

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

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**Report of the Independent Audit and Oversight
Committee, 2016-2017**

Summary

At its fifty-first meeting in June 2011, the Standing Committee established the Independent Audit and Oversight Committee “to serve in an expert advisory capacity to assist the High Commissioner and the Executive Committee in exercising their oversight responsibilities in accordance with relevant best practices, industry standards, and the financial and staff regulations applicable to UNHCR”. This is the fifth annual report of the Committee, covering the period from July 2016 to June 2017. It is submitted in accordance with section five of the Independent Audit and Oversight Committee’s terms of reference.

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I Introduction

1. The Independent Audit and Oversight Committee (IAOC), hereinafter also referred to as the Committee, comprises the following five members selected and appointed by the High Commissioner with the consent of the Chairperson of the Executive Committee: Mr. Salleppan Kandasamy (Malaysia) (Chairperson); Mr. Verasak Liengsrirawat (Thailand) (Vice-Chairperson); Ms. Lynn Haight (Canada); Mr. Sam Karuhanga (Uganda/United Kingdom of Great Britain and Northern Ireland); and Ms. Mari Simonen (Finland).
2. Members of the IAOC, serving in an expert advisory capacity, are independent of UNHCR and its management. The Committee's work is guided by its terms of reference; UNHCR's policies; financial and staff regulations applicable to UNHCR; and relevant industry standards and best practices.

II Summary of activities

3. During the reporting period, the Committee met in three formal sessions at UNHCR's headquarters in Geneva, Switzerland, from 24 to 27 October 2016, 27 February to 2 March 2017, and 19 to 22 June 2017. The agenda for each session was based on an agreed workplan covering: (i) the processes applied to the planning of oversight activities within UNHCR, the execution of approved workplans and the adequacy of resources; (ii) the outcome of oversight activities and management responses thereto; and (iii) policies, procedures and internal controls for the management of organizational risks and enhancement of performance and accountability, including in relation to financial management, implementing partners, procurement, enterprise risk management, organizational structures, and information technology.

III Main observations and recommendations

A. Oversight in UNHCR

4. Based on the recommendations of an external consultant appointed in early 2016 to conduct a review of the oversight functions within UNHCR, the High Commissioner decided to: (i) establish a dedicated Evaluation Service; (ii) discontinue the practice of standard inspections while maintaining, in the Inspector General's Office (IGO), capacity to conduct ad hoc inspections; (iii) establish a "Strategic Oversight" Service in the IGO; and (iv) suspend the Internal Compliance and Accountability Committee and transfer its oversight responsibilities, including the implementation of recommendations, to UNHCR's Senior Management Committee. These initiatives are in various stages of implementation.
5. The Strategic Oversight Service is intended to: (i) strengthen organization-wide responses to oversight findings by identifying root causes or recurring systemic issues and providing recommendations on significant oversight matters requiring management action; (ii) enhance the coherence of UNHCR's oversight functions; (iii) provide administrative support to the United Nations Office of Internal Oversight (OIOS) UNHCR Audit Service; (iv) coordinate UNHCR's interactions with the Joint Inspection Unit; and (v) provide secretariat services for IAOC.
6. With the assistance of the OIOS UNHCR Audit Service, hereinafter referred to as the Internal Audit Service (IAS), UNHCR is mapping its risk management and control processes to identify and remedy gaps, deficiencies and duplication, particularly at the first and second line of the organization's defences, so as to further improve internal control, operational efficiency and performance; and better define roles, responsibilities and accountabilities across the organization.

7. Following a “rapid organizational assessment”¹, the first phase of a broader UNHCR headquarters review being conducted by another external consultant, the High Commissioner decided to implement a number of recommendations that will result in the strategic realignment of headquarters functions, systems and processes. This will help ensure that headquarters entities are functioning optimally in support of field operations and that UNHCR is in a better position to meet the current and future challenges associated with implementing its mandate. IAOC supports these ambitious efforts and has urged UNHCR’s senior management to establish clear objectives and time-bound plans for implementation. IAOC has also recommended that adequate and appropriate resources be provided, particularly in terms professional skills, to ensure the success of these efforts. Noting that such profound change requires strong and sustained leadership and commitment at all levels for successful implementation, the Committee has suggested that senior management monitor implementation regularly and make timely decisions and changes where necessary.

B. Inspector General’s Office

8. During the reporting period, the IGO was heavily engaged in reviewing, planning and implementing the oversight reforms mentioned in paragraph four above.

Inspection

9. The Inspection Service undertook three inspections in the second half of 2016 and one in 2017. Reports of all completed inspections have been issued. The implementation of recommendations made in previous inspection reports was also followed-up. In June 2017, some 156 recommendations, mostly pertaining to the last three inspections, remained outstanding.

10. With regard to the High Commissioner’s decision for the IGO to carry out ad hoc inspections, IAOC has urged UNHCR to quickly establish the necessary policy and procedural frameworks to outline the circumstances that warrant such inspections and the methodologies to be applied.

Investigation

11. The Committee is satisfied with the progress made by the Investigation Service in managing its caseload and investigating alleged fraud and wrongdoing, including in relation to implementing partners, refugee status determination, resettlement and sexual harassment. The Investigation Service remains committed to increasing its proactive investigation work.

12. The Investigation Service has reported that the number of cases it receives each year, and thus the number of detailed investigations it is required to undertake, continues to increase. Though efforts have been made to manage investigations efficiently, the growing workload and the complexity and sensitivity of the cases being investigated, particularly those involving third parties, has placed pressure on existing resources. Though additional resources have been allocated to the Investigation Service, it was reported that these were not commensurate with requirements.

13. Considering the adverse impact of wrongdoing on the organization’s reputation and its relationships with donors and other stakeholders, the Committee has recommended that management should closely review the workload of the Investigation Service and allocate resources accordingly.

C. Internal audit

14. The Internal Audit Service substantially completed its 2016 workplan targets and issued 34 internal audit reports, with 166 recommendations arising from identified

¹ The rapid organizational assessment was intended to provide a comprehensive analysis of the design, structure and underlying processes of UNHCR’s headquarters.

weaknesses and deficiencies. Nearly 80 per cent of the recommendations were attributed to a lack of or inadequate supervision, monitoring, oversight and support; insufficient risk-based prioritization of control measures; and insufficient management commitment to internal controls. A further ten per cent were attributed to a lack of clear institutional policies and procedures. Deficiencies were noted in the following areas of management: supply and assets, implementing partnerships, basic needs and services, and information communication technology. IAS also made 64 positive observations in various operational areas, an improvement over prior years. As of March 2017, there were 153 audit recommendations, including nine critical recommendations, yet to be implemented. Nearly 30 of the outstanding recommendations were more than two years old.

15. IAOC's 2015-2016 Annual Report² identified delays by managers, beyond established timeframes, in responding to draft IAS reports. Such delays persist, postponing the issue of final audit reports and the implementation of timely remedial measures. While the oversight reforms being pursued by the High Commissioner are expected to address these issues, IAOC has urged UNHCR to ensure that managers take direct responsibility and accountability for timely action on oversight reports and the recommendations contained therein.

16. IAS's 2017 workplan is based on an assessment of risks determined by UNHCR through its enterprise risk management process and the Internal Audit Service's own evaluation of risks and consultations with all relevant stakeholders. The plan generally provides for adequate audit coverage, within available resources, and includes a good balance of audits covering field and headquarters operations and thematic areas. The Committee was pleased to note that the plan includes advisory services to management.

17. A recent external quality assessment of the OIOS Internal Audit Division, including IAS, resulted in a positive opinion that internal audit activity "generally conforms to the Standards (IIA) and Code of Ethics".

D. External audit

18. The German Supreme Audit Institution, representing the United Nations Board of Auditors, assumed responsibility for auditing UNHCR's accounts and financial statements for the year ending 31 December 2016. Following the successful completion of the audit, in accordance with United Nations financial regulations and the international standards of Supreme Audit Institutions applicable to the public sector, the external auditor provided an unqualified audit opinion on UNHCR's 2016 financial statements.

19. Twenty-eight recommendations issued by the previous external auditor in relation to 2015 and prior years are in various stages of implementation.

E. Evaluation

20. In October 2016, the High Commissioner issued UNHCR's revised evaluation policy, establishing a dedicated Evaluation Service reporting directly to him. The revised policy allows for both centralized and decentralized evaluations, each of which is aimed at achieving specific objectives. UNHCR has recruited a number of evaluation specialists, including the new head of the Evaluation Service in June 2017. Based on due consultation with all relevant stakeholders, the head of the Evaluation Service is required to submit annual workplans, together with required resources, for the High Commissioner's approval. The IAOC welcomes the development of the new Evaluation Service and looks forward to the effective implementation of the evaluation policy.

² See: EC/67/SC/CRP.25.

21. During the reporting period, the Evaluation Service commissioned four centralized evaluations, which are in the final stages of completion and reporting. In addition, the Evaluation Service has been assisting three country representations to launch decentralized evaluations.

22. It is imperative that adequate resources are allocated to the commissioning of a reasonable number of evaluations each year. The Committee has suggested that management consider setting aside, on a mandatory and annual basis, a pre-determined percentage of programme resources for funding evaluation assignments. In addition to making evaluation an integral part of programme management, this would allow UNHCR to have an evaluation function befitting the size of the organization and that meets the expectations of its stakeholders.

F. Enterprise risk management

23. UNHCR's risk registers, established when enterprise risk management was first launched in 2014, were successfully reviewed and updated at the end of 2015 and 2016. Both the external and internal auditors have been using the risk registers and commenting on risk management processes in areas where they have conducted audits. In addition, IAS is currently undertaking a review of enterprise risk management processes as a whole. The lessons learnt to date and the results of the IAS review are expected to be used to identify deficiencies, best practices and changes required to further enhance the enterprise risk management framework.

24. The Committee, while satisfied with progress made in this area, reiterates that management should take every opportunity to systematically embed risk awareness and culture in all UNHCR operations. In addition, the Committee has suggested to management that it establish a target date for the achievement of a specified maturity level for the framework in accordance with accepted standards.

G. Financial management and reporting

25. UNHCR continued to use reliable processes and discipline in maintaining its accounts in a manner that facilitated the accurate and timely preparation of its annual financial statements for the period ending 31 December 2016, in accordance with the required standards. At the conclusion of the audit of the financial statements, the external auditor complimented UNHCR on the efficient and smooth closure of its accounts and the preparation of accurate financial statements.

26. In May 2017, UNHCR's upgraded enterprise resource planning (ERP) system, known as Managing for Systems, Resources and People (MSRP), became operational, with enhancements relating to financial and supply chain management. IAOC looks forward to a post-implementation review of whether all planned objectives related to these systems are being achieved and if any further action is necessary.

H. Ombudsman's Office

27. The Ombudsman's Office provides alternatives to UNHCR's formal complaint handling system by interacting with interested individuals through its informal conflict resolution mechanism, supported by some 90 "respectful workplace advisers" in field offices. It also helps UNHCR establish policies and guidelines to promote a respectful and harmonious work environment and advises management on systemic weaknesses observed in the course of its work.

28. The informal mediation service provided by the Ombudsman's Office has helped UNHCR reduce the number of cases that are subject to formal adjudication and save resources that would otherwise have been dedicated to the adjudication process. IAOC

supports the mediation process and has recommended a formal record of savings accrued through the service be maintained to assist management in the future assessment of this function.

29. The Ombudsman's Office has reported receiving about 153 visitors annually with a variety of issues. While the work of the Ombudsman makes a valuable contribution to the workplace, the number of visitors is relatively low compared to the number of UNHCR staff. Although the level of visitors is reported to be about the norm for United Nations entities, UNHCR should review and proactively encourage staff to use the Ombudsman service.

I. Ethics Office

30. The Ethics Office, supported by a network of focal points across field offices, conducts outreach programmes to strengthen ethical standards in UNHCR through education, training and communication. It also administers UNHCR's financial disclosure programme in conjunction with the United Nations Ethics Office. Following the recent appointment of an externally recruited professional to head the Ethics Office, IAOC looks forward to concrete actions, both proactive and reactive, aimed at ensuring that the culture of ethics is further strengthened and integrated into all aspects of UNHCR's operations.

31. IAOC, concerned with the high cost and usefulness of maintaining the financial disclosure programme, has requested management to consider whether it is providing value for money and is effective in its current form. IAOC has also requested management to consider implementing a mandatory programme for staff members to make an annual declaration relating to conflicts of interest. This would further strengthen the culture of ethics in UNHCR.

J. Private sector fundraising

32. As part of the Office's ongoing efforts to diversify its revenue sources, UNHCR has received increasing support from private individuals and organizations: from US\$ 22 million in 2006 to US\$ 352 million by the end of 2016. While mindful of the competitive fundraising environment for international humanitarian organizations, UNHCR aims to further increase its revenue from private sector donors to US\$ 1 billion and is currently developing a long-term strategy towards this goal.

33. IAOC has suggested that UNHCR use more innovative approaches to diversify its funding sources and increase its revenue levels. The risks associated with fundraising, including through national fundraising partners, need to be further investigated and appropriate risk mitigation measures put in place.

34. Consistent with the "grand bargain" commitments made during the 2016 World Humanitarian Summit, UNHCR should work proactively with other international partners in its fundraising efforts while maintaining clarity of its own mandate, mission and competitive advantage. UNHCR should also further invest in public communications to raise its public profile and differentiate itself from other United Nations agencies.

K. Cash-based interventions

35. UNHCR's cash-based interventions, which can involve cash, bank cards and vouchers, help persons of concern meet a variety of needs, including in relation to livelihoods opportunities and voluntary repatriation. Cash-based interventions now constitute a significant programme implementation modality, having increased significantly to US\$ 527 million, or 15 per cent of total expenditure, in 2016. UNHCR is committed to the increased and coordinated use of cash-based interventions as part of its "grand bargain" commitments.

36. Management has put in place a comprehensive policy for the use of cash-based interventions, taking into account the financial, operational and programme risks. IAOC supports these initiatives and has requested management to regularly review, monitor, evaluate and address the risks as new lessons are learnt through implementation. IAOC has also recommended to management that as the use of cash-based interventions increases, UNHCR should consider the longer-term implications for its operational presence and programmes as well as opportunities for improved cost-efficiencies. The first major evaluation of cash-based interventions in Jordan is near completion.

L. Cyber-security

37. As recommended in IAOC's 2015-2016 Annual Report, cyber-security is now included in UNHCR's strategic risk register. An external consultant appointed to review UNHCR's cyber-security is finalizing a report on the security gaps and challenges facing UNHCR, together with a roadmap to address these and other deficiencies already identified by management.

38. As UNHCR relies heavily on information technology (IT) systems for its operations, it is critical to have reasonable assurances with respect to their "confidentiality, integrity and availability", particularly considering the sensitive nature of information relating to persons of concern. Management needs to ensure that action is taken to address the security challenges and deficiencies identified in the consultant's report without delay. Processes and measures also need to be put in place to identify and address cyber-security issues as they arise.

39. The majority of reported cyber-security incidents arise from a lack of awareness of information security issues among employees and others using IT systems. UNHCR recently established a mandatory online training programme on information security. IAOC has recommended that staff and other users be made accountable for completing this programme within a predetermined timeframe. It is also imperative that UNHCR regularly tests the competency and knowledge of all IT users on security issues and takes appropriate measures to remedy deficiencies.

IV Acknowledgements

40. The Committee expresses its appreciation for the support and cooperation of the High Commissioner, the Deputy High Commissioner and UNHCR staff, including in the IAOC Secretariat. The Committee appreciates and benefits from the presentations and briefings received from UNHCR senior management, OIOS and the United Nations Board of Auditors.
