FOLLOW-UP TO THE RECOMMENDATIONS OF THE BOARD OF AUDITORS
ON THE ACCOUNTS FOR 2008 AND PREVIOUS YEARS

I. INTRODUCTION

1. Following the issuance of United Nations Board of Auditors’ report on UNHCR’s accounts for the year 2008, (A/AC.96/1067) UNHCR and the Board agreed on four high risk areas, namely: 1) implementing partner audit certification; 2) asset management, including both non-expendable and expendable property; 3) accounting for contributions; and 4) end-of-service and post-retirement benefits liabilities. This document provides an update on actions taken and planned in response to the recommendations relating to these four high risk areas. Concerning the follow-up on other remaining recommendations from prior years, the only report which remains open is that on UNHCR’s accounts for the year 2008. Detailed matrices on progress of implementation on all outstanding recommendations from the Board concerning UNHCR’s accounts have been placed on UNHCR’s website (www.unhcr.org/excom).

2. With respect to preceding years’ reports and recommendations, the current status is as follows:

   (a) the Board’s report on UNHCR’s 2006 accounts was closed due to the fact that the three remaining recommendations for which UNHCR continues to be answerable are also contained in later year reports to . These recommendations related to: the reconciliation of bank accounts and negative petty cash balances in the Field; and the update of the assets database and improvement of the monitoring of Local Asset Management Board (LAMB) decisions.

   (b) the Board’s report on UNHCR’s 2007 accounts contained 21 recommendations mostly relating to the following four main risk areas: the implementation of International Public Sector Accounting Standards (IPSAS); the closure of bank accounts; negative petty cash balances; and the correction of entries in the “write-off” account. Since the remaining recommendations are also contained in the Board’s report on UNHCR’s 2008 accounts, the report on UNHCR’s 2007 accounts has also been closed. UNHCR will continue to report comprehensively on progress made against these risk areas.

   (c) the Board’s report on UNHCR’s 2008 accounts contained 19 recommendations of which 13 related to four high risk areas reported to the Standing Committee in September 2009. Further progress on these risk areas is outlined below.
II. PROGRESS AGAINST THE MAIN RISK AREAS IDENTIFIED DURING THE AUDIT OF UNHCR’S 2008 ACCOUNTS

A. Implementing partner audit certification

3. The implementing partner audit certification process is an integral part of a comprehensive internal control framework relating to programme performance monitoring. This includes the establishment of implementing agreements on the basis of a results-framework; field visits to monitor the implementation of the programme and implementing partner performance; the submission of complete narrative and financial monitoring reports from implementing partners; and compliance with an external audit mechanism as a complementary internal control measure to ensure, through independent assessments, that the funds disbursed via implementing partners have been used for the purposes for which they were intended and disbursed in accordance with the conditions of the implementing agreements.

4. As a general rule, nearly all audit certificates due are received by the end of the next financial year. UNHCR revised its policy on audit certificates in 2007 requiring that they be received no later than 30 April of the year following implementation. While improvements in complying with this policy have been observed in 2007 and 2008, the compliance rate by the due date has still been difficult to achieve. In response to the need to further improve the timeliness of receipt of audit certificates and the analysis of the audit opinions rendered, UNHCR has continued its efforts to streamline the audit process, clarify and confirm accountabilities and responsibilities, and improve mechanisms to address issues raised in qualified audit reports. As part of this process, a standard set of terms of reference for external audits of UNHCR’s implementing partners was issued in preparation for the audit process of the 2009 accounts. By 31 December 2009 nearly all offices had confirmed the selection of local audit firms and their readiness to complete and submit the results of the audits by 30 April 2010. Only a small number of operations requested an extension of the deadline due to delays encountered in project implementation. With regards to qualified audit reports, UNHCR assigned a professional staff member in January 2009 to carry out in-depth analysis and follow-up on the 2007 and 2008 audit certificates where a qualified audit opinion was expressed by the third party auditor. From the analysis, the main reasons for qualifications were identified as well as the potential financial impact. It should be noted that audit qualifications do not necessarily have a financial impact on UNHCR financial statements. The main reasons for qualifications were, weak internal control mechanisms, partially unsupported expenditure, and, in some cases, over stated expenditures.

5. For the year 2007, 98 per cent of the audit certificates due have been received. Eighty-five audit certificates were issued with qualified audit opinions (i.e. a percentage of 10 per cent of the total number of audit certificates due). Of the 85 audit certificates issued with qualified opinions, 64 certificates were analysed and resolved. The remaining 21 certificates are currently being analysed. Pending resolution of the issues leading to the qualified opinions, UNHCR estimates potential recoveries for the outstanding certificates to be a maximum of USD 1.5 million, representing 0.4 per cent of the total value of projects for which audit certificates were due. For the year 2008, 96 per cent of the audit certificates due have been received. Sixty-six audit certificates were issued with qualified audit opinions (i.e. a percentage of 7 per cent of the total number of audit certificates due). Of the 66 audit certificates issued with qualified opinions, 36 certificates were analysed and resolved. The remaining 30 certificates are currently being analysed. Pending resolution of the issues leading to the qualified
opinions, UNHCR estimates potential recoveries for the outstanding certificates to be a maximum of USD 0.2 million, representing 0.04 per cent of the total value of projects for which audit certificates were due.

6. Financial reporting and tracking mechanisms were also enhanced to assist in the analysis of the reasons for qualifications and their implications, as well as the monitoring of follow-up action on qualified audit certificates. Throughout 2009, UNHCR’s Financial Control Section liaised directly with Representations in the field where audit certificates were outstanding, and provided direct guidance and support to managers to assist them in obtaining audit certificates that were due and/or to aid them in improving the audit certification processes.

7. Among other efforts, UNHCR allocated additional resources to further enhance the knowledge, skills and competencies of managers responsible and accountable for programme management in the Field. This was achieved through the provision of several general and specialized training courses, for mid and senior level managers, that covered topics such as the management of implementing partners, financial risks, and programme performance monitoring activities in the field. Throughout the training programme, managers were reminded of the relevant policies, rules and procedures that apply to these activities. In 2009 and during the beginning of 2010, UNHCR conducted 7 “Resource Management for Senior Managers” workshops that trained 115 managers. Four “Implementing Partners Financial Management” workshops for staff responsible for financial transactions in the most problematic locations were also held, where 51 staff received training. Furthermore, UNHCR recently introduced a number of online, computer-based training courses that are easily accessible to all staff through the UNHCR intranet, which provide more flexibility to staff as they can be completed according to their own pace and the time they have available. These are modular courses based on topics such as programme performance management.

8. UNHCR is also continuing to clarify accountabilities and responsibilities of individual staff through ongoing work related to the Global Management Accountability Framework developed in 2009. Through this work and further development of the new performance appraisal and management system, personal accountabilities and responsibilities will be further clarified and better measured, which in turn, is expected to result in improved performance including compliance with policies and standards.

9. As of January 2010, UNHCR has assigned a senior staff member to review implementing partner selection and the monitoring frameworks and procedures of other United Nations agencies, in order to recommend improvements to the UNHCR programme performance monitoring system which would address the concerns of the external auditors, meet UNHCR’s operational requirements, and contribute to improved financial risk management.

B. Asset management (non-expendable property) and expendable property

10. In 2008, UNHCR adopted a revised policy that established a threshold for the recognition of assets, in line with IPSAS policies and the practice of other United Nations agencies. The implementation of this revised policy began in 2009 and will continue gradually until 2011.

11. Control deficiencies in the asset management system will be addressed as part of the IPSAS implementation work to be conducted in 2010. Ensuring the accuracy and completeness of assets in the database is therefore an ongoing process, and UNHCR is currently coordinating a
full review of non-expendable property for every country. As of December 2009, clean-up work of the database of non-expendable property was 95 per cent complete. The Asset Management Unit (AMU) will continue to work closely with the Field to finalize the clean-up during 2010.

12. Additional measures that have already been undertaken to address control deficiencies include: monitoring of all purchases to ensure correct entry of non-expendable property into the asset database; detailed monitoring of all asset verifications performed at Headquarters and in the Field; and the recording and monitoring of all Local Asset Management Board decisions in the Field. In January 2010, UNHCR’s Asset Management Unit introduced a system to monitor all disposals by verifying that they have been correctly processed through the relevant Asset Management Boards. Furthermore, as part of the IPSAS implementation work planned for 2010, UNHCR will limit corrections that can be made to the database by field offices.

13. The expendable property database was also cleaned up during the course of 2009 and the task was nearly complete at the end of the year. A policy document on the subject of inventory (i.e. expendable goods that UNHCR procures or receives, which are intended for distribution to refugees) was issued in January 2009 and a separate instruction on physical counts was issued in December 2009. The Inventory Management Unit is currently working on reconciling the physical count reports with the MSRP reports. Finally, the business requirements have been defined to disclose and account for inventory in accordance with IPSAS, and efforts are being pursued to complete the system and the procedural changes necessary to start accounting for inventory, in line with both the United Nations System Accounting Standards and IPSAS, in 2010.

C. Accounting for contributions

14. The Board of Auditors recommended that UNHCR: 1) ensure that contributions received are subject to timely accounting processing by clearing the suspense accounts; 2) implement appropriate internal control procedures to prevent entry errors for contributions and to ensure the reliability of the income recording system; and 3) review its policy concerning non-recoverable voluntary contributions in order to ensure compliance with paragraph 34 of the United Nations System Accounting Standards.

15. UNHCR’s Financial Control Section (FCS), Donor Relations and Resource Mobilization Service (DRRM) and Treasury Section reviewed the processes of recording contributions and the following measures were put in place: a) a biweekly comparison and follow-up of all unidentified deposits recorded in contribution suspense accounts; b) immediate follow-up with DRRM to obtain information when deposits are received from donors and the corresponding pledge cannot be identified; and c) immediate confirmation with DRRM to ensure that a payment has been matched to the correct pledge.

16. To further improve the timeliness of information and to minimize errors in recording contributions, the update process that records contributions in the accounts is being run more frequently and numerous controls have been put in place to ensure data integrity. In addition, a new procedure was introduced in August 2009, which improved the accuracy and timeliness of the accounting entries associated with receipts and considerably reduced the number of deposits that are made into suspense accounts, thus resolving the problems that caused the errors in the 2008 accounts.
17. As regards uncollectible contributions receivables, UNHCR is reviewing its policy within the context of IPSAS implementation.

D. End-of-service and post-retirement benefits liabilities

18. The Board reiterated its recommendation that UNHCR set up a specific funding mechanism for accrued end-of-service and post-retirement liabilities, notably the latter.

19. UNHCR is committed to elaborating and implementing a plan of action to address the situation and manage the risk. In the progress report (EC/60/SC/CRP.16) presented to the Standing Committee at its 45th meeting in June 2009, UNHCR outlined the background, some possible funding approaches, the amount of the funding gap, and the Office’s proposed funding strategy, with regard to end-of-service and post-retirement liabilities.

20. UNHCR will seek feedback from Member States, in the form of bilateral discussions, on this issue. The Office will also take into consideration the funding proposals outlined in the Report of the Secretary-General to the General Assembly,1 and the comments of the United Nations Advisory Committee on Administrative and Budgetary Questions on the same report,2 when formulating the funding proposal that will be submitted to the Standing Committee in June 2010, for application in the budget of the next biennium.

II. CONCLUSION

21. UNHCR continues to acknowledge the valuable contributions and guidance provided by the Board of Auditors in terms of identifying and measuring areas of risk and establishing the necessary internal control mechanisms. This has helped UNHCR focus its efforts on resolving problems, mitigating the identified risks, and safeguarding the resources made available to it.

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1 A/64/366 dated 18 October 2009 “Liabilities and proposed funding for after-service health insurance benefits: Report of the Secretary General”
2 A/64/7/Add.4 dated 28 October 2009 “Liabilities and proposed funding for after-service health insurance benefits: Fifth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2010-2011”