

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

Distr.: Restricted
31 August 2015
English
Original: English and French

Standing Committee
64st meeting

**Report of the Independent Audit and Oversight
Committee, 2014-2015**

Summary

At its fifty-first meeting in June 2011, the Standing Committee established the Independent Audit and Oversight Committee to “assist the High Commissioner and the Executive Committee in the exercise of their oversight responsibilities in accordance with relevant best practices, industry standards and the financial rules and staff regulations and rules applicable to UNHCR” (A/AC.96/1104, Annex II). This is the Committee’s third annual report, covering the period from July 2014 through June 2015.

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I. Introduction

1. The Independent Audit and Oversight Committee (IAOC) (“the Committee”) was established by decision of the Standing Committee in June 2011.¹ The High Commissioner, with the consent of the Executive Committee, appointed the following five members: Ms. Lynn Haight (Canada); Mr. Salleppan Kandasamy (Malaysia); Mr. Sam Karuhanga (Uganda/United Kingdom); Mr. Verasak Liengsrirawat (Thailand); and Ms. Mari Simonen (Finland). The tenure of three of the original members of the Committee expired in May 2015 and, following consultation with the Executive Committee, the High Commissioner extended the tenure of Mr. Kandasamy, Mr. Liengsrirawat and Ms. Simonen for a final period of three years until May 2018.

2. The members of the IAOC were selected competitively and appointed based on their professional qualifications and experience with international organizations in the fields of oversight and management, particularly in the areas of governance, risk management, internal controls, financial management, and reporting. All IAOC members are independent of UNHCR and its management.

3. The Committee serves in an expert advisory capacity to assist the High Commissioner and the Executive Committee in exercising their respective oversight responsibilities. The Committee’s work in providing independent senior-level advice is guided by: its terms of reference²; UNHCR’s policies; financial, staff and other regulations and rules applicable to UNHCR; and relevant industry standards and best practices. In discharging its function, the Committee has engaged in the following activities: (i) reviewing the processes applied to the planning of oversight activities within UNHCR and the execution of work plans; (ii) reviewing the adequacy of resources applied to oversight activities; (iii) reviewing the outcome of oversight activities and management responses thereto; and (iv) reviewing policies, procedures and internal controls for the management of organizational risks and enhancement of performance and accountability.

4. This is the Committee’s third annual report, pursuant to Section 5 of its terms of reference, covering the period from July 2014 to June 2015.

II. Summary of activities

5. During the reporting period, the Committee met in three formal sessions at UNHCR’s headquarters in Geneva, Switzerland, from 13-15 October 2014, 3-6 February 2015 and 15-18 June 2015. Ms. Simonen acted as Chairperson of the Committee, and Ms. Haight as Vice-Chairperson. The Committee adopted its 2015 work plan at the February 2015 session.

6. In its formal sessions, the Committee reviewed several areas, including: (i) the internal audit function carried out by the UN Office of Internal Oversight Services/Internal Audit Division (OIOS/IAD) in Geneva; (ii) the inspection and investigation function carried out by the Inspector General’s Office; (iii) the external audit function carried out by the UN Board of Auditors; (iv) the evaluation function carried out by the Policy Development and Evaluation Service (PDES); (v) enterprise risk management;

¹ See A/AC.96/1104, Annex II.

² See EC/62/SC/CRP.24/Rev.2.

(vi) accountability and internal control; and (vii) financial statements and reporting under International Public Sector Accounting Standards (IPSAS).

7. In addition to the formal sessions, two Committee members undertook familiarization visits to UNHCR's operations in Kenya and Thailand.

III. Main observations and recommendations

A. Oversight in UNHCR

8. The Committee welcomed progress on several issues, such as follow-up to its previous recommendations; the fraud prevention project; enterprise risk management; implementing partnership management; and personal accountability. It emphasized that the organization must clearly and distinctly define the role, mandate and responsibilities of each oversight entity, particularly the inspection and evaluation functions.

9. The Committee recognized that UNHCR was facing numerous emergency situations and often working in difficult circumstances. It also noted that some operations were confronted with oversight missions from various entities, and that some audit recommendations were particularly difficult to resolve, as they were not fully in UNHCR's control and required government cooperation.

10. The Committee emphasized that UNHCR must find a good balance between the need for oversight and controls, and the realities of emergencies and operations. It reiterated its position that the organization should endeavour to further prioritize, streamline and simplify policies and procedures. Especially with current budgetary circumstances, there is a need to create space for adequate planning and attention to prioritization, despite day-to-day pressures.

11. The Committee reiterated the need to continue ongoing efforts to implement critical and ageing audit recommendations and to address high risk areas. It commended UNHCR and noted the positive role the Internal Compliance and Accountability Committee (ICAC) has played in addressing audit recommendations and internal audit reports rated as "unsatisfactory."

12. The Committee considered the transition of several key members of senior management within a relatively short period of time as a high risk to the organization. The Committee urged the organization to consider including the Controller in senior level discussions, in order to ensure that high-level management decisions fully reflect necessary control measures and financial and budgetary implications.

13. The Committee reiterated its recommendation that, when planning for new emergencies, adequate consideration should be given to oversight requirements, including sufficient budgetary resources. Monitoring at country, regional and headquarters levels needs to be strengthened by using existing control and oversight mechanisms more systematically.

B. Internal audit

14. The Committee welcomed the conclusion of a revised memorandum of understanding between UNHCR and OIOS in December 2014, strengthening the provision of internal audit services to UNHCR. It welcomed improvements in the timeliness and completion of internal audit reports and urged continued efforts in this regard. It also

welcomed OIOS' new quarterly reports and requested that the reasons for work plan changes, as well as replacement audits in case of postponements, be clearly indicated.

15. The Committee noted that OIOS held extensive consultations with UNHCR on its draft work plan for 2015. It suggested that the "risk appetite" as well as any significant changes in the risk profile compared to the previous year be specifically reviewed by UNHCR senior management.

16. The Committee discussed with OIOS possibilities of changing or refining the ratings system of audits in view of the fact that the vast majority of audits are rated as "partially satisfactory," and some reports, which raise numerous serious issues, nevertheless are not rated as "unsatisfactory."

17. While recognizing that some audits are more resource-intensive than others, the Committee questioned the general productivity per auditor and reiterated its view that each auditor should be able to complete at least two audits per year. It stressed that OIOS should clearly indicate its resource requirements to UNHCR, for example, for roving audit officers that could be deployed on an emergency basis, or additional information technology audit expertise.

C. Inspector General's Office

18. The Committee expressed continuing reservations about the clarity of the mandate and the performance of the inspection function in UNHCR and recommended that an independent evaluation – not peer review – be conducted. Such evaluation would include system-wide benchmarking of inspection outputs and future options and should help clarify the role of the inspection function as distinct from internal audit. The Committee also suggested that the Inspection Service develop clear key indicators against which the performance of the inspection function can be measured. It further recommended that inspection reports focus on issues and recommendations with sufficient criticality.

19. The Committee noted that the resources for the investigation function had increased as of January 2015, following the recommendations of the European Anti-Fraud Office (OLAF) peer review. It welcomed the establishment of a pool of investigators that is managed by the Danish Refugee Council to assist partners who do not have the capacity to investigate allegations of fraud and other issues. However, the Committee also noted risks involved in the failure of partners to observe reporting obligations. Thus, it urged UNHCR to ensure an adequate and independent investigation function, which should also increasingly pay attention to possible fraud by third parties.

20. The Committee emphasized the importance of timely completion of investigations. It called on the Investigation Service to give increased attention to cases that are open beyond a prolonged period of time, with a view to closing them as soon as possible.

21. The Committee reiterated its view that the position of Inspector General should be advertised externally, and the incumbent should be selected on the basis of his/her competencies and experience as an oversight professional.

D. External audit

22. The Committee noted that the report by the UN Board of Auditors on UNHCR's financial statements for the 2014 financial period was unqualified. It expressed appreciation for the work and recommendations of the Board, as carried out by the National Audit Office of the United Kingdom of Great Britain and Northern Ireland.

23. The Committee agreed with the Board's view that better understanding of programme and administrative costs was needed in order to support management's efforts to further rationalize and reduce costs. In the area of revenue recognition, the Committee strongly supported UNHCR's position that revenue should be recognized in the year to which it pertains, rather than in the year when it is received, and it encouraged the Board to reconsider its position on this issue.

E. Evaluation

24. The Committee urged the organization to establish a robust independent evaluation function, in line with professional evaluation standards. It noted steps taken by the organization to revise its evaluation policy and present a clear statement of the evaluation function within UNHCR. It also recognized the need for decentralized evaluations and a reporting mechanism. It stressed that the organization should urgently move ahead with implementation, while being mindful of external lessons learned on quality assurance, especially regarding decentralization of the evaluation function.

25. The Committee welcomed PDES' efforts to professionalize through the recruitment of specialized evaluation expertise, and it urged PDES to prepare its work plan based on a clear methodology and established criteria. The Committee emphasized that PDES should focus on carrying out evaluations rather than policy analysis/development, and it encouraged PDES to undertake evaluations giving practical suggestions to improve programme effectiveness and efficiencies.

F. Enterprise risk management

26. The Committee was pleased to note apparent progress in developing and embedding enterprise risk management within UNHCR, in particular as shown through the corporate and strategic risk registers. Moving forward, the strategic risk register should also be used as an opportunity to think "outside the box" and longer-term. The Committee emphasized the need for constant review and monitoring of the risks contained in the strategic risk register at both executive and senior management levels.

27. The Committee looked forward to enterprise risk management reaching a level of maturity where it can be used for planning purposes by all oversight entities. It stressed that, as an outcome of the enterprise risk management process, a common oversight universe should be defined by the organization as a matter of priority, following which it can be determined how, when and by which entity oversight coverage will be ensured.

G. Accountability and internal control

28. The Committee recognized that personal accountability is a complex issue and appreciated efforts made to strengthen personal accountability at UNHCR. The Committee noted progress achieved, including through a revised performance policy – resulting in more accurate appraisals and more effective sanctioning – and training. Efforts may be needed over a protracted period of time to ensure progress in this behavioural sphere in order to promote a culture of accountability.

29. While welcoming the high-level internal control framework with a focus on financial management, the Committee reiterated that UNHCR ideally should develop a comprehensive internal control framework, closely linked to and integrated with the

strategic risks defined in the strategic risk register. At a minimum, in the absence of such framework, critical parts of the UNHCR manual on operations management and financial management should be updated.

H. Financial statements and financial reporting

30. The Committee complimented UNHCR for the fact that the financial statements for the period ended 31 December 2014 were prepared without delay and were unqualified.

31. The Committee cautioned that there is a critical challenge to mobilize the needed resources for the significantly increasing needs. It also expressed concern about possible budgetary implications for the organization as a result of foreign exchange rate changes and the general economic situation affecting donor countries. The Committee urged senior management to consider possible mitigating measures and prepare strategic financial scenarios, in light of potential declining revenue while facing increased needs, and underscored the importance of durable solutions.

32. The Committee supported the organization's efforts to strengthen finance capacity and skills in the field, including through workshops and training, and considered that better financial control could be maintained through a functional "dotted line" relationship between the finance function in the field and at headquarters.

I. Other matters

Fraud prevention and mitigation

33. The Committee expressed appreciation for the serious efforts that UNHCR is taking in the area of prevention of fraud and corruption. It urged the fraud prevention working group to establish clear benchmarks for measuring the success of the project.

34. The Committee reiterated concern over UNHCR's focus on internal fraud, which is often of lower value, and noted that UNHCR will need to dedicate sufficient resources for investigating external fraud. Detecting structural fraud requires different methodologies, and the Committee urged for the expedited introduction of appropriate technological solutions to contribute to fraud prevention and solutions, including a global biometrics refugee registration system.

35. The Committee stressed the importance of direct links to personal accountability for an organization to effectively address fraud. Strong communications relating to fraud prevention and mitigation must be issued from the highest level in order to enforce the zero tolerance policy that UNHCR advocates.

36. The Committee cautioned that UNHCR should be prepared with adequate resources for all involved units, as it was likely that increased fraud awareness and communication, and the strengthened approach towards external fraud, would lead to an increase in the number of allegations and investigations.

Implementing partnership management

37. The Committee expressed appreciation for a comprehensive, consultative and systematic approach to enhancing implementing partnership management, and looked forward to effective and timely implementation of the various work steps. The success of the initiative will depend on active engagement of regional bureaux and country offices. It

noted the importance of continued management efforts to ensure project audit certificates of sufficient quality and delivered in a timely manner.

Procurement

38. The Committee noted UNHCR's proactive approach towards improving procurement, including procurement planning in emergency situations. It urged the organization to consider introducing simpler procurement procedures in the case of emergency situations, while ensuring adequate controls to prevent fraud and inefficiency.

39. The Committee recognized as positive developments the intention to introduce e-procurement as part of the MSRP upgrade, as well as the restructuring of the procurement catalogue in a more comprehensive and user-friendly manner.

40. The Committee urged accelerated training and capacity-building in the procurement area at the field level in order to tighten existing processes and given the material value. This includes the need for sufficient and regular (e-learning) training for members of contracts committees, particularly in procurement-heavy operations.

Human resources management

41. The Committee welcomed the revision of various human resources policies and procedures. While recognizing the burden of transactional processing relating to vacancies and assignments due to the unprecedented large volume and complexity of emergencies, the Committee stressed the importance of dedicating sufficient time to strategic priorities with regard to human resources, including workforce planning.

42. The Committee urged UNHCR to ensure that updated skills and specialized expertise are available where needed, and encouraged the organization to support opportunities for professional certification. It also encouraged the organization to review the prolonged use of affiliated workforce, in particular in relation to core functions.

ICT management

43. The Committee was pleased to note progress achieved in the area of information and communications technology (ICT) management, including with the transition to managed services. It urged UNHCR to attach sufficient importance to the issue of data protection (also in light of cyber security), especially as biometrics systems are being rolled out.

IV. Acknowledgements

44. The Committee would like to express its appreciation for the support and cooperation of the High Commissioner, the Deputy High Commissioner and UNHCR management and staff, including the Secretary of the Committee. The Committee would like to especially acknowledge the fruitful collaboration with the former Deputy High Commissioner, Mr. T. Alexander Aleinikoff, who worked closely with the Committee from its establishment.

45. The Committee is also grateful to the Regional Bureau for Asia and the Pacific and the Regional Bureau for Africa, as well as UNHCR's offices in Thailand and Kenya for hosting familiarization visits by its members. The Committee appreciates the in-depth presentations and briefings that were made by UNHCR senior managers, OIOS and the UN Board of Auditors.