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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 2007

1. In view of the late receipt of this document, it is being circulated to the 43rd meeting of the Standing Committee as a conference room paper.
2. The official document will be issued in due course as General Assembly document A/AC.96/1054 once it has been processed for editing and translation by the United Nations official documents services.

EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

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Reports on the work of the Standing Committee

Programme budgets, management, financial control
and administrative oversight

**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 2007**

Report by the Secretariat **

* Including the Audit Opinion

** Late submission due to late receipt of document

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I. REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2007. The audit was carried out through field visits to UNHCR offices in the United Republic of Tanzania and Serbia as well as a review of the financial transactions and operations at headquarters in Geneva.

The Board issued a modified opinion with three emphases of matter on the financial statements for the period under review, as reflected in chapter III. These emphases of matter relate to: (a) the reiterated concern of the Board about the insufficiency of audit certificates to substantiate the expenditures occurred by implementing partners, while noting the progress made; (b) the persistent deficient asset management; and (c) the negative balance of the reserves and funds at the end of 2007 resulting from the recording of the end-of-service liabilities, especially of after-service insurance liabilities.

Coordination with internal audit services

The Board coordinated with the Office of Internal Oversight Services in the planning of the audit in order to avoid duplication of effort. In addition, the Board reviewed the internal audit coverage of the operations of the Office so as to assess the extent to which reliance could be placed on its work.

Follow-up on previous recommendations

As requested by the Advisory Committee and in accordance with paragraph 7 of General Assembly resolution 59/264 A, the Board evaluated the ageing of its previous recommendations that had not yet been fully implemented and indicated the financial periods in which such recommendations were first made.

Overall financial overview

For the year ended 31 December 2007, total income amounted to \$1.333 billion, compared with \$1.151 billion for the previous year, that is, a 15.8 per cent increase. Total expenditure amounted to \$1.352 billion, compared with \$1.104 billion for the previous year, that is, a 22.4 per cent increase. The result is a \$19 million shortfall of income over expenditure, compared with the \$47 million surplus of income over expenditure in the previous year. After prior-period adjustments were taken into account, this gross deficit of \$19 million increased to a net deficit of \$382 million. The deficit did not result from a sudden deterioration in the financial situation of UNHCR, but rather from the disclosure for the first time of accrued end-of-service and post-retirement liabilities, notably those for after-service health insurance benefits. Previously, these liabilities were only indicated in notes to the financial statements. The funding of these liabilities has not yet been decided upon by the General Assembly.

Statement of income and expenditure

The current expenditure reduction trend observed in the previous year did not continue in 2007. UNHCR expenditures increased by 22.4 per cent, while income rose by 15.8 per cent.

Statement of assets, liabilities, reserves and fund balance

The deficit resulting from the provision for end-of-service and post-retirement liabilities without appropriate funding resulted in a negative balance of \$178 million in funds and reserves as at 31 December 2007, compared with a positive balance of \$195.2 million as at 31 December 2006.

Progress towards the implementation of the International Public Sector Accounting Standards

UNHCR has prepared a plan to implement the International Public Sector Accounting Standards. The plan was formally adopted in June and the key players in charge have been appointed. The total cost for the implementation of IPSAS was estimated at \$3.2 million for the period 2007-2009, but this amount needed to be reviewed.

Cash

The Board found that certain current accounts remained inactive without being closed and discovered accounting errors in the petty cash accounts. This observation was already noted in the previous report.

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

The total amount of accrued liabilities for after-service health insurance benefits, estimated by actuarial valuation, amounted to \$308 million as at 31 December 2007 out of a total \$374.1 million in liabilities for all the end-of-service benefits. All these amounts were recorded in the accounts, in accordance with General Assembly resolution 61/264. The Board has validated the after-service health insurance liabilities reported in the financial statements.

Non-expendable property

UNHCR has pursued its efforts to clean up its non-expendable property database, as recommended by the Board in its previous reports. However, the total value of non-expendable property as at 31 December 2007 calculated by the Board was different from the value disclosed in note 15 to the financial statements, illustrating that the clean-up of the database had not been completed.

Expendable property

The value of expendable property was not indicated in the financial statements, not even by a note, although there was a very high stock value.

Human resource management

Significant and rapid changes in the personnel policy implemented earlier in this decade resulted in an increased number of UNHCR international professionals, whose number exceeded that of the related posts.

Implementing partners

UNHCR has made progress compared with previous years in receiving monitoring subproject reports from its implementing partners, as well as audit certificates. As at 25 June 2008, 352 audit certificates had been received, representing \$150.5 million, or 49 per cent, of the total due. In June 2007, only 22 audit certificates had been received from project independent auditors, totalling \$9.9 million, or 3.3 per cent of 2006 expenditure.

Recommendations

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 8 of its report.

A. Introduction

1. **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 year from 1 January 2007 to 31 December 2007, in accordance with General Assembly resolution 74 (I) of 7 December 1946. 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 with the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements were a fair representation of the financial situation of UNHCR as at 31 December 2007 and the results of its operations and cash flows for the financial period then ended, in compliance with United Nations system accounting standards. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the Financial Rules for the Voluntary Funds Administered by the United Nations High Commissioner for Refugees. The audit included a general review of financial systems and internal controls as well as a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary in order to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board conducted reviews of the UNHCR operations under United Nations financial regulation 7.5. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system and 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 thereon accordingly. These matters are addressed in paragraphs 10-17 below.

4. As requested by the General Assembly in its resolution 61/233 A, the present report includes information on UNHCR's adoption of the International Public Sector Accounting Standards (IPSAS). In addition, the Advisory Committee on Administrative and Budgetary Questions indicated in its report (A/61/350) that the adoption of those standards in 2010 would require that the organizations adapt their accounting data-processing systems (Enterprise Resource Planning) and take the opportunity to undertake studies on system standardization. Consequently, the Board conducted an analysis on the potential gap between the plans designed for the switch-over to those standards and the integrated management systems.

5. The Board continued its practice of presenting the results of its audit to the administration through management letters containing findings and recommendations, which resulted in an ongoing dialogue. Five management letters were issued for the period.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The observations and conclusions expressed were discussed with the administration, whose views have been appropriately reflected in the report.

2. Coordination with internal audit services

7. The Board continued to coordinate with the Office of Internal Oversight Services (OIOS) in the planning of its audits so as to avoid duplication of efforts and to determine the extent of reliance that could be placed on its work.

3. Main recommendations

8. **The Board's main recommendations are that UNHCR:**

(a) **Reinforce its mechanisms of control of the validity of unliquidated obligations and whether they are recorded in the proper period (para. 36);**

(b) **Urgently set up specific funding to balance the impact of accrued after-service liabilities, notably for health insurance (para. 43);**

(c) **Regularly update the IPSAS adoption plan and the related budget (para. 52);**

(d) **Allocate adequate resources to complete the clean-up of its assets database (para. 81);**

(e) **Periodically reconcile the amounts shown in the database for assets purchased with those shown in the general ledger (para. 84);**

(f) **Disclose in its financial statements the value of expendable property unused at the end of the financial year (para. 89);**

(g) **Reassess its staffing needs in order to ensure that actual staffing does not exceed the authorized numbers (para. 97);**

(h) **Carry out systematic and accurate budgetary monitoring of the budgetary costs of staff in between assignments (para. 106);**

(i) **Address the long-outstanding advances to implementing partners (para. 118);**

(j) **Pursue its effort to further improve the rate of audit certificates for the expenditure incurred by its implementing partners (para. 123);**

(k) **Provide a standardized template to local offices to ensure that audit certificates are in conformity with reporting standards (para. 126);**

(l) **Conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the 2008 financial statements (para. 130);**

(m) **Ensure that all projects are effectively subject to an audit (para. 133).**

9. The Board's other recommendations appear in paragraphs 57, 65, 67, 69, 73, 101, 110 and 136.

B. Detailed findings and recommendations

1. **Follow-up on previous recommendations**

10. In accordance with paragraph 7, section A, of General Assembly resolution 51/225 of 3 April 1997, the Board reviewed the actions taken by UNHCR to implement the recommendations made in its report for the financial year ended 31 December 2006.

11. Out of the total of 38 recommendations that were made, 11 were fully implemented (29 per cent), while 24 were partially implemented (63 per cent). Three were not implemented (8 per cent). Details are shown in the annex to the present chapter.

Partially implemented recommendations

12. The 24 partially implemented recommendations related to the reduction in staff in between assignments, the reinforcement of the system monitoring the payment of pledged contributions, the improvement in the production, follow-up and analysis of audit certificates for implementing partners' expenditure, and the data clean-up in the asset database.

13. The Board noted that, in many cases, the implementation of the recommendations depended on the launch of medium-term projects involving in-depth reforms (human resource reorganization) or the upgrading of computer databases (processing of audit certificates or monitoring of non-expendable property and other assets).

14. The Board also noted that, in the case of asset monitoring and data clean-up, the extent of the deficiencies observed before 2005 and the extent of data to be corrected, combined with the limited staff, made the task difficult.

Recommendations not implemented

15. The three recommendations not yet implemented related to the management of bank accounts. The Board noted again that the procedure for the closing of field office bank accounts was not properly managed, as certain unused accounts or other accounts, which were in fact closed, remained active in the UNHCR accounting system. This was due to a lack of effective coordination between the Finance Section and the Treasury Section. The Board also noted that not all bank accounts had been fully reconciled. Finally, it observed the existence of petty cash accounts with negative balances.

16. The shortcomings still exist in the bank account reconciliations. The Board therefore considered that the recommendations made concerning those matters had not yet been implemented. The Board's additional observations on the matter are presented later in this report.

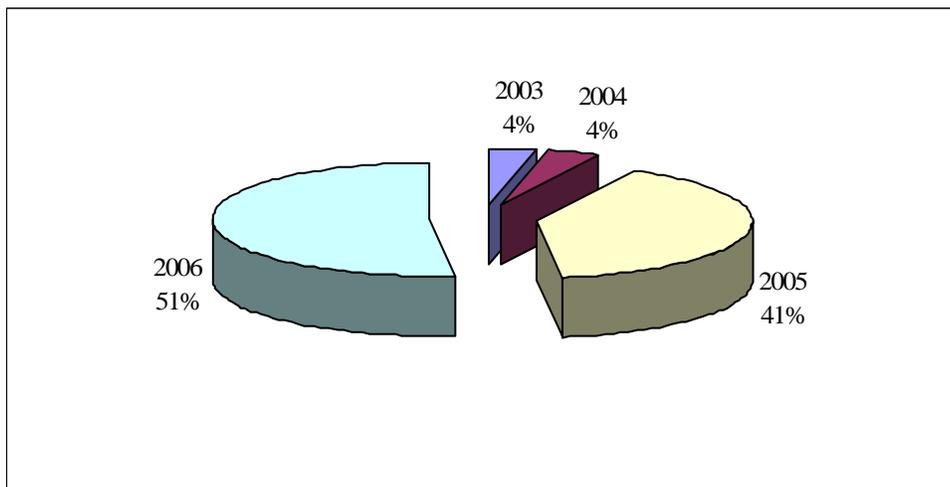
Ageing of previous recommendations

17. As requested by the Advisory Committee on Budgetary and Administrative Questions (A/59/736, para. 8), the Board also evaluated the ageing of its previous recommendations that

were partially or not yet implemented. The financial periods when such recommendations were first made are indicated in the annex.

18. Of the 24 partially implemented and 3 unimplemented recommendations, one (4 per cent) relates to 2003, one (4 per cent) to 2004, 11 (41 per cent) to 2005 and 14 (51 per cent) relate to 2006, as shown in figure II.I. The three unimplemented recommendations are included in those related to 2006.

Figure II.I
Ageing of previous recommendations partially or not at all implemented



2. Overall financial overview

Main financial ratios

19. The main indicators of the financial situation of UNHCR are reflected in table II.1.

Table II.1
Ratios of key financial indicators, 2004-2007^a

<i>Ratio</i>	<i>Year ended 30 June</i>				<i>Component of 2007 ratio^b</i>
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	
Outstanding contributions/assets ^c	0.31	0.32	0.20	0.17	67 313/401 466
Cash and term deposits/assets ^d	0.56	0.54	0.68	0.75	300 756/401 466
Cash and term deposits/liabilities ^e	1.19	1.19	1.68	0.52	300 756/579 546
Unliquidated obligations/liabilities ^f	0.75	0.73	0.63	0.18	108 038/579 546

^a Includes end-of-service liabilities.

^b Thousands of United States dollars.

^c A low indicator reflects a healthy financial position.

^d A high indicator reflects a healthy financial position.

^e A low indicator means that insufficient cash is available to settle debts.

^f A low indicator means that obligations are being liquidated.

20. The ratios comparing cash and term deposits and unliquidated obligations with liabilities deteriorated compared with the previous years, while the ratios comparing outstanding contributions and cash with assets remained similar to those of previous years.

21. This deterioration of some ratios was the result of the strong increase in total UNHCR liabilities. In accordance with General Assembly resolution 61/264, the administration modified the presentation of the after-service health insurance (ASHI) liabilities and other end-of-service liabilities (ESL). While these liabilities were previously only mentioned in a note to the financial statements, they are now shown on the face of the financial statements.

22. Total ESL amounted to \$367.5 million as at 31 December 2007. This balance consisted of liabilities for ASHI (\$307.9 million), repatriation benefits (\$26.5 million) and accrued annual leave (\$33 million).

23. Total UNHCR liabilities rose from \$134.3 million at the end of 2006 to \$579.5 million as at 31 December 2007. The comparison with previous years required that the impact of this liability entry in UNHCR accounts be neutralized. Without recording the total ESL of \$367.5 million, UNHCR liabilities as at 31 December 2007 amounted to \$212 million. Liquidity and obligation ratios were 1.42 and 0.51, respectively, similar to levels observed in previous years, as indicated in table II.2.

Table II.2
Ratios of key financial indicators, 2004-2007^a

<i>Ratio</i>	<i>Year ended 30 June</i>				<i>Component of 2007 ratio^b</i>
	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	
Outstanding contributions/assets ^c	0.31	0.32	0.20	0.17	67 313/401 466
Cash and term deposits/assets ^d	0.56	0.54	0.68	0.75	300 756/401 466
Cash and term deposits/liabilities ^e	1.19	1.19	1.68	1.42	300 756/212 069
Unliquidated obligations/liabilities ^f	0.75	0.73	0.63	0.51	108 038/212 069

^a Does not include end-of-service liabilities for comparative purposes between 2007 and previous years.

^b Thousands of United States dollars.

^c A low indicator reflects a healthy financial position.

^d A high indicator reflects a healthy financial position.

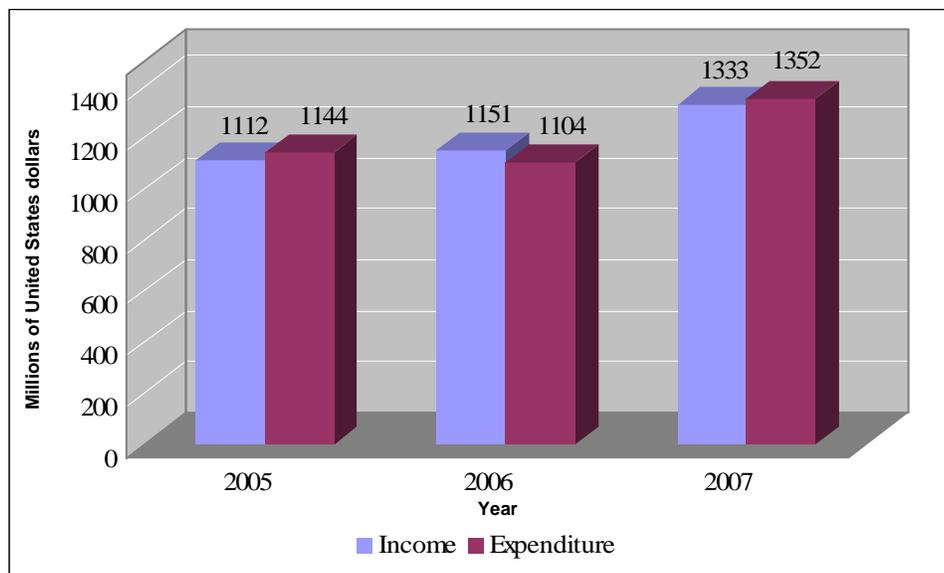
^e A low indicator means that insufficient cash is available to settle debts.

^f A low indicator means that obligations are being liquidated.

3. Statement of income and expenditure

24. Total income for the year 2007 amounted to \$1.333 billion and total expenditure to \$1.352 billion, resulting in an operating loss of \$19 million. The recording of ESL increased the deficit to \$382 million. Corresponding figures for 2005 and 2006 appear in figure II.II.

Figure II.II
Income versus expenditure, 2005-2007
(Millions of United States dollars)



25. After recording a deficit in 2004 and 2005, UNHCR showed an excess of \$47 million in 2006. To protect itself against funding gaps, UNHCR had capped its budget estimates and taken measures aimed at reducing administrative costs. As a result, total UNHCR expenditure decreased by more than \$40 million in 2006.

26. The current expenditure reduction trend observed in 2006 did not continue in 2007. UNHCR expenditure increased by 22.4 per cent, while income rose by 15.8 per cent. Staff costs rose by 11.5 per cent. Among expenditure other than staff costs, certain items increased significantly, such as official business travel (25.3 per cent) and services (28.8 per cent). Three items increased at a faster than average pace (costs increased by 2.1 times for asset purchases, by 2.1 times for individual and family payments and by 2.8 times for the provision of goods and materials).

27. The reduction in the regular budget contribution of the United Nations to UNHCR should be pointed out (3.4 per cent of total resources in 2005, 2.8 per cent in 2006 and 2.7 per cent in 2007). The share of this United Nations regular budget contribution for management and administration costs was 45 per cent in 2005, 40 per cent in 2006 and 42 per cent in 2007.

28. Table II.3, derived from note 5 of the financial statements, presents the breakdown of current expenditures by category of funds (Annual Programme Fund, United Nations Regular Budget Fund, Supplementary Programme Fund, Junior Professional Officers Fund, Staff Benefits Funds, Medical Insurance Plan and Working Capital and Guarantee Fund).

Table II.3
Breakdown of expenditure
(Thousands of United States dollars)

<i>Fund</i>	<i>Programme</i>	<i>Programme support</i>	<i>Management and administration</i>	<i>Total</i>
Annual Programme Fund	645 714	272 476	51 078	969 268
United Nations Regular Budget Fund	—	—	37 043	37 043
Supplementary Programme Fund	309 786	16 352	—	326 138
Subtotal	955 500	288 828	88 121	1 332 449
Junior Professional Officers Fund				9 566
Medical Insurance Plan				2 302
Working Capital and Guarantee Fund				1 563
Staff Benefits Fund				6 610
Total				1 352 490

Source: Note 5 of the financial statements.

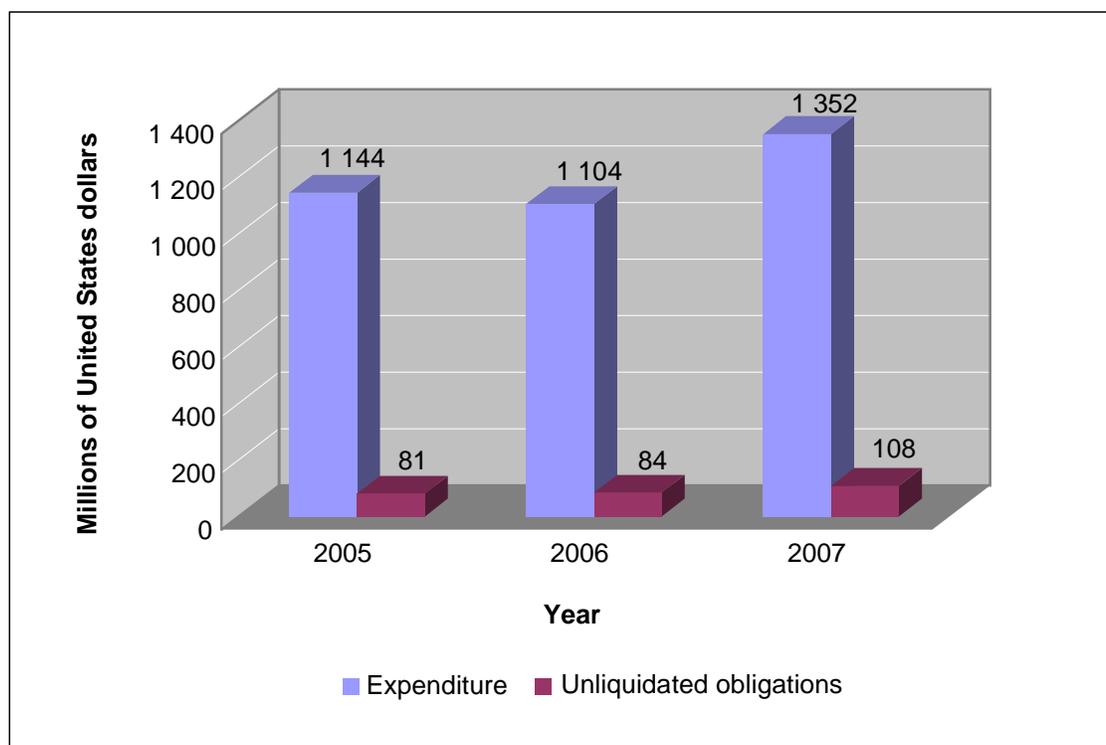
29. For the Regular Budget and Supplementary Programme Funds, the share of expenses devoted to the “programme” category rose from 68.7 per cent to 71.7 per cent, while “programme support” and “management and administration” decreased from 24 per cent to 21.6 per cent and from 7.2 per cent to 6.6 per cent, respectively. On the whole, programme expenditure is up by 27.3 per cent, support by 10.3 per cent and management and administration by 12.1 per cent.

30. Disbursements to implementing partners, which had decreased in 2006, amounted to \$431.7 million in 2007, a significant increase of 36.9 per cent. The proportion of disbursements supported by subproject monitoring reports issued by the partners at the end of the year amounted to 76.4 per cent in 2007, compared with 63 per cent in 2006 and 64.4 per cent in 2005.

Unliquidated obligations

31. As at 31 December 2007, unliquidated obligations amounted to \$108 million and represented 8 per cent of total expenditure and a \$23.8 million increase compared with 2006 (28.3 per cent). In figure II.III, unliquidated obligations are compared with total expenditure for the financial periods 2005, 2006 and 2007.

Figure II.III
Comparative evolution of unliquidated obligations and expenditure, 2005-2007



Source: Office of the United Nations High Commissioner for Refugees.

32. Regulation 5.3 of the Financial Regulations and Rules of the United Nations states: “Appropriations shall remain available for twelve 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. The balance of the appropriations shall be surrendered.”

33. Regulation 5.4 specifies: “At the end of the twelve-month period provided in regulation 5.3 above, the then remaining balance of any appropriations retained will be surrendered. Any unliquidated obligations of the period in question shall at that time be cancelled or, where the obligation remains a valid charge, transferred as an obligation against current appropriations.”

34. Financial rule 105.9 of the United Nations also states: “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. All obligations must be supported by an appropriate obligating document.”

35. The Board noted the following deficiencies with regard to unliquidated obligations:

(a) The detailed statement of unliquidated obligations cancelled in 2007 revealed a list of 11 obligations going back to 2005, totalling \$145,237, most of which had only been cancelled in the last quarter of 2007, although they should have been cancelled in 2006;

(b) UNHCR had accepted the recommendation of the Board in its 2006 report that it review existing processes to ensure the validity of all unliquidated obligations. In order to implement that recommendation, an instruction dated 28 November 2007 delegated the entire obligation management process to the field offices. However, controls on the validity of obligations and cancellations remained limited. For example, the administration was unable to account for a sample of cancellations amounting to \$2.5 million and representing 28 per cent of the total 2007 cancellations;

(c) The Board carried out an in-depth examination of the unliquidated obligations of the field office in the United Republic of Tanzania in July 2007. Over one third of unliquidated obligations corresponding to funds allocated to the partners for the implementation of projects (12 out of 29) had still not been claimed by those partners. The fact that one third of the unliquidated obligations recorded by the regional office were related to projects whose implementation had not begun over six months after the obligations had been recorded showed that the obligations were not related to the financial year considered. These observations make it all the more necessary to enforce the closing instruction of 28 November 2007 stipulating a review of the 2007 expenditure and obligations.

36. The Board recommends that UNHCR comply with the provisions concerning the cancellation of unliquidated obligations and reinforce its mechanisms of control of the validity of obligations and whether they are recorded in the proper period.

37. UNHCR replied that further efforts were being made to ensure that only valid unliquidated obligations are retained at year-end, including monthly review and follow up on purchase orders not received. In addition, significant balances at the end of the year will be further scrutinized.

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

End-of-service and post-retirement liabilities

38. The figure reflected in the financial statements with respect to end-of-service and post-retirement liabilities amounted to \$367.5 million, which included \$308 million for ASHI, \$33 million for unused annual leave and \$26.5 million for repatriation benefits.

39. As indicated previously, UNHCR disclosed these liabilities on the face of the financial statements as expenses in statement I of income and expenditure and as liabilities in statement II of assets, liabilities, reserves and fund balances. However, this adjustment was made without the simultaneous implementation of appropriate funding, resulting in a deficit of \$382 million and a negative fund and reserve balance of \$178 million.

40. The Board noted that during the examination of the Secretary-General's report on the question of the liabilities and proposed funding for ASHI, the Advisory Committee on Administrative and Budgetary Questions considered the transfer of unencumbered balances and savings to entirely alternate uses an inappropriate financial management practice (A/61/791, para 12).

41. The Board also noted that UNHCR could not use the available funds if their usage was specifically restricted under the Financial Rules for the Voluntary Funds Administered by the Office and if those rules did not contain any provisions concerning funding the termination benefit fund.

42. Table II.4 illustrates that even if UNHCR decided to use the unearmarked funds for the after-service benefits, they would not be sufficient.

Table II.4
Available fund balances
(Thousands of United States dollars)

<i>Elements</i>	<i>Earmarked funds</i>	<i>Unearmarked funds</i>	<i>Total</i>
Working Capital and Guarantee Fund	—	50 000	50 000
Annual Programme Fund	22 117	40 013	62 130
United Nations Regular Budget Fund	—	—	—
Supplementary Programme Fund	48 586	—	48 586
Junior Professional Officer Fund	7 211	—	7 211
Medical Insurance Plan	28 080	—	28 080
Total	105 994	90 013	196 007
Percentage	54	46	100

Source: UNHCR annex to statement I.

43. The Board recommends that UNHCR urgently set up specific funding to balance the impact of accrued after-service liabilities, notably for health insurance.

44. UNHCR replied that it intended to be guided by the approach that the United Nations would take to address the funding liabilities related to end-of-service and post-retirement benefits.

5. After-service health insurance liabilities

45. As requested by the General Assembly in its resolution 61/264, the Board has validated the ASHI liabilities disclosed in the financial statements. This was achieved through external actuarial valuation and the Board's own procedures. As at 31 December 2007, ASHI liabilities evaluated by the actuary and disclosed in the UNHCR financial statements totalled \$308 million.

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

46. Pursuant to General Assembly resolution 61/233 and following the observations made by the Advisory Committee on Administrative and Budgetary Questions in its report (A/61/350), the Board reviewed the preparation of the implementation of IPSAS as well as of Enterprise Resource Planning systems. The Advisory Committee had pointed out that the latter systems should be designed to take full account of IPSAS.

47. The Board noted that UNHCR had a draft plan to implement IPSAS and examined under what conditions and according to what procedures the plan had been prepared. Its examination also included a review of the content of the plan, the place and role of the main stakeholders and the work scheduled in 2008 and 2009 with regard to the legal, organizational, budgetary, financial and technical aspects.

48. The draft plan was based on three major stakeholders, under the responsibility of the Deputy High Commissioner: the steering committee, the technical committee, which supervises the activities of five working groups, and the project coordinator.

49. At the time of the audit (March 2008), the plan had not still been formally adopted. In the absence of an official decision, the key players in charge had not yet been appointed and the composition of the different bodies (committee, working groups etc.) had not been determined. Consequently, the working groups that succeeded the study groups set up in 2006 worked without a solid mandate. Moreover, some of them had not complied with the deadlines for the issue of their reports.

50. UNHCR informed the Board that the draft plan for the adoption of IPSAS had been finalized on 23 April and approved by the Deputy High Commissioner on 11 June 2008. Members of the Steering Committee, the Business Owners' Committee and the various working groups could now be duly informed. There was one Senior Finance Officer post dedicated to IPSAS adoption and the post had been filled.

51. The total cost for the implementation of IPSAS was estimated at \$3.2 million for the period 2007-2009. This amount took into account training, consulting, personnel, software changes and logistical costs. However, the estimate will need review.

52. The Board recommends that UNHCR regularly update the IPSAS adoption plan and the related budget.

7. Voluntary contributions

Contributions receivable

53. Contributions receivable amounted to \$67.3 million as at 31 December 2007. Note 2 (f) to the financial statements sets the accounting policy regarding voluntary contributions: "Pledges from Governments are fully recognized as income at the time of acceptance of the pledge ... In the interest of prudent financial management, up to one half of the value of firm pledges made by organizations with established reputation is recognized as income at the time

the pledge is accepted.”

54. UNHCR applied the prudence principle specific to Governments to other legal entities. Pledges from Spanish regional authorities, associations, foundations or even private donors were allocated by UNHCR as government contributions and recorded for their full value. Several similar cases were noted for Italy. In the case of Spain, UNHCR specified that all pledges from local authorities (region and municipality) had been allocated as pledges from the Government of Spain, at the request of the Government.

55. Had the UNHCR applied its own accounting rules to non-governmental donors, voluntary contributions receivable would have been reduced by \$2.6 million in the 2007 financial statements for pledges made during the financial year.

56. However, paragraph 34 of the United Nations system accounting standards provides that voluntary contributions formally pledged should be recognized without any distinction between governmental and non-governmental organizations (NGOs). It adds that provision may be made as appropriate where the collection of the income so recognized is considered doubtful. The Board is therefore of the view that UNHCR should review its accounting policy regarding the recognition of voluntary contributions as disclosed in note 2 (f) to the financial statements and consider making provisions when appropriate.

57. The Board recommends that UNHCR review its accounting policy regarding the recognition of voluntary contributions as disclosed in note 2 (f) to the financial statements in order to bring it in line with paragraph 34 of the United Nations system accounting standards.

8. Treasury management

Closing of bank accounts

58. In its previous report, A/62/5/Add.5, the Board recommended, in paragraph 44, that UNHCR periodically update the status of its bank accounts and, in paragraph 46, that it improve the effectiveness of communications between the Finance Section and the Treasury Section with regard to the closing of field office bank accounts.

59. The Board had noted that the procedure concerning the closing of field office bank accounts was not managed properly as certain unused accounts or other accounts that were in fact closed remained active in the UNHCR accounting system. This suggested that there was a lack of effective communication between the Finance Section and the Treasury. The closing of field office bank accounts was handled by the Treasury Section, whereas the reconciliation was the responsibility of the Finance Section. The Finance Section had indicated that the distribution of duties between itself and the Treasury would be reviewed when the treasury management system was implemented.

60. As at 31 December 2007, UNHCR recorded 504 cash accounts in its trial balance, 414 current and savings accounts and 90 petty cash accounts.

61. UNHCR financial rule 4.1.1.8 states:“When a bank account is no longer required or if it has been inactive for more than six months Field Offices should make a request to Treasury to close it. There should be no outstanding cheques on the account when it is closed and a statement confirming a nil balance should be obtained from the bank.”

62. The Board observed that four bank accounts opened in the first semester of 2007 had not been used by UNHCR field offices until 31 December 2007. The four accounts should have been closed.

63. The examination of the trial balance for the period ended 31 December 2007 revealed that 20 old bank accounts had remained inactive in 2006 and 2007. The 20 accounts, the total of which represented \$124,933 should also have been closed in compliance with UNHCR financial rule 4.1.1.8.

64. These findings highlight the need for closer collaboration between the Finance and Treasury Sections to ensure efficient internal control over the operations of bank accounts.

65. UNHCR agreed with the Board’s reiterated recommendation that it monitor the closing of bank accounts and implement controls to ensure the effective oversight of field office bank accounts.

Recording of the loss of cash

66. Loss-of-cash accounts in the general ledger included amounts totalling \$85,876 that were completely unrelated to the loss of cash. These erroneous entries revealed a control weakness with regard to the Management Systems Renewal Project: staff from the Treasury Section were able to input these entries into the write-off account, which was supposed normally to be used only by the Finance Section.

67. The Board recommends that UNHCR address the control weakness related to the Management Systems Renewal Project system’s entry access to the write-off account so that only authorized staff from the Finance Section can record entries in it.

Petty cash accounts

68. In paragraph 54 of its previous report, the Board recommended that UNHCR introduce controls to avoid abnormal negative balances in petty cash accounts. As at 31 December 2007, there were 90 petty cash accounts with non-zero balances amounting to \$589,374. The examination of the 2007 trial balance showed that 14 petty cash accounts had a negative balance amounting to \$62,446. In 2006, this applied to 19 petty cash accounts amounting to \$27,011. Most of these negative balances resulted from erroneous conversions of local currencies or from errors in accounting records.

69. UNHCR agreed with the Board’s reiterated recommendation that it implement controls to avoid negative balances in petty cash accounts.

9. Procurement and contract management

70. Goods and services are procured to support UNHCR operations. Procurement functions include all actions necessary for the acquisition, by purchase or lease, of property, including products and real property, and of services, including projects.

71. Up until 2006, the regional office in the United Republic of Tanzania established two procurement plans per year. In 2007, for the first time, a plan covering the entire year was drawn up.

72. In July 2007, the Board checked the accuracy of the procurement planning of the office in the United Republic of Tanzania by comparing the forecast for computer consumables with the purchase orders. Subject to potential bias due to the exchange rate, actual purchases in 2006 were 1.8 times higher than the forecast. Furthermore, although the 2006 plan specified a 25 per cent reduction in the purchase of consumables, actual purchases rose by 28 per cent compared with 2005. At the time of the field audit in July 2007, mid-year purchases had already exceeded the 2007 forecast.

73. UNHCR agreed with the Board's recommendation that it should ensure that field offices better align procurement planning with actual requirements.

10. Non-expendable property

74. According to note 2 (o) to the UNHCR financial statements, non-expendable property is products or material with an original purchase price equal to or greater than \$1,500 and a serviceable life equal to or greater than five years, as well as all special items with a minimum value of \$100. According to note 15 to the financial statements, as at 31 December 2007 the acquisition value of non-expendable UNHCR property amounted to \$330.2 million and its net value to \$96.5 million compared respectively with \$363.8 million and \$95.8 million as at 31 December 2006.

75. The Board checked these amounts by adding the entry values for the financial year to the transactions recorded in 2007: addition of the purchases recorded in the non-expendable property database, deduction of the assets disposed of and correction of errors corresponding to items recorded twice or excessive valuations. The Board noted a negative difference of \$2.2 million between the acquisition value of non-expendable property as at 31 December 2007 and the value mentioned in note 15 of the financial statements (\$328 million instead of \$330.2 million). As at 31 December 2007, the net value of those assets was \$118.2 million instead of \$96.5 million, or a positive difference of \$21.6 million. Table II.5 explains how the Board determined these differences.

Table II.5
Variations in the value of non-expendable property
(In United States dollars)

	<i>Purchase price</i>	<i>Net value</i>
Acquisition value as at 31 December 2006 (according to UNHCR)	363 821 749	95 833 733
2007 purchases reported in the database	19 628 446	17 461 806
Previous purchases recorded in 2007	12 478 135	11 657 849
Correction of errors (+)	8 235 722	9 180 662
Subtotal (I)	404 164 052	134 134 050
Disposals	28 350 923	3 120 866
Previous disposals recorded in 2007	12 538 356	1 978 351
Correction of errors (-)	—	—
Value	30 472 205	9 664 667
Duplicates	4 775 726	1 146 448
Subtotal (II)	76 137 210	15 910 332
Recalculated acquisition value (I-II)	328 026 842	118 223 718
Value indicated in note 15	330 244 641	96 564 832
Difference	(2 217 799)	21 658 886

Source: UNHCR and note 15 of the financial statements.

76. For the amounts presented in note 15 to the financial statements or those recalculated by the Board, the total value of non-expendable property as at the end of the 2007 financial year was lower than at the end of the previous financial year.

77. This decrease did not mean that the amount of non-expendable property held had decreased; instead it illustrated the effort made by UNHCR to continue correcting incorrect data from its non-expendable property database, as recommended by the Board during the previous audits, which had highlighted significant deficiencies in the previous system (duplication, incorrect data entries and inconsistencies in the depreciation rate applied).

78. As illustrated in table II.5, in 2007 assets with a total purchase price of \$28.3 million and with a depreciated value of \$3.1 million were excluded from the database following the re-examination of their status (loss, donation and sale). Other assets, with an acquisition value of \$12.5 million and net value of \$1.9 million, were disposed of during previous years, but these decisions only affected the database in 2007.

79. UNHCR also corrected errors relating to duplications and overstated amounts. The total amount of these negative corrections made it possible to reduce the acquisition value and depreciated value by \$35.2 million and \$10.8 million, respectively, as shown in table II.5 (correction of errors in -). Positive corrections altered the values by \$8.2 million and \$9.1 million, respectively, (corrections of errors in +).

80. These corrections were made possible by the migration of all UNHCR field offices to the Management System Renewal Project, a software system that improves data compilation and monitoring. However, the limited number of staff posted to the Asset Management Unit and the insufficient training of field agents constituted obstacles to the continuation of the clean-up process.

81. UNHCR agreed with the Board's recommendation that it allocate adequate resources to complete the clean-up of its assets database.

82. Purchases of non-expendable property are recorded in the accounts at the time of the order, in compliance with paragraph 39 of the United Nations system accounting standards. However, they are only entered into the non-expendable property database at the time of receipt. As a result, there is a gap between purchased assets and inventoried assets.

83. The reconciliation between 2007 purchases of non-expendable property, which according to the trial balance amounted to \$22.8 million, and the amounts recorded in the database, that is, \$19.6 million, revealed a difference of \$3.2 million.

84. UNHCR agreed with the Board's recommendation that it periodically reconcile the amounts shown in the database for assets purchased with those shown in the general ledger.

11. Expendable property

85. Extrapolating from note 2 (o) to the UNHCR financial statements, expendable property is products and material with an original purchase price of less than \$1,500 and a serviceable life of less than five years.

86. In order to complete its mission, UNHCR holds items destined for distribution to the refugees and which, due to their characteristics, belong to the expendable property category. As at 21 March 2008, the value of expendable property amounted to \$1.090 billion.

87. In the choice and application of accounting policy, paragraph 5 of the United Nations system accounting standards advocates prudence, substance over form and materiality. In addition, paragraph 49 provides that the value of inventories (other than non-expendable equipment, furniture and motor vehicles) should be disclosed at the end of the financial year in the financial statements.

88. The Board noted that the value of expendable property was not indicated in the financial statements, although there was a very high stock value. UNHCR considered that there was no requirement under the United Nations system accounting standards to make such disclosure and that policies regarding the issue fell within the scope of IPSAS. However the Board was of the view that the disclosure in the financial statements of the value of unused expendable property at the end of the financial year was provided for by the system accounting standards and should be implemented without any delay.

89. **The Board recommends that UNHCR disclose in its financial statements the value of expendable property unused at the end of the financial year.**

12. Human resource management

90. The UNHCR payroll rose from \$148.6 million to \$226.8 million between 2003 and 2007, or a 52.6 per cent increase over five financial years, while in comparison the number of staff grew by 28.1 per cent over the same period.

91. Other staff costs (family and education allowances, risk premiums, mobility allowance, social security contributions, housing allowance, travel and relocation expenses and so on) increased from nearly \$100 million to \$138 million over the same period.

92. Total staff costs increased from \$247.9 million in 2003 to \$364.9 million in 2007, or 47.9 per cent in five years. These expenses represented 25.8 per cent of total UNHCR expenditure in 2003 and 27 per cent in 2007, as reflected in table II.6.

Table II.6
Staff costs, 2003-2007
(Thousands of United States dollars)

<i>Expense item</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Professional and General					
Service staff	148 624	176 968	207 334	227 415	226 850
Other charges	99 342	112 842	127 327	139 995	138 097
Total staff costs	247 966	289 810	334 662	367 411	364 947
Total UNHCR expenditure	960 104	1 064 712	1 144 688	1 104 284	1 352 490

Source: Office of the United Nations High Commissioner for Refugees.

93. Payroll costs increased faster than staff numbers, owing to several factors, in particular the rise in management positions, which is discussed next.

Staff evolution

94. Between 2003 and 2007 the number of international Professionals rose from 1,582 to 1,852, a 17 per cent increase. Several reasons explained the increase:

(a) The integration of some of the “personnel on projects” between 2003 and 2005. During that period staff numbers rose by 1,245, a 28.5 per cent increase;

(b) The decision implemented on 1 January 2000 to standardize indefinite contracts for locally recruited personnel or international personnel. The objective of this standardization was to simplify administrative procedures and reinforce job appeal. However, it was implemented without any counter or support measures and contributed to a considerable extent to the high number of staff without an assignment. The possibility of new indefinite contracts was suspended in 2003.

95. As a consequence of the policy designed to integrate personnel thus far employed on projects and to standardize indefinite contracts, the number of middle management (levels FS-4 and FS-5, P-2 and P-3) and senior management (P-4 to D-1 levels) positions increased considerably between 2004 and 2006. Thus, P-1 and P-2 staff rose from 76 in 2003 to 117 in 2004, 167 in 2005 and 184 in 2006. The number of P-3 staff members rose from 511 in 2004 to 571 in 2005, reaching 602 in 2006 then decreasing to 575 in 2007. The increase in the number of P-4 level staff also increased, with 426 staff members in 2004, 456 in 2005, 475 in 2006 and 494 in 2007, as illustrated in table II.7.

Table II.7
Posts and staff, 2003-2007^a

Level	2003		2004		2005		2006		2007	
	Posts	Staff								
USG/ASG	3	3	3	3	4	2	4	4	4	4
D-2	17	11	18	15	18	16	16	13	18	18
D-1	70	70	64	71	69	69	71	75	73	94
P-5	168	189	157	205	164	208	174	203	156	205
P-4	397	417	368	426	412	456	452	475	431	494
P-3	474	506	442	511	533	571	582	602	490	575
P-1 and P-2	43	76	75	117	117	167	136	184	99	147
FS-4, FS-5 and National Officers	323	310	309	311	332	323	368	291	371	315
Subtotal, managers	1 495	1 582	1 436	1 659	1 649	1 812	1 803	1 847	1 642	1 852
GS	3 006	2 776	2 964	3 337	3 880	3 791	4 085	3 988	3 602	3 734
Total	4 501	4 358	4 400	4 996	5 529	5 603	5 888	5 835	5 244	5 586

Source: Office of the United Nations High Commissioner for Refugees.

^a Posts: posts (adopted budget); staff: actual permanent staff.

96. The reorganization of UNHCR international staffing has resulted in actual staffing exceeding authorized posts by 210.

97. UNHCR agreed with the Board's recommendation that it reassess its staffing needs in order to ensure that actual staffing does not exceed the authorized numbers.

Relocation to Budapest

98. To solve the recurring difficulties affecting the management of UNHCR personnel, notably the persistent gap between posts and staff numbers, the High Commissioner implemented a staff and post reduction strategy by means of the reorganization of head office services by 2008.

99. The reorganization of central management and administration services, located in the organization's headquarters in Geneva, consisted of transferring part of human resource

management (77 staff members for the sections in charge of personnel administration and payroll services, plus 12 staff members from the section in charge of recruitment and postings) and part of financial and resource management (29 staff members for financial services) to Budapest in 2008.

100. A feasibility study of the out-posting strategy was conducted in 2007, including a detailed cost-benefit analysis. UNHCR was committed to constantly evaluating the situation.

101. The Board recommends that UNHCR conduct an ex post evaluation of the relocation to Budapest to measure compliance with the objectives defined in terms of overall savings and efficiency of the new organization.

Staff in between assignments

102. The Advisory Committee on Administrative and Budgetary Questions had asked the Board for updated data on the situation of staff in between assignments (A/60/387, para. 9). The situation regarding such personnel is summarized in table II.8.

Table II.8
Number of staff in between assignments, 2003-2007

<i>Level</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
D-1	7	3	5	5	3
P-5	32	24	24	30	37
P-4	75	36	47	67	60
P-3	58	84	33	51	50
P-2	15	3	4	9	22
Total	187	150	113	162	172

Source: Office of the United Nations High Commissioner for Refugees.

103. From 2003 to 2006, the number of international Professionals in between assignments decreased by 13 per cent (from 187 to 162), but increased by 10 per cent between 2006 and 2007. UNHCR indicated that, of the 172 staff in between assignments at the end of 2007, most of them had been in that situation for several months: 27 staff for two years and 61 staff for one year. Seven staff members had been in between assignments for three years and two for four years.

104. Of the 172 staff in between assignments as at 31 December 2007, UNHCR indicated that 123 staff had had a temporary assignment during the year. The average time in between assignments, according to the information provided by UNHCR, had been six months over the past three years.

105. In the absence of a cost-accounting system, the cost of staff in between assignments was difficult to assess, since their salaries included other expenses (travel costs, etc.).

106. UNHCR agreed with the Board's recommendation that it should carry out systematic and accurate budgetary monitoring of the budgetary costs of staff in between assignments, taking into account remuneration as well as benefits and allowances.

107. The figures indicated in table II.8, provided by the Division of Human Resources Management, represent permanent staff without a standard-length assignment, regardless of whether or not they worked temporarily.

108. The Division of Financial and Administrative Management monitored the cost of not-working staff members, whether they had no standard-length assignment or whether they had not yet been posted to one. The account relating to not-working staff highlighted a strong cost increase in 2006 and more so in 2007 (\$8.6 million in 2003, \$11.8 million in 2004, \$9.8 million in 2005, \$13.3 million in 2006 and \$21.4 million in 2007).

109. As the number of people without an assignment was almost stable in 2007 compared with 2006, the increase in costs on this item required an in-depth internal review.

110. UNHCR agreed with the Board's recommendation that it carry out an in-depth review as to the reasons for the 2007 increase in the budgetary cost of staff in between assignments.

13. Programme and project management

111. UNHCR implements the operations under its mandate through a vast array of partners: United Nations bodies and other international organizations as part of bilateral partnerships, NGOs, universities and research institutes, eminent personalities, regional organizations, members of parliaments, governmental services, the private sector, refugees and host communities.

112. In 2007, 834 partners were entrusted with subprojects, representing over \$431.7 million, that is, nearly 32 per cent of UNHCR expenditure, which amounted to \$1.352 billion. In 2006, the funds disbursed to implementing partners amounted to \$315.3 million, that is, 28.5 per cent of UNHCR expenditure.

Supporting documents for implementing partners' expenditure

113. As at 31 December 2007, the expenditures recognized by UNHCR implementing partners through subproject monitoring reports amounted to \$329.6 million, compared with \$204.8 million at the end of the 2006 financial year. The difference between the sums paid and the amounts shown in subproject monitoring reports decreased from \$110.5 million in 2006 to \$102 million in 2007. While 33.9 per cent of the funds paid to implementing partners had not been recognized as at the 2006 year-end closing, that percentage dropped to 23.7 per cent in 2007. The decrease reflected the effort made by UNHCR to accelerate the submission of subproject monitoring reports even though disbursements had increased.

114. UNHCR explained that, in accordance with its internal rules, most of the final subproject monitoring reports were 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 committed itself to ensuring that unjustified balances for 2007 would be significantly reduced within the next months of April, May and June. As at 25 June

2008, UNHCR indicated that the amount of 2007 disbursements to implementing partners supported by subproject monitoring reports amounted to \$387.8 million (89.8 per cent of disbursements to implementing partners, or 97 per cent of disbursements excluding extended projects).

Monitoring of outstanding advances

115. In the absence of receivable and payable accounts relating to outstanding advances in UNHCR records, “X21” balances make it possible to monitor the situation of each subproject and/or each partner from a financial and accounting perspective.

116. Table II.9 shows the status of X21 balances as at 31 December 2007 compared with those at the end of the three previous years.

Table II.9
Outstanding advances, 2004-2007
(United States dollars)

	2004	2005	2006	2007
Installments	350 196 260	340 091 176	325 334 515	431 768 081
Implementing partner reports	(334 650 490)	(326 635 955)	(311 598 275)	(329 696 650)
Refunds	(11 076 475)	(9 291 587)	(9 598 112)	—
Adjustments	185 695	156 379	359 729	—
Cancellations	(4 357 145)	(2 749 633)	(1 683 668)	—
Balance	297 845	1 570 381	2 814 189	102 071 432

Source: Office of the United Nations High Commissioner for Refugees.

117. As at 31 December 2007, the projects created in 2004 still presented outstanding advances of \$297,845, while those created in 2005 showed a balance of \$1,570,381 and those of 2006 a balance of \$2,814,189. Compared with the overall amounts at stake, these sums remained minimal, with the exception of 2007, as they represented less than 1 per cent of 2007 disbursements. However, the Board believes that the persistence of long-outstanding advances is not advisable without a specific explanation.

118. **UNHCR agreed with the Board’s recommendation that it address the long-outstanding advances.**

Audit certificates

119. UNHCR requires its implementing partners to supply audit certificates, issued by independent external auditors, for their local operations funded by UNHCR. Until 2006, those certificates had to be issued within six months of the final liquidation date of the subproject concerned. For operations financed in 2007 onwards, this period was reduced to three months.

120. In 2007, the Board recommended that UNHCR significantly increase the proportion of audit certificates received in respect of implementing partners' expenditure, continue to improve their statistical monitoring and determine the overall impact of qualified audit certificates on its financial position, reporting that impact in its financial statements, as required. This recommendation had been previously made in 2006.

121. Audit certificates were due by 30 April 2008 in respect of \$309 million of expenditure by implementing partners in 2007 (where agreements with implementing partners are below thresholds, the implementing partners are not required to submit certificates). As at 25 June 2008, 352 certificates had been received, representing \$150.5 million, or 49 per cent, of the total 2007 amounts due. As at 22 June 2007, 24 audit certificates had been received, representing \$8 million or 3 per cent of the total amount. As at 25 June 2008, the audit certificates contained qualified opinion in respect of \$14.9 million, or 4.8 per cent of the amount subject to certification. As at 22 June 2007, the qualified opinion amounted to \$5.4 million and 2 per cent of the total value.

122. This increase resulted from the introduction of the reduced timetable for audit certification and demonstrated that UNHCR had made a successful start in implementing the Board's recommendation.

123. The Board recommends that UNHCR pursue its effort to further improve the rate of audit certificates for the expenditure incurred by its implementing partners.

124. The Board examined a sample of 14 audit certificates issued in 2007, made up of 9 audit certificates with qualified opinions and 5 unqualified certificates. The Board noted the low quality of the certificates. None of them indicated the overall scope of the audit work. In addition, none of the reports included the breakdown of the scope of auditing work for each account along with the number of the inconsistencies identified. The reports only contained indications on the inconsistencies noted and never resulted in a formal adjustment request or detailed recommendation.

125. More generally, the formal aspect of the reports varied significantly depending on the firm involved, owing in no small part to the very succinct nature of the UNHCR guidelines with regard to the format of reporting. As an illustration, the size of the reports ranged from 3 to 103 pages in the sample examined.

126. UNHCR agreed with the Board's recommendation that it should provide a standardized template to local offices to ensure that audit certificates were in conformity with reporting standards.

127. UNHCR could not provide the Board with a summary statement of the projects subject to qualified opinions together with the reasons for those qualified opinions, the amounts involved and the analysis of the impact of the opinions on the financial statements.

128. None of the inconsistencies noted in the certificates, whether or not they led to qualified opinions, was adjusted for by UNHCR. For example, the firm appointed by the field office to audit the expenditure incurred as part of a project implemented by an NGO in Angola, which amounted to \$502,928, had issued a qualified opinion in 2007 on \$95,940 because of the lack of evidence for locally recruited staff costs. That qualified opinion should have led the administration to check the accuracy of the finding and potentially make an adjustment in the accounts.

129. UNHCR agreed in principle that audit certificates reflecting a qualified audit opinion could entail accounting adjustments, if it was established that the implementing partner owed money to UNHCR. This assessment was made, inter alia, through discussions and negotiations between the field and the implementing partner, with further advice provided by the relevant regional bureau, the Financial Control Section, the NGO Unit and the audit firms. Such assessments required time and could not be the subject of an automatic application. If justified, UNHCR committed itself to making adjustments to prior-year expenditure during the fiscal year 2008.

130. UNHCR agreed with the Board's recommendation that it conduct an in-depth analysis of audit certificates in order to make potential adjustments to prior-year expenditure in the 2008 financial statements.

Non-compliance with audit thresholds

131. UNHCR regulations state that the thresholds requiring the implementation of an audit should be applied globally for the same NGO in the same country. In that respect, annex 8.8 to chapter 4 of *UNHCR Manual* state that an audit certificate for each subproject or group of subprojects for the same NGO is required for projects with an overall budgetary value (of \$100,000 for national NGOs and \$300,000 for international NGOs). IOM004/2007 stresses this point in paragraph 14: "When a Government partner or national [international] NGO implements two or more subprojects with a value of less than \$100,000 [\$300,000] each but the overall budgetary value of the two or more subprojects is equal to or greater than \$100,000 [\$300,000], an audit certificate must be obtained."

132. This rule was not systematically applied, regardless of the financial year considered or the nature of the implementing partner. The Management Systems Renewal Project databases have made it possible to identify all the projects that, taken individually, had a budget lower than the audit threshold but, integrated into all the projects carried out by the implementing partners, exceeded this threshold. Thus, 41 subprojects were affected in 2004, 24 in 2005, 70 in 2006 and 130 in 2007.

133. **UNHCR agreed with the Board's recommendation that it should ensure that all the projects that individually or collectively exceed the audit threshold are effectively subject to an audit.**

Project implementation in the United Republic of Tanzania

134. During financial years 2005 to 2007, the regional UNHCR office in the United Republic of Tanzania implemented 10 projects each year on average, for an average annual amount of \$9.5 million.

135. The subprojects generally contained an accurate description of the projects, allocated budget, expected workload and financial details, including a schedule of disbursements. While the overall quality of the agreements should be pointed out, the Board also noted that the agreements never attached a list of equipment made available or directly financed by UNHCR nor did they specify the location of the equipment identified.

136. **UNHCR agreed with the Board's recommendation that it include in its agreements signed with implementing partners, every time it is feasible, a list of equipment made available to them and that the local UNHCR office regularly update that list.**

14. Internal audit findings

137. In 2007, OIOS conducted audits of UNHCR activities in Argentina, Armenia, Brazil, Burundi, Chad, Colombia, Côte d'Ivoire, the Czech Republic, the Democratic Republic of the Congo, Guinea, Jordan (for Iraq), Kenya, Lebanon, Mozambique, the Philippines, the Russian Federation, the Sudan and the Syrian Arab Republic. OIOS also audited the activities of the Asset Management Board and official business travel.

138. Among the main findings contained in the OIOS reports were the following:

- (a) Despite the efforts made in developing performance indicators, the results of numerous projects could not be quantified or measured;
- (b) Certain implementing partners incurred ineligible expenses or failed to comply with UNHCR procurement rules;
- (c) Consultants and United Nations Volunteers were recruited to perform administrative or supervisory tasks, which is contrary to UNHCR rules;
- (d) The Director of a field office had not been informed of fraudulent purchase cases although he was ultimately responsible for following up on fraud cases;
- (e) Certain premises were too big in view of the number of active staff members;

(f) In one of the offices, numerous non-expendable properties had been lost, which required the correction of the asset database as well as a comprehensive physical inventory;

(g) Several field offices did not fully comply with the minimum operating security standards.

139. Some of these findings are similar to those contained in the present report in the relevant sections and they explain the Board's concerns in those areas.

15. Write-offs and disposals

140. The administration informed the Board, in accordance with regulation 6.4 of the Financial Regulations and Rules of the United Nations and article 10.6 of the Financial Rules for the Voluntary Funds Administered by the High Commissioner, that expendable and non-expendable property written off amounted to \$3,106,205, compared with \$755,004 for 2006, that is, a 311 per cent increase, which was due for the most part to inventory clean-up operations. As stipulated in the financial rules, receivables were also written off, amounting to \$488,951, compared with \$275,989 for 2006, that is, a 77 per cent increase.

16. Ex gratia payments

141. In accordance with regulation 5.11 of the Financial Regulations and Rules of the United Nations and article 10.5 of the Financial Rules for the Voluntary Funds Administered by the High Commissioner, the administration indicated that UNHCR had made no ex gratia payments in 2007.

17. Cases of fraud and presumptive fraud

142. In accordance with the Financial Regulations and Rules of the United Nations, the administration reported 18 cases of fraud or presumptive fraud to the Board for the year ended 31 December 2007. These cases led to investigations conducted by the Office of the Inspector General of UNHCR. In 2006, UNHCR had reported 14 cases of fraud or presumptive fraud.

143. Fraud allegation cases were divided into three categories: the cases sent to the Human Resources Division and processed by that Division in 2007 (10 cases); the cases sent to the Division in 2007 that it had not yet finished processing (5 cases); the cases sent to the Division in 2006 that were not included in the 2006 report (3 cases):

(a) A locally recruited staff member was suspected of abusing his authority by obtaining loans, gifts and services;

(b) A locally recruited staff member obtained a false medical certificate to justify his absence from 1 August 2006 to 29 September 2006;

(c) Two locally recruited staff members stole over 6,000 plastic covers and a printer;

- (d) An international Professional was suspected of misconduct by obtaining monthly repayments of rental advances;
- (e) A locally recruited staff member stole UNHCR ink cartridges, which he sold for a profit, extorted funds and harassed UNHCR partners;
- (f) A locally recruited staff member had embezzled UNHCR funds from January 2005 to February 2007 and admitted to making several unauthorized withdrawals at the expense of UNHCR;
- (g) A locally recruited staff member gave false career information to the United Nations and on his curriculum vitae;
- (h) A voluntary interpreter carried out transactions for his own benefit;
- (i) A UNHCR staff member produced forged hotel receipts as part of a medical evacuation in order to obtain 100 per cent of the daily subsistence allowance rate;
- (j) A locally recruited staff member was involved in irregular banking transactions;
- (k) A locally recruited staff member stole plastic covers;
- (l) A locally recruited staff member produced a forged medical bill in exchange for a salary advance;
- (m) Two locally recruited staff members were involved in the fraudulent payment of subsidies relating to refugee repatriation operations;
- (n) A locally recruited staff member was reimbursed medical costs based on forged invoices and forged receipts with regard to medical treatment he had not received;
- (o) A locally recruited staff member was reimbursed medical costs based on false information;
- (p) A locally recruited staff member was suspected of having submitted a possible fraudulent claim to the Medical Insurance Plan.

C. Acknowledgement

144. The Board of Auditors wishes to thank the United Nations High Commissioner for Refugees and his staff for the cooperation and assistance they provided to the Board's team.

(Signed) Philippe **Séguin**

First President of the Court of Accounts of France

Chairman, United Nations Board of Auditors, Lead Auditor

(Signed) Reynaldo A. **Villar**

Chairman, Philippine Commission on Audit

(Signed) Terence **Nombembe**

Auditor-General of the Republic of South Africa

30 June 2008

Annex

**Analysis of the status of implementation of the Board's recommendations for the year ended
31 December 2006**

<i>Subject</i>	<i>Paragraph reference^a</i>	<i>First reported</i>	<i>Fully implemented</i>	<i>Partially implemented</i>	<i>Not implemented</i>
1. Staff in between assignments	14	2005		×	
2. Treasury risk management	35	2005		×	
3. Foreign exchange risk exposure	40	2005		×	
4. Due date and payment of contributions	42	2005		×	
5. Updating the status of bank accounts	44	2006			×
6. Communication between the Finance and Treasury Sections	46	2006		×	
7. Full reconciliation of bank accounts	51	2006			×
8. Negative balances in petty cash accounts	54	2006			×
9. Submission of subproject monitoring reports	57	2005	×		
10. Audit certificates received	60	2004		×	
11. Assurance on the reported use of funds	62	2006		×	
12. Integration of all subprojects into the Management Systems Renewed Project (MSRP) database	65	2003		×	
13. Addressing discrepancies between MSRP and Livelink	67	2005		×	
14. Expenditures to the Uganda Office	71	2006		×	
15. Monitoring of subprojects	74	2006		×	
16. Ensuring the validity of unliquidated obligations	78	2006		×	
17. Clean-up of the assets database	82	2005		×	
18. Reconciliation of purchases in accounts and in the database	85	2005		×	
19. Reconciliation of physical inventory and database	87	2005		×	
20. Timely annual inventory	89	2005		×	
21. Timely write-offs	92	2005	×		
22. Reporting decisions made by assets boards	94	2005		×	
23. Shortening time for write-off approvals	96	2005		×	
24. Recording accrued interests in appropriate accounts	98	2006		×	
25. Cash-management policy	101	2006	×		
26. Briefing kits	106	2006		×	
27. Recruitment of a Deputy High Commissioner and Assistant High Commissioners	108	2006	×		
28. Completion of performance appraisal reports of all staff members	110	2006	×		
29. Filling vacant posts	115	2006	×		
30. Reviewing the validity of external standby agreements	120	2006		×	
31. Assessing the efficiency of emergency procedures	122	2006	×		
32. Clarifying the issue of project personnel	126	2006		×	
33. Reducing the time for approval of country assessments	130	2006		×	
34. Stocks in Dubai	132	2006	×		
35. Bringing stocks in line with required level	134	2006	×		
36. Ensuring compliance with the minimum operating security standards and the minimum operating residential security	138	2006		×	

<i>Subject</i>	<i>Paragraph reference^a</i>	<i>First reported</i>	<i>Fully implemented</i>	<i>Partially implemented</i>	<i>Not implemented</i>
standards					
37. Accuracy of demographic estimates	142	2006	×		
38. Conflict-of-interest policies	149	2006	×		
Total			11	24	3
Percentage			29	63	8

^a See *Official Records of the General Assembly, Sixty-second Session, Supplement No. 5E (A/62/5/Add.5)*, chap. II.

II AUDIT OPINION

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR), comprising statements I to III, tables I to V and the supporting notes and schedules for the year ended 31 December 2007. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the High Commissioner, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the United Nations High Commissioner for Refugees as at 31 December 2007, and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Furthermore, in our opinion, the transactions of the United Nations High Commissioner for Refugees 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 Rules for the Voluntary Funds Administered by the United Nations High Commissioner for Refugees and legislative authority.

Without qualifying our opinions expressed above, we draw attention to the following matters:

(a) As disclosed in note 5 (a) (ii) to the financial statements, \$431.7 million out of \$1,352 million of 2007 UNHCR expenditure consisted of instalments provided to implementing partners. We rely on the project audit reports of the independent external auditors of these UNHCR implementing partners to obtain assurance on the corresponding expenditure. Audit certificates were due by 30 April 2008 in respect of \$309 million of expenditure. While there has been improvement compared with the previous year, we are of the view that UNHCR needs to further improve the rate of submission of audit certificates to enable us to fully satisfy ourselves of the validity of expenditure incurred by implementing partners;

(b) Note 15 to the financial statements discloses the value of non-expendable property. This value relies on an asset-tracking system whose deficiencies were pointed out in our previous reports. While some progress has been achieved in compiling the inventory, not all the deficiencies have been remedied, as evidenced by the discrepancies between the movements recorded during the year ended 31 December 2007 and the value disclosed in note 15. In addition, the value of expendable property inventories was not disclosed either in the face of the financial statements or in the notes as required by the United Nations system

accounting standards. We are concerned about the impact of both these deficiencies on the accuracy of UNHCR's property disclosure;

(c) As a result of the provision made in the accounts for end-of-service liabilities, including after-health service insurance liabilities, the reserves and fund balances reflected a deficit of \$178 million. This highlights the need for UNHCR to identify funding to discharge these liabilities as and when they are due.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, 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) **Philippe Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors, Lead Auditor

(Signed) **Reynaldo A. Villar**
Chairman, Philippine Commission on Audit

(Signed) **Terence Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008