



**Follow-up to the recommendations of the Board of Auditors on the
Accounts for the previous years
(EC/63/SC/CRP.5)**

Ms. Kumiko Matsuura-Mueller
Controller and Director
Division of Financial and Administrative Management

53rd Standing Committee
13-15 March 2012

1 refugee without hope
is too many.



Mr. Chair, Distinguished Delegates, Ladies and Gentlemen,

I would like to present to you an update regarding UNHCR's follow up to the recommendations of the United Nations Board of Auditors on the previous years, in particular for 2010 accounts, as well as on the 2008 and 2009 accounts.

External audit by the Board of Auditors

- The Board carries out the external audit of UNHCR accounts on an annual basis
- The reports of the Board are transmitted to the General Assembly through the ACABQ
- The Board provides the General Assembly with an independent opinion on UNHCR's financial statements
- The Board conducts external audit in conformity with International Standards of Auditing
- The Board follows up on the findings and recommendations made in previous reports

1 refugee without hope
is too many.



As an introduction, I would like to reiterate the Board's mandate and scope for external audit:

- The UN Board of Auditors carries out the external audit of UNHCR accounts **on an annual basis**. Since 2010, the lead auditor is the National Audit Office of the UK.
- The Report of the Board is transmitted to the General Assembly through the ACABQ
- The Board examines UNHCR accounts and provides the General Assembly with an independent opinion on UNHCR financial statements
- The Board conducts external audit in conformity with International Standards of Auditing and subject to any direction of the General Assembly, in accordance with article 7 of the United Nations Financial Regulations
- UNHCR takes measures to address audit findings and recommendations and the Board follows up on the findings and recommendations made in previous reports including by doing spot checks etc.

Implementation of audit recommendations (2008, 2009, 2010)

Board report on 2008 accounts: 19 recommendations issued of which: 9 (48%) closed; 8 (42%) reiterated in 2009 report, and 2 (10%) are outstanding

Board report on 2009 accounts: 24 recommendations issued of which; 4 (16%) closed; and 20 (84%) are outstanding

Board report on 2010 accounts: 33 recommendations issued

1 refugee without hope
is too many.



The Board's report on the 2008 accounts contained 19 recommendations: 9 recommendations have been closed; 8 were repeated in the 2009 audit report and 2 recommendations are outstanding. The 10 open recommendations (either repeated or outstanding) relate to IP audit certification, timely justification of installments paid to IPs, asset management (such as valuation of non expendable property, clean up of UNHCR data base) and after service health insurance (ASHI) and the management of bank accounts. Out of the 10 recommendations, UNHCR has taken / is taking action for all of them and **is considering that 7 can be considered now as implemented.**

With regard to the audit of 2009 accounts, the Board of Auditors issued 24 recommendations: 4 recommendations have been closed and 20 are under implementation / implemented. The remaining recommendations relate to the preparation for the implementation of IPSAS; the cancellation of unliquidated obligation; bank reconciliation; the reduction of number of staff in between assignments, the adherence to year end closing instructions, and agreement held with IPs. Out of the 20 recommendations, **UNHCR considers that, following the actions taken, 12 of them could be considered implemented, 3 are partially implemented and the rest are on progress of implementation.** The recommendations UNHCR considers implemented, relates to the three risk areas identified by the Board in 2009 accounts namely (a) Efforts to obtain audit certification for IPs in time, (b) Asset management (non-expendable property) and expendable property and (c) funding for end-of-service and post-retirement liabilities, for which a mechanism has been put in place and funding started.

The Board's report of 2010 accounts contains 33 recommendations, all of which were accepted by UNHCR. The progress in the implementation of those recommendations are detailed in the next slides of this presentation.

Detailed actions on all open recommendations (in total 55) are available on the **UNHCR website** and the matrices at the back of the room.

During the final audit of 2011, which is taking place as we speak, the Board will review the progress in the implementation of all the recommendations for 2008, 2009, and 2010 accounts, and close those recommendations considered implemented.

Main risks areas highlighted by the Board in the 2010 report

- (1) Preparation of financial statements
- (2) Financial management
- (3) Progress toward the implementation of IPSAS
- (4) Performance reporting and progress towards implementation of results-based management
- (5) Risk management
- (6) Managing implementing partners
- (7) Protracted Refugee situations

1 refugee without hope
is too many.



In this presentation, I will report on actions taken under the main risk areas identified by the Board in its report on 2010 accounts. The progress for each of those areas will be detailed in the next slides. The main risk areas identified by the Board are:

- (1) The preparation of financial statement,
- (2) Financial management,
- (3) The transition to International Public Sector Accounting Standards (IPSAS).
I would like here to note that UNHCR has carried out a considerable amount of work to prepare this transition. While still the 2011 accounts financial statements are prepared under UNSAS, a lot of work has been / being to ensure effective transition including that opening balance for PPE and inventories (former NEP and expendable properties) are accurate etc.
- (4) The next risk area relates to performance reporting and progress towards implementation of result-based management
- (5) Establishment of a simple organization wide risk management
- (6) The management of implementing partners
- (7) Protracted refugee situations.

UNHCR has developed detailed **actions plans**, with time frame and corrective measures to address the high risk areas identified by the Board.

1. Preparation of financial statements

The Board recommended the establishment of an effective process for the preparation of financial statements

Follow-up by UNHCR

- Establishment of detailed year-end account processes taking into account IPSAS
- Cleansing of accounting records
- Data reconciliation
- Preparation of schedules

1 refugee without hope
is too many.



As one of its key findings the Board recommended that **UNHCR establishes an effective process for the preparation of financial statements.**

UNHCR is pleased to report that, during the financial interim audit which took place in October-November 2011, the Board reviewed the interim financial statements for 9 months, and found them of “good quality and subject to management review prior to submission to the Board”.

UNHCR would like to report that the established and detailed year-end closure process has been updated to take into account the IPSAS requirements and lessons learned from 2010 audit. UNHCR has consulted and agreed with the Board the detailed internal process for the preparation and review of year-end financial statements.

This includes:

- The cleansing of accounts (total 6.2 million)
- Data reconciliation (significant reduction in suspense account open item balances by year end)
- The preparation of schedules (roles, responsibilities, timelines and information required for the preparation of the statements).

2. Financial management

The Board recommended to examine and address reasons for deficiencies in country office financial management, including bank reconciliations

Follow-up by UNHCR

- Comprehensive review to identify weaknesses in financial mgt
- Creation of new positions in financial mgt and project control
- Capacity building in financial mgt, oversight and project control
- Improved support to the Field
- Improved procedures for bank reconciliations

1 refugee without hope
is too many.



In its 2010 audit report, the Board recommended that UNHCR examine and address the reasons for deficiencies in country office financial management and reporting capacity. It also recommended that UNHCR improve bank reconciliation procedures.

- UNHCR acknowledged the weaknesses identified by the Board in financial management.
- UNHCR carried out a comprehensive review to identify weaknesses in financial management both in the Field and at Headquarters. The review included analyzing financial data, such as comparing the number of finance and project control staff with the level of expenditure; as well as reviewing internal and external audit reports and reports from the Inspector General's Office.
- UNHCR developed a strategy to strengthen financial capacity in the field, which combines:
 - Creation of new positions in financial management and project control
 - Capacity building in financial management, oversight and project control (training, guidelines, streamlining procedures and internal controls, reviewing job descriptions etc)
 - Improved support to the Field by strengthening the support capacity of the Division of Financial and Administrative Management. This includes improved communication on financial policies and procedures, and ensuring that finance staff have the necessary skills through targeted recruitment and training.
- UNHCR also continues to focus on bank reconciliations as an important control tool. Substantial efforts have been made over the last two years. Bank accounts at HQ, are fully reconciled and routinely reconciled on a monthly basis. A substantial number of high high-value old reconciling items were resolved at the end of 2011. Action was also taken to resolve items that warranted write off which was done accordingly.

3. IPSAS

The Board recommended to strengthen UNHCR's preparation for IPSAS implementation (effective 2012)

Follow-up by UNHCR

- Regular consultations with the Board
- Revision of financial rules (A/AC.96/503/Rev.10)
- Plan of transition that include comprehensive review of accounts
- Reconciliation of opening balances
- Dry run / trial close (May / September 2012)
- Change management strategy



UNHCR is on track to implement IPSAS in 2012

1 refugee without hope
is too many.



The Board expressed concern that UNHCR would not be able to finalize the new IPSAS policies and procedures, communicate them to staff and establish them as working practice in time to successfully implement IPSAS in 2012.

- While UNHCR will prepare its 2011 financial statements under UNSAS, UNHCR is on track to implement IPSAS in 2012 and has taken the steps recommended by the Board.
- Since 2011, regular consultation have taken place with the Board on IPSAS accounting policies and related issues,
- Part of these consultations focused on the required revision of UNHCR financial rules in order to align them in IPSAS context. The revised financial rules for voluntary funds administered by UNHCR (A/AC.96/503/Rev10) were approved by the Executive Committee and enter into effect on the 1 January 2012.
- UNHCR has developed a plan of transition that includes a comprehensive review of the accounts, reconciliation between ledger and sub-ledger as well as closure of open items.
- Considerable work has been done for reconciliation of opening balances. UNHCR has used the service of external accountants to complement its capacity to ensure that 2012 opening balances are reconciled.
- UNHCR plans to carry out end-to-end dry runs / trial close for IPSAS-compliant procedures and financial statements as at May and September 2012.
- A change management strategy is being implemented. Organizational units impacted by IPSAS have been identified and received specific communication (policies, procedures, user guides, IPSAS glossaries etc.). Trainings were organized for the regional Bureaux at HQ and impacted Divisions. A series of training for field staff has started.

4. Performance reporting and RBM

The Board suggested that UNHCR reports should combine financial and performance data, to enable management to make effective judgments

Follow-up by UNHCR

- *Focus*: simplified planning process and improved data quality and reporting
- Improved analytical business reports in *Global Focus*, reflecting impact and achievement of results against plans
- Analytical dashboards and data reports

1 refugee without hope
is too many.



The Board has suggested that UNHCR reports should combine financial and performance data to enable the management to make effective judgment as to the cost effectiveness of projects and activities, and to strengthen accountability.

Against this recommendation, UNHCR would like to report that:

- To increase the value of the planning software, *Focus*, UNHCR is in the process of simplifying the planning process and improving data quality and reporting.
- UNHCR is continuing to upgrade and improve data analytical business reports in *Global Focus*. This will enable comparisons between country operations and populations of concern. The reports will reflect impact or changes in conditions, as well as achievement of results in relation to plans.
- Also a consulting company has assisted UNHCR with a review of business and functional requirements for the further development of global focus. A software company is now developing new analytical dashboards and data reports which will support global, regional and country analysis. It is planned that these functionalities will be available towards the end of the first quarter of 2012.

5. Risk management

The Board recommended that UNHCR establish a simple organization wide risk management approach.

Follow-up by UNHCR

- Senior staff appointed to develop a proposal for the implementation of a risk framework;
- Interviews / study with public and private organizations, and UN on ERM
- Proposals for implementation of ERM strategy will be submitted to High Commissioner and Senior Management

1 refugee without hope
is too many.



The Board recommended that UNHCR establish a simple organization wide risk management approach, without imposing onerous burden on country operations.

UNHCR would like to report that in August 2011, a senior staff was appointed to lead the initiative to develop a proposal for implementation of a corporate risk-management framework.

To gain an understanding of the extent and benefits of Enterprise Risk Management, interviews were carried out in November 2011 – January 2012 with public and private sector organizations, as well as other UN agencies.

A concept paper has been drafted, summarizing key issues covered in the interviews, lessons learnt from other organizations, recommendations of the Board of Auditors and brief description of the main EMR methodologies.

Based on this research, proposals for implementation of an Enterprise Risk Management Strategy is planned to be submitted to the High Commissioner and Senior Management.

6. Management of Implementing Partners

The Board recommended that UNHCR requires its operation to document their justification of partners and assess alternatives.

Follow-up by UNHCR

- Improvement of selection process of IPs;
- Creation of selection committee for IPs, selection criteria, full documentation of selection and decision.
- Completion of review of IP management process
- Adoption of “differentiated risk-based framework” and 2 year work plan.
- Establishment of IP Management Service

1 refugee without hope
is too many.



The Board recommended that UNHCR require its country operations to document their justification for partner selection and formally assess the market alternative for partners.

As part of a comprehensive review of the Implementing Partners initiated in 2010, actions have been taken to improve the selection process of Implementing Partners.

- In detailed planning instruction for planning and budgeting for 2011 (and then 2012), all field operations were asked to create selection committee for Implementing Partners, improve selection criteria, as well as keep full documentation of the selection process and decision.
- In addition a comprehensive review of IP Management and its framework was completed in 2011
- In response to the Board recommendation, UNHCR decided to adopt a “differentiated risk-based framework” and has allocated resources for developing policies, procedures and tools. A two year plan of work has been put in place in November 2011, is being followed to improve the overall management and accountability of IPs, while the new framework is introduced.
- In August 2011, UNHCR established an IP Management Service within DFAM. One of its main responsibilities is to lead the development of IP management including the adoption of a risk based approach.

7. Protracted refugee situations

The Board recommended that UNHCR establishes a single senior point of ownership for protracted refugee situations

Follow-up by UNHCR

- The Assistant High Commissioner (Protection) designated as the coordinator of an inter-departmental working group on protracted refugee situations

1 refugee without hope
is too many.



Finally, the Board recommended that UNHCR establishes a single senior point of ownership for protracted refugee situations.

UNHCR recognized that its approach toward protracted refugee situation was fragmented, as highlighted by the Board. UNHCR undertook a number of discussions to assess how to implement the recommendation.

The Assistant High Commissioner (Protection) has been designated as the coordinator of an inter-departmental working group on protracted refugee situations, with support from the Assistant High Commissioner – Operations.

Conclusion

- Commitment on effective and efficient follow-up of the audit recommendations
- Significant efforts made for preparation and transition to IPSAS in 2012
- Appreciation of Board of Auditors advise including on IPSAS

1 refugee without hope
is too many.



In conclusion, UNHCR would like to reiterate its commitment on effective efficient follow up of the audit recommendations from the Board.

We would also like to reiterate the considerable work carried out by UNHCR for the preparation and transition to IPSAS in 2012

We would like to renew our appreciation of the Board advise financial system and procedures so that they can be improved and are very grateful for expert advise and support provided on IPSAS related issues.