

FOLLOW-UP ON THE ACTIONS TAKEN TO IMPLEMENT THE RECOMMENDATIONS
OF THE BOARD OF AUDITORS IN ITS REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998

I. INTRODUCTION

1. In accordance with arrangements defined in General Assembly resolution 50/204 of 23 December 1995¹, this conference room paper provides an update to the report on measures taken or to be taken by UNHCR in response to the recommendations of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1998 (A/AC.96/917). An initial response by UNHCR to these recommendations was presented to the fiftieth session of the Executive Committee of the High Commissioner's Programme (A/AC.96/917/Add.1). The comments that follow build on those already provided in the initial response.

II. FINANCIAL MANAGEMENT

2. **Recommendation 12 (a): Treat advances to implementing partners as accounts receivable at the time the advances are made and clear the advances to expenditure on receipt of satisfactory financial reports; and also persevere with its efforts to clear the outstanding balances of cash advances expeditiously, particularly the balances relating to earlier years (A/AC.96/917, para. 25).**

Measures Taken by the Administration

3. UNHCR has agreed to implement the Board of Auditors recommendation and included this requirement in the specifications of the Integrated Systems Project of the Office's financial management systems development. UNHCR will consider each instalment of an implementing partner as a working advance and record it as a current asset (i.e. same as an account receivable). Simultaneously, UNHCR will also record the expenditure and create an obligation. The implementation of the change in UNHCR's accounting will be introduced gradually during 2002 and completed in 2003. The new Financial Systems Development Unit within the Division of Resource Management is responsible for ensuring implementation of this recommendation.

4. Rigorous measures were introduced by UNHCR in 1999 to ensure that instalments are not paid to the implementing partners unless they have submitted the requisite reports. This has greatly contributed to reducing outstanding balances of cash advances: for the period 1994 to 1997, these have been brought down from \$ 63.5 million as at 31 March 1999 to \$ 32.3 million as at 31 December 1999, and to \$ 29.6 million as at 20 April 2000. With regard to 1998 projects, the balance of \$ 92.8 as of 31 March 1999 was brought down to \$ 23.4 million as at 31 December 1999 and has been further reduced to \$19.8 million by 20 April 2000. The outstanding balance for 1999 projects stood at the end of the year at \$ 149.3 million, with a current balance of \$ 124.3 million, representing 31 per cent of the total programme funds disbursed through implementing partners. This is not an unusual situation at the end of the first quarter of the year, given the fact that many projects have a liquidation period of three months and final reports from the partners are not due until the beginning of the second quarter of the following year.

5. **Recommendation 12 (b): (i) assess the reasons for non-compliance by respective government and non-governmental implementing partners with the requirement to render audit certificates as prescribed in the sub-agreements; and**

(ii) draw up a strategy, in consultation with the Board of Auditors, for securing sufficient audit certificates, based on the materiality and perceived level of risk of individual projects, to

¹ Section A, paragraph 6.

provide adequate evidence in support of expenditure reported by implementing partners (A/AC.96/917, para. 33).

Measures Taken by the Administration

6. During the last quarter of 1999, the Division of Resource Management, with the assistance of the UNHCR Audit Section of the Office of Internal Oversight Services (OIOS) have developed a new policy to be applied to projects implemented in 2000. This policy was presented in a discussion paper dated 3 March 2000, by UNHCR's Controller to the Board's Audit Committee. As a result, the relevant guidelines contained in Chapter 4 (Project Management) of UNHCR's Manual and the standard clauses of the agreements to be signed with implementing partners are being revised. It is anticipated that with the introduction of these revised arrangements, the compliance rates will improve.

7. The compliance status for 1998, by category, at the end of March 2000 is as follows:

Governmental partners:	55.0 per cent
International NGOs :	88.0 per cent
National NGOs:	47.1 per cent

The average compliance rate has thus reached the 70 per cent mark, previously indicated by UNHCR as a target to the Board of Auditors.

8. UNHCR's discussion paper mentioned above put forward a number of options to improve the quality, relevance and compliance of audit certificates within each category. It also proposed a different conceptual approach to the role of audit certificates in the process of auditing UNHCR's financial statements. These proposals are summarized below.

Governmental Partners

9. The current deadline of 3 months after the liquidation date has proven to be too short. In many countries, the government's audited financial statements are not available before the second half of the following year. In some countries, the audit of government accounts is not systematically undertaken on a yearly basis. Indeed, many countries have a policy of auditing their institutions every two years on a random basis, thus excluding UNHCR projects from the sample chosen by the governments' audit institution. As a first step, UNHCR will request its offices in the field to identify in the sub-agreement, "the appropriate government audit authority" prior to the implementation of the sub-project. The deadline will also be extended to six months after the final liquidation date, and the audit certificate requirement will be limited to projects of a value of US\$ 100,000 and above.

National NGOs

10. Audit certificates of national NGOs will normally be the result of a project audit of which the scope is limited to implementation of UNHCR's sub-project(s). Minimum requirements for the objectives, scope and report structure of such audits, as well as for the basis of the audit opinion have been defined and will be included in the guidelines to be provided in Chapter 4 of UNHCR's Manual. NGOs will also be requested to consult UNHCR prior to appointing auditors.

International NGOs

11. With the introduction of the requirement for international NGOs to submit consolidated, audited financial statements, the compliance rate has increased considerably. Nevertheless the timeliness of submissions remains a problem, and UNHCR has very little or no control over it. In many cases, international NGOs follow a different fiscal year to that of the project (i.e. April to March, July to June or October to September, as opposed to the calendar year).

12. Notwithstanding the improved compliance rate, a joint UNHCR and OIOS review of the consolidated audited financial statements has concluded that they do not always provide sufficient information regarding the use of UNHCR funds. To correct this, UNHCR now requires the addition of a note or schedule to the financial statements, detailing sub-projects, UNHCR funds received and spent, as well as any unspent balances or balances due from UNHCR. This note or schedule would need to be certified by the organization's external auditor. UNHCR has also decided to limit the audit certificate

requirement for international NGOs to sub-projects totalling an aggregate of over US\$ 100,000 in a given year.

13. Lastly, UNHCR will request implementing partners to confirm that they are in a position to comply with its requirements at the time the project agreements are signed.

14. In line with this recommendation of the Board of Auditors and as part of the systems' renewal process currently under way, UNHCR is studying the possibility of a structured approach to financial risk analysis and performance evaluation of UNHCR's implementing partners. Current and future requirements will very much depend on the approach chosen.

15. In the meantime, to address the problem of non-availability of audit certificates at the time of audit, UNHCR wishes to propose that the Board agree to de-link them from the audit of UNHCR's financial statements for a given year. Audit certificates should be seen as an essential component of UNHCR's control systems, reassuring management that implementing partners' financial reports can be relied upon and the Board that proper control is in place. If positive assurance is given, year by year, the final financial Sub-Project Monitoring Reports (SPMRs) from implementing partners should be a sufficient basis for the external audit of UNHCR's financial statements. In practice, this would mean that the audit team visiting UNHCR in the spring of 2000 would not rely on the audit certificates for 1999 projects in their review of UNHCR's 1999 financial statements. They would, however, review the certificates received for the previous years. A review of compliance and quality of the certificates for the previous year would provide the team with assurances that proper controls are in place in UNHCR. It would also help the team to form an opinion on the financial performance of our partners, most of whom would still implement projects for UNHCR in the year under review.

16. In addition to increasing the number and percentage of audit certificates submitted and improving their quality, UNHCR is committed to make better use of the information provided. Mechanisms will be strengthened to analyse this information and use it for monitoring, reporting and programming purposes.

17. UNHCR is of the opinion that the above mentioned policy changes respond appropriately to this recommendation as well as the previous recommendation not fully implemented, contained in paragraph 8 (a) of the Report of the Board of Auditors (A/AC.96/917).

III. MANAGEMENT ISSUES

18. **Recommendation 12 (c): Ensure that work plans are programme specific and that they are prepared as an integral part of the project planning and monitoring process (A/AC.96/917, para. 51).**
Measures Taken by the Administration

19. Workplans are not currently required for all (sub-) projects. The team developing the Protection and Programme Management component of the ISP is considering the use of a Balanced Scorecard which provides a scheduler for use in preparing workplans. This will be provided either within the recently released PeopleSoft module, through the use of Microsoft Project or a similar project scheduling tool. It is planned to procure the software in 2000 and prototype and test its appropriateness, with a view to incorporating the results into the ISP. In the meantime, field offices will use existing software tools (e.g. Microsoft Project and Excel) to prepare workplans where required.

20. This proposal also addresses the auditors' previous recommendation not fully implemented, referred to in paragraph 8 (c) of their report (A/AC.96/917).

21. **Recommendation 12 (d): Exercise stricter control over the progress of work of implementing partners in order to ensure achievement of the stated objectives; and recover the savings of \$371,368 from the implementing partners concerned (A/AC.96/917, para. 66).**

Measures Taken by the Administration

22. As recommended by the auditors, UNHCR has undertaken a series of demarches with the concerned governmental implementing partner to obtain the refund of the savings referred to by the auditors. The government implementing partner reiterated that it had contributed its own resources much in excess of the total value of UNHCR's project, and that in their view, the project savings were

appropriately used to meet the refugee emergency of 1996, and should be considered as an offset to their own contribution. UNHCR will continue to pursue the matter.

23. Recommendation 12 (e): Review completed projects to ensure that they are promptly closed (A/AC.96/917, para. 74).

Measures Taken by the Administration

24. In the course of 1999, over 330 projects were closed for the years 1994 through 1998, inclusive. A total of 36 per cent of the projects undertaken during this period are now closed. More significant progress has been made on sub-project closure. During 1999, over 2,500 sub-projects were closed. The Project Unit conducted project closure refresher training sessions within the Bureaux at Headquarters. This activity directly led to one Bureau hiring staff on temporary assistance to focus on their backlog. The Auditors' comments and observations are continuing to receive due attention, leading to the timely closure of projects and sub-projects. While the Project Unit within the Financial Resources Service has the overall oversight responsibility for this recommendation, accountability rests with the relevant programme managers at the operations location. Since project closure is an ongoing activity, definite timetables for implementation cannot be established.

25. Recommendation 12 (f): Update plans still to be implemented under Project Delphi and prioritize those activities which can be implemented with the available resources; and monitor the implementation of those plans to ensure that they achieve their objectives (A/AC.96/917, para. 99).

Measures Taken by the Administration

26. The following table provides an update of plans to be implemented under "Project Delphi":

<p>A.</p> <p><u>Delphi action:</u> Elaboration of measurable objectives for assistance activities.</p> <p><u>Comment:</u> The new Operations Management System emphasizes a hierarchy of objectives using the Logical Framework approach, essentially a development tool. This is being introduced gradually in planning documents and includes measurable outputs through the inclusion of indicators.</p> <p><u>Action planned:</u> The new planning methodology will be introduced in the field through a series of workshops, as well as through the provision of software support tools.</p> <p><u>Status as at 17 April 2000:</u> A total of nine workshops were held covering 55 countries in the last quarter of 1999 to introduce the OMS hierarchy of objectives at the project and sub-project description levels. Some 250 staff participated in these workshops, while some 150 staff at Headquarters attended briefings on the OMS.</p> <p>During the first quarter of 2000, 11 OMS strategic planning workshops were held in the field covering 42 countries with programme budgets totalling approximately US\$ 600 million, in which some 300 staff attended</p> <p>A macro template in Word 97 was introduced at the end of 1999/early 2000 to facilitate the preparation of projects and sub-projects using the hierarchy of objectives. Contrary to expectations, it was not possible to conclude negotiations with a software company for introduction of new software support to the field in 2000. It is now envisaged to be introduced in 2001</p>
<p>B.</p> <p><u>Delphi action:</u> Development of operational guidelines, standards, norms, indicators, benchmarks, and the elaboration of self-evaluation mechanisms.</p> <p><u>Comment:</u> (a) A new Knowledge and Information Management System (KIMS) was issued in April 1999 on CD-ROM for the field. This includes a section on operational guidance.</p> <p>(b) UNHCR has contributed to the work of the Sphere Project which seeks to establish a universal set of minimum standards and indicators in core areas (water supply and sanitation, shelter and site planning, nutrition, health services and food aid).</p> <p>(c) UNHCR plans to reintroduce a standard self-evaluation mechanism into its projects.</p> <p><u>Action planned:</u> (a) KIMS will be updated every six months.</p> <p>(b) The Office is examining the most appropriate way of incorporating this into its operational guidance on agreements with implementing partners.</p> <p>(c) A new format and guidance on self-evaluation will be introduced into a revised Chapter 4 of UNHCR's Manual.</p>

Status as at 17 April 2000: (a) A new KIMS CD-ROM was issued in November 1999 containing updated operational guidance.
(b) The project and sub-project formats were redesigned to include objectives, outputs and indicators, which are the essential components of the Logical Framework. The results of this are being analysed to assist in determining how much of the Logical Framework can be incorporated into humanitarian operations.
(c), Guidance material is being prepared, drawing on the OMS Working Paper on Evaluation prepared in July 1998. The issue of reintroducing self-evaluation was communicated to the field in December 1999. It is planned to introduce this during 2000 on a phased basis once testing of the formats and guidelines has been completed.

C.

Delphi action: Improved management of obligation levels.

Comment: The obligation process is being reviewed in an effort to examine the effect of obligations and how they can be managed more effectively.

Action planned: The review will lead to the establishment of requirements that will define how the processing of obligations will be implemented within the new software structure.

Status as at 17 April 2000: Defining requirements and analysing gaps will be undertaken in 2000.

New processes will be implemented as part of the new finance and budget systems, a component of the ISP, which is expected to be rolled-out in 2002.

D.

Delphi action: Access to the Intranet by field offices.

Comment: By the end of 1998, five field locations were able to access to the Intranet. This number is steadily increased in 1999.

Action planned: Establishing Intranet access in field locations will continue, taking into account existing national communication infrastructures.

Status as at 17 April 2000: Currently 16 UNHCR offices in the field have access to the Intranet, representing some 600+ users. Key regional locations such as Abidjan, Nairobi, Pretoria and Bangkok are connected. UNHCR's Information Technology and Telecoms Service has embarked on a project which involves key technical and service units in an effort to accelerate the deployment of the Intranet to the field. The "Global Connect" project will target 90 per cent of the offices that have requisite connectivity (telephone lines, internet services) and aims to have completed installation by the end of the first quarter of 2001.

E.

Delphi action: Reduction of staff at Headquarters to fit into one building.

Comment: Some progress has been made and several units have been incorporated into the main Headquarters building following a reduction of posts in 1997 and 1998. However, an ongoing emergency, such as Kosovo, has meant that the size of Headquarters has stabilized for the time being.

Action planned: While staff requirements at Headquarters will always be kept under review, it is not foreseen at this stage, given current operations, that all staff will be able to fit into one building.

Status as at 17 April 2000: To be kept under review by the Division of Resource Management.

The above actions will be monitored to ensure that the stated objectives under "Action Planned" are achieved.

IV. PREVIOUS RECOMMENDATIONS NOT FULLY IMPLEMENTED

27. Recommendations contained in paragraphs 8 (a) and 8 (c) of the Report of the Board of Auditors (/AC.96/917) have been addressed in the responses provided above.

28. **Recommendation 8 (b): Ensure the timely signing of sub-agreements with implementing partners.**

Measures Taken by the Administration

29. UNHCR has intensified its efforts to ensure that the Field Offices receive the required authorizations with sufficient advance notice to enable them to sign sub-agreements in a timely manner. There are, nevertheless, some instances when the sub-agreements must undergo lengthy negotiations and clearances, in particular when dealing with governmental partners. In these cases some delays may occur, but in the meantime implementation cannot be stopped, since this would affect adversely the refugee population. The situation witnessed by the auditors during 1995 and 1996 has greatly improved, and it is only in exceptional situations that delays may occur.

30. UNHCR is of the opinion that all the prior year recommendations made by the auditors have been properly addressed and no further follow-up action is required.