

**Executive Committee of the  
High Commissioner's Programme**

Distr.: Restricted  
10 February 2015  
English  
Original: English and French

**Standing Committee**  
62<sup>nd</sup> meeting

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**Follow-up to the recommendations of the Board of  
Auditors on the financial statements for previous  
years**

*Summary*

This paper provides an update on actions taken in response to the key issues and outstanding recommendations of the Board of Auditors from its review of UNHCR's financial statements for 2013 and previous years.

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## **I. Introduction**

1. The United Nations Board of Auditors (the Board) issued an unmodified opinion in its report on UNHCR's financial statements for the year 2013 (see A/69/5/Add.6). While the Board identified some areas where improvements were needed, it acknowledged UNHCR's significant progress in enhancing management overall. As highlighted below in this document, many of the needed improvements will take several years to fully implement.

2. The Board's report presented findings in six key areas, namely: (a) financial matters; (b) internal audit arrangements; (c) the Syrian Arab Republic situation, particularly the refugee operation in Jordan; (d) the provision of health services; (e) implementing partnership management; and (f) counter-fraud measures. Chapter II provides an overview of actions that UNHCR has taken in all these areas.

3. Chapter III of this paper summarizes the status of implementation of the Board's recommendations contained in their report. Detailed information on progress made in implementing the outstanding recommendations from the audits of the 2013 financial statements and previous years is presented in two matrices, together with UNHCR's assessment of the implementation thereof. These matrices are available for information purposes on UNHCR's website at [www.unhcr.org/standingcommittee](http://www.unhcr.org/standingcommittee). The Board will assess this progress during its audit of the 2014 financial statements.

## **II. Progress in areas identified during the audit of UNHCR's 2013 financial statements**

### **A. Financial matters**

4. The Board noted that UNHCR has used financial information compliant with the International Public Sector Accounting Standards (IPSAS) to significantly improve its overall inventory holding management and the financial management of country offices. However, the Board believed that further improvements are possible and recommended the use of target levels for inventory holdings and other assets. In response, UNHCR confirmed that measures have been taken to determine the minimum inventory levels for each of its seven global stockpiles so that they are adequately prepared for emergencies. Target levels have also been established for all local stockpiles in the field and are reviewed by senior management regularly, at minimum semiannually.

5. Furthermore, UNHCR has improved its supply planning process. The level of inventories and quantities to be purchased are determined based on expected future needs, thus optimizing the stock levels. For this purpose, UNHCR developed new standard operating procedures (SOPs) in 2014 for supply planning of core relief items, guiding operations in assessing core relief items needs for the next period, establishing safety stock levels with a designated minimum level and a replenishment model for each warehouse worldwide. These SOPs became compulsory in UNHCR's planning and resource allocation process for the year 2015 and onwards. Furthermore, UNHCR has issued SOPs for inventory and warehouse management, providing operational guidance on the duties and responsibilities, ensuring inter alia reliable inventory data which is fundamental for effective supply planning.

6. The Board also reviewed the methodology, which has been in place for four years, for capturing and allocating costs to one of three cost categories used by UNHCR (i.e. programme, programme support, and management and administrative). It recognized that this methodology has provided a consistent basis for tracking costs, but noted that further refinement could be achieved, for example relating to the classification of staff costs under

each category. In this regard, UNHCR has amended the methodology for selected programme (PG) posts to better align functional staff responsibilities with costs incurred and the related area of expenditure, taking effect as of 2015.

## **B. Internal audit arrangements**

7. The Board has reviewed progress in introducing revised internal audit arrangements and noted that discussions between the Office of Internal Oversight Services (OIOS) and UNHCR have been ongoing for more than two years. The Board reiterated the importance of having a strong internal audit function, which is critical for the internal control system of the organization, and urged UNHCR and OIOS to reach an agreement on future internal audit arrangements as a matter of priority. In this regard, UNHCR concluded that, for the time being, it would not pursue the in-housing of UNHCR's internal audit function. OIOS will continue providing internal audit services to UNHCR under the terms and conditions of a revised memorandum of understanding, which was concluded in December 2014.

## **C. Syrian Arab Republic situation**

8. The Board focused its examination of the Syrian Arab Republic situation on UNHCR's response in Jordan to the emergency, where approximately 25 per cent of refugees leaving the Syrian Arab Republic were hosted. The Board found that UNHCR had overall responded well to the demands of the emergency in Jordan, and emphasized that UNHCR successfully mobilized resources to meet the material needs of persons of concern and made good progress moving from an emergency footing towards a more sustainable refugee operation.

9. The Board reviewed the introduction of a biometric recognition system used in Jordan for refugee registration. It acknowledged that the system greatly improved controls preventing multiple registrations and provided more robust information to track the complex refugee movements within Jordan. The Board recommended that UNHCR performs an evaluation of this system with a view to use knowledge collected so far and apply it to a standard global system for biometric identification and registration of refugees. UNHCR remains committed to ensuring that lessons learned from the implementation of registration procedures within the Jordan operation – as applicable – are taken into account in the development of global biometrics registration procedures.

10. The Board also reviewed UNHCR's cash assistance programme in Jordan and noted that, compared to the supply of commodities, it provides quicker and cheaper delivery of assistance, as well as an increased independence and choice for recipients. The Board found that UNHCR has gathered extensive data on its cash programme, but recommended that the scheme be independently evaluated.

11. UNHCR will assess the results and analysis provided by several other ongoing evaluations and studies to decide whether to undertake an independent evaluation on UNHCR's cash assistance programme. In this context, UNHCR has commissioned an evaluation from the consulting firm Transtec on UNHCR's response to the refugee influx in Jordan and Lebanon, which will be finalized in the first quarter of 2015. Other studies include an analysis by the Norwegian Refugee Council of cash-based distribution of non-food items in refugee camps in Jordan, Oxfam's report on the impact of cash distributions on Syrian refugee households in host communities and informal settlements in Jordan, and the forthcoming UNHCR study on coping mechanisms among Syrian refugees in four countries in the region (available in the first quarter of 2015).

12. While recognizing that in emergency situations optimal solutions may be compromised, the Board noted that the receipt of donor funding late in the year could lead to short-term programming of activities, causing some funds to be spent quickly rather than used optimally. The Board understood that this may be partly due to the lack of multi-year funding agreements and the predominance of annual agreements with implementing partners. The Board recommended that UNHCR explores if greater use could be made of partner agreements extending beyond the traditional 12 months. UNHCR explained that such flexibility could be further enhanced if donors subscribe to reliable and firm commitments for multiple-year funding to allow planning, implementation and conclusion of agreements extending beyond 12 months. Currently, UNHCR is faced with the following constraints in extending partnership agreements beyond 12 months: (i) the donor contributions are normally pledged for a year; (ii) UNHCR's operational budget is approved on an annual basis; and (iii) the Office needs to maintain flexibility in order to respond to existing and newly arising emergency situations. Notwithstanding the above, UNHCR is currently assessing whether this recommendation can be exceptionally implemented in relation to those specific activities for which multi-year funding has been secured.

13. The Board noted that the fast-track recruitment procedures did not work well in the early stages of the operation, as UNHCR took up to six months on average to recruit the early batches of fast-track recruits. While this subsequently reduced to less than three months, the Board highlighted the need for UNHCR to consider more flexible staff recruitment procedures, in addition to following established internal monitoring and recruitment tracking procedures. UNHCR informed the Board that significant improvements have already been made in the policy and procedures for fast-track recruitment. The latest revision of the fast-track policy has reduced the timeframe for the filling of fast-track vacancies to approximately one month for cases when internal candidates are identified and there is no need for review by the Joint Review Board. The Division for Human Resource Management has also introduced the use of functional profiles for the latest fast-track for the Syrian Arab Republic situation. Through the Capacity Building Initiative (CBI) and Entry-Level Humanitarian Professional Programme (EHP), a functional profile pool of candidates has been established and has thus avoided the need to advertise externally several positions for the same function. Since the pool of candidates in the functional profile are considered external to UNHCR, all short-listed candidates from the profiles needed to be interviewed and vetted for functional clearance. The screening and short-listing of candidates from the functional profile pool was conducted on UNHCR's behalf by an external recruitment company. As a result of these actions, the recruitment process and procedures were considerably shortened.

#### **D. Provision of health services**

14. The Board highlighted that there is scope for UNHCR to focus its strategy, reporting and resources on the main burdens of disease in each operation. The Board emphasized that the strategies and reporting at country offices tend to focus predominantly on standard global strategic priorities such as HIV/AIDS rather than on the main causes of mortality, morbidity and patient demand. The Board recommended that UNHCR require its country offices to explicitly refer to the main burdens of disease when bidding for health programme resources. In response, UNHCR took measures to ensure that planning instructions reflect the Board's recommendation. In particular, UNHCR's Administrative Instruction on reporting on 2014, implementation in 2015 and planning for 2016 and 2017 included clear instructions and references to resources on evidence-based programming, partner selection and selection of indicators. Detailed planning guidance was also provided during the annual programme review when health experts examine the provisional health

plans of operations, resulting in adjustments of plans in line with the criteria suggested by the Board. UNHCR considers this recommendation as implemented.

#### **E. Implementing partnership management**

15. The Board noted that due diligence procedures exercised by UNHCR were based on the partner's own declarations of eligibility and were not as rigorous as, for example, vendor registration procedures. It recommended, therefore, enhancing the due diligence procedures for the initial vetting of partners. In this respect, UNHCR has developed and tested in 2014 a web-based "Partner Portal", which will allow for more comprehensive and systematic checking and updating of the enlisted partner profiles. It is planned that the Partner Portal will be rolled out in the first quarter of 2015.

16. The Board also recommended putting in place a mechanism to share intelligence on poor quality or unacceptable partners with other entities, such as United Nations agencies, donors or development banks. In response, UNHCR has initiated discussions with other United Nations organizations, including UNDP, UNICEF and UNFPA on possible mechanisms for sharing information. UNHCR has also participated in a meeting of the High-Level Committee on Management of the Chief Executives Board in October 2014, where discussions were held on the harmonized system-wide approaches to fraud perpetrated by implementing partners.

#### **F. Counter-fraud measures**

17. Following the issuance of a revised Strategic Framework for the Prevention of Fraud and Corruption in July 2013, in response to a previous Board recommendation, the Board has called for more concerted action by senior management to achieve meaningful results and full implementation of its previous recommendation. UNHCR is working to achieve full implementation of the framework, including through streamlining its processes and integrating the fraud prevention measures outlined in the strategy. Since 2013, financial management training for country representatives includes significant guidance on fraud prevention and mitigation. The upgrade of UNHCR's enterprise resource planning system includes the installation of new governance risk compliance software that will enhance automated internal controls. Additionally, UNHCR has initiated a dedicated fraud and corruption prevention project. As part of this project, a cross-functional working group has been established, with broad representation from the field and Headquarters, to develop a comprehensive plan to improve existing measures and/or develop new procedures, where needed, and to increase fraud awareness within the organization. The outputs of this project are expected to be delivered progressively throughout 2015.

### **III. Status of implementation of the Board's recommendations**

18. In its report on the 2013 financial statements, the Board issued 18 new recommendations, which have all been accepted by UNHCR and are being implemented as presented in A/AC.96/1135/Add.1 and as noted in Chapter II above.

19. Of the 65 recommendations from 2012 and previous years, 43 were considered fully implemented and closed by the Board (see A/69/5/Add.6, annex 1). The remaining 22 open recommendations refer mainly to risk management (including fraud risk), improvement in finance and project control functions, management of implementing partners, supplier performance, and inventory and fleet management. Implementation of many of the open recommendations requires structural or far-reaching changes. It will,

therefore, take time to deliver progress in some areas, such as implementation of an organization-wide approach to risk management, establishment of an enhanced framework for implementing with partners, and improved management of procurement. The matrices on UNHCR's Standing Committee website detail the Office's efforts to address the recommendations.

20. During the final audit of the 2014 financial statements, taking place in March and April 2015, the Board will review the progress in the implementation of audit recommendations made in 2013 and previous years, in order to close the recommendations it considers as implemented.

#### **IV. Conclusion**

21. UNHCR appreciates the guidance provided by the Board of Auditors, as its findings and recommendations allow the Office to focus its resources on the most relevant risk areas and strengthen internal controls. While full implementation of all recommendations cannot be achieved within one year, as recognized by the Board, UNHCR will continue to take action to address them and reiterates its commitment to improving procedures, systems and controls in order to mitigate the identified risks.

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