procedure for evaluating these amounts, and particularly the reports by the consulting actuary. UNHCR assessed the liabilities using the actuarial method stipulated by IPSAS 25, in accordance with paragraph 10 of the above-mentioned resolution of the General Assembly.

75. In its previous valuation of the after-service health insurance liability, UNHCR had used a discount rate of 5.5 per cent. The valuation of the after-service health insurance liability as at 31 December 2009 relies on a discount rate of 6.15 per cent. A discount rate is an interest rate used, as a common financial practice, to estimate the present value of an amount to be earned or lost at a future date. In other words, it represents the time value of money. As the after-service health insurance liability is composed of benefits that will be paid out by UNHCR to its retired staff in the future, IPSAS, like most other accounting frameworks, requires that these amounts be "discounted" so that the reporting entity takes the present value of the future benefits as an estimate for its liability.

76. In practical terms, the higher the discount rate, the lower the present value of future amounts, and vice versa. Hence, if the same discount rate as in the prior year had been used, the after-service health insurance liability for 2009 would have been higher than the amount reported.

77. IPSAS 25, which serves as a reference for the actuarial methodology used for the valuation of the after-service health insurance liability as per resolution 61/264 of the General Assembly, does not prescribe any particular discount rate. It states, however, that "The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations" (para. 91). It further specifies that "an entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds, or by another financial instrument" (para. 94).

78. According to the United Nations, the objective of selecting a discount rate when valuing end-of-service benefits is to measure the single amount that, if

invested in a portfolio of high-quality debt instruments, would provide the necessary future cash flow to pay the accrued benefits when due. The United Nations has historically established the discount rate assumption 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. The rates of return used as a reference by the United Nations have been those of high-quality, long-term corporate bonds. UNHCR has followed the approach adopted by the United Nations.

79. The Board acknowledges that this methodology is compliant with IPSAS 25, yet makes the following comments for consideration in the discussion on funding these liabilities:

(a) The increase in the discount rate does not reflect the trend in interest rates, which have generally tended to decrease over the recent period. This increase results in UNHCR having decided not to increase the discount rate for the previous valuation, although the application of the methodology described above would have resulted in an increase from 5.5 per cent to 6.5 per cent at that time. Considering the uncertainties on the prescriptions of IPSAS (IPSAS 25 had not been adopted yet), UNHCR had conservatively decided to maintain the 5.5 per cent rate. Had it chosen to raise the rate to 6.5 per cent at the time, the same rate would have then decreased rather than increased for the last valuation — which would have been consistent with the economic environment;

(b) The discount rate is but one example of the high degree of uncertainty inherent in the actuarial valuation of a liability. While compliant with the accounting standards, this valuation is only an estimate of the actual value of the liability. Consequently, the Executive Committee of UNHCR may wish not to regard this as the absolute point of reference. Valuations based on standards other than accounting ones may yield different results. In this regard, the Board wishes to underline that a financial valuation of the funding needs (or “funding valuation”) would result in a different value than would the accounting valuation, which is generally more conservative.

Change in assumptions

80. The actuarial valuation liability for after-service health insurance depends upon actuarial assumptions, the main one of which is the discount rate. As mentioned above, UNHCR has changed this assumption from the last biennium, along with other assumptions, such as mortality rates.

81. Paragraph 5 (iii) of the system accounting standards of the United Nations states, “Financial statements should disclose all items which are material enough to affect evaluations or decisions and all material information which is necessary to make the statements clear and understandable.”

82. UNHCR did not disclose the change to the actuarial assumptions in the notes to the financial statements. The actuarial assumptions used for the valuation as at 31 December 2009 were disclosed, but the assumptions used for the previous valuation were not recalled. In addition, neither the reasons nor the impact of the changes were disclosed.

83. Considering the sensitive nature of the after-service health insurance liability for UNHCR and the significance of the actuarial assumptions, the Board is of the view that their modification constitutes in itself material information, and should be sufficiently disclosed.

84. **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 after-service health insurance liability, along with the reason for and the effect of this change.**

7. Outposting operations to Budapest

85. The following goals for outposting were listed in the document presented to the Standing Committee at its 40th meeting, on 29 August 2007: (a) to create a more streamlined headquarters; (b) to improve UNHCR responsiveness to the needs of its beneficiaries; (c) to channel more resources into operations (by reducing expenditure on administration); (d) to devolve support services to the field; (e) to streamline and simplify processes with a view to reducing bureaucracy; (f) to ensure effective and efficient control and accountability mechanisms; and (g) to achieve the optimal balance between direct implementation and implementation through partnerships.

86. Although the improvement in service quality was included in the documents presented to the Standing Committee, as well as in the High Commissioner's decision of 12 June 2007, they were not defined in detail at any stage the project design. Among the potential advantages justifying the outposting initiative, the UNHCR consultant included improvement in the quality of service, in terms of both internal operations and the response to the needs expressed by refugees; and efficiency gains, resulting from better allocation of resources. No further details were provided as to the nature, substance or extent of the efficiency increases expected from outposting. They remained general management objectives.

87. UNHCR explained that the initial objectives for outposting were: (a) to reduce administrative costs, the primary objective against which results would be measured; and (b) to ensure service continuity and to supply, at least at first, the same level of quality as at Geneva.

88. However, UNHCR had not acquired the means for measuring changes in the quality of service provided in order to ensure that the savings realized benefited UNHCR missions and did not have undesirable results. Indicators might have included, for example, processing times for certain dossiers relating to personnel issues and supply-chain delivery.

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

90. **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.**

91. While agreeing with this recommendation, UNHCR noted that the mere fact that there had been no disruption of services despite the move and the recruitment of new staff was an indicator of efficiency.

Global Service Centre

92. The outposted services were installed from January 2008 in the Global Service Centre, inaugurated in February 2008. There were 204 budgeted posts (196 of which were filled) on 16 November 2009. The Global Service Centre employed a total of 28 National Professional Officers in the various services (14.3 per cent of the total). Eight were in the Personnel Administration and Payroll

Section, seven in the Financial Control Section and seven in the Global Learning Centre. The other six were in the Recruitment and Placement Unit, Division of Operational Services and Centre Management Unit.

93. According to the criteria listed in the 1994 report of the International Civil Service Commission,[3] as endorsed by the General Assembly in its resolution 49/223, "*The work performed by NPOs should have a national content … The functions of all NPO posts should be justified within the overall efforts of the United Nations system to increase national development and other related categories. NPOs should bring to bear in the job national experience and knowledge of local culture, language traditions and institutions*".

94. According to these criteria, local officers should be recruited for work that internationally recruited staff are not competent to undertake because the jobs require local knowledge. Most local officers were employed for administrative work, such as finance, payroll or human resources management, that has no national content and requires no particular recourse to local culture or language, or knowledge of local institutions.

95. The recruitment of local officers for the Global Service Centre was driven by a cost-saving approach. However, the situation thus created did not meet the criteria in force.

96. **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.**

8. Treasury management

97. As at 31 December 2009, UNHCR had $382.6 million in cash and term deposits in 465 active bank accounts (headquarters and field offices). The Board had received only 214 bank confirmation statements as at 15 March 2010, representing 51 per cent of the 417 UNHCR general ledger accounts that were not nil in the trial balance.

98. As at 15 June 2010, the Board had received 367 bank confirmation statements, representing $378.2 million, or 98.8 per cent of all UNHCR accounts that were not nil in the trial balance ($378.2 million out of $382.6 million).

99. The Board observed that 12 accounts had unexplained or uncorrected differences between the bank confirmation statement as at 31 December 2009 and the closing balance in the general ledger of UNHCR. The total difference amounted to $38,100.

100. **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.**

9. Programme and project management

101. UNHCR implements the operations under its mandate through a wide range of partners: United Nations entities and other international organizations in the

[3] *Official Records of the General Assembly, Forty-ninth Session, Supplement No. 30* (A/49/30), annex VI.

context of bilateral partnerships, non-governmental organizations, universities and research institutes, eminent personalities, regional organizations, members of parliament, government departments, private sector entities, refugees and receiving communities.

102. In its report A/63/474, the Advisory Committee on Administrative and Budgetary Questions encouraged the Board to continue its review of this matter and to provide an update in its next audit.

103. In 2009, the projects entrusted to partners represented $598.8 million, or 33.3 per cent of the UNHCR expenditure of $1.796 billion. The corresponding figures for 2008 were $531.5 million and 32.6 per cent.

Justification of implementing partners' expenditure

104. Instalments disbursed to implementing partners are to be periodically examined by UNHCR on the basis of monitoring reports received from partners and accepted by UNHCR. As at 31 December 2009, the expenditure justified by UNHCR implementing partners through implementing partner financial monitoring reports amounted to $333.5 million, compared to $347.2 million for 2008. The difference between the value of instalments disbursed to implementing partners ($598.8 million) and that of expenditure incurred by them and shown in their financial monitoring reports ($333.5 million) increased from $102 million in 2007 to $184.3 million in 2008 and $265.3 million in 2009. Some 23.7 per cent of instalments disbursed to implementing partners had not been justified at the 2007 closure, and 34.7 per cent at the 2008 closure; this figure rose to 44.3 per cent in 2009.

105. A high rate of receipt of implementing partner financial monitoring reports contributes to ensuring that the instalments disbursed by UNHCR are being used properly. The Board therefore expressed its concern at the risk of unreported instalments totalling $265.3 million (14.8 per cent of total expenditures for 2009) in the financial statements of UNHCR, compared to $184.3 million in unreported instalments for 2008 (11.3 per cent of total expenditures as at 31 December 2008).

106. The declining rate of reported instalments at year's end must be compared with the increase in resources allocated to programmes, mainly in the context of supplementary programmes during the year. The Board expressed its concern about this declining trend, which could be indicative of a bottleneck deriving from the fact that implementing partners are less able to manage the flow of resources they obtain.

107. UNHCR commented that, in accordance with its internal rules, the final implementing partner financial monitoring reports (IPFR) were mostly received by mid-February of the following year but that their verification and recording in the accounting system of implementing partners required additional time. UNHCR later reported that, as at 22 June 2010, it had received reports covering $577.9 million worth of expenditure, which represented 96.5 per cent of its total advances to implementing partners. Although this indicates significant progress, there is still a need to further anticipate the receipt of such reports in time for the Board's audit.

108. **The Board reiterates its previous recommendation that UNHCR continue its efforts to improve the rate of timely justification of advances granted to implementing partners.**

Long-outstanding instalments

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

110. In paragraph 127 of its previous report, the Board recommended that UNHCR assess the instalments disbursed to implementing partners that have remained unjustified by implementing partner financial monitoring reports for more than one year and take appropriate measures to have them justified or recovered from implementing partners.

111. Table II.3 shows the balance of unreported instalments as at the end of 2008 and of 2009, by the year in which the instalments were disbursed.

Table II.3
Instalments pending reporting
(United States dollars)

	Year when the instalments were disbursed				
	2005	2006	2007	2008	2009
As at 31 December 2008	1 063 921	818 441	2 931 632	184 292 592	—
As at 31 December 2009	122 380	610 900	743 118	3 291 222	265 281 984

Source: UNHCR.

112. The Board noted that UNHCR had made progress in regularizing long-standing unreported instalments, compared to the situation in 2008. However, as at 31 December 2009, partnerships that had been concluded in 2005 still showed an unreported balance of $122,380, those concluded in 2006 showed a balance of $610,900, those concluded in 2007 a balance of $743,118 and those concluded in 2008 a balance of $3,291,222. The Board considered that instalments awaiting reporting for more than one year still required explanation and special measures.

113. As at 22 June 2010, the instalments awaiting reporting for more than one year had been reduced to $1,390,583. All partnerships that had been concluded in 2005 and 2006 had been reported on, those of 2007 showed a balance of $275,586 and those concluded in 2008 a balance of $1,114,997.

114. The Board recalls that UNHCR has set precise rules concerning auditing X21 balances. The UNHCR manual specifies in chapter 4, part 6, entitled “Monitoring and reports”, that implementing partner financial monitoring reports should be submitted by implementing partners when requesting the payment of the next instalment, and also at the times fixed in the subproject agreements. If a subproject terminates on 31 December and all commitments are liquidated by 31 January, the regular monitoring report (parts 1 and 2), which is due on 15 February for the period ending 31 December, can be replaced by the final monitoring report (parts 1 and 2).

115. At the latest, projects should be phased out during the financial period following the closure of the project, except when the extension of the project has been duly approved. The projects still included in the X21 balances of 2007 and 2008 had not been postponed to beyond one year. They were consequently subject

to this rule, and the reports relating to their execution should have been produced no later than the end of the following year.

116. UNHCR indicated that continuous follow-up action was being completed for the remaining balances.

117. **The Board reiterates its previous recommendation 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.**

Audit certificates

118. UNHCR requires its implementing partners to supply audit certificates, delivered by independent external auditors, for expenditure incurred by the partners with UNHCR funds. Until 2006, certificates had to be produced within six months of the final liquidation date of the subproject, but this period was reduced to three months for operations financed since 2007.

119. In its previous report, the Board observed that as at 29 June 2009, of the total amount of $498.6 million that required audit certification, certificates covering only $252 million, or 50.5 per cent, had not been received by UNHCR, although the audit reports were generally due by 30 April 2009[4] at the latest. In addition, concerning prior years, as at June 2009, approximately 10 per cent of expenditure for 2005 had not yet been substantiated by audit certificates. Similarly, for 2006 and 2007, 14 per cent and 17 per cent, respectively, were not yet covered by audit certificates. Further, of the audit certificates received by UNHCR for the 2008 period, $29.5 million, or 12 per cent of the value of audit certificates received, reflected qualified audit opinions. In the circumstances, the Board had been unable to obtain adequate assurance as to the validity of a significant portion of expenditure incurred through implementing partners and consequently qualified its opinion on the financial statements for the year ended 31 December 2008.

120. For 2009 expenditures, audit certificates representing a total of $542 million were to be communicated by 30 April 2010. This amount is not equal to the total expenditure incurred by implementing partners, as some are not required to submit audit certificates.

121. As at 30 April 2010, in terms of audit certificates due from third-party auditors, certificates representing $303 million, or 55.9 per cent of the $542 million due for 2010, had been received. As at 22 June 2010, certificates for amounts totalling $44 million, or 8 per cent of the $542 million due for 2010, had not been received, and certificates amounting to $498 million had been received. The compliance rate was 92 per cent. Excluding projects with an approved liquidation period extension, the compliance rate was 98.8 per cent. These figures reflect a significant improvement as regards the submission of audit certificates.

122. Concerning advances made in years prior to 2009, as at 22 June 2010 the audit certificates not received 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. Although recognizing that

[4] One month for the liquidation period is added to the standard first three months of the year.

improvements had been made, the Board was concerned by the fact that the 2005 and 2006 percentages were still lagging behind the expected levels, considering the period of time elapsed.

123. **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.**

124. As at 11 June 2010, the value of the audit certificates received for 2009 projects that contained qualified audit opinions on expenditure amounted to $36.5 million, or 7.6 per cent of the value of all audit certificates received ($477.4 million). In its previous report the Board expressed concern about any qualified audit opinions received from project auditors, as such an opinion could indicate weaknesses in the management or control of projects delivered through implementing partners. The Board recommended that UNHCR intensify its efforts to conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the financial statements.

125. The Board noted that UNHCR had conducted an in-depth analysis of all qualified opinions and recorded them in the appropriate manner once clarification had been received. However, the potential financial impact of qualified opinions still to be resolved amounted to $1.5 million for 2007, $0.1 million for 2008 and $2.3 million for 2009.

126. **UNHCR agreed with the Board's reiterated recommendation that it continue to make potential adjustments to prior-year expenditure in the financial statements.**

Monitoring of opinions expressed in the audit certificates

127. In order to improve the monitoring of opinions expressed in the audit certificates and to reflect any corrections that may be necessary on the accounts, UNHCR created, within its Management Systems Renewal Project, a dedicated database that can provide search results that are indispensable for monitoring the time limits and content of certificates.

128. The Board observed that input in the database of certificates to be monitored by the outpost offices could lower the quality of available monitoring. The number of certificates actually monitored did not correspond to the number of projects for which an audit certificate was theoretically expected. After examination by the Board, the number of audit certificates to be monitored for 2007 stood at 837, whereas there were only 807 in the database. While this anomaly did not point to a significant number of audit certificates whose production was not monitored, it demonstrates that UNHCR could further improve the system for monitoring certificates.

129. UNHCR recognized that some offices had not duly recorded the project agreements in the Management Systems Renewal Project, but emphasized that even if the agreements were not recorded in the system, the related audit certificates had been received as required. Therefore, there was no effect on the audit certificate compliance rate.

130. **The Board recommends that UNHCR guarantee that all anticipated audit certificates are included in its database.**

Monitoring of implementing partners

131. The Board, as part of its visits to UNHCR offices in Malaysia and the Syrian Arab Republic, also made observations on the administration of implementing partners and audit certificates.

132. The general presentation of subproject agreements with implementing partners was highly standardized, with the first section consisting of a standard model accompanied by two appendices, along with a description of the subproject, the table of objectives and the budget arranged by actions and budget lines in the appendix.

133. For some years the standard sections of the subproject agreements have been employing terminology no longer in use at UNHCR. For example, article 11 of the standard appendix for financial and programme arrangements (appendix 1) describes the implementing partner financial monitoring reports as "subproject monitoring reports" and the activity reports as "performance reports", though they are now known as "narrative reports". The standard contract has not taken account of these changes, which were made in 2006.

134. **UNHCR agreed with the Board's recommendation that it update the standard contract with its implementing partners.**

135. Appendix 1, article 11, of the subproject agreements also states that the partner must supply a narrative report on the dates indicated in article 2.08 of the basic agreement. Article 2.08 gives the following reporting dates: 15 July and 15 February.

136. In Malaysia, there was no standard procedure for field visits to monitor the achievement of subproject objectives. Unlike the situation observed in the Syrian Arab Republic, they were left to the discretion of programme assistants.

137. Monitoring of the achievement of objectives, with an analysis of the impact and performance indicators associated with subprojects and the possibility of measuring their achievement effectively, could not be evaluated in the absence of any documentation in the files.

138. UNHCR indicated that in Malaysia the monitoring and evaluation were the subject of many e-mail exchanges, but that they had not been archived.

139. **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.**

10. Non-expendable property management

140. According to note 2 (m) to the financial statements, non-expendable property consists of assets with an original purchase price greater than or equal to $1,500 and a useful life greater than or equal to five years, and all special items. Special items include vehicles, computer equipment, plant and equipment, telecommunications equipment, security equipment and generators, with a minimum acquisition value of $100.

141. As at 31 December 2009, the purchase value of UNHCR non-expendable property was $343.6 million, compared to $350.3 million as at 31 December 2008.

142. In its opinion on the financial statements for the year ended 31 December 2008, the Board emphasized the deficiencies in the management of

non-expendable property and their impact on the accuracy of UNHCR property disclosure. This was related to inadequacies in the asset-tracking system. The Office of Internal Oversight Services also noted in its 2009 reports that asset management continued to be inefficient.

143. UNHCR pursued its efforts to correct the erroneous data in its database for the recording of non-expendable property, as recommended by the Board in paragraph 96 of its previous report.

144. In accordance with a recommendation made by the Board in its report on the year ended 31 December 2007,[5] the Asset Management Unit was strengthened in October 2008. The Unit consists of five persons who have been in Budapest since 1 March 2009 and an official in Geneva, who mainly provides clerical services to the Asset Management Board. In order to clean up the database for non-expendable property, and in coordination with the various focal points, a monitoring system was established to identify the assets for which no annual physical check had been carried out. A verification report has been sent to the Asset Management Board at headquarters every month since January 2009.

145. Although this constitutes an improvement over past practice, there remained unresolved problems in the field. As part of its visits to UNHCR offices in Kenya, Malaysia and the Syrian Arab Republic, the Board found that the management of assets in field still could be improved.

Control of assets

146. According to article 6.10 of the standard subproject agreement, assets are items with a value of $1,500 or more and a serviceable life of at least five years.

147. When UNHCR makes an asset available to a partner, this must be recorded in the UNHCR inventory (AssetTrak database), as long as ownership is not transferred to the partner. According to chapter 4, section 4.3, point 6, of the Operations Management Handbook, "*Assets loaned under agreement are recorded in the UNHCR AssetTrak database*".

148. Similarly, when a partner buys equipment using subproject funds, it must be recorded in the UNHCR inventory. According to chapter 4, section 4.3, point 7, of the Operations Management Handbook, "*Assets procured by implementing partners under sub-project agreements with UNHCR funds should be declared to the UNHCR representation on receipt. The UNHCR representation will then arrange for the asset to be inspected and recorded into the AssetTrak database. An agreement for the receipt and right of use of UNHCR assets shall also be raised and the implementing partner requested to sign for the asset provided*".

149. The UNHCR offices in Malaysia and the Syrian Arab Republic were not performing any reconciliation check of assets owned by UNHCR that were being used by its partners. They were not receiving any inventory from them that they could periodically reconcile with the AssetTrak database.

150. During the site visits no conformity checks were made between the assets recorded in the UNHCR database and the inventories held by the partners. No checks were carried out either on non-expendable property procured with

[5] *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5E* (A/63/5/Add.5), chap. II, para. 81.

UNHCR funds and stored by the partners, or on assets the ownership of which had been transferred to the partners.

151. **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 in 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.**

152. At the UNHCR office in Kenya, the management of non-expendable property could be improved. The Board found that:

(a) Some assets purchased were still valued at zero. These assets (four vehicles) represented a unit purchase price in excess of $24,000;

(b) Other vehicles registered were not found in the detailed report on assets. These vehicles were declared "disposable" by the local Asset Management Board when it met on 13 August 2008. They had still not been sold off at the time of the audit (April 2009) and should therefore have still been found in the assets records;

(c) The examination of disposal forms revealed that essential aspects such as purchase price and net book value were not systematically mentioned. Furthermore, the decisions reached by the local Asset Management Board had not been recorded in the asset database, as called for by the procedure.

153. **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.**

11. Expendable property management

154. Expendable property consists of property and equipment valued at less than $1,500 per unit at the time of purchase and with a serviceable life of less than five years. There are, however, a number of exceptions to this rule.

155. Paragraph 5 of the United Nations system accounting standards requires observance of the principles of prudence, substance over form and materiality in the selection and application of accounting policies. In addition, paragraph 49 requires disclosure of the value of inventory (other than non-expendable equipment, furniture and motor vehicles) as an asset in the financial statements at the end of the financial period.

156. In its two previous reports, the Board noted that the value of expendable property had not been indicated in the financial statements or the notes thereto, and it continued to express concern about the impact of this omission on UNHCR property disclosure and management of assets.

157. As at 31 December 2009, the value of expendable property inventories was still not disclosed, either on the face of the financial statements or in the notes, as required in paragraph 49 of the United Nations system accounting standards. UNHCR explained that non-disclosure of the value of expendable property in the

financial statements was a policy applied consistently. UNHCR also explained that it was not able to provide an estimate of this value.

158. **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.**

159. UNHCR reiterated its previous comments on the same subject, indicating that tracking and reporting on inventory were part of the IPSAS implementation for which preparations were under way.

12. Human resources management

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

161. All staff in between assignments have an indefinite contract. Indeed, in 1999, a decision by the High Commissioner granted indefinite contracts to all staff members. Later on, in a new context of staff cuts, this decision of 1999 led to an increase in the number of staff in between assignments. The granting of permanent contracts to everybody was frozen in 2002. Since then, fixed-term contracts have been the only contractual arrangement for newly recruited UNHCR staff.

162. The Advisory Committee on Administrative and Budgetary Questions requested the Board, in paragraph 9 of its report A/60/387, to provide it with up-to-date data on the situation of staff in between assignments.

163. A UNHCR instruction issued on 16 September 2002 required officials on full salary to accept temporary assignments for which they were qualified. Any refusal of a temporary job or assignment had to be duly justified. As a consequence, most staff in between assignments are performing temporary duties. A distinction should therefore be made between staff in between assignments who are employed on temporary duties and those who are not.

164. Statistics for staff awaiting assignment, including those provided by UNHCR for previous audits, are based on lists of employees whom the Career Planning Unit had to assign to temporary work or regular employment. Employees who were in the process of being reassigned following regular assignment were not included on this list, since they were no longer considered staff to be assigned by the Career Planning Unit. The list also included staff whose regular assignment would expire within the next several months and whose unit anticipated the need for reassignment, which could occur without the employee being temporarily between assignments. UNHCR rightly considered that these lists did not accurately reflect the situation of staff currently awaiting regular assignment.

165. UNHCR consequently adopted in 2009 a new statistical approach to facilitate the identification of such staff and status reports for monitoring them more closely. Using this new approach, all data relating to staff awaiting assignment since 2006 was reprocessed. The reliability of the reprocessed data was cross-checked with UNHCR for the year ended 31 December 2009, and the

figure for staff awaiting assignment as at 31 December 2009, initially given by the organization, as 169, was reduced to 165.

Table II.4
Number of officials awaiting assignment

Level	As at 31 December			
	2006	*2007*	*2008*	*2009*
D-2	1	1	2	0
D-1	5	6	14	12
P-5	21	33	35	31
P-4	54	54	68	75
P-3	33	33	40	40
P-2	6	4	6	7
Total	**120**	**131**	**165**	**165**

Source: UNHCR.

166. This new statistical approach revealed a continuous increase in the number of staff awaiting assignment between 2006 (120) and 2008 (165), then stabilization between 2008 and 2009. Of the 165 staff awaiting assignment as at 31 December 2009, 64, or 38.9 per cent, were in this situation for longer than one year.

167. Of the 165 employees awaiting assignment, 84, or 50.9 per cent, had temporary functions, compared with 66.4 per cent as at 31 December 2008 according to UNHCR data. Of the remaining 81 staff members, or 49.1 per cent, who were on special leave at full pay, 15 were pending reassignment, 8 were to leave the ranks of UNHCR in the coming months and 5 were on sick or maternity leave.

168. Among staff awaiting assignment, UNHCR identified those who could be considered not to be working; they were either awaiting reassignment, on maternity or sick leave, or preparing to leave employment, as presented in table II.5.

Table II.5
Number of staff not working as at 31 December 2009

Level	*Pending assignment*	*To leave UNHCR in the coming months*	*On sick or maternity leave*	*Without assignment*
D-1	4	0	0	3
P-5	3	1	2	7
P-4	4	5	2	24
P-3	4	2	1	15
P-2	0	0	0	4
Total	**15**	**8**	**5**	**53**

Source: UNHCR.

169. Nine of the 53 staff without assignment as at 31 December 2009 had been in this situation for longer than a year: two since 2005, one since 2006, three since 2007 and three since 2008. When asked about the individual situations of these staff, UNHCR indicated that one of them had a specific profile that limited assignment possibilities. Another, who had not worked since 1 January 2007, was handicapped by the lack of evaluations in his personnel file, and five of the employees involved had special medical constraints. As for the two remaining staff, including a P-5 staff member who has not worked since 2005, UNHCR has not provided any specific justification. While the cases involving a medical condition were admissible, the other cases of long-term retention of staff without assignment were not acceptable.

170. To reduce the number of staff in between assignments, UNHCR took various measures in 2007 and 2008: revising the comparative analysis mechanism to reduce the impact of job losses on the number of staff in between assignments, a voluntary separation plan and promulgation of an instruction dated 16 October 2008 providing that staff in between assignments who refused appropriate offers would be placed on leave without pay.

171. The voluntary separation plan, which led to the departure of 19 staff in 2008 at a cost of $2.4 million, was discontinued in 2009. During the last financial period, UNHCR nevertheless negotiated the departure of six employees by mutual agreement, for a total cost of $1.3 million.

172. However, the measures contained in the instruction dated 16 October 2008 providing that staff in between assignments who refused appropriate offers would be placed on leave without pay ultimately proved to be ineffective. Consequently, UNHCR stopped applying this instruction in April 2009. A new international assignments process was being introduced in 2010.

173. **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.**

13. Internal audit function

174. In 2009, OIOS carried out 33 audits of UNHCR operations and offices, as well as headquarters audits, covering financial management, human resources management, information technology management, logistics management, procurement and contract administration, programme and project management, property and project management, safety and security, strategic management and governance. The activities of OIOS in 2009 included the audits programmed for that year, as well as audits carried forward from 2007 and 2008. This resulted in the issuance of 28 final reports and five draft reports in 2009.

175. In its report A/63/474, the Advisory Committee on Administrative and Budgetary Questions expressed its concern at the low rate of completion of planned audit assignments and stressed that this needed to be reversed.

176. OIOS submitted its updated annual audit plan for 2009 to the Oversight Committee on 10 July 2009. Forty-four audits of operations and field offices were planned. Four new audits were later added to the initial plan, for a total of 48 audits programmed in 2009. The initial 2009 plan included 26 audits for the financial period. It also included 16 audits programmed in 2008 and 2 audits programmed in 2007, as the audits for the two previous financial periods were not completed as planned. Half of the audits concerned offices, especially those in Africa, and the other half involved interdisciplinary topics.

177. Of the 48 audits programmed in 2009, 28 resulted in a final report concerning the following countries: Afghanistan, the Democratic Republic of the Congo, Ethiopia, Georgia, Iraq, Jordan, Liberia, Malawi, Mauritania, the Sudan, the Syrian Arab Republic, Uganda and the United Republic of Tanzania. In addition, five audits resulted in draft reports that have not yet been finalized: on UNHCR partnerships, a risk assessment of UNHCR operations in the Sudan, the process of recruiting UNHCR national staff in the Sudan, UNHCR operations in Ghana and a UNHCR programme in the Syrian Arab Republic on educational assistance. As for audits that were not carried out, 10 were abandoned and the remainder postponed until 2010. This situation derived from a lack of resources, leading to protracted vacancies.

178. The completion rate was 69 per cent in 2009 (33 final or draft reports out of 48 planned), compared to 68 per cent in 2008 (13 completed reports out of 19 planned).

Workforce

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

180. In 2009, the number of OIOS staff devoted to UNHCR audits stood at 19: 12 in Geneva, 3 in Nairobi and 4 resident auditors in Georgia, Senegal, the Sudan and the Syrian Arab Republic. In Georgia, the post was created for six months only.

181. In its previous report, the Board expressed its concern about vacancies of internal auditors and was of the view that the issue should be addressed as a priority.

182. UNHCR commented that it had continually raised this issue with OIOS in the last two years and offered some supplementary procedures to reduce the number of vacancies.

183. As at 31 December 2009, of the 19 positions devoted to the UNHCR audit in 2009, six positions were vacant, representing 31.6 per cent of the authorized staffing level. The Board is concerned that the vacancies have had an adverse impact on the internal audit work programme of UNHCR, and therefore is of the view that the effectiveness of the internal audit service should be addressed as a priority.

184. **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.**

14. Internal audit findings

185. The audits carried out by OIOS in 2009 for UNHCR field operations gave rise to 285 recommendations. All OIOS field audit reports contained a table summarizing all recommendations, specifying the actions needed to fulfil them and their status of implementation.

186. The Board considered the conclusions of the internal audit when planning and carrying out its audit of UNHCR headquarters and field offices. In particular, the remarks on the management of programmes and projects served as a basis for

verifications made by the Board during its field visits in Kenya, Malaysia and the Syrian Arab Republic. The most salient findings of OIOS are reproduced below. Observations concerned the administration of programmes and projects, supply chain, finances, IT and human resources.

Programme and project management

187. OIOS highlighted that financial control and the control of administration of implementing partners remain inadequate and mentioned the weaknesses in controls in certain offices. It observed, as the Board did, that the absence of actions by representatives of UNHCR to follow up the recommendations of independent external auditors reduced the effectiveness of audit processes and certification of expenses by UNHCR partners.

188. The remarks on inadequacies in the control and monitoring of programme and project management served as the basis for verifications made by the Board in Malaysia and the Syrian Arab Republic and prompted recommendations by the Board in management letters.

Administration of the supply chain

189. OIOS determined that inadequacies in the control of local purchases exposed UNHCR to a risk of financial losses and fraud. It considered that the inadequate control of purchases delegated to implementing partners increased the risk of ineffective procurement and damage to the reputation of UNHCR. OIOS also stressed that the lack of attention to property management increased the risk of assets disappearing.

Financial management

190. OIOS observed that the goals and objectives of the delegation of authority plans were not always achieved. In addition, insufficient compliance with the rules relating to receivables exposed UNHCR to a risk of financial loss. In the United Republic of Tanzania, unrecovered receivables exceeded $3 million.

191. The Board requested UNHCR to indicate whether receivables had been recovered and, if so, in what amount. In response, UNHCR provided a statement issued by the mission in Dar es Salaam, dated 28 September 2009. The Board confirmed that the receivables have since been recovered.

Information technology

192. OIOS observed that there was an elevated risk of UNHCR data being compromised owing to inadequate attention to information security. The incomplete implementation of the human resources module in the Management Systems Renewal Project software and the inadequate audit track exposed UNHCR to the risk of ineffectiveness and financial loss. Human resources administration for more than 70 countries is still paper-based, and no strategy has been put in place to complete implementation.

Management of human resources

193. OIOS determined that recourse to staff outside of UNHCR should be examined more closely by UNHCR management. In Kenya, UNHCR employed up to 100 people through a contract with the United Nations Office for Project Services for essential security. The Board observed that the situation in Malaysia was similar, but smaller in scope.

194. The Board requested UNHCR to explain the reasons for recruiting outside staff for the security activity. UNHCR responded by stating that it had begun a review of the situations of staff employed through UNOPS. According to UNHCR, their number had decreased from 78 in 2009 to 32 in 2010. UNHCR planned to examine and streamline all situations involved by 2011.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

195. In accordance with regulation 6.4 of the Financial Regulations and Rules of the United Nations and article 10.6 of Financial Rules for Voluntary Funds Administered by the High Commissioner, UNHCR informed the Board that it had written off liquid assets and non-expendable property in the amounts of $1,107,810 and $4,166,649, respectively.

2. Ex gratia payments

196. In accordance with rule 105.12 of the Financial Regulations and Rules of the United Nations and rule 10.5 of the Financial Rules for Voluntary Funds Administered by the High Commissioner, a statement of ex gratia payments was provided to the Board. The High Commissioner approved the payment of $498,650 as compensation to victims of security incidents in Algeria, Pakistan and the Sudan. UNHCR considered that it had a moral obligation to make those payments and that the payments were in the interest of the Organization.

3. Cases of fraud and presumptive fraud

197. In accordance with paragraph 6 (c) (i) of the annex to the Financial Regulations and Rules of the United Nations, the Board examined cases of fraud and presumptive fraud that UNHCR reported to have taken place during 2009.

Detailed description of cases mentioned

198. A locally recruited staff member was suspected of misappropriation of funds and the loss of a computer. In addition, it appeared that the individual had falsified a university degree. No sufficient proof was found for the loss of the computer and the falsification of the university degree to pursue the individual concerned. The case was submitted to the Office of the Inspector General on 22 September 2008. By the time the preliminary investigation report was sent by the Office of the Inspector General to the Division of Human Resources Management on 30 January 2009, the staff member had already been separated on 31 December 2008 owing to discontinuation of post. The alleged misappropriation amounted to $20 and a forged receipt for $120. No action was taken.

199. A locally recruited staff member was suspected of the theft of a boat motor involving three other persons: a national police officer, a security officer and a person from the cleaning service. The latter two were employed by companies working in the office of the United Nations. The value of the boat motor was estimated at $4,500. The motor was recovered a few days after its disappearance, and the staff member implicated was reprimanded for negligence. The file was classified since the involvement of these individuals was not entirely proven.

200. A locally recruited staff member was suspected of providing false information regarding refugee status of the staff member and that of another family member already working for UNHCR. No action was taken against the

staff member, since the individual's temporary contract had expired on 30 April 2009.

201. A locally recruited staff member was involved in two cases involving improper salary advances amounting to $851 and $2,468. In addition, this local staff member was suspected of facilitating a transfer of approximately $5,106, corresponding to the rent for a UNHCR building, to a personal bank account. The file, sent to the Division of Human Resources Management, was being examined during the Board's verification process. The Board has been informed that the case was concluded and the staff member involved was dismissed on 13 April 2010. The amounts embezzled have been recovered.

Changes in the number of cases of fraud investigated

202. In 2009, the Office of the Inspector General received 857 allegations of fraud and other forms of misconduct. It decided to further examine 112 of them, and by 31 December 2009 had completed 67 investigations. The investigations resulted in 7 preliminary investigation reports being sent to the Division of Human Resources Management and 55 closure reports. The Office of the Inspector General judged that five cases fell outside its purview. As at 31 December 2009, four investigations for which a report was sent to the Division of Human Resources Management were given priority status. The corresponding data for 2008 were 279 alleged infractions, 90 investigations completed and 17 investigation reports sent, of which 6 concerned cases of fraud. The increase in the number of allegations received from 279 in 2008 to 857 in 2009 was due in large part to the introduction of an online complaints mechanism in January 2009.

203. The number of reports of investigations and cases of fraud processed in 2009 was reduced from their 2008 levels. The decrease in investigation reports could not be explained by a diminution in the number of cases reported to the Office of the Inspector General because that number increased between 2008 and 2009 (from 279 to 857). This situation showed that the work carried out to improve the efficiency of the Office of the Inspector General had to be continued. The efforts made by UNHCR are reflected in the status of the previous recommendations, shown in the relevant section.

204. UNHCR indicated that the decrease in the number of investigation cases finalized (from 90 to 67) should be viewed in the context of a high rate of staff turnover in the Investigation Section, starting in April 2008 and continuing until the end of 2009. During this period all five Professional officers changed owing to rotation, secondment and retirement, including four senior investigation officers with several years of experience. New staff members were recruited and trained. Together with many complex and time-consuming cases, this turbulence affected the overall number of cases finalized in 2009. The Office of the Inspector General also drew the Board's attention to the danger of viewing the number of cases finalized as an indicator, since it does not reflect the nature, sensitivity or complexity of investigation cases.

Activities of the Office of the Inspector General

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

206. In response to point (a), the Office of the Inspector General informed the Board that the finalization of the formal instruction on its role, functions and modus operandi and its revised investigation procedures had been delayed until the UNHCR Oversight Committee determined whether and how the European Anti-Fraud Office's recommendation regarding expanding the mandate of the Office of the Inspector General to include investigation of third-party fraud was to be implemented. Therefore, this recommendation could be considered under implementation.

207. In regard to improving cooperation with OIOS, the Office of the Inspector General confirmed that close and satisfactory cooperation existed between the Office of the Inspector General and OIOS. Emphasis on this cooperation will be maintained in 2010 and reflected in the revision of the inter-office memorandum/field office memorandum covering the Office of the Inspector General. The Board considered this recommendation partially implemented to the extent that the inter-office memorandum/field office memorandum was being revised.

208. In regard to increasing training for inspectors, the Office of the Inspector General advised the Board of the three days of investigation training carried out in October 2009, and of its plans to relaunch the Investigation Learning Programme in the second semester of 2010. Thus, this recommendation was under implementation.

D. Acknowledgement

209. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the United Nations High Commissioner for Refugees, the Controller and members of their staff.

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

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2010

Annex

Status of implementation of the Board's recommendations for the year ended 31 December 2008

Summary of recommendation	*Paragraph reference*[a]	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*
1. Comply with the provisions concerning the cancellation of unliquidated obligations and reinforce mechanisms for controlling the validity of obligations	37	2007		X	
2. (a) Disclose any change in income accounting policy in the notes for the financial year in which the changes are decided; (b) disclose the effect of such a change in accounting policy, as required by paragraphs 18 and 19 of the United Nations system accounting standards	44	2008	X		
3. Review policy concerning non-recoverable voluntary contributions to ensure compliance with paragraph 34 of the United Nations system accounting standards	47	2007	X		
4. Set up specific funding for accrued end-of-service and post-retirement liabilities	61	2007		X	
5. Ensure that contributions received are subject to timely accounting processing by clearing the suspense accounts	66	2007	X		
6. Implement appropriate internal control procedures to prevent errors in entering contributions and ensure the reliability of systems for recording income	68	2008	X		
7. Approve a revised plan for the transition to the International Public Sector Accounting Standards, accompanied by a budget revised to include the cost of modernizing software	80	2008	X		
8. Monitor the closing of bank accounts and implement controls to ensure the effective oversight of the bank accounts of field offices	83	2007		X	
9. Implement controls to avoid negative balances in petty cash accounts	86	2006	X		
10. Review control deficiencies identified in the recording of non-expendable property	91	2008	X		
11. Continue efforts to clean up the database for non-expendable property and establish a monitoring system for tracing all corrections made in the database during a financial year	96	2007		X	
12. 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 assets	106	2007			X
13. Continue efforts to reduce the number of staff in between assignments and not on temporary duty	116	2007		X	
14. Improve the rate of timely justification of advances granted to implementing partners	123	2007		X	
15. Assess the instalments disbursed to implementing partners that have remained unjustified for more than one year and take appropriate measures to have them justified or recovered from the implementing partners	127	2008		X	
16. Intensify efforts to obtain audit certificates from implementing partners by 30 April each year	132	2007		X	
17. Intensify efforts to conduct an in-depth analysis of audit	135	2007	X		

Summary of recommendation	*Paragraph reference*[a]	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*
certificates in order to make potential adjustments to prior-year expenditure in the financial statements					
18. Take appropriate measures, in collaboration with the Office of Internal Oversight Services (OIOS), to reduce the time period for filling vacant posts for internal auditors	144	2008		X	
19. (a) Expressly specify the conditions under which the Office of the Inspector General may participate in assignments on behalf of other international organizations, and recover the net costs of doing so; (b) enhance its cooperation with OIOS; (c) increase efforts concerning the training of investigators	166	2008		X	
Total	**19**		**8**	**10**	**1**
Percentage	**100**		**42**	**53**	**5**

[a] See *Official Records of the General Assembly, Sixty-fourth Session, Supplement No. 5E* (A/64/5/Add.5), chap. II.

Chapter II

Audit opinion

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees, which comprise the statement of assets, liabilities, reserves and fund balances (statement II) as at 31 December 2009; the statement of income and expenditure and changes in reserve and fund balances (statement I); and the statement of cash flows (statement III) for the year then ended; as well as the supporting statements, schedules 1 to 5 of the accounts and the notes to the financial statements. The audit did not include the two annexes to the financial statements and the appendix.

Management's responsibility for the financial statements

The United Nations High Commissioner for Refugees is responsible for the preparation and fair presentation of these financial statements in accordance with the United Nations system accounting standards and for such internal control as management deems is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or to error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2009 and its financial performance and cash flows for the year then ended, in accordance with the United Nations system accounting standards.

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

(a) Note 16 to the financial statements discloses the value of non-expendable property as $343.61 million. This amount is based on a database whose shortcomings have been highlighted in our previous reports. Although the Office of the United Nations High Commissioner for Refugees (UNHCR) made significant improvement compared to past practice, the Board noted that there were many unresolved problems in the field. In its visits to UNHCR field offices, the Board found that the management of assets in the field could still be improved and that the non-expendable property database was still not fully reliable;

(b) As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of $159.9 million. This situation highlighted the need for UNHCR to identify funding to cover these liabilities.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNHCR that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations, the Financial Rules for the voluntary funds administered by the United Nations High Commissioner for Refugees and legislative authority.

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

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

(*Signed*) Didier **Migaud**
First President of the Court of Accounts of France
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2010