

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

Distr. : Restricted
23 February 2016
English
Original: English and French

Standing Committee
65th meeting

**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 2014 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 2014 (see A/70/5/Add.6). The Board noted that UNHCR needs to ensure that its strategies and information to support decision-making are aligned with realities and support the organization's drive for efficiency. UNHCR has invested in the upgrade of its enterprise resource management system, MSRP, to further demonstrate the efficiency of UNHCR operations. The Board noted that UNHCR could further improve cost classification, the process of reviewing the efficiency of its programmes, and donor reporting with respect to its costs. Improvements can also be made in human resources management through better use of data in workforce planning and recruitment processes.

2. The Board's report presented findings in the following key areas: (a) financial matters; (b) management of physical assets; (c) internal control and fraud risk assessment; (d) the MSRP system upgrade; (e) understanding the cost of service delivery, (f) financial management within the education programme; and (g) human resources management.

3. Chapter II of this paper provides an overview of actions that UNHCR has taken in the areas highlighted by the Board, updating the information provided to the Executive Committee of the High Commissioner's Programme in September 2015 in the report on "Key issues and measures taken in response to the Report of the Board of Auditors for 2014" (A/AC.96/1146/Add.1). Chapter III summarizes the status of implementation of the Board's recommendations. Detailed information on progress made in implementing outstanding recommendations from the 2014 audit of UNHCR's financial statements and previous years is presented in two matrices, together with UNHCR's assessment. These matrices are available for information purposes on UNHCR's website at www.unhcr.org/standingcommittee. The Board will assess this progress during its upcoming audit of the 2015 financial statements.

II. Progress in areas identified during the audit of UNHCR's 2014 financial statements

A. Financial matters

4. The Board noted that UNHCR had a strong overall financial position at the end of 2014, despite a deficit of US\$ 304.8 million, which was mostly due to adverse movements in currencies and employee liabilities, together with a reduction in pledges relating to future year donations. It further noted that the uneven profile of donor funding creates pressure to spend budget prior to the year end, leading to poor procurement decisions. The Board recommended that UNHCR continue its efforts to obtain greater certainty on the timing and earmarking of donations to improve forecasting. In response, UNHCR has noted that forecasting of donor contributions has been increasingly accurate in the last few years. UNHCR will continue to advocate with donors to increase predictability of funding, including by pursuing multi-year contributions and improving communication and information-sharing with donors.

B. Management of physical assets

5. The Board reiterated the need for clear target levels for stock holdings and that the assurance over inventory delivered to beneficiaries must continue to be improved. The Board also identified the importance of collecting and reporting on metrics to demonstrate

that the global fleet management (GFM) strategy is delivering the anticipated benefits and savings. In this respect, UNHCR commissioned an independent study to monitor and analyse the results and benefits of the implementation of the GFM strategy. The findings of the study have formed the basis for the development of specific financial reporting criteria on the use of global fleet.

C. Internal control and fraud risk assessment

6. The Board examined the operation of the internal control framework through the use of data analytics to check the application of a range of specific controls in the areas of payroll, procurement and expenses. Given the nature and volume of the items identified, the Board considered that the risk of material fraud in these areas was low, but nevertheless represented a weakness in the system of control. It therefore recommended that UNHCR makes use of data analytics to review compliance with key controls and that it integrates this requirement into a systematic process to identify control exceptions and unusual transactions. In response, UNHCR is planning to develop a systematic reporting procedure to assist in bringing control weaknesses to management's attention and to ensure that data analysis and reporting is configured within the financial systems upgrade.

7. Implementing partners are essential for the delivery of UNHCR's programme. The Board examined reports from partners and reviewed verification work performed in the field offices visited (Ethiopia and Uganda). It noted that the quality and consistency of the reports examined have improved, but scope remained to focus these verification visits on a risk basis. UNHCR continues to strengthen partnership management through the "Enhanced framework for implementing with partners". The adoption of policies to improve monitoring of reports by partners, as well as risk-based verification of projects implemented by partners, is ongoing, and all operations will be required to fully and consistently apply these policies by the end of 2016.

8. The Board also recommended that UNHCR extend checks to ensure accountability for the use of assets acquired with project funds. In this respect, UNHCR has enhanced controls by introducing specific provisions in the standard project partnership agreement regarding handling of assets by a partner.

9. In previous years, the Board expressed concerns regarding the absence of any systematic process to identify fraud risks and was of the opinion that the lack of such an assessment had contributed to the low level of reported fraud. Management has recognized the importance of strengthening its approach to fraud detection and prevention by initiating the Fraud Prevention Project. The Project focuses on the identification of key fraud risks and corresponding mitigation measures, drawing on the knowledge of a working group consisting of key staff from across various business areas and locations. UNHCR has identified internal and external fraud risks which are most relevant to the organization, both in terms of direct implementation and implementation through partners, and these risks are being assessed against the internal control framework to identify any gaps in mitigation measures. In addition, UNHCR is developing a basic e-learning programme, which is expected to be rolled out across the organization during 2016, to raise awareness about fraud identification and prevention and promote a culture where staff can report concerns.

D. MSRP system upgrade

10. The upgrade of UNHCR's enterprise resource planning system, MSRP, will be central to providing management with more reliable and timely information to be used in decision-making, enabling resources to be deployed in the most effective and efficient

manner to service beneficiaries. Management has identified 18 key priorities, focused on improved financial reporting and forecasting; better integration of revenue, budget and accounting systems; enhanced internal controls processes; and improved procurement and travel functionalities.

11. The Board noted that a project steering committee has been put in place and that a risk log has been developed. However, to ensure effective governance of the project, the Board emphasized the need to conduct a regular review of project risks in order to assess the quality and timeliness of mitigation measures, and to prepare a clear statement of benefits against which the success of the project can be measured.

12. UNHCR has continued to monitor the 18 key priorities throughout the main phases of the MSRP systems upgrade project to ensure that the solutions / recommendations to address each priority are being implemented. Updates on progress made in addressing the 18 key priorities, including information on the latest risk log and mitigation strategies, are regularly provided at the meeting of the steering committee.

E. Understanding the cost of service delivery

13. UNHCR's current costing methodology provides a practical approach to identifying and allocating costs, but the Board's analysis highlighted the need for further work to refine existing classifications. In this respect, the Board has identified some US\$ 130 million of staff costs which require more detailed consideration and re-allocation. UNHCR has agreed to review cost classifications under the functional area of "executive and management" at the field level.

14. The Board noted that all expenditures incurred by partners are currently classified as programme costs, although some of these expenses represent the agreed level of 7 per cent covering administrative costs and overhead funding for international partners. The Board recommended that management disclose these overhead costs more transparently and scrutinize the other administrative costs that UNHCR funds under agreements with international partners. In response, UNHCR has accepted to disclose, starting with the reporting cycle for the year 2015, the total of its contributions to project headquarters support costs of international partners in an additional note to the financial statements.

15. The Board noted that improvements can be made to the Annual Programme Review (APR) process to enable stronger management review of cost challenges and better demonstrate the efficiency demands which programmes and country offices have had to respond to, and to record and summarize the key efficiency outcomes. UNHCR has a process in place to analyse, during the APR cycle, financial implementation by operations in order to evaluate their budget requests and proposed programme activities. For the APR 2016, UNHCR is committed to further strengthening its analysis capacity by designing and implementing an analysis framework to better support the financial review process.

F. Financial management within the education programme

16. As part of its review of financial management, the Board examined how budgets are allocated, how costs are monitored and how sustainability decisions are made to inform funding priorities in the education programme. The Board found that UNHCR could do more, as part of the annual budgeting cycle, to examine the efficiency and cost-effectiveness of proposed operations and to refine the metrics that enable such analysis. The Board noted that the majority of educational expenditure was channelled through implementing partners, but did not find sufficient evidence that project agreements were fully driven by efficiency and effectiveness criteria. While the organization remained

focused on monitoring actual expenses against the projected plan, the Board noted weak integration between the financial and performance systems, making it difficult to measure the cost-effectiveness of UNHCR's interventions in a consistent and documented manner. As a result, the Board recommended strengthening the process of programme scrutiny to further challenge and document at headquarters level the cost-effectiveness of proposed interventions, as well as developing essential performance metrics to enable comparison among country offices.

17. In response to this recommendation, UNHCR strengthened its work on education indicator management in 2015. A central part of this ongoing initiative is the development of a comprehensive education data management system that facilitates data collection with respect to standardized education indicators across various locations, while being flexible and adjustable to different refugee settings and education systems. The functionalities of the data management system are currently being refined based on detailed user requirements. UNHCR has also invested in capacity-building for UNHCR staff and partners with respect to education data management by developing training materials and conducting regional workshops.

G. Human resources management

18. Noting that staff numbers have increased rapidly by 20 per cent since 2011, the Board focused its review on strategic workforce planning, future workforce requirements and staff capabilities and skills. The Board acknowledged the difficulties encountered by UNHCR in longer-term resource planning during emergency situations, but suggested that headquarters and country offices could do more in planning future staffing requirements, particularly for core functions, in order to better align the workforce with demand. The Board also considered that the process of staff redeployment was resource intensive and lengthy and identified the need to streamline it and to provide better data to match individuals' profiles with jobs advertised. The Board recommended that UNHCR include human resources matters on the agenda at senior management meetings to give visibility to gender composition, recruitment times and skills gaps. UNHCR was also advised to identify the staff mix and capabilities that are required for the future needs of the organization and to ensure that workforce composition, capabilities and staffing needs are fully accounted for in medium- and long-term planning.

19. UNHCR has committed to including human resources matters on the agenda at senior management meetings on a regular basis, and to submitting comparable workforce data to senior management for periodic review. In this respect, two thematic presentations were held in 2015 for senior management, respectively on: a new methodology for the selection of resident coordinators and humanitarian coordinators; and a recent review of gender equity, diversity and inclusion in UNHCR and a strategy for the future. Further, the Strategic and Transformative Human Resources Service has initiated a series of staffing and workforce planning consultations with the divisions and bureaux at headquarters. The Division of Human Resources Management (DHRM) is also organizing a series of meetings at the director level to discuss human resources matters and devise ways to jointly address human resources challenges.

III. Status of implementation of the Board's recommendations

20. In its report on the 2014 financial statements, the Board issued 21 new recommendations, which have all been accepted by UNHCR and are being implemented as outlined in A/AC.96/1146/Add.1 and as noted in Chapter II above.

21. Out of the 40 open recommendations from 2013 and previous years, 27 (67.5 per cent) were either implemented or superseded in 2014, while 13 (32.5 per cent) were still to be implemented.

22. In 2015 there was positive progress with respect to many of these outstanding recommendations, and five of them were considered by UNHCR as having been implemented as at February 2016, notably recommendations with respect to: exploring whether greater use could be made of partnership agreements going beyond a 12-month period; the strengthening of the partner selection process; guidance on the use of either partners or commercial vendors for procurement; and improvements in the profiling of resources and staffing reviews. Many of these issues were addressed by UNHCR in an updated and revised version of the “UNHCR programme manual” (Chapter 4 of the “UNHCR manual”), as well as through the issuance of an “Administrative instruction on detailed planning and budgeting for 2015”, which clarifies the criteria for determining whether procurement should be done through partners or directly through commercial providers. Regarding the use of multi-year partnership agreements, UNHCR carried out an analysis and also verified the practices adopted by other United Nations agencies and concluded that, given the constraints identified and the risks associated with this approach, entry into multi-year agreements with partners cannot be adopted as a standard practice at this stage. With respect to the Board’s recommendation to improve the profiling of resources for better forecasting, UNHCR has taken measures to ensure a greater level of predictability in funding. It has also sought to improve the current systems for recording and reporting on revenue through automation and the establishment of more checks and control mechanisms to enhance accuracy of data, facilitating better reporting, analysis and projections.

23. During the final audit of the 2015 financial statements, scheduled to start in March 2016, the Board will review the progress made in the implementation of its recommendations from 2014 and previous years, in order to close the recommendations it considers as implemented.

IV. Conclusion

24. UNHCR continues to appreciate the guidance provided by the Board. 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.
