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Consideration of reports on the work of the Standing Committee

Programme budgets, management, financial control

and administrative oversight

## **Financial statements for the year 2016 as contained in the Report of the Board of Auditors to the General Assembly on the audited financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended December 2016**

Report by the High Commissioner

Addendum

**Key issues and measures taken in response to the Report of  
the Board of Auditors for 2016**

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## Contents

<i>Chapter</i>	<i>Paragraphs</i>	<i>Page</i>
I. Introduction .....	1-6	3
II. Key findings relating to the 2016 financial statements .....	7-15	4
A. Financial overview.....	7-9	4
B. Administration and management of operations .....	10-15	4
III. Main recommendations and measures taken .....	16-37	5
A. Recommendation (paragraph 32).....	17-18	5
B. Recommendation (paragraph 39).....	19-20	6
C. Recommendation (paragraph 43).....	21-22	6
D. Recommendation (paragraph 48).....	23-24	6
E. Recommendation (paragraph 59).....	25-26	7
F. Recommendation (paragraph 87).....	27-28	7
G. Recommendation (paragraph 88).....	29-30	7
H. Recommendation (paragraph 96).....	31-32	7
I. Recommendation (paragraph 105).....	33-35	8
J. Recommendation (paragraph 113).....	36-37	8
IV. Other recommendations and measures taken .....	38-52	8
A. Recommendation (paragraph 25).....	38-39	8
B. Recommendation (paragraph 52).....	40-41	9
C. Recommendation (paragraph 71).....	42-43	9
D. Recommendation (paragraph 76) .....	44-46	9
E. Recommendation (paragraph 81).....	47-48	9
F. Recommendation (paragraph 97).....	49-50	10
G. Recommendation (paragraph 100).....	51-52	10
V. Conclusion .....	53	10

## I. Introduction

1. This report provides an overview of the key findings of the United Nations Board of Auditors (the Board) from its audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2016,<sup>1</sup> as well as measures taken or proposed by the Office in response to the main and other recommendations.

2. UNHCR prepared the financial statements for the year ended 31 December 2016 in accordance with the International Public Sector Accounting Standards (IPSAS). Following its examination, the Board concluded that the financial statements fairly presented, in all material aspects, UNHCR's financial position and its financial performance and cash flows for the year ended 31 December 2016, in accordance with IPSAS. During the course of the audit, the Board visited UNHCR Headquarters in Geneva and Budapest, as well as the global warehouse in Dubai and examined field operations in Greece, Lebanon and Uganda. The audit was conducted to enable the Board to form an opinion on UNHCR's financial statements and included a review of financial systems and internal controls, as well as a test examination of the accounting records.

3. As part of its mandate, the Board also reviewed UNHCR's operations and made observations on the efficiency of its financial procedures, accounting system, financial internal controls and, in general, the administration and management of its operations.

4. The Board reported key findings and issued 17 new recommendations in the areas of the preparation of financial statements; and the administration and management of operations. With regard to financial statements, the Board highlighted the need for additional controls and monitoring steps that could be implemented to further improve the preparation of the accounts. In respect of the administration and management of operations, the Board issued observations in the following areas: (a) individual and family payments to beneficiaries; (b) risk-based monitoring of the implementing partnership expenses; (c) global fleet management; (d) investment strategy for the after-service health insurance (ASHI); (e) Managing Systems, Resources and People (MSRP) upgrade project; and (f) procurement in country operations. This document presents the Board's recommendations and outlines how UNHCR plans to address the identified risks.

5. At 30 April 2017, of the 47 outstanding recommendations issued for 2015 and previous years, 9 (19 per cent) had been implemented and 10 (21 per cent) had been overtaken by events. The remaining 28 (60 per cent) recommendations were in the process of implementation at the time of the review. The Board noted continued progress in the implementation of outstanding recommendations, particularly relating to some areas of human resources and the MSRP upgrade project. Three recommendations remained open from 2013 and 2012 relating to the global fleet management project, an evaluation of the cash programme in Jordan and guidance on cost-effectiveness, with ongoing progress in all these areas.

6. A matrix containing additional information on the status of implementation and follow-up actions for outstanding recommendations made by the Board in previous years is available on UNHCR's website at [www.unhcr.org/excom](http://www.unhcr.org/excom), under Standing Committee documentation.

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<sup>1</sup> See A/72/5/Add.6.

## **II. Key findings relating to the 2016 financial statements**

### **A. Financial overview**

7. The Board confirmed that UNHCR remained in a strong financial position, with sufficient assets to meet liabilities. It noted that the overall key financial indicators remained robust and the level of demand for UNHCR interventions further increased with the on-going emergencies, resulting in an increase of \$407.6 million in the voluntary contributions received.

8. The Board also noted the continuously challenging donor environment, the significant funding gap and the high level of earmarked donations for specific situations, all which create challenges for management to deploy resources flexibly to meet demand across all areas of activity.

#### *Controls and monitoring activities in the process of preparation of financial statements*

9. While the Board found that UNHCR has established stable control processes for the preparation of financial statements, in some cases the Board identified the need to establish additional controls and monitoring steps. Improvements were recommended to ensure shipping documents for inbound shipments to a global stockpile are stored properly. Another recommendation was made to improve the procedures for controlling the start point of depreciation and amortization of assets under construction as soon as such assets have been completed and put in service. In order to evidence recorded expenses, the Board also recommended establishing an accrual for the implementing partners' reports not yet received or processed at the time the financial statements were signed. UNHCR concurred with these recommendations and has committed to review the respective processes to enhance monitoring and compliance.

### **B. Administration and management of operations**

#### *Individual and family payments to beneficiaries*

10. The Board noted in one of the countries visited that the seasonal support for the winter months of the 2016-2017 years was granted as a one-off payment in December 2016. The Board considered that the standard operating procedures (SOPs) on cash-based interventions developed by the respective country were not clear on whether or not the seasonal support was intended as a monthly distribution over each of the winter months or as a one-off payment at the beginning of the winter. The Board, therefore, recommended that UNHCR establish clear procedures on seasonal cash distribution and, when country operations want to deviate from their SOPs, ensure that such deviations are duly authorized and clearly documented. UNHCR took note of this recommendation and will review SOPs of country operations involved in cash-based interventions to ensure that the management of seasonal support is clearly reflected.

#### *Risk-based monitoring of the implementing partnership expenses*

11. The Board positively noted that implementing partnerships are guided by a framework that includes comprehensive governance and management instruments for protecting people of concern to UNHCR (the framework). The framework was designed to support accountability with respect to resources entrusted to UNHCR. However, on its visits to country operations, the Board also identified room for improvement, for example in identifying project risks, making better use in practice of the risk-based monitoring approach and ensuring that monitoring visits to implementing partners are planned in a systematic manner. UNHCR country operations, with support and monitoring from their respective regional bureaux and based on templates provided by headquarters, will work to improve the risk-based monitoring process.

*Global fleet management*

12. During its field visits, the Board noted that two country operations did not estimate and properly document the number and types of vehicles required in view of the size and nature of the operation. The Board recommended that country operations define the underlying assumptions for determining the number and types of vehicles needed by an operation taking into account the programme requirements, as well as security and terrain considerations. UNHCR is currently working to develop a fleet-sizing tool and a fleet planning checklist, which is expected to be made available for use by operations, ahead of the 2018 detailed budgeting exercise.

*Investment strategy for after-service health insurance (ASHI)*

13. The Board noted that UNHCR funds its ASHI liabilities by charging three per cent of the net base salary of all professional and relevant general service staff. The accumulated funding balance resulting from this plan amounted to about \$60 million at the end of 2016. UNHCR currently applies an investment strategy with a maximum term of investment of up to one year and the Board pointed out that, as the ASHI liability had a long term maturity, alternative investment options might be considered in addition. UNHCR has agreed to review and assess the investment risk measurement for ASHI reserves in the coming year.

*Managing systems, resources and people upgrade project (MSRP)*

14. UNHCR launched the MSRP upgrade project in 2013 in order to upgrade and consolidate various modules of UNHCR's Enterprise Resource Planning system into the latest version of People Soft Finance and Supply Chain Management 9.2. Certain processes were also redesigned to achieve better efficiency. Previously, the Board had recommended that a clear statement of benefits arising from the upgrade be created. During this year's audit, the Board noted that UNHCR had prepared and endorsed a benefits realization plan for the project and would continue to monitor the efficiency gains and the performance measurements of the implemented project, the full potential of which is expected to be reached in 2018. The Board recommended that UNCHR document good practices and lessons learned from this project and, where appropriate, use them for other information technology projects.

*Procurement in country operations*

15. During its field visits, the Board noted possibilities to improve the quality of the procurement process. The Board noted, for example, that operations could enhance the solicitation process by adequately and coherently documenting material decisions and assessments. The Board also noted that in line with UNHCR's regulations and rules, certain goods and services with a value which is lower than a certain threshold (currently US\$ 4,000) may be purchased under a simplified process where no formal purchase order (PO) is required, referred to as "non-PO purchases." The Board reviewed the non-PO purchase process and found that to ensure compliance, country operations should improve the monitoring and oversight of such purchases.

### **III. Main recommendations and measures taken**

16. This section contains the main recommendations made by the Board and the measures taken by UNHCR in response. The recommendations of the Board are set out in italics, with reference to the relevant paragraph of the Report of the Board of Auditors.

#### **A. Recommendation (paragraph 32)**

17. *The Board recommends that UNHCR liaise with the Copenhagen warehouse management to review the appropriateness of the procedures applied and the actual handling of shipping documents for items owned by UNHCR and stored at the warehouse*

*in Copenhagen. The procedures used for shipping documents should be harmonized at the seven global warehouses. The local context (including local requirements) should be adequately addressed when harmonizing the procedures.*

**Measures taken by the Administration**

18. UNHCR concurs with the recommendation and has begun establishing a process that addresses the weakness in control and monitoring identified by the Board. UNHCR is developing an acceptable solution for the handling of the shipping documents in agreement with the external warehouse manager in Copenhagen.

**B. Recommendation (paragraph 39)**

*19. The Board recommends that country operations determine the numbers and types of vehicles needed to meet operational needs and document the underlying assumptions and how country operations arrived at their estimates. In case country operations need assistance with respect to an accepted methodology to estimate the number and types of vehicles needed for the operation, the Board encourages them to liaise with the asset and fleet management section at headquarters for advice or additional guidance.*

**Measures taken by the Administration**

20. UNHCR has already issued a guidance note on fleet planning as part of the Administrative Instruction on 2016 year-end closing regarding property, plant and equipment and global fleet management planning (UNHCR/AI/2016/12, Annex A). In addition, UNHCR is currently working with a consultant to develop a fleet-sizing tool, expected to be made available for use by the operations, ahead of the 2018 detailed budgeting exercise. UNHCR is also developing a checklist on fleet sizing and fleet planning, which will also be made available ahead of the 2018 detailed budgeting exercise.

**C. Recommendation (paragraph 43)**

*21. The Board recommends that UNHCR establish a process to actively monitor the status of assets under construction. When construction projects are finalized and assets are in service, a process should be available to ensure that these assets are recorded in the asset management module and that depreciation starts.*

**Measures taken by the Administration**

22. UNHCR concurs with this recommendation and is reviewing the process related to recording of assets under construction, to ensure that such assets are recorded in the system in a timely and accurate manner.

**D. Recommendation (paragraph 48)**

*23. The Board recommends that UNHCR establish control procedures to identify the point in time when intangible assets are no longer “under development” and become subject to amortization.*

**Measures taken by the Administration**

24. UNHCR will improve its internal information flow to ensure that any change in the status of assets under development is promptly captured and properly reflected in the accounts.

**E. Recommendation (paragraph 59)**

25. *The Board recommends that UNHCR consider the possibility of long term investments to cover risk-adequate financing of after-service health insurance liabilities.*

**Measures taken by the Administration**

26. UNHCR has agreed to review and assess the investment risk measurement for ASHI reserves. The objective is to devise an investment strategy to match the asset allocations with the liability profiles identified through an actuarial valuation study. In July 2017, UNHCR launched a request for proposal to select a vendor to carry out an actuarial study for this purpose. Inter-agency collaboration is also being explored whilst taking into account UNHCR's specific ASHI liabilities and funding plan.

**F. Recommendation (paragraph 87)**

27. [...] *The Board reiterates its previous recommendation and encourages country operations to enhance the quality of their monitoring activities for project partnership agreements and pay greater attention to developing risk-based monitoring plans for individual agreements as well as overall monitoring plans covering all project partnership agreements in an operation. The Board also advised that these plans specifically consider the risk of fraud and enhance checks to ensure accountability for the use of assets.*

**Measures taken by the Administration**

28. The country operations, under the supervision of Bureaux and with the technical support of the relevant divisions, will continue taking steps to improve the quality of risk-based monitoring. In performing the monitoring exercise, the operations will be advised to pay particular attention to accountability over the use of assets entrusted to partners and to fraud risks. This recommendation will be addressed in conjunction with the next recommendation in paragraph 88.

**G. Recommendation (paragraph 88)**

29. *The Board also recommends that management in country operations and the regional bureaux regularly review the quality of the financial and performance monitoring for projects implemented with partners.*

**Measures taken by the Administration**

30. As part of the enhanced framework for implementing with partners, the monitoring of both the financial and performance aspects of projects are conducted by multi-functional teams and have been closely linked in order to obtain a comprehensive overview of the resources used to achieve the expected deliverables specified in the agreements. The country operations, under the supervision of bureaux and with the technical support of DFAM/IPMS and other relevant divisions, will periodically review a sample of the monitoring reports to further guide and improve the process. In order to avoid disruption, any process changes will be introduced in a manner that is consistent with the annual operational cycle.

**H. Recommendation (paragraph 96)**

31. *The Board recommends that UNHCR review and, where appropriate, clarify the country standard operating procedures for cash-based interventions with regard to the disbursement term of seasonal support. It should be made clear that the support can be granted as monthly payments but that other payment terms such as one-off payments are also possible. In addition, the Board recommends that criteria be specified and documented*

*by mentioning cases in which different terms of payment are preferable. The procedures need to provide for delegation of authority and formal documentations specifications.*

**Measures taken by the Administration**

32. The regional bureaux will work with those country operations involved in the cash-based interventions programmes to adjust the country standard operating procedures developed for these activities in order to clearly reflect various aspects of managing the seasonal support.

**I. Recommendation (paragraph 105)**

*33. The Board recommends that UNHCR document good practices and lessons learned from the MSRP Upgrade Project and, where appropriate, use them for other information technology projects. The Board expects this exercise to assist UNHCR in managing its projects in a more efficient way.*

**Measures taken by the Administration**

34. The final deliverable for the MSRP upgrade project is the project closure report, which will document project highlights and best practices, as well as issues and challenges, lessons learned and follow-on actions. UNHCR will review the good practices and lessons learned from the MSRP upgrade project closure report and, where appropriate, implement the findings in other information technology projects.

35. Acknowledging various other issues raised in the audit report relating to data storing and processing tools, UNHCR notes the need to look into data-related tools and issues in a concerted manner across the organization.

**J. Recommendation (paragraph 113)**

*36. The Board recommends that country operations monitor non-purchase order purchases on a regular basis and assess whether further efficiency gains could be realised by compiling individual non-purchase order purchases into frame agreements. The Board also advise that headquarters divisions liaise with country operations to explore how the monitoring of and oversight on non-purchase order purchases could be facilitated.*

**Measures taken by the Administration**

37. UNHCR will introduce additional processes to closer monitor the level of non-PO expenditures based on analytical reviews of the overall non-PO expenditures and on sample reviews of individual non-PO expenditure items.

**IV. Other recommendations and measures taken**

**A. Recommendation (paragraph 25)**

*38. The Board encourages UNHCR to further explore and implement measures to reduce the scope of manual work steps for distinguishing between current and non-current contributions receivable. The Board recommends an improved utilization of data that is available in MSRP.*

**Measures taken by the Administration**

39. This recommendation is being addressed through the implementation of the upgraded MSRP. Since May 2017, the due dates of pledged contributions are automatically transferred to the accounts receivable sub-module of MSRP without manual intervention.



As a second step, UNHCR intends to simplify the receivables schedule so that it can be produced in a more direct manner from MSRP.

## **B. Recommendation (paragraph 52)**

40. *The Board recommends that UNHCR establish a process to reliably identify the internal staff costs related to the development of proGres (and other internally developed software) and capitalize such costs where appropriate.*

### **Measures taken by the Administration**

41. UNHCR will design a process to identify, capture and, where appropriate, capitalize internal staff costs related to intangible assets under development. The process will be applied to all approved information technology projects, based on the capitalization threshold. The new practice is expected to be fully deployed in the financial year 2018 for all relevant development projects.

## **C. Recommendation (paragraph 71)**

42. *The Board recommends that UNHCR pay close attention to the fact that high quality reviews and verifications of partner's financial reports are essential to control the implementing partnership expenses when implementing key recommendations of the headquarters review.*

### **Measures taken by the Administration**

43. UNHCR will strive to achieve high quality reviews and verifications of partners' financial reports in order to obtain adequate assurance over expenses incurred. However, UNHCR will address this recommendation with due regard to the fact that the implementation of the headquarters review's recommendations is at an early stage in the process given the depth and scope of these recommendations.

## **D. Recommendation (paragraph 76)**

44. *The Board recommends that UNHCR review certain templates related to partnerships such as agreements, project descriptions, project work plans, monitoring plans and project risk registers/catalogues and assess if they might be enhanced to enable country operations to use them in a more consistent way and, where appropriate, with less duplication of information.*

### **Measures taken by the Administration**

45. UNHCR accepts that there is scope for simplifying and streamlining documents and templates related to partnerships. UNHCR will continue to review and improve the framework for implementing with partners taking into consideration aspects like operational flexibility and partners' accountability. UNHCR is committed to further refining its tools in order to minimise manual processing and to eliminate inconsistencies or duplications between the partnership agreements and other related templates.

46. In relation to the management of partnerships, and in light of the ongoing headquarters review and its outcomes, UNHCR believes that the key need at this point is to define the level of acceptable risks rather than adding additional safeguards to existing processes.

**E. Recommendation (paragraph 81)**

47. *The Board recommends that country operations ensure coherent risk assessments within operations and regularly review the quality of the risk assessments for individual project partnership agreements. The risk assessment template recently provided by Implementing Partner Management Service could support such exercises.*

**Measures taken by the Administration**

48. The country operations, under the supervision of the bureaux and with the technical support of the relevant divisions, will be urged to continue improving the quality of risk assessments conducted under the project partnership agreements, with due consideration of the templates made available by headquarters.

**F. Recommendation (paragraph 97)**

49. *The Board also recommends that UNHCR establish clear procedures when country operations want to deviate from their standard operating procedures or have an interpretation that is not covered by the wording of the standard operating procedures. The procedures need to provide for delegation of authorities and formal documentation specifications.*

**Measures taken by the Administration**

50. UNHCR is in the process of issuing a revised Administrative Instruction regarding the financial management of cash-based interventions. This instruction will include a provision requesting the country offices to document any deviation from the established SOPs and to ensure that such deviation is authorised by the appropriate delegated authority. While working on improving existing processes and controls, UNHCR is seeking to achieve a balance between simplifying these processes and controls and allowing country operations to retain the flexibility to address their operational needs in a timely and efficient manner.

**G. Recommendation (paragraph 100)**

51. *The Board recommends that UNHCR ensure the correct use of the new bank charges accounts. The Board intends to follow up on the correct allocation and disclosure of cash-based intervention bank charges in the work of the next financial year.*

**Measures taken by the Administration**

52. UNHCR confirms that new ledger accounts for bank charges are being utilized starting with the fiscal year 2017. UNHCR is closely monitoring the consistent recording of this category of expenses and takes corrective actions when deviations are detected.

**V. Conclusion**

53. UNHCR reiterates its commitment to addressing the recommendations made by the Board of Auditors and to further improving procedures, systems and controls in order to mitigate the identified risks. The Board's findings and recommendations that have been accepted by UNHCR will help the organization prioritize its resources in those areas where it is most exposed to risks.