A/74/5/Add.6

United Nations

Voluntary funds administered by the United Nations High Commissioner for Refugees

Financial report and audited financial statements

for the year ended 31 December 2018

and

Report of the Board of Auditors

General Assembly

Official Records
Seventy-fourth Session
Supplement No. 5F

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United Nations • New York, 2019

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

Letter dated 29 March 2019 from the Controller and Director of the Division of Financial and Administrative Management of the Office of the United Nations High Commissioner for Refugees and the United Nations High Commissioner for Refugees addressed to the Chair of the Board of Auditors

Pursuant to the financial rules for voluntary funds administered by the Office of the United Nations High Commissioner for Refugees, we have the honour to submit the financial statements for the year ended 31 December 2018, certified and approved in accordance with article 11.3 of those rules (A/AC.96/503/Rev.10).

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries with other officials of the organization, the following representations in connection with your audit of the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2018:

1. We are responsible for preparing financial statements that properly present the activities of the organization, and for making accurate representations to you. All of the accounting records and related information have been made available for the purposes of your audit, and all of the transactions that occurred in the financial period have been properly reflected in the financial statements and recorded by the organization in the accounting and other records.

2. The financial statements have been prepared and presented in accordance with:

(a) The International Public Sector Accounting Standards (IPSAS);

(b) The Financial Regulations of the United Nations;

(c) The financial rules for voluntary funds administered by the High Commissioner for Refugees;

(d) The accounting policies of the organization, as summarized in note 2 to the financial statements.

3. The property, plant and equipment, the intangible assets and the inventories disclosed, respectively, in notes 3.5, 3.6 and 3.3 to the financial statements are owned by the organization and are free from any charge.

4. The value of cash, cash equivalents and investments recorded is not impaired and, in our opinion, is fairly stated.

5. All material accounts receivable have been included in the financial statements and represent valid claims against debtors. Apart from the estimated uncollectable amounts, recorded under the allowance for doubtful accounts, we expect all significant accounts receivable at 31 December 2018 to be collected.

6. All known accounts payable and accruals have been included in the financial statements.

7. The commitments of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the acquisition of goods and services, as well as the capital commitments contracted but not delivered as at 31 December 2018, have been disclosed in note 9.2 of the financial statements. Commitments for future expenses have not been recognized as liabilities.

8. All known legal or contingent liabilities as at 31 December 2018 have been disclosed in note 9.3 of the financial statements.

9. All expenses reported during the period were incurred in accordance with the financial rules of the organization and any specific donor requirements.

10. All losses of cash or receivables, ex gratia payments, presumptive fraud and fraud, wherever incurred, were communicated to the Board of Auditors.

11. Disclosures were made, in the financial statements, of all matters necessary to enable them to present fairly the results of the transactions during the period.

12. There have been no events since the UNHCR reporting date of 31 December 2018 that necessitate revision of the information presented in the financial statements thereto.

(*Signed*) Hans G. **Baritt**
Controller and Director
Division of Financial and Administrative Management

(*Signed*) Filippo **Grandi**
United Nations High Commissioner for Refugees

Letter dated 24 July 2019 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2018.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors
(Lead Auditor)

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees, which comprise the statement of financial position (statement I) as at 31 December 2018 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2018 and the financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the voluntary funds administered by the United Nations High Commissioner for Refugees, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The United Nations High Commissioner for Refugees is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2018, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The United Nations High Commissioner for Refugees is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the United Nations High Commissioner for Refugees is responsible for assessing the voluntary funds administered by the High Commissioner with regard to the Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate the voluntary funds administered by the High Commissioner or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the voluntary funds administered by the United Nations High Commissioner for Refugees to which the financial reporting process is applicable.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the voluntary funds administered by the United Nations High Commissioner for Refugees.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions concerning the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the voluntary funds administered by the United Nations High Commissioner for Refugees to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the voluntary funds administered by the High Commissioner to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In our opinion, the transactions of the voluntary funds administered by the United Nations High Commissioner for Refugees that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for the voluntary funds administered by the United Nations High Commissioner for Refugees.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile

24 July 2019

Chapter II
Long-form report of the Board of Auditors

Summary

Audit opinion

The Board of Auditors has audited the financial statements and reviewed the operations of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2018. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by UNHCR as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

The finances of UNHCR remain sound with high levels of liquid assets. UNHCR has again achieved its highest level of revenues, but at the same time its liquidity is affected by the inclusion of donor commitments and agreements made for future years.

The funding gap based on the budget representing the needs of persons of concern increased and amounted to $3.51 billion. The funding gap is understood as the difference between the funds UNHCR deems necessary to meet the needs of persons of concern and the funds finally available. The constrained resources led to the prioritization of interventions; UNHCR implemented fewer activities than deemed necessary to address the needs. Likewise, the high level of donations earmarked for specific situations brings challenges for management to focus on priorities and to deploy resources flexibly to meet demand across all areas of activity.

The Board encourages UNHCR to further explore areas for working more cost-effectively while at the same time striving for well-documented, transparent processes so as to foster accountability. For instance, the Board noted opportunities to enhance and further develop the internal control systems. The Board holds that simplified processes need to be well documented to allow for transparent management decisions and effective monitoring. Such documentation will further support the commitment of UNHCR to a culture of integrity and accountability, especially during and after the implementation of its change initiatives.

Financial overview

UNHCR continues to receive high levels of support from its donors. Voluntary contributions increased by $108.8 million (2.6 per cent) to $4,260.8 million. Total voluntary contributions represented 98.2 per cent of the organization's total revenues of $4,338.3 million. The expenses increased by $231.6 million and amounted to $4,082.5 million. The increase resulted mainly from increased cash assistance to beneficiaries ($101.8 million), increased salaries and employee benefits ($66.6 million) and foreign exchange losses compared with gains in 2017 ($112.3 million). The 2018 surplus amounted to $255.8 million.

UNHCR maintains a high ratio of current assets to meet its current liabilities. However, the strong appearance of its liquidity status is significantly affected by the inclusion of $1.13 billion in donor commitments made for future years. There also remain constraints with regard to the use of resources, since a high proportion of 2018 contributions (85 per cent) were earmarked for specific purposes by donors. Unrestricted funds represented only 15 per cent of 2018 contributions.

Key findings

Finance-related findings

The Board pointed out that UNHCR nomenclature for the presentation of net assets differs from IPSAS requirements. The Board found that the presentation and disclosure by UNHCR is based partly on budgetary considerations or fund accounting. By presenting the Staff Benefits Fund as a balance of liabilities and available funds, fund accounting and accrual accounting are commingled.

If past experience with donors indicates that those donors enforce the requirement to return the asset or other future economic benefit, IPSAS requires recording a liability to the extent that the present obligations have not been met. The Board found that for the 2018 financial statements the probability of the outflow and a reliable estimate of the amount of the present obligation cannot be determined for concerned donors since UNHCR conducted an aggregate analysis and not an analysis by donor.

The Board noted cases in which the date used for the actuarial computation of the after-service health insurance did not reflect the actual years of service within the United Nations system but only the years of service at UNHCR. The Board found that the methodology of data submitted to the actuary was in line with the administrative instruction. However, the Board is concerned that in some of these cases, the after-service health insurance liability may be understated.

The Board analysed cases in which staff members were transferred between UNHCR and other United Nations organizations. The Board found that UNHCR does not conclude agreements with the receiving or releasing United Nations organizations for associated health insurance liabilities or receivables. The relevant United Nations inter-organization agreement stipulates that such agreements are to be concluded between the organizations concerned on a case-by-case basis.

The Board noted cases in which UNHCR purchased brand new assets and transferred these directly to partners and governments. The Board holds that the current transfer procedures lack elements that are required by the financial rules and regulations. Items may only be handed over to external recipients if the handover provides maximum benefit to the operation and if agreements with the recipients contain appropriate provisions. In the cases noted by the Board, the agreements did not contain appropriate provisions or agreements did not even exist. The Board also holds that the transfer of assets needs to be recorded in a consistent manner.

Reform initiatives

UNHCR is currently undergoing a number of reform initiatives. The UNHCR “journey of transformation” includes the change process that is currently in the phase of implementing decentralization and regionalization, results-based management renewal and enterprise risk management. The Board wishes to stress the importance of a consistent organization-wide approach with regard to the transformation process.

The Board noted that the decentralization project includes opportunities along with risks. The Board pointed out that new positions and authorities in the regional bureaux need to be well coordinated and built into current UNHCR structures. Well-designed and implemented reporting lines, accountabilities and authorities will be crucial for the success of the project.

Results-based management and enterprise risk management are required to provide strategic direction and guidance on the management of the operations of UNHCR. Part of the ongoing results-based management project is to include performance metrics. This is to facilitate measuring cost-effectiveness and to create visible links to the key Sustainable Development Goals, mainly at the levels of impact and outcome. The Board noted with concern that the revision of results-based management has already been ongoing for a long time.

The Board noted ongoing efforts to strengthen the risk culture at UNHCR. In terms of the corporate risk registers, the Board noted several areas where the quality of these registers could be further improved. Some risk registers contained a very detailed level of risks. The Board encourages UNHCR to provide further guidance to country operations on the required granularity of risk descriptions in the corporate risk registers and to finalize the update of the administrative instruction on enterprise risk management.

Internal controls: cross-cutting

The Board found that UNHCR should further strengthen its internal control system. The Board sees possibilities for strengthened controls in the upcoming change process and decentralization. The "three lines of defence model" could be strengthened by implementing additional controls at the field level and by emphasizing clear monitoring trails at the second line of defence. The Board found that the addressed risk areas in the financial control matrix could be better scaled to reflect the UNHCR operational model. High risk areas with greater importance to the UNHCR mandate should be addressed in greater detail than less relevant areas. The financial control matrix should be updated on a regular basis.

The Board found that some of the indicators in country financial reports are not meaningful and even partly misleading. The Board noted the ongoing project to replace and enhance those reports as part of the new business intelligence and data analytics platform currently under development. A real-time or timelier access to the country financial report information will be of greater value to the country operations.

The Board pointed out that UNHCR did not adequately conduct a plausibility variance analysis of salary expenses as required in the financial control matrix. The provided analysis lacked information on major variances and respective explanations.

The Board noted that UNHCR had not run and documented key human resources and payroll monitoring reports as frequently as required. The review process lacked action based on reviews, supervisory controls and respective documentation. Only a very limited number of review reports were automated.

Internal controls: cash assistance to beneficiaries

The Board noted cases in which refunds from financial service providers were not claimed over a maximum period of three years. The Board noted the need to further elaborate the basic conditions for refunds when UNHCR participates in common cash facilities with commingled cash pools.

The Board found that country operations used self-developed tools to perform reconciliations of cash distribution to beneficiaries. The Board also found that in some cases country operations had not conducted the reconciliation exercises or that the documentation was incomplete.

The Board noted a few cases in which UNHCR cannot exclude that beneficiaries may have received double cash grants in 2018. Irrespective of the number of duplicates, the Board viewed with concern the possible duplication of enrolment for cash grants in the systems.

The Board found different qualities of post-distribution monitoring reports. In some of the reports, recommendations or key actions for the future design of the programme were not derived from the data in the reports. The Board found that UNHCR did not always sufficiently analyse and aggregate the findings of post-distribution monitoring reports and did not use them for further developing the cash-based intervention programmes.

Internal controls: implementing partners

At the time of the audit, project agreements, amendments and partner financial reports were printed, signed, scanned and then stored as electronic files. The approval of partner financial reports was signed on paper. The Board is of the opinion that working with scanned files makes an overall review difficult. Detecting errors or irregularities based on scanned documents is time-consuming and error-prone.

The Board found cases in which an instalment was paid to an implementing partner, even though only a small share of the previous instalment had been expensed. The documents provided did not include a justification for the transfer of the instalment amount. The Board holds that the reasons for a second payment and the link to current performance and future forecasts should be documented when the payment is requested or initiated.

The Board found cases in which UNHCR procured assets and transferred them to an implementing partner. The project partnership agreement did not refer to any transfer of ownership.

Global fleet management

UNHCR had analysed its light vehicle fleet in 2011. As a result, UNHCR launched its global fleet management project in 2013. In 2018, UNHCR contracted a company to evaluate the project's efficiency and effectiveness. The contractor analysed the financial period from 2014 to 2018 and found important improvements and weaknesses within the system. The Board underlines the recommendations defined in the evaluation report.

Internal controls: contractors

UNHCR engaged over 1,000 individual contractors under temporary contracts with expenses amounting to $10.5 million for the years from 2016 to 2018. Approximately 70 per cent of the contractors were hired by the field operations based on their forecasting needs. Pursuant to UNHCR policy, individual contractors may only be hired if the required services are not available within UNHCR. The Board found no evidence that UNHCR had mechanisms in place to assess in-house competencies and expertise before engaging individual contractors.

The Board noted that, in 2018, in 95 out of 287 cases, UNHCR did not comply with its policy on the duration of the work assignment.

The Board further noted weaknesses in internal controls regarding the segregation of duties and the budgeting process. UNHCR did not implement a mandatory verification process supported by technical tools to guarantee human resources clearance.

The Board noted room for refining the UNHCR policy on individual contractors and the administrative instruction on the use of affiliate workforce arrangements. Furthermore, the Board found areas ripe for enhancing technical tools and workflow processes in accordance with the UNHCR enterprise resource planning system.

Information technology/cybersecurity and data protection

Decentralization and increased autonomy of field operations in information and communications technology (ICT) matters have an impact on information security and cost-effectiveness. The Board sees a risk that owing to the autonomy of field operations in ICT matters, individual local applications continue to evolve independently.

Despite regular reminders by UNHCR headquarters, field offices rarely allocated sufficient funds to information technology operations, resulting in the obsolescence of their ICT assets such as workstations, networks and local servers.

The Board noted that the risk register of the Division of Information Systems and Telecommunications itemized only one ICT security risk area, even though, in 2017, a consulting firm had identified numerous ICT security risks and mitigation measures. UNHCR did not keep a detailed security risk register apart from the corporate risk registers, where all security risks and their handling were described.

The Board noted that the Chief Information Security Officer of UNHCR had no instruments, such as a mandatory information security policy, to enforce information security organization-wide and no reporting line to top management.

For UNHCR, personal data of persons of concern has particular importance. UNHCR stores large amounts of personal data. The Board noted that the Data Protection Officer had not yet carried out all of the tasks provided for in the data protection policy. Initiatives of the Data Protection Officer were not sufficiently followed by effect in field operations. Also, no reporting line to top management was in place for data protection matters.

Key recommendations

The Board has made several recommendations based on its audit which are contained in the main body of the report. The main recommendations are that UNHCR:

Finance

(a) **Revise the presentation and disclosure of net assets in the financial statements, ensuring that fund accounting information is used only in so far as it supplements IPSAS requirements;**

(b) **Enhance the review of contribution agreements to reflect, for each donor, the probability of the outflow and an estimate of the amount of the obligation;**

(c) **Consult with other United Nations organizations and the actuaries as to whether the relevant administrative instruction needs to be amended to state the after-service health insurance liability more precisely for staff members with eligibility from prior engagements;**

(d) **Assess whether agreements with United Nations organizations should be concluded to gain legal assurance on health insurance liabilities or receivables associated with incoming and outgoing staff;**

(e) **Establish a consistent accounting process and guidance for items that are procured for direct transfer of ownership to other entities and disclose expenses resulting from such transfers separately in the notes to the financial statements;**

Reform initiatives

(f) **Ensure well-coordinated accountabilities, authorities and reporting lines for managers in the newly created regional and headquarters structures. The reporting lines, accountabilities and authorities should be integrated into the current structures of UNHCR and provide for the necessary coordination and monitoring at headquarters;**

(g) **Use the new results-based management tool to present the link between input, outcome and results, including the outputs delivered by implementing partners, and facilitate alignment of country operation plans with inter-agency and multi-partner processes;**

(h) **Enhance the corporate risk registers and provide guidance to country operations on the required granularity of relevant risk descriptions;**

Internal controls: cross-cutting

(i) **Refine the financial internal control matrix, reflect imminent changes in the organizational structure and ensure the systematic update of the financial control matrix;**

(j) **Continue with its current efforts to enhance the content and meaningfulness of country financial reports as part of the ongoing business intelligence and data analytics project;**

(k) **Enhance the variance analysis of salaries and employee benefits, ensure and document the constant run and review of required key human resources and payroll reports and increase the number of automated reports;**

Internal controls: cash assistance to beneficiaries

(l) **Strengthen the monitoring of country operations' refund and reconciliation processes, clarify the allocation of refunds to participating agencies in case of common cash facilities with commingled cash pools, implement timelines for the request of refunds and ensure that no cash distribution can be processed without approved distribution lists;**

(m) **Highlight the importance of a standard check for duplicates in cash assistance distribution lists before approval of the lists;**

(n) **Ensure that post-distribution monitoring reports contain recommendations and key programmatic adaptations, and analyse the findings from post-distribution monitoring and use them as a basis for further developing the cash-based interventions programme;**

Internal controls: implementing partners

(o) **Implement further electronic processes, such as submission of financial reports from partners and electronic signature for the approval of partner financial reports to replace the current offline verification signatures where possible, in order to facilitate strengthened internal controls;**

(p) **Strengthen the link of performance review and resource requirements to additional instalment payments and document the review accordingly when initiating the payment of additional instalments;**

(q) **Transparently link transfers of ownership to project partnership agreements and make the purpose of a transfer visible;**

Global fleet management

(r) **Incorporate the results of the evaluation report in the next fleet strategy and assess the sequence and importance of the processes needed to be implemented and prioritize them accordingly. In order to carry out these verifications, record and evaluate all operational and financial data in the analysis tools;**

Internal controls: contractors

(s) **Strengthen and amend the respective policies to enhance the documentation on the non-availability of in-house capacity and to ensure the involvement of the Affiliate Partnerships Unit in the human resources clearance process;**

(t) **Monitor the duration of contracts to comply with the limits of the mandatory break in service of three full months;**

(u) **Examine the technical options for implementing an approval workflow process to enhance the transparency and efficiency of the selection decision and the analysis of whether the assignment of contractors is the most cost-effective solution;**

Information technology/cybersecurity and data protection

(v) **Establish mandatory UNHCR-wide minimum information security standards in an ICT governance framework as soon as possible and make funds available to implement the standards in the field;**

(w) **Establish an information security risk assessment process based upon or directionally aligning towards ISO 27005;**

(x) **Define the role and functions of the Chief Information Security Officer in an overarching information security policy, and define the position of the Chief Information Security Officer and the Data Protection Officer with the possibility to report directly to top management.**

Previous recommendations

As at 30 April 2019, out of the 67 recommendations made for 2017 and previous years, 35 (52 per cent) had been implemented and 32 (48 per cent) remained under implementation (see annex). The Board welcomes the overall progress made in implementing prior years' recommendations.

Key facts

$8.22 billion	Final budget based on a global needs assessment
$4.34 billion	Revenue reported (including $1.13 billion for future years)
$4.08 billion	Expenses incurred in 2018
74.8 million	Persons of concern to UNHCR
12,240	UNHCR staff
131	Countries of operation, with 469 offices, including major emergency operations and situations in 2018 (Bangladesh, Burundi, Central African Republic, Democratic Republic of the Congo, Europe, Iraq, Nigeria, South Sudan, Syrian Arab Republic, Venezuela (Bolivarian Republic of) and Yemen)

A. Mandate, scope and methodology

1. In 2018, UNHCR provided protection and assistance to approximately 74.8 million persons forcibly displaced within or outside their countries of origin. It is a devolved organization with more than 12,000 staff working in 469 offices located in 131 countries. Its mandate encompasses delivering support to long-term and protracted situations and responding to humanitarian emergencies. Large-scale displacements of people have continued to increase, not only as a result of conflicts in the Syrian Arab Republic and South Sudan, but also as a result of the crisis in the Lake Chad Basin region, the unrest in the Democratic Republic of the Congo and the situations in Bangladesh and the Bolivarian Republic of Venezuela. UNHCR is funded almost entirely by voluntary contributions, representing $4.26 billion of overall total revenues of $4.34 billion. Recognized revenue from donor agreements included $1.13 billion relating to future years. Total expenses were $4.08 billion.

2. The Board audited the financial statements of UNHCR and reviewed its operations for the financial year ended 31 December 2018 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations of the United Nations, the financial rules for the voluntary funds administered by the United Nations High Commissioner for Refugees and, where applicable, the Financial Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNHCR as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4) and the financial rules for the voluntary funds administered by the High Commissioner for Refugees (A/AC.96/503/Rev.10). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. The Board also reviewed UNHCR operations under United Nations financial regulation 7.5, which requires that the Board make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board has commented, among other things, on UNHCR reform initiatives, risk management, internal controls, cash assistance to beneficiaries, implementing partner management, fleet management, the use of individual contractors, information security and data protection.

5. During the course of the audit, the Board visited UNHCR headquarters in Geneva and the offices in Budapest and Copenhagen. The Board examined field operations in Egypt, Jordan and the Regional Office in South-Eastern Europe in Bosnia and Herzegovina. The Board continued to work collaboratively with the Office of Internal Oversight Services (OIOS) to provide coordinated coverage. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board’s report was discussed with UNHCR management, whose views have been appropriately reflected.

B. Findings and recommendations

1. Previous recommendations

6. The Board noted that there were 67 recommendations pending up to its report for the financial year ended 31 December 2017. The Board assessed that 35 recommendations (52 per cent) had been implemented, and 32 recommendations (48 per cent) are considered to be under implementation. Details of the status of implementation of the 67 recommendations are shown in table II.1 and the annex to the present report.

Table II.1
Previous recommendations

Year	*Total*	*Fully implemented*	*Under implementation*	*Overtaken by events*
2012	1	1	–	–
2014	3	2	1	–
2015	5	4	1	–
2016	9	6	3	–
2017	49	22	27	–
Total	**67**	**35**	**32**	**–**
Percentage	100	52	48	–

7. Out of the 32 recommendations under implementation, 27 relate to 2017 and 3 relate to 2016. The Board sees continuing progress in implementing recommendations that are pending. The Board welcomes the overall progress made in implementing and closing older recommendations related to the years from 2012 to 2015. Some recommendations under implementation relate to projects and initiatives which are still being rolled out or developed, such as the engagement of UNHCR in the Sustainable Development Goals and the development of a revised results-based management system.

2. Financial overview

8. Net assets increased by $344 million to $2.32 billion in 2018. Accumulated fund balances and reserves amounted to $2.74 billion (2017 restated: $2.52 billion) and included cash and investments of $1.22 billion (2017: $1.12 billion).

9. Overall, the key financial indicators remain robust and UNHCR continues to have a high ratio of current assets to meet its current liabilities. In its financial report (see chap. IV, para. 35), UNHCR management indicates that liquidity is positively affected by the inclusion of $1,130.5 million in donor agreements and commitments made for future years. The Board's analysis of the key financial ratios demonstrates that UNHCR meets all its liabilities (see table II.2).

Table II.2
Ratio analysis

Description of ratio	*31 December 2018*	*31 December 2017 (restated)*	*31 December 2016*	*31 December 2015*	*31 December 2014*
Current ratio[a] (current assets: current liabilities)	9.5	9.9	8.1	8.6	6.9
Total assets: total liabilities[b]	3.4	3.0	2.7	2.7	2.3
Cash ratio[c] (cash + investments: current liabilities)	4.0	4.3	4.0	4.6	3.1
Quick ratio[d] (cash + investments + short-term accounts receivable: current liabilities)	8.1	8.4	6.9	7.5	5.7

Source: UNHCR financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio indicates an entity's liquidity. It serves to measure the amount of cash, cash equivalents and invested funds available in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to convert into cash. A higher ratio means a more liquid current position.

10. In 2018, voluntary contributions received increased by 2.6 per cent to $4,260.8 million (2017 restated: $4,152.0 million). The voluntary contributions represent 98.2 per cent of the total revenues of UNHCR of $4,338.3 million. The 2017 restatement concerned the revaluation of the in-kind contribution of the office premises in Geneva in the amount of $3.9 million. The 2017 operating expenses were restated in the same amount.

11. Expenses (including foreign exchange gains/losses) amounted to $4,082.5 million, compared with $3,851.0 million in 2017 (restated). The 2017 restatement amounted to $1.9 million and concerned a policy change in addition to the above-mentioned increase in operating expenses. In that regard, UNHCR increased the capitalization thresholds of property, plant and equipment. Consequently, the 2017 depreciation expenses were decreased by $5.3 million and various other expense categories (mainly equipment and supplies) were increased by $3.3 million.

12. The surplus for the year decreased by $123.7 million to $255.8 million (2017 restated: $379.5 million). The decrease resulted mainly from increased expenses for cash assistance to beneficiaries ($101.8 million), increased foreign exchange losses ($112.3 million) and increased salaries and employee benefits ($66.6 million). The increased expenses were offset by increased revenues from voluntary contributions ($108.8 million) and decreased supplies and consumables to beneficiaries ($50.9 million).

13. The global assessed needs of UNHCR in 2018 were $8.22 billion, compared with $7.96 billion in 2017. Considering available funds of $4.71 billion in 2018 ($4.51 billion in 2017), the funding gap amounted to $3.51 billion ($3.45 billion in 2017). The level of demand for UNHCR interventions further increased with ongoing emergencies, an increased number of persons of concern and a continuously challenging donor environment. These circumstances are likely to create additional pressure in 2019 and beyond.

14. A total of 85 per cent of contributions to UNHCR are earmarked (see table II.3). Unrestricted contributions decreased in 2018 by two percentage points compared with

2017. Earmarked contributions create constraints on management's ability to deploy resources flexibly and to meet demand across all areas of activity. The Board notes that UNHCR achieved its highest level of donor commitments as a result of its fundraising and donor conferences in 2018. Governments and intergovernmental organizations continued to be the major donors of UNHCR.

Table II.3
Monetary contributions by type of earmarking in 2018
(Millions of United States dollars)

Type of earmarking	*2018*	*2017*	*2016*	*2018 (percentage)*	*2017 (percentage)*	*2016 (percentage)*
Unrestricted	647	703	555	15	17	14
Pending earmarking[a]	204	174	159	5	4	4
Country/sector level	2 777	2 491	2 550	66	60	66
Regional/subregional level	565	718	601	13	18	15
Thematic	37	39	33	1	1	1
Total monetary contributions	**4 230**	**4 125**	**3 898**	**100**	**100**	**100**

Source: UNHCR financial statements.
[a] Contributions pending earmarking are largely those relating to contributions from pledging conferences relating to future years.

3. Audit findings, observations and recommendations

Presentation of the Staff Benefits Fund as part of net assets

15. IPSAS define which separate components of net assets/equity an entity without share capital shall disclose either on the face of the statement of financial position or in the notes (IPSAS 1.95).

16. In its statement of financial position, UNHCR shows the components of net assets as "fund balances and reserves". The following line items are disclosed:

(a) Accumulated fund balances and reserves;

(b) Working Capital and Guarantee Fund;

(c) Medical Insurance Plan;

(d) Staff Benefits Fund.

17. UNHCR nomenclature differs from the requirements of IPSAS 1. This is equally the case for the nomenclature in the statement of changes in net assets and in the notes. For example, the element with the largest balance, the Staff Benefits Fund, is an internal funding mechanism for end-of-service and post-retirement liabilities. There is no IPSAS requirement to present the Staff Benefits Fund separately. The presentation and disclosure by UNHCR is instead partly based on budgetary considerations or fund accounting.

18. UNHCR presents the Staff Benefits Fund as a balance of liabilities and available funds. As at 31 December 2018, related employee-benefit liabilities amounted to $766.1 million.[1] Considering available funds of $199.1 million, the Staff Benefits Fund was presented with a negative balance of $567.0 million. To make the

[1] Balance of current and non-current employee benefit liabilities, excluding salaries and other staff benefits of $10.5 million (see note 3.8).

underfunding visible, the liability of $766.1 million was additionally disclosed as part of the line item “Staff Benefits Fund”. As a contra entry, the line item “Accumulated fund balances and reserves” was increased by that amount. The Board holds that this presentation is misleading and only the available funds of $199.1 million should be presented under the Staff Benefits Fund. This should be rectified throughout the financial statements. Table II.4 illustrates the difference in numbers between the current presentation and presentation without offsetting. It does not incorporate the proposed changes in presentation or nomenclature.

Table II.4
Presentation of net assets
(Millions of United States dollars)

Components of net assets		*Current presentation 2018*	*Presentation without offsetting*
Accumulated fund balances and reserves		2 744.4	1 978.3
Working Capital and Guarantee Fund		100.0	100.0
Medical Insurance Plan		41.8	41.8
Staff Benefits Fund			
Liability	(766.1)		
Available funds	199.1		
Balance, Staff Benefits Fund		(567.0)	199.1
Total fund balances and reserves		**2 319.1**	**2 319.1**

19. As a United Nations system entity, UNHCR operates on a modified cash basis budget while the financial statements are prepared on an accrual basis. The Board does not oppose including budget-related or fund accounting information in net assets or the financial statements in general. However, compliance with the IPSAS requirements concerning nomenclature needs to be ensured in the Board’s view. In general, UNHCR should ensure that fund accounting information is used only for the presentation and disclosure of net assets in the IPSAS financial statements in so far as to supplement applicable IPSAS requirements.

20. **The Board recommends that UNHCR revise the presentation and disclosure of net assets in the financial statements, ensuring that fund accounting information is used only in so far as to supplement applicable IPSAS requirements.**

21. UNHCR did not accept the recommendation to revise the presentation of net assets in the financial statements. Pending a new IPSAS statement on revenue recognition, due to be published shortly and expected to result in a more fair presentation of net assets, the current approach is considered by UNHCR as providing essential additional information to the readers on the components of net assets under the current flawed accounting standard.

Revenue recognition

22. In the notes to the financial statements, UNHCR states that “no stipulation meets the definition of a condition as described under IPSAS 23”. UNHCR based this conclusion on aggregates of revenue and “impairments”. Impairments comprise refunds owing to underspending, misconduct or ineligibility. The Board found contribution agreements where the original funding was reduced as a result of impairments or where donors had suspended or decreased their funding with reference to an audit report issued by OIOS (OIOS report 2018/097).

23. If past experience with donors indicates that those donors enforce the requirement to return the asset/future economic benefit, stipulations in the respective agreements have the substance of conditions. In such cases, IPSAS requires recording of a liability to the extent that the present obligations have not been met. A present obligation must be recognized as a liability when it is probable that an outflow will be required and a reliable estimate of the amount of the obligation can be made (IPSAS 23.50). The Board concluded that the probability of the outflow and a reliable estimate of the amount of the obligation for the above contributions could not be made for the 2018 financial statements given that UNHCR conducted an aggregate analysis.

24. UNHCR commented that when preparing interim financial reporting to donors, expenditure rates on the individual projects are already analysed and clarifications are sought to identify where significant overall underspends are expected. Information obtained was processed in the year-end review of doubtful receivables and possible refund obligations, and reflected as appropriate in the financial statements. Given the historically low levels of refunds, UNHCR considers that additional detailed monitoring of expenditure against individual projects is not justified in terms of efficiency, especially in the context of its current accounting systems.

25. **The Board recommends that UNHCR enhance the review of contribution agreements to reflect, for each donor, the probability of the outflow and an estimate of the amount of the obligation.**

26. UNHCR concurred with the recommendation and will look at past trends with regard to individual donors to establish a statistically derived allowance percentage to be applied to those ongoing projects for which detailed and up-to-date monitoring information is not readily available.

Actuarial valuation data

27. United Nations staff members are eligible for after-service health insurance after five years of participation in a contributory health insurance plan for staff hired before July 2007 and 10 years for staff hired after July 2007, and once they reach 55 or 57 years of age. If a staff member participates in a contributory health insurance plan of various organizations in the United Nations common system of salaries and allowances, the cumulative periods are considered for the eligibility determination (ST/AI/2007/3). The same applies for cumulative contributory participation when staff members had different contract types, for example fixed term, permanent or continuous.

28. For the purposes of computing the after-service health insurance liability, UNHCR provides the actuary with the date of entry on duty for each UNHCR staff member. This date reflects the years of service in UNHCR if a staff member has worked only for UNHCR. If a staff member worked in the United Nations system before joining UNHCR, this date reflects the years of service in the United Nations provided UNHCR considers the service as “continuous”. Continuous service status is granted for staff under inter-agency transfers and secondments (UNHCR/AI/2014/8).

29. In cases of non-continuous service, the date of entry on duty is counted from the hiring date in UNHCR. That means that the date reflects the years of service at UNHCR and disregards prior years of service in the United Nations system. The Board found that this was in line with the administrative instruction (ibid). The Board concludes that in these cases the actuary does not use the years that a staff member participated in a contributory health insurance plan of the United Nations for the computation of the after-service health insurance liability, but instead uses the years of service in the current organization.

30. The Board found cases of non-continuous service where the date of entry on duty apparently did not reflect the actual years of service in the United Nations system. Therefore, the Board is concerned that in some of these cases the after-service health insurance liability may be understated. In the cases the Board found, the staff members had already achieved eligibility in other United Nations entities but were nevertheless reported with less years of service in the census data. The Board further noted some staff members who were not taken into account for the calculation because they were rehired on a temporary appointment basis after retiring. Some of these staff members had served decades in the United Nations system and were already eligible for after-service health insurance notwithstanding the new temporary appointment. The Board is well aware that offsetting effects such as staff members leaving the organization and staff members not applying for after-service health insurance also need to be taken into account. However, the Board is concerned that non-continuous and temporary staff members with prior periods of eligibility may be incorrectly reflected in the liability computation. The Board found that this treatment was in line with the administrative instruction and the common practice in the United Nations system.

31. **The Board encourages UNHCR to consult with other United Nations organizations and to determine in collaboration with the actuaries whether the administrative instruction needs to be amended with regard to non-continuous years of service of staff members.**

32. UNHCR stated that the overall amount arising out of the scenarios the Board indicated was not material. UNHCR also stated that the calculation of employee benefit liabilities included a large number of assumptions relating to appropriate interest rates for the calculation of liabilities, mortality assumptions, currency of costs, future health-care cost inflation rates and others. UNHCR assessed that the level of uncertainty or viability in the size of the liability affected by the small number of non-standard cases identified was much lower than the natural variability due to the requisite use of the usual regularly updated broad actuarial and financial assumptions. UNHCR outlined that the date of entry on duty was used for determining several entitlements other than after-service health insurance. UNHCR furthermore stated that, in situations when a staff member joined UNHCR on secondment, UNHCR would estimate the liability under the assumption that the staff would retire from UNHCR. However, the probability of such a situation was lower as in many cases the staff member returned back to the previous organization when the secondment was completed. UNHCR also stated that perfectionism in after-service health insurance liability, reflecting every distinct situation, would drive up costs of data and actuarial services. UNHCR held that the United Nations needed to stop at a reasonable level of estimation. UNHCR, as other United Nations organizations, would estimate the after-service health insurance liability at the level of the organization and not at an employee level. UNHCR concluded that it would take the staff population at a point in time and would verify the staff movements and turnover.

33. The Board took note of the position of UNHCR and holds that a consultation with other United Nations organizations is nevertheless helpful and required. Notwithstanding potential offsetting effects, the Board sees an interest to determine the after-service health insurance liability at the level of the organization with a staff workforce at a given time. If, for example, more senior staff join the organization at an advanced level in their career, the accuracy of the liability will be of higher importance than in cases in which young staff are seconded. In a broader United Nations context and considering the ongoing reform initiatives such as “Delivering as one”, close coordination and a concerted approach appears necessary in the view of the Board.

Transfer of staff members between United Nations organizations

34. When a staff member transfers from one United Nations entity to another, the staff member keeps most of his or her earned allowances and entitlements and the receiving organization takes over the liability. The same is true for staff members that separate from one United Nations entity and transfer to another. The leaving staff members keep most of their earned allowances and entitlements and the releasing organization is released from the liabilities. The Inter-Organization Agreement concerning Transfer, Secondment or Loan of Staff among the Organizations applying the United Nations Common System of Salaries and Allowances stipulates that "the extent of each organization's liability for employers' contributions to health insurance or social security schemes other than the Pension Fund will be agreed between the two organizations in each case". The Board noted that no such agreements were concluded by UNHCR on a regular basis.

35. The Board holds that transfer agreements should be concluded in each case. The health insurance liability portion of the organizations involved should be agreed upon. The Board holds that there may be a risk that the receiving organization of a former UNHCR staff member will claim the liabilities that were earned by the staff during the time he or she was a UNHCR staff member. UNHCR should assess whether agreements with the organizations of incoming and outgoing UNHCR staff should be concluded on a regular basis. A consultation with the UNHCR Legal Affairs Service may be needed to gain legal assurance.

36. **The Board recommends that UNHCR assess whether it is beneficial to conclude agreements with United Nations organizations for incoming and outgoing staff to gain a clear distribution of accumulated health insurance liabilities between the entities concerned and account for the receivables or contributions, as the case may be, for those staff members.**

37. UNHCR did not agree with the recommendation and stated that agreements with other United Nations entities regarding liabilities of staff would not be in the spirit of good cooperation within the United Nations and may lead to implementation of a process that could be cumbersome, adding complexity and inefficiency in processing staff movements.

Asset item identifier and asset master data

38. As part of the financial audit, the Board analysed the asset management process at UNHCR, in particular creation of asset item identifiers and asset item master data. The item identifier is a unique identifier for goods and services (hereinafter goods) that can be procured by UNHCR. The item identifier is crucial in defining the further processing of goods as, for example, the asset category and the depreciation period are defined through the item identifier.

39. The Board noted that items could be created as property, plant and equipment with the consequence of depreciation and disclosure in the asset register even though the item did not meet asset recognition criteria. On the other hand, items that met the asset recognition criteria could be created as serially tracked items. Serially tracked items entail immediate expense recognition; the serially tracked items do not appear in the asset register and are not depreciated. In 2018 the enterprise resource management system, known as Managing Systems, Resources and People (MSRP) did not trigger a warning message or block impermissible item identifier creations in some cases.

40. All created item identifiers are listed in the item master data catalogue. The catalogue is the sole source to select goods that UNHCR intends to procure. New items can be added to the catalogue upon request and approval. Items that are closed

for procurement receive the status "discontinued". UNHCR provided the Board with a status of its catalogue dated 31 January 2019. At that time, the catalogue comprised 8,074 item identifiers.

41. The Board found that out of the 8,074 items, 4,797 (59 per cent) had been discontinued and 2,037 (63 per cent) of all active items were added more than five years ago. Out of these, 495 items had been added at least 13 years ago and were still listed with their initial data. At least 18 items were noticeably categorized incorrectly in the item groups of property, plant and equipment and of serially tracked items. UNHCR is in the process of reviewing and correcting such inconsistencies. For an additional 16 listed items, it was unclear if the items met the definition of consumables or needed to be recorded as property, plant and equipment. Cost increases and price fluctuations have an impact on the classification of items and are not reflected in the standard unit price in the catalogue. Thus, a further 19 items may need to be re-categorized from serially tracked items or consumables to property, plant and equipment.

42. As a day-to-day routine transaction, wrong item identifier creation can cause errors that may even have an impact in future years and result in inaccurate disclosure. Therefore, the Board is of the opinion that additional checks need to be implemented in the MSRP system. Furthermore, the Board holds that UNHCR should review the item master data on a regular basis, in particular for discontinued and obsolete items, naming conventions and standard prices.

43. **The Board recommends that UNHCR establish a function in the MSRP system to trigger warning messages when impermissible combinations of item identifiers are entered into the system. The further processing should be blocked until the item identifier is corrected or verified by the responsible staff/reviewer.**

44. **The Board recommends that UNHCR conduct a further analysis of the item master data based on the Board's findings. Implausible or even illogical item master data should be identified and clarified.**

45. **The Board furthermore recommends that UNHCR review the item master data on a regular basis. Items that have not been selected for a longer period should be set to "discontinue". The standard unit prices should be updated periodically. Items in the item master data should be automatically flagged for review of actual pricing and accuracy after a defined period (e.g. five years).**

46. UNHCR concurred with most elements of these recommendations and pointed out that the review of the item master file requires a coordinated effort of the different divisions concerned. The implementation is in progress.

Transfer of ownership

47. As a basic rule, property, plant and equipment, inventories and intangible assets of the United Nations shall be sold on commercial terms unless "the review body determines that the interests of the United Nations will be served through the disposal of the property by gift or by sale at a nominal price to an intergovernmental organization, a Government or governmental agency or some other non-profit organization" (United Nations financial rule 105.23, subpara. (e)). The financial rules for voluntary funds administered by the High Commissioner for Refugees provide in paragraph 10.9 (c) for exemptions "in cases where assets have become surplus to operating requirements" and "the interests of UNHCR are fully protected". The UNHCR rules furthermore state that these rules shall not apply to other items allocated by the High Commissioner under agreements with implementing partners, provided that those agreements contain appropriate provisions to ensure, in the opinion of the High Commissioner, that these other items will be utilized in such a

way as to provide the maximum benefit for the purpose of the allocation. An implementing partner in that context is an entity to which UNHCR has entrusted the implementation of programmes and projects specified in a signed document, along with the assumption of full responsibility and accountability for the effective use of resources and the delivery of outputs as set forth in such a document. The entity could be a governmental, intergovernmental or non-governmental body, a United Nations organization or another non-profit organization.

48. The Board noted a number of cases in which UNHCR purchased brand new vehicles, finger scanners and medical devices, such as a computer tomograph, and transferred the items directly to partners and governments. The items were not mentioned in project agreements with the partners. Also, in some cases the assets were procured with the intention of immediate transfer to a government. No agreements that detailed the concrete purposes for the utilization of the items were provided to the Board. In some cases, the receiving entity would not fall under the above definition of an implementing partner as the entity did not have an agreement for the implementation of programmes and projects with UNHCR. In these cases, it was apparent that the assets were not referenced to a specific programme to be implemented by the recipient and were rather a general grant. The assets were either recorded as an addition followed by immediate disposal in property, plant and equipment or directly expensed in the categories of "supplies and consumables for beneficiaries" or "equipment and supplies".

49. The Board holds that the current transfer procedures lack elements that are required by the financial rules and regulations. Firstly, items may be handed over to intergovernmental organizations, Governments or governmental agencies or other non-profit organizations, if the items are surplus to operating requirements. This is not the case for newly purchased items. Secondly, items may be handed over to entities if the High Commissioner is convinced that the entity's use of the items provides maximum benefit to the operation. In the latter case, the agreement with the entity needs to contain appropriate provisions. In the cases noted by the Board, the agreements did not contain appropriate provisions, or agreements did not even exist. Thirdly, in order to obtain the required approval from review bodies, the transfer of assets needs to be recorded in a reconcilable manner. If such assets are directly expensed in several erroneous and inconsistent expense categories, transparency and awareness for required approvals is not imparted.

50. **The Board recommends that UNHCR establish a consistent accounting process and guidance for items that are procured for direct transfer of ownership to other entities especially for cases that do not refer to the implementation of a specific programme. UNHCR should flag these items in the MSRP system and disclose expenses resulting from such transfers separately in the notes to the financial statements.**

51. UNHCR accepted the recommendation and stated that it would review the options to implement a consistent accounting process for the transfer of ownership. With regard to the second part of the recommendation, UNHCR will assess the possibility of disclosing the expenses resulting from direct transfer of ownership to other entities, considering that the primary expense classification system in the financial statements is based on the nature of expenses, rather than the purpose for which the costs are incurred.

Reform initiatives

52. UNHCR is currently undergoing a number of reform initiatives. Its "journey of transformation" includes a change process that is currently in the phase of

implementing decentralization and regionalization, results-based management renewal and enterprise risk management.

53. The Board wishes to stress the importance of a consistent organization-wide approach with regard to the transformation process. The Board considers it crucial that UNHCR align and synchronize the ongoing initiatives, namely the change process, the results-based management renewal and the risk management 2.0 initiative. In the present section of the report, the Board wishes to highlight aspects that in the Board's view require special attention in the further development of the initiatives.

Change process

54. UNHCR is currently in a phase of consolidating elements of a broader change and reform process. The consolidation is to be completed in the biennium 2020–2021. One of the key elements of the change process is the transformation of the structure and organizational set-up of UNHCR in a way that better responds to the organization's commitments. The transformation will, inter alia, lead to enhanced effectiveness of country operations. Further decentralization and regionalization are the key factors to achieve enhanced effectiveness in the field. The reform process will also operationalize the global compact on refugees adopted in 2018 under the consideration of the objectives of the Sustainable Development Goals and the United Nations reform. The United Nations reform is aimed at advancing three strategic priorities for the United Nations: to enhance the contribution of the United Nations to sustainable development, strengthen its capacity to sustain peace, and improve United Nations internal management. In addition, the comprehensive refugee response framework, which was adopted in 2016 as one of the two annexes to the New York Declaration for Refugees and Migrants, calls for greater support to refugees and the countries that host them.

55. Consequently, UNHCR decided to place capacities, authorities and resources closer to the field in the regionalization and decentralization phase of the change process. UNHCR felt the need to refocus attention closer to the people the organization is mandated to serve. Against the background of the global compact on refugees and the comprehensive refugee responses framework, UNHCR saw the need for closer cooperation with communities, Governments and partners in the field.

56. The core objective of decentralization is to improve the speed and responsiveness of service delivery by shifting personnel and decision-making authorities closer to the field and persons of concern, so as to allow for a faster and more effective response. The core objective of regionalization is to be better aligned with the arrangements of key United Nations partners, to improve monitoring and dialogue and to engage more closely with key political actors in regional intergovernmental bodies.

57. A key focus in the regionalization and decentralization phase is the reconfiguration of the regional bureaux. The four core functions of the new regional bureaux are defined as strategic planning and partnership, operations support, external engagement, and protection coordination.

58. The creation of new organizational charts for the regional bureaux started on the basis of the four functions described above. Each functional pillar is headed by a senior position at the D-1 or P-5 level. In November 2018, the High Commissioner announced that the seven regional bureaux of UNHCR will be located in Amman, Bangkok, Dakar, Geneva, Nairobi, Panama City and Pretoria. In January 2019, the directors of the seven bureaux were appointed. The new structure of the regional bureaux provides for contextualization, and thus creation of positions that have a correlation with the global compact on refugees, operations management and support,

external engagement, annual programme review and resource allocation, as well as positions under the second line of defence (see para. 79 below).

59. However, the regionalization and decentralization process not only affects the regional and country level. At the same time, several structural changes are being initiated within headquarters. The new Division of Resilience and Solutions brings together units formerly placed in the Division of International Protection, the Division of Programme Support and Management and the Executive Office of the High Commissioner with the existing comprehensive refugee responses framework team. A new Integrated Programme Management Service has been established in the Division of Programme Support and Management to centralize and strengthen programme management functions at UNHCR. Finally, the existing partnership management arrangements within the Division of External Relations has been restructured to build a comprehensive Partnership Service responsible for guiding the organization's humanitarian partnerships. The new service brings together the current Partnership Service and existing inter-agency coordination functions.

60. The High Commissioner has stated that the success of the new decentralized model will rest on "empowered and trusted decision-making in field operations and regional bureaux". UNHCR identified 15 key proposals for decentralization of systems and processes that would eventually result in greater devolution of authority from headquarters bodies (budget committee, contracts committees) to the regional bureaux and country offices in the areas of:

(a) Planning and budgeting processes;

(b) Resource mobilization;

(c) Resource management;

(d) Supply and asset management;

(e) Human resource management.

61. In the Board's view, the change process provides enormous chances for the organization as a whole. By strengthening the position of UNHCR at the point of delivery, a better understanding of the needs of refugees and other persons of concern can be achieved. There are prospects for better decision-making regarding resource allocation and setting objectives. In the end, this can lead to strengthened protection for the persons of concern to UNHCR. Greater authority can also lead to greater commitment and responsibility.

62. The decentralization project also bears risks, however, in the view of the Board. If new positions and authorities are not well coordinated and built into the current structures of UNHCR, decentralization could also result in a lack of monitoring and weakened responsibilities and accountabilities. The Board noted areas that require special attention and safeguards at the beginning of the implementation of a reform process. For example, in the area of supply chain management, ceilings of regional committees will be increased, which goes along with an increased risk of fraud and corruption. In the area of asset management, the number of regional asset management boards will be reduced to seven. This will result in additional workload at the bureaux level, which requires capacities, expertise and coordination with headquarters entities. In terms of functional capacities, extended authorities at the level of field operations and bureaux may reduce overview at headquarters and may in the end lead to inappropriate resource allocation. Furthermore, headquarters will be more dependent on clear and coherent data input from the field and bureaux.

63. Therefore, the Board holds that the change process needs to be flanked by necessary safeguards and implemented in a methodical way. The Board welcomes the creation of additional positions in the regional bureaux structure with functions

related to compliance monitoring as well as advising on risks. In a next step, after the creation of positions, UNHCR should ensure the stringent implementation of delegation of authorities and reporting lines. The delegation of authority at the entity level with clear accountabilities and authorities for managers is one of the starting points of a robust internal control environment. The Board holds that UNHCR should pay attention to the integration of the new positions into the existing delegation of authorities framework, in particular in terms of financial controls. Moreover, UNHCR should make the best use of newly created positions, which can carry out monitoring functions and compensate for increased risks. Furthermore, the Board emphasizes the importance of a clear, simple and transparent approach when delegating authorities. This approach should ensure that responsibilities and accountabilities are aligned. New positions should provide for the additional expertise and functional capacities required at the field level, while at the same time coordinating with other field operations and headquarters. Finally, only if the field operations provide reliable, timely and accurate information to headquarters, can UNHCR safeguard resource allocation and resource utilization in a balanced and cost-efficient way.

64. **The Board recommends that UNHCR ensure well-coordinated accountabilities, authorities and reporting lines for managers in the newly created regional and headquarters structures. The reporting lines, accountabilities and authorities should be integrated into the current structures of UNHCR and provide for the necessary coordination and monitoring at headquarters.**

65. UNHCR concurred with the recommendation. To ensure the required continuum of coordination and monitoring at headquarters, UNHCR has adopted a matrix management structure to integrate key control functions in the new regional bureaux and to link them functionally to headquarters divisions. This will be further reinforced through defined entity-level roles and corresponding accountabilities and authorities of individual managers in these entities, starting with the bureaux, division directors and field representatives.

Results-based management

66. Programme management at UNHCR is guided by its programme management manual (UNHCR Manual, chap. 4) and governed by various administrative instructions issued throughout the year. Programme management follows an operations management cycle based on results-based management principles and uses a corporate results framework and a results and budget management tool called the FOCUS system. Programme management is placed within the Division of Programme Support and Management.

67. UNHCR introduced its current results-based management approach in 2009, based on a comprehensive results framework and the FOCUS system. The results framework and the FOCUS system operate as a centralized and highly standardized model with a strong focus on servicing the corporate reporting needs of UNHCR.

68. Owing to the changing donor and operating landscape, UNHCR has faced the need to operate with more in-country flexibility and with greater levels of collaboration than before. The centralized model and system of the current results-based management approach in UNHCR does not enable the field to measure the outcomes and impact of the delivery of its protection mandate efficiently, because many of the indicators available in the framework are insufficient for various reasons to enable the country offices to report on them.

69. In its audit report for the financial year 2014, the Board supported the plans of UNHCR to use the FOCUS system to better link costs and outcomes in each of its business sectors. The Board recommended that UNHCR review the cost-effectiveness

of proposed interventions at the headquarters level and include performance metrics that enable measuring cost-effectiveness.

70. In its audit report for the financial year 2015, the Board recommended that UNHCR develop a set of processes, tools and reports that could be applied at the field level to enhance the financial management of programme budgets and expenditures. The Board recognized that the review of results-based management sought tools that enabled a proper link of results to budget, expenditure and revenue.

71. In its audit report for the financial year 2017, the Board recommended that UNHCR develop a results-based management system that was able to reflect the position of UNHCR on engagement in the Sustainable Development Goals so as to demonstrate its contributions to the achievement of the Goals in the long term.

72. Before the change process had begun, a results-based management revision project commenced in 2017. It first focused on replacing the current results framework and the FOCUS system. The first phase of the project ran from January to June 2017. A stocktaking exercise was undertaken in May 2018 to review the suitability of the revision project against the overall change process. In June 2018, the senior executive team concluded that the results-based management approach should be redirected to help ensure that strategy and programme design reflected the change process more closely. This included ensuring that the intended changes are rooted in field-level operations management.

73. Subsequently, the project was placed on hold to allow it to be reconfigured to create coherence with the overall change process, that is, regionalization and decentralization, as well as institutionalizing the multi-year, multi-partner approach.

74. The new results framework was developed during the period of August to December 2018. The current results framework, which has been in use since 2009, sets goals at the highest level of the results structure, followed by rights groups,[2] objectives and outputs. The objectives and outputs are the only elements in the results framework that carry result information, through measurement of impact and performance indicators, respectively. The newly proposed results framework will introduce a different design, consisting of impacts, outcomes and outputs. At the impact and outcome levels, results are measured through two types of indicators: (a) mandatory and centrally defined core indicators, and (b) indicators that are developed freely at the operational level. At the output level, each country office can define its own output statements and output indicators to measure their results. The new results-based management concept and results framework is designed to give greater flexibility, accountability and responsibility to country representatives in designing and managing their strategic plans, including the associated results chains. UNHCR has defined key milestones concerning the deliverables for 2019, such as the roll-out of Sustainable Development Goal indicators and guidance, the finalization of the new results framework and the completion of the system integration and sourcing strategies.

75. Part of the ongoing results-based management project is to improve the corporate results framework and results measurement. This will facilitate measuring cost-effectiveness and creating visible links between UNHCR programmes and the

[2] The term “rights group” refers to groupings of objectives with a similar theme for planning and budgeting purposes. The biggest portion of the budget is allocated to the rights group comprising basic needs and essential services. This includes shelter, health, water and sanitation and food. Other rights groups are: community empowerment and self-reliance; fair protection processes and documentation; logistics and operations support; security from violence and exploitation; durable solutions; favourable protection environment; leadership, coordination and partnerships; and headquarters and regional support.

key Sustainable Development Goals and their targets, mainly at the levels of impact and outcome, as well as analysis of cost-effectiveness at the country level by better linking the financial information to results. The financial data will continue to be linked to outputs, which would be aggregated at the outcome and impact levels within the country's results chain.

76. The Board recognizes that the ongoing results-based management project is aimed at better connecting financial information with the results. Moreover, the Board appreciates the new results-based management approach to incorporating inter-agency and multi-partner processes, the multi-year planning horizon and the Sustainable Development Goals. The Board furthermore comprehends the reasons for placing the results-based management project on hold so as to create coherence with the overall change process. However, the Board sees with concern that the revision of results-based management has already been ongoing for a long time. The Board expects UNHCR to finalize the new results framework and implement it in the operational management cycle effective from the financial year 2021 and will continue to audit the results-based management revision process.

77. **The Board recommends that UNHCR use the new results-based management tool to present the link between input, outcome and results, including the outputs delivered by implementing partners, and facilitate alignment of country operation plans with inter-agency and multi-partner processes.**

78. UNHCR concurred with the recommendation.

Risk management

79. In October 2017, the High Commissioner announced the "risk management 2.0" initiative. The initiative aims at promoting a stronger risk management culture in UNHCR in the period from 2018 to 2020. UNHCR risk management systems, structures, capacities and processes are to be strengthened. The initiative will lead to more risk-informed management by reinforcing the linkage between risk identification, cause analysis, risk mitigation measures and the response to risks. The initiative also considers the "three lines of defence model" of UNHCR. According to that model, internal control responsibilities are allocated across UNHCR in three layers: (a) operational management, mainly at the field level, (b) risk management and compliance monitoring functions, mainly in the bureaux and headquarters divisions, and (c) audit, oversight and evaluation services. The initiative is directed at all three functional layers: the field, the regional bureaux and divisions, and oversight functions.

80. Against this background, UNHCR continued in 2018 to strengthen risk capacities in the field and at the regional and headquarters levels. Enterprise risk management focal points have been in place since 2014 to support risk owners in carrying out regular risk reviews and collaboration with them has been enhanced. In 2018, additional Senior Risk Management and Compliance Adviser positions were created in high risk operations. Roving positions were established for field support and additional positions were created in the Enterprise Risk Management Unit at headquarters. The Unit and the field-based Senior Risk Management and Compliance Advisers regularly share information through a risk management network.

81. In addition, UNHCR conducted several risk management training courses in 2018. These were, for example, training courses for the newly appointed Senior Risk Management and Compliance Advisers and enterprise risk management focal points and workshops to improve analysis of corporate risk registers and provide the operations with more relevant feedback on their risk assessments. UNHCR is

currently in the process of revising the policy and the administrative instruction on enterprise risk management.

82. The Board acknowledges the continuous efforts and initiatives that promote an enhanced risk culture across UNHCR. Moreover, in view of the forthcoming changes under the ongoing change process, the Board encourages UNHCR to make the best use of its opportunities and consider the additional risks that come along with a more diversified structure. The change process will lead to significant changes in the organizational structure, along with increased and more diversified responsibilities at the field level. The more diversified an organization's operations, the more diversified should its control set-up be. In this context, the Board sees the chance to strengthen controls at the country operation level in the new structure.

83. The Board positively noted the creation of Senior Risk Management and Compliance Adviser positions at the P-5 and D-1 levels as regional positions in each bureau, roving positions and in-situ country-based positions. For in-situ and roving positions, the job description foresees reviewing the adequacy of risk management and compliance systems, structures, procedures and capacities within the country operation and assisting management in their implementation as part of the first line of defence. For regional positions, key duties and responsibilities of the position include the coordination of operations within the region in risk-related matters, compliance and monitoring, as part of the second line of defence. The Board holds that the new roles and responsibilities will need further fine-tuning in the upcoming financial year.

84. As a technical tool to monitor and document risks in UNHCR, the organization maintains corporate risk registers for each field operation and headquarters divisions and one strategic risk register for the organization as a whole. The corporate risk registers contain comprehensive organization-wide risk information at the country and regional levels. The strategic risk register contains strategic risks that affect the entire organization. Both registers serve as a repository, monitoring and reporting mechanism on risk management.

85. In terms of the corporate risk registers, the Board noted several areas where the quality of the registers could be further improved. For example, the Board found that sometimes the risks were not always risks in a narrower sense, but described the tasks or functions of UNHCR. Some risk treatments for the same risks differed significantly across country operations; this was not always caused by divergent operational contexts. The status of repetitive risk treatments was not consistently indicated and risk prioritization was handled inconsistently across operations. Also, some risk registers contained a very detailed level of risks. Hence, a focus on key risks would make those registers more meaningful. The Board encourages UNHCR to provide further guidance to country operations on the required granularity of risk descriptions in the corporate risk registers and to finalize the update of the policy and administrative instruction on enterprise risk management.

86. In addition, the Board holds that risks compiled at the country level are not always adequately aggregated at the regional level to make best use of the regional risk assessment for regional strategic negotiations and positioning. The intended benefits of regional offices under the current structure were, inter alia, to increase operational responsiveness and strengthen regional strategy formulation and solutions planning. Regional bureaux under the new structure will have similar functions, namely to assist country operations in "contextualizing strategic directions and organizational priorities and ensure the overall strategic, operational and administrative coherence of delivery within the region". Therefore, the Board encourages UNHCR to ensure an aggregation of risks from the country to the regional level, where appropriate. This will help in addressing region-wide risks in a coherent

and efficient manner. In the end, the aggregated, dominant, country and regional corporate risks may warrant inclusion in the strategic risk register of UNHCR.

87. **The Board recommends that UNHCR further enhance the corporate risk registers in terms of meaningful and precise risks, risk treatments and risk prioritization. UNHCR should provide guidance and feedback to risk owners in country operations and headquarters entities on the required granularity of risks in the corporate risk registers.**

88. **The Board recommends that UNHCR implement a specific review of regional corporate risk registers. The review should ensure that regional registers reflect and aggregate risks from the operations in the region to allow for coherent risk management in the regional context.**

89. UNHCR concurred with the recommendations.

Change in accounting policy

90. Effective from 1 January 2018, UNHCR increased the capitalization threshold for internally constructed assets from $10,000 to $250,000. Furthermore, UNHCR discontinued capitalizing temporary buildings. Temporary buildings were previously capitalized if the acquisition cost exceeded $10,000. A formal policy change has not yet been promulgated.

91. The change resulted in de-recognition of $7.5 million of construction projects (accumulated acquisition costs). This means that 34 per cent of the accumulated construction projects of UNHCR were eliminated from the asset register. Originally UNHCR considered increasing the threshold to $750,000 or $1,000,000. In such a case, the percentage of not capitalized construction projects would increase to 55 per cent and 58 per cent, respectively.

92. Furthermore, temporary buildings in an amount of approximately $13.5 million (accumulated acquisition costs) were de-recognized as a consequence of the policy change. Going forward, temporary buildings will be expensed and recorded in a specific register of serially tracked items. A physical verification of serially tracked items is periodically required upon request by specified UNHCR divisions.

93. UNHCR argued that the policy change was necessary to simplify processes and to achieve best value for money in using administrative resources. UNHCR stated that it was time-consuming for staff to collect the data for 157 constructed assets that fall below $250,000. UNHCR stated that only 15 assets exceeded the amount of $250,000. The Board found that UNHCR has had to deal with an average of 17 construction projects per year in the past 10 years. The Board holds that this workload should be manageable. Furthermore, recording temporary buildings in the serially tracked items register rather than in the asset register provides limited workload reduction in the view of the Board.

94. UNHCR further argued that the net effect of the policy change was immaterial. The Board holds that it is incorrect to refer to the effect of the net book value. The net book value is determined by where an asset is in its life cycle. As such it is a "random" value depending on the years of depreciation that have passed. Therefore, the Board considers the acquisition cost to be the relevant reference value to determine the lasting policy change effect.

95. The Board pointed out that a policy change under IPSAS is only permitted if the change provides reliable and more relevant information to the readers of the financial statements. The Board expressed its concerns that the increase of the capitalization thresholds would reduce relevant information on ongoing activities and utilization of funds for the users of the financial statements. The Board holds that it is relevant for

the users to have information on the amount of existing valuable assets as opposed to the disclosure as expenses.

96. UNHCR operates in environments that make the organization vulnerable to fraud and corruption. The Board pointed out that in such environments the control and overseeing of assets is more important than in other environments. With increased capitalization thresholds, UNHCR waives certain control mechanisms. Therefore, any increase should be appropriate in view of the fraud risk exposure and the control environment. In the future, projects that require capitalization will be identified on the basis of an approval for the relevant procurement action by regional or headquarters committees on contracts or the head of procurement's approval. The Board expressed its concerns that the increased thresholds are not yet supported by appropriate control mechanisms in view of the decentralization project. For this reason, the Board has reservations about a further increase of the thresholds.

97. The Board furthermore pointed out the inconsistency between temporary and permanent buildings. Unlike permanent buildings, temporary buildings such as prefabricated units are now expensed notwithstanding their location. Permanent buildings are only expensed in remote locations. The new threshold is not within a range of thresholds of other comparable United Nations organizations. The operational activities of UNHCR (volume of property, plant and equipment acquisitions) have not changed in a way that requires an amendment of the policy. The Board holds that a sudden rise of 2,500 per cent in the threshold is not appropriate in view of the stable volume of property, plant and equipment in the UNHCR financial statements in the past five years.

98. UNHCR stated that it did not agree with the Board's concerns and confirmed that it had already implemented the new policy in the preparation of the 2018 financial statements.

99. **The Board recommends that UNHCR implement additional control mechanisms in the newly changed organization structure that compensate for the increased capitalization thresholds.**

100. UNHCR has accepted the recommendation and stated that the administrative instruction on serially tracked items will be revised to ensure that annual physical verification of buildings classified as such items will be required as an additional control mechanism.

Internal controls

Financial control matrix

101. The financial rules for voluntary funds administered by the High Commissioner for Refugees stipulate that the Controller is, inter alia, responsible for establishing internal controls to ensure the conformity of commitments and expenses with the directives of the Executive Committee. UNHCR issued the high-level internal control framework with a focus on financial management in 2015 "to provide a practical approach to implement high-level controls and obtain standardization of controls applied to similar types of transactions". The internal control framework serves as a compilation of policies and memorandums in place and addresses UNHCR staff at large.

102. In addition to the internal control framework, UNHCR systemized its overview of existing financial controls in a financial control matrix. The matrix currently summarizes risks and addresses controls for eight financial statement line items. In addition, UNHCR is currently in the process of developing a framework to enable the issuance of a statement of internal controls. UNHCR intends to issue the statement of internal controls in March 2020 with the financial statements of 2019. UNHCR

expects further updates and changes to the financial control matrix as the project for development of the statement of internal controls progresses.

103. In its report on the audit of a country operation, OIOS pointed out weaknesses with a strong contextual link to internal controls. OIOS saw, inter alia, the risks of duplicate payments, release of subsequent instalments to partners despite weaknesses, financial loss, lack of accountability and loss of donor confidence (OIOS report 2018/097).

104. During the audit of the 2018 financial statements, the Board found indications of similar risks and weaknesses. For example, the Board noted cases of duplicate payments in the area of cash assistance to beneficiaries. In some cases of cash assistance, no refund process was initiated. In one procurement case, the purchase order was raised after the invoice. Partner financial reports were uploaded to the UNHCR accounting system without review and approval signatures and one operation's response regarding the percentage-of-completion method for the receipt accrual of construction projects revealed a lack of accountability. The loss of donor confidence led to the withdrawal of two pledges in an amount of $17.6 million.

105. Based on the findings, the Board holds that UNHCR should further strengthen its internal control system. The Board sees chances for strengthened controls in the upcoming change process and the decentralization. The "three lines of defence model" could be strengthened by implementing additional controls at the field level and by emphasizing clear monitoring trails in the second line of defence. The Board positively noted the creation of a new P-5 position for budget and finance management (called a Regional Controller) in each bureau. When refining the risk-control matrix, UNHCR should adapt the internal control matrix to the changed structure.

106. The Board found that the addressed risk areas in the financial control matrix could be better scaled to reflect the operational model of UNHCR. High risk areas with greater importance to the mandate of UNHCR should be addressed in greater detail than less relevant areas. Consequently, the content of the internal control matrix should, in the view of the Board, be informed by the dominant risk areas captured in the UNHCR corporate risk registers. The top 10 risk categories of UNHCR with financial impacts should be adequately addressed. For example, the top risks of supply and asset management and implementing partnership management would require a scaled addressing of such risks compared with less vital risk categories. The corporate risk registers help in identifying areas that are prone to errors and misstatements. Furthermore, the registers reflect the operational model of UNHCR. Hence, a focus on financial key controls should lie in areas that UNHCR has assessed as critical from a risk perspective.

107. Vendor payment processing carries the risk of fraud. Certain controls can help to prevent and detect it. One significant indicator of the fraud risk factor is vendors having the same bank account as active staff members. While the Board has not observed any such instances during its audit work, the Board would like to draw attention to the fact that it is good practice to monitor such indicators to ensure that active staff members do not engage in business transactions with UNHCR. Moreover, multiple vendors sharing the same bank account is also a fraud risk factor. It indicates their possible connections and an increased risk of collusion. Apart from that, if multiple vendors are erroneously mapped to the same bank account, it increases the risk of erroneous payments. A periodical check as to whether such cases exist helps to identify suspected cases that need further investigation. If such matches are found, they would need to be further analysed as this may be an indicator of possible fraud. UNHCR does not conduct such checks.

108. **The Board recommends that UNHCR refine and systematically update its financial internal control matrix. The key controls should be scaled on the basis of the operational model and identified risks of UNHCR; key controls should build on the control processes already in place and UNHCR should reflect imminent changes in the organizational structure and document the implementation and monitoring of controls in the refined internal control matrix.**

109. **The Board recommends that UNHCR periodically check for vendors having the same bank account as active staff members and for vendors sharing the same bank account in order to prevent and detect fraud. This control should be integrated within the control matrix.**

110. UNHCR accepted the recommendation and stated that the internal control matrix could be further refined. UNHCR stated that it was a living document that was intended to be continuously updated to address any new controls deemed necessary or any changes in the organizational structure.

Country financial reports

111. The Division of Financial and Administrative Management issues country financial reports on a monthly basis from March to December of each year. The reports are shared with the country representatives to assist them in gaining an understanding of the status of their operations and particular risks to be monitored. The country representatives confirm their review of the reports on a quarterly basis.

112. The Board holds that the country financial report is a very helpful tool for monitoring country operations and for flagging areas that require management's attention. Nevertheless, the Board identified areas where the content of the reports could be improved and the meaningfulness could be strengthened. There are several tables in the country financial report that flag certain ratios, statuses or timelines in the form of red, green or yellow categorization. The Board found that some of these indicators are not meaningful and sometimes even confusing. The Board highlighted the example of "implementation rate", where mere cash transfers are used to measure the performance of projects. On the other hand, the table providing information on the current status of "IPSAS expenses" is not used to flag implausible trends. In the period audited by the Board, the country representatives received the reports by the middle of the following month. The Board commented that real-time or timelier access to the country financial report information would be of greater value to the country operations.

113. **The Board recommends that UNHCR enhance the content and meaningfulness of country financial reports as part of the ongoing business intelligence and data analytics project. Timelier access to the country financial reports should be granted.**

114. UNHCR concurred with the recommendation and emphasized that the country financial report was designed as a tool to assist senior managers in gaining an understanding of the status of their operations and particular risks to be monitored. Even though there may be situations where flags were programmed based on standard criteria where the logic used to set the flags could have appeared confusing or too simple, representatives have been trained on utilizing the report as a tool to run an operation while applying professional judgment. UNHCR further stated that it had already launched a business intelligence and data analytics project based on which the country financial report would be replaced by a country administrative report. The reports would be accessible in real-time through the business intelligence platform.

Controls around journals using implementing partner codes

115. All general ledger line items that relate to implementing partners used an implementing partner code in the corresponding book entry field. When a partner financial report was posted to the general ledger, the single expense items were offset by account 618000, which was used only for partner financial reports and acted as a control account.

116. The Board noted that some journals were posted to expense accounts using implementing partner codes, despite not relating to implementing partners. As a result, the individual expenses with implementing partner codes were not offset against account 618000. This resulted in an overstatement of implementing partner expenses and an understatement of other expense categories.

117. The Board holds that for an accurate categorization and presentation of expenditure items in the financial statements, it is crucial that only implementing partner expenditures use implementing partner codes in the coding block. The current controls need to be improved so as to capture such erroneously classified journals.

118. **The Board recommends that UNHCR perform a timely review of implementing partnership-related journals and journal entries using implementing partner codes and ensure that they are set off against account 618000 when needed.**

119. UNHCR agreed with the recommendation and is in the process of designing a special query that shows all direct journals with partner codes, which will be run every month.

Financial controls around inventory and cash-based intervention journals

120. During the analytical review of cash assistance expense accounts, the Board found implausible variances on account 619150 (other cash assistance). Upon the Board's enquiries, UNHCR discovered that $11.8 million was wrongly coded on this account and should have been recorded on account 611150 (multipurpose cash assistance for basic needs).

121. During the analytical review of inventory holdings by inventory category, the Board found large variances for some item groups. Upon enquiry, UNHCR identified two cases of overstatement owing to late recording of inventory distributions. UNHCR further identified one case of understatement owing to late recording of inventory receipts.

122. An accurate expense categorization within the same financial statement line is, in particular, important for information and monitoring purposes. A timely recording of inventory receipts and distributions is important in view of a correct cut-off at year-end. The Board holds that UNHCR should improve the current controls in order to capture erroneously classified or lacking journals.

123. **The Board recommends that UNHCR performs variance analysis and plausibility checks at account level (cash-based intervention) or detailed category level (inventories).**

124. UNHCR concurred with the recommendation.

Inventory in transit

125. Pursuant to the UNHCR IPSAS policy manual, inventories in transit between the exit point in the offloading country and the entry point in the recipient country, or in transit between warehouses and other storage locations, are to be counted and valued in the same manner as inventories in warehouses. Inventories in transit are not

expensed until they are distributed or exchanged. In general, they remain the property of the sending warehouse until they have been received and accepted by the destination warehouse. Therefore, the responsibility for loss or damage of inventories in transit remains with the sending warehouse.

126. The Board reviewed the inventories in transit. The Board found that as at 31 December 2018, 241 items with a total cost of $4.1 million were in transit. Upon enquiry by the Board, UNHCR reviewed nine of the high-value transactions totalling $2.3 million and clarified that inventories equivalent to $1.9 million had been received in the meantime, $0.4 million had to be submitted for write-off and $1.8 million still needed to be clarified.

127. The Board's analysis showed that approximately half of the inventory items in transit at the end of the financial year 2018 were shipped in previous financial years. However, no acceptance of receipt by the destination warehouses was received. It was unclear whether the items were still in transit, or were lost, damaged, not received, not shipped or were erroneously entered in the system as "in transit". As a consequence, these items were still in the possession of the dispatching warehouses. Additionally, the dispatching warehouses still held the responsibility for possible loss or damage even for inventories that were shipped four or five years ago.

128. The Board holds that the inventory procedures and controls need to be improved. The Board further holds that a timely tracking and accounting treatment of inventory in transit is essential both for inventory management and presentation in the financial statements.

129. **The Board recommends that UNHCR review aged items of inventory in transit in a more timely manner (at least once a year) and adjust them as needed.**

130. UNHCR concurred with the recommendation from a logistical point of view, while highlighting that regular reviews of ageing of inventory in transit are already in place and necessary provisions will be booked at year-end for the purposes of reflecting the correct position in the financial statements.

Value added tax monitoring

131. The Board reviewed value added tax procedures at UNHCR. Pursuant to the Convention on the Privileges and Immunities of the United Nations of 1946, Member States remit or return duties or taxes to United Nations organizations that made important purchases of property for official use whenever possible.

132. Many Member States have concluded host country agreements with UNHCR which lay down the formalities and procedures on the exemption of UNHCR from value added tax or comparable indirect taxes (VAT). The procedures concerning how Member States exempt UNHCR from VAT differ from country to country. Some States exempt vendors or service providers from VAT when they deliver goods or services to UNHCR. Other States reimburse VAT after UNHCR has received invoices from vendors or service providers and claimed it from the appropriate authority in the respective State.

133. The UNHCR administrative instruction on the monitoring and recovery of VAT and miscellaneous accounts receivable provides guidance on the accounting process for VAT (UNHCR/AI/2018/12). The administrative instruction puts the obligation to manage the VAT exemption/reimbursement procedures on the country offices.

134. The administrative instruction stipulates that VAT disclosed in invoices must be recorded as a tax receivable and not as an expense. However, the Board noted that the interpretation of the administrative instruction is ambiguous as to whether this refers only to recoverable or also to non-recoverable VAT. The Board found a case where a

country operation recorded non-recoverable VAT as a receivable. The Board also found cases in which country operations did not record non-recoverable VAT as receivables but as expenses. The Accounts and Financial Service in the Division of Financial and Administrative Management stated that the administrative instruction indicated that non-recoverable VAT should be expensed.

135. Paragraph 5.1.4 of the aforementioned administrative instruction stipulates that subject to any applicable threshold for United Nations/UNHCR VAT claims, if the amount is included in the invoice, "the tax must not be recorded in UNHCR books as an expense, but instead must be recorded as a tax receivable". From the Board's point of view, this means that all VAT charged is to be recorded as a receivable irrespective of the recoverability. This is also confirmed in paragraph 5.1.6 of the administrative instruction which states that as a matter of principle, subject to applicable thresholds, "those taxes which are not eligible for recovery must be recorded initially as receivables". The Board understands that only clearly immaterial VAT below the countries' thresholds should be expensed. On the other hand, paragraph 5.4.2 of the administrative instruction stipulates that offices are responsible to claim VAT if the VAT is recoverable in a country, which implies that only recoverable VAT needs to be recorded as a receivable.

136. If country operations expense VAT right from the start, UNHCR has less leeway in negotiations with the host countries. The Board holds that it is important to collect information on VAT whether it is recoverable or irrecoverable. By doing so, UNHCR can strengthen its negotiation power towards Member States that do not comply with the Convention and do not grant the tax exemption to UNHCR. The Board holds that the administrative instruction should be clarified in that regard. It should be made unambiguously clear that the tracking and separate recording of potential VAT claims is required irrespective of the current host country VAT refund procedures. In addition to the potential advantage in negotiations, this will also strengthen monitoring of countries' VAT procedures and compliance with the administrative instruction.

137. The Board found cases in which invoices did not display charged VAT separately. Hence, UNHCR was precluded from claiming VAT refunds in these cases. The Board holds that country operations should enhance their standards for checking invoices and VAT claims. Invoice approval should include a standardized check for VAT verification.

138. To enforce the right for exemption appropriately, it is essential in the Board's view to obtain an overview of the VAT process and the formal requirements for VAT exemption or reimbursement in the country operations. The Board is aware that tax legislation can change rapidly. Nevertheless, only if such an overview of specific VAT information by country is available can the Accounts and Financial Service carry out financial controls appropriately. Especially in emergency situations, it is essential that UNHCR is aware of the procedures and formal requirements for VAT exemption and reimbursement. Operations facing such challenges can grow very fast and consume significant amounts of resources.

139. Furthermore, the Board holds that UNHCR should carry out analytical reviews of VAT receivables on a periodic basis. The check could include questions such as "Is the ratio of expenses and VAT receivables plausible?", "Are VAT receivables recorded at all?", and "If not, is the treatment in line with the applicable legislation?". Such analytical reviews could bring UNHCR into a position of being able to recognize omissions and negative developments at an early stage.

140. **The Board recommends that UNHCR clarify its administrative instruction on the monitoring and recovery of VAT and miscellaneous accounts receivable. The administrative instruction should clearly state how VAT claims are to be**

recorded so as to make potential VAT claims traceable. Irrecoverable VAT should subsequently be expensed as part of the year-end closure procedures.

141. **The Board recommends that UNHCR develop and maintain an overview of the specific VAT exemption procedures and formalities, applicable VAT rates, the deliveries and services concerned, due dates and thresholds for each country operation. UNHCR should carry out periodical analytical reviews of key VAT figures.**

142. UNHCR is in agreement with the recommendation for periodic analytical reviews of VAT, which can be further facilitated by the collection of VAT information through a VAT questionnaire. UNHCR stated that a comprehensive VAT questionnaire had already been drafted so as to capture information on VAT and changing circumstances that is more country specific. UNHCR also stated that it would be appropriate for VAT to be expensed as a separate expense item (non-recoverable taxes).

Plausibility analysis of salaries

143. Salaries and employee benefits represent the second largest expense category in the financial statements of UNHCR, amounting to $996.4 million or 24.5 per cent of total expenses in 2018 and $929.7 million or 23.5 per cent of total expenses in 2017. The increase from 2017 to 2018 amounted to $66.7 million.

144. As mentioned above, UNHCR uses a financial control matrix to monitor and document financial controls in place. The financial control matrix for salaries and employee benefits requires "a variance analysis to identify significant variances from the prior period to expected values in general and confirm plausibility" as one of the key controls in the salary and employee benefits process. The Board found that such an analysis was not sufficiently conducted. Based on the Board's request, UNHCR provided a substantial amount of figures that also contained separately the variance in number of staff per grade and country and the variance in salary expenses per country from 2017 to 2018. However, the analytical part of the exercise was lacking. UNHCR presented table II.5 as a result of the analysis.

Table II.5
Implied average cost change per full-time equivalent 2018
(United States dollars)

	Grade								
	F-4	*FS*	*G-1*	*G-2*	*G-3*	*G-4*	*G-5*	*G-6*	*G-7*
Average monthly cost	3 462	4 140	680	1 062	1 259	1 559	1 930	2 323	2 776
	Grade								
	NA	*NB*	*P-1*	*P-2*	*P-3*	*P-4*	*P-5*	*D-1*	*D-2*
Average monthly cost	2 936	3 550	2 441	5 937	7 474	8 492	9 934	11 098	11 362

Source: Provided to the Board of Auditors by UNHCR on 26 March 2019.

145. UNHCR stated that the average change in the cost per head across the world at each grade was reasonable for 2018 relative to salaries applicable to these grades. UNHCR stated that the table provided a good rationalization for the plausibility of overall salary cost changes.

146. The Board holds that the table is still not sufficient to meet the requirements of a plausibility variance analysis. The analysis provided lacked information on the

major variances and respective explanations. In the opinion of the Board, a variance analysis is a standard financial control that provides analytical assurance on the plausibility of salary expenses. The analysis should reveal major variances and provide reasons for the variances.

147. **The Board recommends that UNHCR enhance its variance analysis of salaries and employee benefits to carry out the controls required in the financial control matrix.**

148. UNHCR concurred with the recommendation and has started to perform additional analysis and continues to look at possibilities to enhance the same.

Controls in the area of human resources and payroll

149. UNHCR identified human resources as a risk category in its policy for enterprise risk management. The policy refers to risks from all aspects of human resources management, including staffing arrangements, payroll, advances, staff development, benefits and employee welfare. UNHCR is a decentralized, worldwide operating organization with more than 12,000 staff. Human resources form one of the most important, if not the most important, component in the organization. Therefore, risk management and controls in the area of human resources and payroll play an important role in the overall context of the organization.

150. Besides the internal control framework, the UNHCR Manual, the financial control matrix and a number of standardized MSRP human resources and payroll reports provide information about human resources and payroll controls. The human resources and payroll section maintains separate lists of such MSRP controls. UNHCR stated that a review had been planned of all MSRP human resources reports in 2019.

Human resources controls

151. UNHCR provided a table of 60 MSRP human resources reports. There are five different types of report: high risk, error, a combination of high risk and error, eligibility, and information. The table is updated as needed. Except for information reports, all reports are mandatory. The reports have to be run and uploaded to the electronic document management system (eSafe) by the respective task owner. The Personnel Administration Associates and Assistants are informed via email about the upload and are in charge of reviewing the reports. They forward the field-related parts of the reports to the local human resources administrators. The human resources employees may need to take action depending on the content of the reports.

152. The Board made a number of observations that indicated room for improvement in the human resources control process. The Board's observations concerned the frequency of running the reports, lacking action based on reviews and respective documentation, and the automation of reports. The Board found that not all mandatory monthly and quarterly reports had been uploaded to eSafe. Moreover, it was not clear to the Board which reports had been run and which reports had required action. The Board noted that only two MSRP human resources reports were automated reports. The vast majority of the reports had to be run manually by the task owners.

153. The Board considers the constant run and review of error reports, high risk reports and combined high risk and error reports (i.e. monitoring reports) to be important so as to detect risks and errors in due time and to protect UNHCR from financial loss. The Board considers automated reports to be a useful tool for controls since they require no manual initiation and, therefore, are not prone to human error.

154. UNHCR stated that it did not upload blank reports for future reference because there was no reporting or payroll impact. The Board agrees that "no result" reports

do not necessarily need to be uploaded and saved. However, the documentation that the reports were run is crucial to demonstrate that the control was performed. Therefore, UNHCR should implement a log to track all the reports that are run, possibly indicating “no result” or “no need for corrective action” in a results column.

155. The Board noted that decisions or actions by the human resources employees on the reported cases were not discernible in the reports filed. The Board considers a separate column, added by the human resources employees to the run reports, to be useful for stating their decision made or action taken.

156. **The Board recommends that UNHCR document the regular run of human resources monitoring reports in a log tracking file. The reports with results should be uploaded to eSafe. UNHCR should document the review in a separate column of the MSRP human resources reports and take appropriate (corrective) action, if necessary. The number of automated human resources reports should be increased.**

157. UNHCR accepted the recommendation and will explore the alternative technical possibilities to establish a process for central monitoring of key reports. UNHCR stated that it would review the possibilities for a greater number of automated human resources reports.

Approval cycle for review of reports

158. The Board noted that records of supervisory controls by line managers on corrective action by human resources employees did not exist until at least May 2018. Furthermore, the Board noted that the MSRP human resources module did not provide an approval cycle for the review of the MSRP human resources reports.

159. UNHCR stated that considerations about adding an approval cycle in the MSPR human resources module were entertained earlier, but were rejected because of the expected costs. UNHCR also stated that there was a mechanism for MSRP daily transaction reports, which compensated for the lack of an integrated approval workflow in the human resources module. Furthermore, UNHCR stated that it ensured supervisory control over the steps taken in the system by human resources employees through these reports. UNHCR also stated that it had implemented recording of the confirmation of the supervisory controls in the MSRP system since May 2018 to document the reviews undertaken by supervisors and the action taken.

160. Bearing in mind that the benefits have to be balanced against the costs, the Board is of the opinion that UNHCR should initiate new considerations on an integrated approval cycle in the MSRP system to facilitate supervisory controls and their consistent documentation. Some 13 years have passed since the last consideration of the matter and the MSRP human resources module has been rolled out to more offices in the meantime.

161. **The Board recommends that UNHCR examine the options for implementing an approval cycle for the review of the MSRP human resources reports in the MSRP human resources module to facilitate supervisory controls and their consistent documentation.**

162. UNHCR accepted the recommendation.

Payroll controls

163. According to the UNHCR monthly payroll schedule, the global Personnel Administration and Payroll Section has to run approximately 60 different MSRP payroll reports every month. Payroll managers have to monitor the verification of

these reports. The Board noted that, according to eSafe, a significant number of such reports were not run as scheduled.

164. The Board considers the constant run and review of payroll reports to be crucial to detect risks and errors in due time and to protect UNHCR from financial loss. In addition, supervisory controls on the review have to be conducted with due care. The Board agrees that "no result" reports do not necessarily need to be uploaded and saved. However, documentation that the reports were run is crucial to demonstrate that the control was performed at a point of time determined in advance. Therefore, UNHCR should implement a log to track all reports run, possibly indicating "no result" or "no need for corrective action" in a results column.

165. The Board noted that there were no automated blocks of payments in place. Payments need to be blocked manually. The Board considers automated blocks of payments to be a useful tool to prevent incorrect payments. In contrast to manual blocks, automated blocks have a lower risk of being missed or manipulated.

166. When UNHCR uploads a new salary plan, the upload is reviewed before the payroll cycle is run. In addition to system plausibility checks, a sample of staff is selected for spot checks to review the correct upload of the salary plan. The Board noted that the sample was not selected as a percentage of affected staff but as a fixed number of five or six staff. The Board is of the opinion that the sample size should depend on the number of staff affected.

167. **The Board recommends that UNHCR document the constant run of required payroll reports in a log tracking file, constantly review the payroll reports and document the review, supervisory controls and appropriate corrective action.**

168. **The Board recommends that UNHCR implement automated blocks of payment of salaries.**

169. **The Board recommends that UNHCR determine the sample size for spot checks regarding new salary plans in relation to the number of staff affected.**

170. UNHCR accepted the overall recommendations and stated that it would consider revising the description of reports in the payroll schedule to better refer to the actions required. UNHCR stated that it would explore the possibility of automatic blocks of payment in the MSRP system with the global Personnel Administration and Payroll Section. UNHCR stated that it would consider revising the sample size based on the recommendation.

Cash assistance to beneficiaries

171. In 2018, the volume of cash assistance to beneficiaries increased by $101.8 million to $472.4 million. The expanded use of cash assistance goes along with the Grand Bargain commitment by UNHCR to double the use of cash-based interventions as a proportion of its assistance by 2020. This commitment continuously entails a number of organization-wide activities and initiatives. In 2018, capacity-building, collaboration and coordination with other United Nations agencies and post-distribution monitoring played an important role in the scaling up of the use of cash-based interventions by 2020.

172. The Board recommended in its 2017 report that UNHCR strengthen the monitoring and evaluation of the impact of cash-based intervention training. In 2018, UNHCR commissioned an evaluation of the progress made in cash-based intervention capacity-building against its strategic objective of institutionalization of cash-based intervention. The evaluation concluded that the capacity-building approach by UNHCR is on track and that the knowledge and attitude of trainees has improved. For

the future, the evaluation team, inter alia, recommended that UNHCR continue enhancing the post training materials. For example, market assessment and feasibility tools should be simplified. Furthermore, the team recommended the continuous involvement of senior managers in the training. UNHCR is in the process of evaluating and implementing the findings from the report.

173. The common cash facility is a collaborative, multi-stakeholder approach to delivering cash assistance. United Nations agencies and non-governmental organizations work together and have direct and equal access via a platform to one joint financial service provider. The common cash facility approach is aimed at collaborative and harmonized delivery of cash assistance. A number of humanitarian organizations cooperate and there is no requirement for each organization to set up its own procurement arrangements with the financial service provider, open separate beneficiary accounts or distribute different bank cards to beneficiaries. Currently, UNHCR participates in two common cash facility projects. Depending on the operational context, the use of a common platform can entail a commingling of funds from different agencies. The Board made observations on the general conditions and the operative handling of this type of common cash facility, which, in the Board's view, need to be further explored.

174. Post-distribution monitoring is used to monitor and assess the effectiveness of cash assistance programmes and the outcome of cash assistance on the well-being of recipients. The monitoring provides quantitative and qualitative insights into trends among beneficiaries related to their experience with cash assistance. The 19 largest UNHCR country operations implementing cash-based interventions conducted post-distributing monitoring reviews. UNHCR provided the corresponding reports to the Board.

175. During the 2018 audit, the Board audited cash assistance samples from 12 country operations in a total amount of $33.9 million and visited two country operations with cash programmes. The audit procedures were designed to understand the general structural set-up of the cash assistance programmes, capacities and post-distribution monitoring in the country operations. The Board set a focus on procedures and financial controls established by the country operations.

Standard operating procedures

176. The administrative instruction on the financial procedures for cash-based interventions (UNHCR/AI/2017/15) provides specific guidance on cash-based interventions. The specific guidance relates to the administrative requirements of UNHCR for financial risk management, risk management, internal controls and reporting of cash assistance. The administrative instruction, inter alia, stipulates that all country offices implementing cash-based intervention programmes through direct implementation must prepare programme-specific standard operating procedures. Pursuant to the administrative instruction, the standard operating procedures are to be reviewed and cleared by the Cash-Based Interventions Section and the Treasury before being approved by the representative and before starting the implementation of the cash-based intervention programmes. The administrative instruction provides for a standard template of such standard operating procedures and describes minimum requirements, such as management procedures and controls for payments to persons of concern and financial monitoring steps and reporting to monitor cash-based intervention activities.

177. In almost half of the cases reviewed, the Board noted shortfalls with regard to the utilization of standard operating procedures. Country operations conducted cash assistance on the basis of standard operating procedures: (a) in draft version not cleared by the Cash-Based Interventions Section and the Treasury, (b) with belated

clearance, (c) for subsequent periods and not the current ones, or (d) entirely without standard operating procedures. The Board also found cases in which the operations did not fully comply with the effective standard operating procedures and where the standard operating procedure was partly not up to date.

178. The Board holds that the standard operating procedures are of significant importance in the cash assistance process. The standard operating procedures set the basic parameters of the programmes and have an "overarching" function. The country operations need to define key elements of the programme, such as the objectives of the programme, the transfer modalities, the delivery mechanism and the implementation procedures. This aims at ensuring the feasibility of the programmes as well as sufficient controls in the process. Therefore, an operation should not start with the programme before the key elements of the standard operating procedures are cleared and approved. The Board is well aware that discussions on minor parameters of the programme should not hamper the implementation as a whole. Therefore, such minor parameters could be stipulated as an annex or separately to the key elements of the standard operating procedures independently from the approval of the key elements.

179. **The Board reiterates its recommendation that country operations start implementation of cash-based interventions when approved standard operating procedures are in place (A/73/5/Add.6, chap. II, para. 37). UNHCR should define the key elements of the standard operating procedures that need to be in place. If the key elements are not in place, clearance should not be granted.**

180. UNHCR concurred with the recommendation and stated that implementing cash-based intervention programmes delivered through financial service providers must have clearance for standard operating procedures, including all underlying related documentation and associated procedures at the operation/country and headquarters levels. Currently, direct implementation through financial service providers represents 98 per cent of total UNHCR delivery of cash-based interventions. Furthermore, in case of direct cash distribution by UNHCR (by means of operational advances, cash over the counter, or petty cash accounts), procedures require adequate clearance in line with paragraph 7.3.1 of the administrative instruction; which stipulates that if operational requirements necessitate the physical distribution of cash to persons of concern, "the process, including the description for its use and the procedures to be followed, must be documented".

Refund procedures

181. Pursuant to the administrative instruction, UNHCR needs to identify funds that are unclaimed by the beneficiaries "within the timelines specified in the standard operating procedures or the contract with the financial service provider".

182. The Board noted cases in which refunds from financial service providers were not claimed over a maximum period of three years. The Board holds that more can be done to actively achieve the repayment of unclaimed funds. The timelines for the refund of unclaimed funds should be made clear in the administrative instruction. This would make the process more transparent and define the scope for oversight. In particular in view of the CashAssist system, which is currently under development, refund procedures should be a regular and mandatory part of the payment process.

183. As mentioned above, the common cash facility approach is gaining momentum and the humanitarian partners see strong opportunities to scale up the collaboration on cash delivery. The Board noted the need to further elaborate the overall conditions for commingled cash pools in terms of allocation of expenses and refunds.

184. **The Board recommends that UNHCR strengthen the monitoring and, in particular, the timeliness of country operation refund processes. The CashAssist system should include an automated notification to request and record claims for repayment from financial service providers at predetermined intervals.**

185. **The Board recommends that UNHCR make available clear guidance on the allocation and monitoring of refunds to country operations participating in the common cash facility approach in cases of commingled cash pools.**

186. UNHCR concurred with the recommendations and stated that it recognizes the importance of clear guidance on timelines for the refund of unclaimed funds. However, the context-specific guidance has been embedded in the country-level standard operating procedures. In addition, in accordance with the requirements of the contractual arrangements with the financial service providers and in line with the contextual programmatic and operational needs, UNHCR will strengthen monitoring to ensure compliance at the country, bureaux and headquarters levels. The planned future developments in the CashAssist system, together with the integration of financial service providers within the system, will enhance the traceability, monitoring and recording of refunds of unclaimed funds.

Distribution monitoring

187. The administrative instruction specifies that country operations have to perform one-to-one and one-to-many reconciliations in the cash-based intervention disbursement process, as follows:

(a) One-to-one reconciliation refers to reconciliation between the total amount transferred to the financial service provider (total distribution list) and the total in the confirmation received from the financial service provider;

(b) One-to-many refers to reconciliation between the individual transactions in the confirmation received from the financial service provider and the individual transaction amount as stated on the approved distribution list;

(c) A further end-to-end reconciliation of the actual disbursement confirmation with the approved disbursement list is currently not required according to the administrative instruction.

188. UNHCR intended to use the MSRP cash-based intervention module to integrate the reconciliation process into the MSRP system.

189. The Board found that country operations used self-developed tools to perform the reconciliations. The Board also found that country operations partly had not conducted the reconciliation exercises or that the documentation was incomplete. The Board found a case where it was not clear on what basis the financial service provider distributed a reduced amount compared with the amount on the approved distribution list. The Board holds that a new and revised payment list should be signed and resubmitted to the financial service provider in cases where changes are made to the list. The Board holds that the documentation of disbursement monitoring can be improved. The country operations should be in a position to demonstrate that the responsible staff have monitored the cash receipt by eligible recipients in the approved amount at least on a spot-check basis. Drilling down to the final recipient and aligning receipt, eligibility criteria and the approved distribution list will help to monitor the full disbursement trail and to eliminate the risk of misuse and inappropriate changes. The new CashAssist system will allow for a systemized many-to-many reconciliation. Until the system is running, mandatory spot checks should provide assurance on the disbursement trail.

190. **The Board recommends that UNHCR ensure that in the case of non-digital cash distributions a further end-to-end reconciliation is conducted at least on a spot-check basis as long as no systemized reconciliation is available.**

191. **The Board recommends that UNHCR require a new approval of the master distribution list if changes in an approved list occur, to ensure that in accordance with the administrative instruction no cash distribution can be processed without an approved master distribution list.**

192. UNHCR agreed with the recommendation and stated that the approval procedure had been incorporated within country operation standard operating procedures, which included emergency procedures for urgent cases.

Duplicates in approved distribution lists

193. The Board noted cases in which UNHCR cannot exclude that beneficiaries received double cash grants in 2018. Irrespective of the number of duplicates, the Board viewed with concern the possible duplication of enrolment for cash grants in the system. The Board holds that the applied software should provide for automatic checks of identical registration identifiers such as civil identification or public distribution system numbers in the system for a given person. In addition, UNHCR should ensure that such checks are applied notwithstanding what type of software is used in a country operation.

194. The analysis of potential duplicates was still ongoing in one country operation when the Board finalized its report. In other operations, it took a while to clarify potential cases. Therefore, the Board holds that awareness and knowledge of gateways to possible duplicate enrolment should be raised and shared among the operations.

195. **The Board recommends that UNHCR highlight the importance of a standard check for duplicates in cash assistance distribution lists before approval of the distribution lists.**

196. UNHCR concurred with the recommendation and stated that its operations implementing cash-based assistance are required to implement automated or manual checks and have controls in place to prevent and detect duplication at the stages of (a) the enrolment file, (b) CashAssist, and (c) the payment distribution file. System integration, including related automation with financial service providers, will further enhance straight-through processing with traceability for completeness and accuracy.

Documentation

197. Pursuant to the administrative instruction, UNHCR requires traceability and accountability in the cash-based intervention process. Country operations should, inter alia, ensure a clear audit trail of the movement of funds. Furthermore, they should obtain timely confirmation by the financial service providers of the receipt of the cash by UNHCR persons of concern. The administrative instruction further states that "all documents relating to the cash assistance programme must be kept on record and documented for audit purposes".

198. The Board noted cases in which the documentation was not sufficient to meet the requirements of the administrative instruction. The documentation should enable an uninvolved person to gain insights as to whether the cash grants were made available to the eligible persons at the right time and in the correct amount. Considering the amounts and operational and reputational risks at stake, the need for proper documentation cannot be overestimated.

199. In the opinion of the Board, standardized minimum requirements facilitate review and control functions. Accountability can be fostered by a reconcilable and streamlined audit trail.

200. **The Board recommends that UNHCR further enhance and streamline the documentation in the cash assistance process. A standardized documentation of key documents such as distribution lists, approval, financial service provider confirmation, reconciliation, payment and refund evidence should be kept on file by the implementing country operation.**

201. UNHCR agreed with this recommendation and stated that the CashAssist system was planned for roll-out in 13 countries in 2019, which would further enhance the audit trail. UNHCR pointed out that the CashAssist system provided enhanced documentation and traceability of cash assistance and increased standardization to the extent possible.

Post-distribution monitoring

202. UNHCR uses post-distribution monitoring to collect information related to the achievement of the objectives of cash-based interventions. The purpose of post-distribution monitoring is to monitor three different tiers. Firstly, the distribution process should be monitored. This involves the question of whether the transfer of cash to the persons of concern is secure, accountable and accessible. Secondly, the output should be monitored. In this respect, a tracking procedure is needed to verify whether the persons of concern received the cash. The third tier is related to outcome impacts. At this level, the question is whether and for what purposes the persons of concern have spent the money and whether they are fully or partially able to meet their basic needs or have reduced the use of negative coping strategies. This may also involve analysing whether sector-specific outcomes have been achieved, such as in education, or whether there is better access to sustainable and long-term solutions through the disbursement of cash. Findings through post-distribution monitoring may hence be used to verify compliance with agreed procedures and detect irregularities. The results are expected to be fed back into the programme cycle in order to improve the way cash-based interventions are designed, calculated and delivered.

203. From a financial perspective, it is crucial to implement post-distribution monitoring in all operations with significant cash-based intervention programmes, because one key financial risk is that cash-based payments do not reach the intended beneficiaries. In addition to the use of biometrics to verify a recipient's identity, post-distribution monitoring is an important control mechanism. During one of its field visits, the Board noted that a financial service provider had charged inadmissible additional fees to the beneficiaries over a period of two years. The country operation itself came across this issue during a routine field visit to one of the field offices. The Board holds that the separate, and inadmissible, fee could have been detected earlier if appropriate monitoring tools such as post-distribution had been used. The country operation stated that it intended to monitor the disbursement process at regular intervals and had already developed a questionnaire for this purpose.

204. Post-distribution monitoring is of high relevance for the further development of the cash-based intervention programme and plays a key role in assessing whether the cash has reached the beneficiaries and how to improve the way cash-based interventions are designed, calculated and delivered. The Board is well aware that there may be isolated cases in which the use of post-distribution monitoring is not practical or not cost-efficient. In such cases, exceptions from the general requirement for post-distribution monitoring should be provided for in the relevant regulation.

205. **The Board recommends that UNHCR make post-distribution monitoring of the individual country operations' cash-based intervention programmes**

mandatory. The post-distribution monitoring reports should contain recommendations and key programmatic adaptations as a standard content.

206. UNHCR concurred with the recommendation and stated that post-distribution monitoring is an essential element of the overall monitoring of cash-based interventions and that it can be integrated into other monitoring exercises, such as protection monitoring. The post-distribution monitoring reports contain key findings and any resulting changes and adaptations thereof will be included in the updated future delivery requirements for cash-based interventions.

Responsibilities in the area of post-distribution monitoring

207. The responsibilities are described in depth for the units and persons at the operational level, such as for programmes, protection units and representatives. For example, the representative is responsible for ensuring that all programme activities within the operation are fully monitored, with a clear delegation of monitoring responsibilities to staff. The programme unit is responsible for ensuring that the findings of the monitoring exercise are reviewed and used to inform current and future programming and that information management provides guidance in setting up data management systems and monitoring tools, as well as in the analysis and aggregation of monitoring data.

208. However, the programme manual and post-distribution monitoring guidance provided by UNHCR do not define responsibilities for monitoring functions at the organizational level in the area of cash-based interventions. The Board holds that responsibilities should be clearly defined for all areas in general and for cash-based interventions in particular.

209. **The Board recommends that UNHCR define responsibilities at the country and bureaux/headquarters levels with regard to post-distribution monitoring.**

210. UNHCR concurred with the recommendation.

Utilization of results from post-distribution monitoring

211. Out of the top 20 countries, 19 conducted post-distribution monitoring. The Board acknowledges the intensive work that has been done in this area. The Board reviewed 13 of the top 20 countries' post-distribution monitoring reports. The review focused on the question of whether recommendations were drawn from the monitoring findings and data presented in the reports. Among the reports reviewed, the Board found detailed and comprehensive ones. For example, one report presented the results on issues using the iris scan as a trend covering the past three years. In addition, a comparison group that did not receive cash was analysed in the second quarter of 2017. However, the Board noted reports of lower quality. In five of the reports reviewed, only the data and facts from the survey were presented. No recommendations or key actions for the future design of the programme were derived from the data in the report itself.

212. In the Board's view, an appropriate conclusion containing recommendations and key actions from the data derived from post-distribution monitoring is crucial for the long-term success of cash-based intervention. The Board acknowledges that UNHCR has already taken steps to improve the analysis of the data by including two chapters (with recommendations and key actions) in the document template. The Board acknowledges that key actions are expected to be already discussed and taken by programme staff and multifunctional teams. However, the recommendations should be presented in a transparent manner in the post-distribution monitoring reports.

213. **The Board recommends that UNHCR analyse and aggregate the findings from post-distribution monitoring and use it as a base for further developing the**

cash-based intervention programme at the level of both countries and bureaux. The analysis should be made available in a knowledge management portal.

214. UNHCR accepted the recommendation and pointed out that although aggregated findings and knowledge-sharing can be further facilitated, the context specificity of operational requirements and generally the complexity of each and every specific cash-based intervention delivery environment should be emphasized.

Implementing partnership expenses and project partnership agreements

215. UNHCR implements a large share of its projects through implementing partners, equivalent to 34 per cent of total expenses in 2018. It is therefore an important area of the business model of UNHCR that needs adequate control and compliance measures. For each project, UNHCR and the partners sign a project partnership agreement for a duration of up to one year. Implementing partnership expenses decreased by $29.0 million, or 2.1 per cent, and amounted to $1,375.1 million in 2018 (2017 reclassified: $1,404.1 million). In 2018, UNHCR concluded 1,609 agreements with implementing partners and 23 agreements with United Nations agencies and the International Organization for Migration (IOM). In prior years, agreements with the United Nations Volunteers programme and the United Nations Office for Project Services were classified as implementing partnerships, but they have been recategorized and are now reported under contractual services. UNHCR again had strong evidence to support the expenditures of its implementing partners.

216. The external verification of implementing partnership expenses remained strong, with a high level of coverage obtained at 82 per cent of the 2018 budget (see table II.6).

Table II.6
Project partnership agreements subject to the external verification process[a]

Type of partner	*Total number of project partnership agreements*	*Total budget value (millions of United States dollars)*	*Agreements subject to external verification*			
			Number of agreements	*Percentage of total number of agreements*	*Value (millions of United States dollars)*	*Percentage of total budget value*
National non-governmental organizations	771	489	354	46	393	80
International non-governmental organizations	606	635	362	60	523	82
Governments	231	189	133	58	163	86
Total	**1 608**	**1 312**	**849**	**53**	**1 079**	**82**

Source: UNHCR, Implementing Partners Management Service, report on 2018 project audit certification, 28 June 2019.
[a] Excluding agreements with United Nations agencies and IOM.

217. The Board also noted that most project partnership agreements obtained unqualified audit opinions and the number of modified audit opinions remained stable at a level of 13 per cent in 2018 and 16 per cent in 2017 (see table II.7).

Table II.7
Project partnership agreements with modified audit opinion

	2018[a]		2017		2016	
Type of opinion	*Number*	*Percentage*	*Number*	*Percentage*	*Number*	*Percentage*
Unqualified	694	87	531	84	678	87
Modified	100	13	103	16	100	13

Source: UNHCR, Implementing Partners Management Service, report on 2018 project audit certification, 28 June 2019.
[a] Not fully complete, as 55 audit certificates remain pending.

Controls and compliance

218. UNHCR has put several controls in place for implementing partnership-related transactions. These include a verification and approval process of instalments and partner financial reports. The UNHCR Manual (chap. 6, financial management) includes detailed guidance.

219. The Manual states that a journal to record implementing partnership expense and an accounts payable entry shall be recorded when the implementing partner project agreement is signed by both parties (chap. 6, sect. V, para. 4.2), hence when the agreement becomes binding.

220. The Manual further states that disbursements of instalments other than the first one will be recognized as an expense when paid and are conditional on, inter alia, certification and approval of project performance and financial reports regarding previous instalments (ibid., para. 4.3).

221. The Manual also states that upon certification and approval of project financial reports submitted by the partner, financial information contained in the approved project financial reports must be entered into the MSRP system by reclassifying the initially recognized instalment expense to specific expense account codes as defined by the project financial report (ibid., para. 4.2).

222. In the administrative instruction on the management of UNHCR-funded partnership agreements (UNHCR/AI/2017/16), it is stated that "amendments to agreements are a simplified format used to amend an agreement in case of an increase in the budget above the agreement's prior value, or budget transfers within the project budget that exceed the authorized 20 per cent variation at the output level". Amendments mention all changes and include the necessary annexes and appendices, depending on the change.

223. In the sample review during the course of the audit, the Board verified whether these provisions were complied with. Some cases of weak compliance were the following:

(a) Instalments were posted before the final signature on the project partnership agreement or amendment;

(b) Instalments were posted before the verification and approval of the preceding partner financial reports;

(c) Partner financial reports were posted before the final approval signature;

(d) Instalments and corresponding budgets were increased but the budget increase was not shown in the agreement amendment upfront, but only in annex B, where the budget is shown in detail.

224. Country office representatives were responsible for ensuring the correct application of the rules pursuant to the UNHCR Manual. The UNHCR Implementing Partners Management Service at headquarters additionally performed a sample review and discussed with country offices cases of irregularities or questions.

225. In particular, the Board holds that the control function can be enhanced. An overall review needs to be performed to ensure overarching and consistent compliance.

226. **The Board recommends that UNHCR establish additional controls to perform overall reviews as well as sample checks and increase compliance with the implementing partner sections of the UNHCR Manual through more accountability. This could be embedded in the new regional bureaux structure through the future Regional Control Officers.**

227. UNHCR concurred with the recommendation.

Electronic processes

228. In accordance with the UNHCR Manual, the verification and approval process of partner financial reports is split between three positions: partner financial reports must be verified by Project Control Officers (or staff designated with this function) in consultation with the multifunctional team, certified by Programme Officers and approved by the Head of Office or UNHCR staff with approving delegated authority (chap. 6, sect. V, para. 4.4). The partner financial reports are printed and signed on paper by the three officers.

229. In the above cases, UNHCR deviated from internal guidelines and standards. Furthermore, the offline verification and approval process was not mirrored in an integrated system check or overall full review to ensure that the verification and approval was always performed on time and adequately.

230. At the time of the audit, all mentioned documents were printed, signed, scanned and then stored as scanned electronic files. This included project agreements, amendments and partner financial reports.

231. The Board holds that UNHCR should strive for full compliance by all partners with the established controls. A systematic overall review, as well as system-integrated controls, would ensure increased compliance. Furthermore, it would enable UNHCR to optimize processes through, for example, analysing bottlenecks or revealing patterns.

232. The Board is of the opinion that working with scanned files makes an overall review difficult. Detecting errors or irregularities based on scanned documents is time-consuming and error-prone.

233. The Board welcomes that UNHCR has started to implement more electronic processes, such as adding an integrity and assurance module to the United Nations Partner Portal.

234. Parts of the partner process, such as general ledger journals, have been performed electronically for a longer time. Within the MSRP system, UNHCR has built-in controls for segregation of duties, achieved through the delegation of authority plan, which is the cornerstone of the organization in terms of reflecting authority and approval levels in the MSRP system (UNHCR Manual, chap. 6, sect. I, para. 10.2). The Board noted that the people responsible for the verification and approval process of partner financial reports pursuant to the UNHCR manual were not necessarily the same as the approvers in the delegation of authority plan.

235. **The Board recommends that UNHCR implement further electronic processes, such as submission of partner financial reports from partners through**

the United Nations Partner Portal and electronic signature for the approval of partner financial reports to replace the current offline verification signatures where possible, in order to facilitate strengthened internal controls. When electronic signatures are implemented, UNHCR should ensure that the authorities are aligned with the delegation of authority plan.

236. UNHCR agreed with the recommendation.

Risk-based monitoring of project partnership agreements

237. Partners report on their project expenditures through partner financial reports on a periodic basis. According to the UNHCR Manual (chap. 6, sect. V, para. 4.4), "partner financial reports must be subject to risk-based verification by programme and project control". These verification activities by UNHCR include desk reviews and verification visits. UNHCR offices can document the verifications using forms from the risk-based performance monitoring and control toolkit. According to its accompanying notes, the toolkit contains reference materials, suggested templates and examples that support UNHCR offices for effective management of partnership agreements, particularly for monitoring and project control activities; the templates are merely guides.

238. The toolkit includes forms for monitoring and verification. These are a risk assessment form, a project monitoring plan (form PMC01), financial and performance monitoring report (form PMC02, which feeds from forms PMC03a and PMC03b); and financial project verification, performance review and desk review (form PMC03).

Uptake of monitoring reports

239. Offices were requested to upload all available documentation to the UNHCR file-sharing platform eSafe. The Board received tables that showed the share of agreements for which verification reports were uploaded on eSafe by the field offices.

240. The Board received data on upload rates of reports to the file-sharing platform. It appeared that some projects did not use the forms provided or did not store them on eSafe.

241. The Board holds that an inconsistent usage of monitoring reports makes a comparison and overall review impossible. The Board is therefore of the opinion that all projects should perform a risk assessment, set up a monitoring plan and perform at least a mid-year and year-end verification exercise. For these steps, they should use the forms provided in the toolkit. The Board holds that only when all projects provide complete and comparable information can UNHCR make the best use of the information for monitoring and planning purposes.

242. **The Board recommends that UNHCR make a minimum set of monitoring reports and their upload to eSafe mandatory. These should include at least a risk assessment, a monitoring plan and half-yearly monitoring reports.**

243. UNHCR concurred with the recommendation and noted that some reports have already been made mandatory in 2019.

Risk assessments

244. The first step in the UNHCR risk-based project monitoring toolkit is the risk assessment. For a project overall, partnership risk assessments could be found in three places: annex A of the project partner agreement, a risk assessment form, and the project performance monitoring plan (form PMC01).

245. Annex A contained the project description, of which one point covered risk management. This was a descriptive part and it was based on information provided by the partner. In some cases, partners did not include risks, but stated that this section was not mandatory, whereas other partners included a summary of their own risk assessment and described operational risks.

246. In a separate process, UNHCR performed a risk assessment which was recorded in a risk assessment form. Subsequently, these risks were summarized and entered into form PMC01 as a basis for the performance monitoring plan.

247. The Board noted that the risks identified in annex A and the risk assessment form were not the same. In some cases, the risks identified by the partner in annex A focused on operational risks, whereas UNHCR identified financial risks on the risk assessment form. In addition, the Board noted that some smaller partners did not list any operational risks in their assessment. However, during interviews with the partners some were able to identify major operational risks.

248. The Board further noted that there was no comprehensive list of all major risks by project and that the separate lists did not always include all major risks.

249. The Board is of the opinion that it is necessary to perform one comprehensive risk assessment for each project, ideally jointly by UNHCR and the partner. As a result, there should be one list in which all risks are identified. Risks can only be addressed in full when UNHCR and the partner are aware of the risks they are facing.

250. Where necessary, UNHCR should support smaller partners in the risk assessment based on its broader experience from other projects. Additional training on risk awareness could be useful for UNHCR programme staff.

251. **The Board reiterates its previous recommendation (A/72/5/Add.6, chap. II, para. 81) that UNHCR ensure coherent risk assessments. UNHCR should harmonize the risk assessment of implementing partner projects to have one list of main risks for each project.**

252. UNHCR agreed with this recommendation and stated that it had already adjusted the risk management heading in the project description (annex A) to be consistent with the risk assessment form, which is prepared for each project. The risk assessment informs the project monitoring plan (the frequency and extent of project monitoring) and is prepared for every agreement. The list of all risks in the risk assessment form is not exhaustive as UNHCR believes these can be diverse among different projects, partners and operational contexts. Therefore, operations can add new risks in addition to the ones already available in the risk catalogues, as new risks are identified.

Instalments to implementing partners

253. For most projects, UNHCR transferred a first instalment to the partner upon signature of the agreement and later during the year transferred additional instalments. The project partnership agreement defined the terms of the partnership, including an initial plan of the timing and amount of instalments.

254. Future instalments are not ultimately determined upfront, instead they can be adapted when necessary. Two channels can be used when modifying instalments. Firstly, instalment plans can be updated, with shifts between payment dates and amounts without changing the overall budget. Secondly, instalments can increase or decrease when overall budgets for the project are increased or decreased with amendments to the project partnership agreement.

255. A subsequent instalment can be already known at the time of a partner financial report, or it can later be added through a budget increase and corresponding agreement amendment.

256. Pursuant to the UNHCR Manual, disbursements of instalments other than the first one are conditional on:

(a) Availability of funds allocated to the project;

(b) Certification and approval of project performance and financial reports regarding previous instalments;

(c) Performance progress against the workplan and delivery targets;

(d) Potential risks related to the transfer of funds;

(e) Cash flow and resources requirements for the following months (chap. 6, sect. V, para. 4.3).

257. The Board found cases in which an instalment was paid even though only a small share of the previous one had been expensed according to the partner financial report. The documents provided, such as partner financial reports and agreement amendments, did not include a justification for the transfer of the instalment amount. A justification could in particular make reference to performance forecasts and resource requirements for the upcoming months.

258. The Board is of the opinion that the current documentation of instalment justifications does not adequately reflect the conditionality on performance progress and resource requirements as outlined in the Manual. In addition to fulfilling the standards in the Manual, the documentation could support UNHCR in decision-making. Only when a strong link between instalments, performance and forecasts is established can UNHCR use this for improved cash and project forecasting, as well as steering of future projects.

259. The Board holds that reasons for a second payment and the link to current performance and future forecasts should be documented when the payment is requested or initiated. This ensures that offices consistently review the amount to be disbursed.

260. UNHCR should use, inter alia, the reports produced within the risk-based performance monitoring and control toolkit to review implementation progress and its link to expenditures.

261. In order to keep the number of documents and reports to a minimum, UNHCR could include the link and a narrative in existing documents. If the payment follows from a partner financial report, then it should be documented in that report. If the payment results from a budget increase and is not justified in a partner financial report, this needs to be documented in the project partnership agreement amendments (project description, sect. 5, agreement amendment history). The documentation should refer to clearly understandable figures and be summarized in a brief narrative.

262. **The Board recommends that UNHCR strengthen the link of performance review and resource requirements to additional instalment payments and document the review accordingly when initiating the payment of additional instalments.**

263. UNHCR concurred with the recommendation.

Transfer of assets to implementing partners

264. In accordance with the UNHCR Manual (chap. 4, programme manual), the project partnership agreement is the standard legal instrument for an agreement between UNHCR and a partner in which UNHCR transfers funds to the partner for the delivery of the project. The agreement is a legally binding document, developed by UNHCR and the partner, which stipulates the terms, conditions, responsibilities,

obligations and accountabilities of the participating parties and governs the transfer of financial and other resources by each party into the common project. In addition, the agreement concludes the agreed understanding of all previous discussions and negotiations with a particular reference to the project description (annex A to the agreement), containing the objectives, outputs, performance and impact indicators, implementation arrangements and the budget (annex B to the agreement). The manual highlights in particular that the project partnership agreement is the only official instrument for the transfer of funds from UNHCR to partners.

265. The Board found cases in which UNHCR procured assets and transferred them to an implementing partner. The asset transfer was made on the basis of a decision by the local committee on contracts. In the cases observed, no reference was made to a link between the project partnership agreement and the transfer of ownership. UNHCR signs a transfer of ownership agreement upon the transfer, which acts as proof of transfer of ownership. In general, the transfer of ownership agreement does not require an explanation of the purpose of the asset transfer.

266. The Board is of the opinion that, since the project partnership agreement concludes the "agreed understanding of all previous discussions and negotiations", it also needs to be linked with the transfer of ownership agreement.

267. **The Board recommends that UNHCR transparently link transfers of ownership to project partnership agreements in cases where the recipient is an implementing partner. The transfer of ownership agreement and MSRP recordings should state the project partnership agreement identification symbol. The purpose of the transfer should be clearly defined and stipulated in the transfer of ownership agreements.**

268. UNHCR accepted the recommendation and stated that where a partnership agreement exists, the transfer of ownership agreement will be required to reference the partnership agreement symbol.

Global fleet management

Background and regulations

269. In 2011, UNHCR analysed its vehicle fleet and identified excessive annual operating expenses. At that time, UNHCR managed 6,500 light vehicles. As a result of the use of these vehicles, UNHCR had to cover annual operating costs of approximately $130 million. In addition, UNHCR found that funds from the sale of vehicles that were disposed of were low compared with other international organizations. UNHCR considered that the overall management of its vehicle fleet was characterized by poor asset control and the preparedness of the vehicles for operational use to ensure staff safety was of insufficient quality.

270. As a consequence, the High Commissioner decided to reorganize the organization's fleet management under a global fleet management project. In March 2013, UNHCR defined basic structures. The global fleet management project focused on several strategic fields: a global fleet management rental scheme, a global insurance scheme, maintenance and repair, fuel management, and others. With reference to the resources available, UNHCR decided to focus on the rental scheme, including the following elements: global fleet management, a global fleet fund, global fleet insurance and a vehicle tracking system.

271. In August 2013, UNHCR described the key processes for the reduction of light vehicle life-time costs. These processes were: achieving cost-effective vehicle acquisitions, timely replacement of vehicles, realizing optimized disposal revenue and enhancing safety. The organization introduced a Global Fleet Management Unit

within the Division of Emergency, Security and Supply; the new unit was responsible for all project-related and other fleet activities.

272. Along with the organizational upgrades, UNHCR established two information technology-based tools. The vehicle tracking system was implemented to evaluate and monitor the use of the fleet vehicles, referring to their operational use (e.g. routes, distances, driving time). In order to capture the costs of the use of fleet vehicles, the FleetWave software was installed at all locations where global fleet vehicles were used. Key performance indicators of the vehicle tracking system and financial data from FleetWave are essential basic information for any analysis concerning the efficient use of vehicles.

273. Field operations are expected to lease official light vehicles from the global fleet. All global fleet vehicles are planned to be equipped with the vehicle tracking system and provided with global third-party insurance. All expenses for the vehicle tracking system and the insurance scheme are calculated to be covered by the monthly lease rate.

274. The global fleet insurance scheme covers three different areas. The global third party subsidiary liability is meant to reimburse for damages that the local third party insurance does not cover. The self-insurance provision is scheduled for cases of loss or damage of UNHCR vehicles. The local third-party liability needs to be established where available. At locations where local third-party comprehensive insurance is available, the local insurance is meant to be used in the first instance.

275. The global fleet management project was launched at the beginning of 2014 and should have been finished by the end of 2018. Starting from January 2014, any new acquisitions of light vehicles needed prior approval from the Global Fleet Management Unit. The Unit assisted in the disposal of official vehicles for the benefit of optimizing the outcome of the project.

276. Meanwhile, UNHCR reduced its vehicle fleet from 6,500 to 5,530 light vehicles. Out of these, 60 per cent are used by implementing partners on the basis of rights of use agreements.

277. Other elements, such as fuel management, the management of spare parts and maintenance and heavy vehicles and motorbikes had not yet been integrated into the project, but were expected to be included in the further project development in order to improve its effectiveness and efficiency.

The Boards' previous comments on global fleet management

278. The Board audited the global fleet management project already in 2015 and noted, for example, missing needs analysis and delays in new vehicle deliveries due to local customs issues. Furthermore, the disposal of old vehicles was causing difficulties. In general, the Board noted that the roll-out of global fleet management was accompanied by more difficulties in some country locations than in others.

279. UNHCR explained that the full benefit of the global fleet management project would be reached after a significant majority of official vehicles were under the rental scheme. The deadline for this step was expected to be the end of 2018.

280. The Board recommended permanently addressing the benefits and purpose of the global fleet management project and solving practical issues regarding its deployment. Furthermore, the Board recommended that further checks should be carried out in order to ensure that the roll-out of global fleet management represents best value for money.

281. In its report for 2016, the Board noted that a high portion of operations participated in the global fleet management project. The Board repeated its

recommendation to collect all important data and metrics in order to assess the outcome of the project. In addition, the Board noted that field operations did not properly assess their transportation needs (types and amounts of vehicles) according to economic, operational, security-related and infrastructural requirements.

282. The Board recommended that country operations assess their transportation needs by types and amounts of cars on the basis of operational requirements and that they document the analysis. In case operations encountered difficulties in analysing requirements, they might liaise with headquarters. On the occasion of further field visits, the Board noted the same discrepancies in the needs assessment for transportation for the 2018 budget period.

Global fleet management evaluation report

283. UNHCR decided to hire an external company to evaluate the success of the global fleet management project in September 2017. The contractor reviewed the documentation and fleet management provisions and circulated a questionnaire concerning the project to all locations involved in the global fleet management process. Based on analysis of the feedback from the field, the contractor was ordered to conduct field work at five selected locations. In the next step, the contractor followed up on the analysis at headquarters and the UNHCR service centre. The contracted company conducted the evaluation throughout 2018 and presented an evaluation report in December 2018.

284. The report refers to key processes for reducing light vehicle life-time costs and the fields of the strategy (elements of global fleet management such as maintenance and repair, fuel management and others).

285. The evaluation report states that the implementation of global fleet management has led to cost savings of $8.8 million for the purchase of vehicles. Concerning the global vehicle insurance scheme, based on estimates for the Middle East and Africa region, UNHCR identified $2.4 million as potential cost savings in comparing local costs to global fleet management costs. Referring to revenue from the sale of light vehicles and other assets that had reached the end of their useful life, UNHCR could achieve revenue of $6.3 million in 2016 and $9.75 million in 2017.

286. In order to compare the expenses for the UNHCR vehicle fleet before and after the implementation of global fleet management, UNHCR decided to focus on a cost comparison over two periods: the period from 2011 to 2013 was intended as the benchmark before the implementation of global fleet management, and the period from 2014 to 2017 was the benchmark after the launch of the project.

287. To evaluate if all or some of the established goals had been achieved, UNHCR decided to exclude from the analysis several fields of the strategy which had not been developed further due to delays in the time frame. In a second step, UNHCR limited the focus to the period from 2014 to 2017, since no comparable data was available for the period before global fleet management was instituted because of MSRP structural difficulties.

Limiting factors of the global fleet management evaluation

288. The evaluation report focused only on the global fleet rental and insurance. Furthermore, the information given in the report is limited because comparison with an earlier period (2011–2013) as initially foreseen was not possible. Finally, the launch of the project was delayed in the majority of strategy fields where development was planned, and these were therefore excluded from the analysis.

289. According to UNHCR, one quarter of the vehicle fleet has reached its end of useful life status, but the write-off and disposal processes cannot be initialized under

the global fleet management since these processes are still under the responsibility of local structures. The Global Fleet Management Unit intends to integrate these vehicles into the disposal/sale process as soon as possible.

290. In the Board's spot check of local and regional vehicle fleets, the Board noted that 27 per cent of 860 vehicles (representing 13 per cent of the global vehicle fleet) had been locally purchased (before and after January 2014) and not using global fleet management. The prices for locally procured vehicles were higher than in case of comparable purchases through the global fleet management project.

291. Local offices consider the process for reimbursement from the global fleet management insurance scheme as being too complex. Instead of requesting reimbursements from the global fleet management scheme, smaller repairs were financed from the operational budget.

292. Despite the fact that the vehicle tracking system and the cost-capturing tool had been rolled out in the majority of operations, the operational and efficiency controlling tools have still not been launched and used at all locations. Moreover, these tools or data are not available for locally rented cars.

293. The Board analysed the fleet data available for 860 vehicles, or 13 per cent of all global fleet management vehicles. The Board expects the overall transportation needs by each operation to be included in the focus of vehicle needs analysis, no matter whether the needs are covered through global fleet management or commercially rented vehicles. Since commercial rental solutions represent 22 per cent of the overall amount of vehicles held available for UNHCR transportation needs, rental cars are an essential part of its vehicle fleet planning. If rental vehicles are considered justified for economic reasons, they need to be analysed in order to achieve efficient and effective outcomes in transportation. Based upon the spot check results, the locally rented vehicles are not available for operational and cost analysis.

294. Owing to a lack of qualified personnel, the launch of some project steps was delayed. The new capabilities resulting from the installation of new processes and tools such as FleetWave were not fully used.

Conclusion

295. In line with the evaluation report, the Board came to the conclusion that a comparable cost basis for a period before the implementation of the global fleet management project could not be identified. Neither the overall project costs nor the global fleet management rental and insurance costs versus expenses for fuel, maintenance and other cost-factors were calculated. Since the report's focus is limited to global fleet management rental and insurance, there is no adequate conclusion on the project's overall efficiency and effectiveness.

296. Since one quarter of the UNHCR vehicle fleet has reached the end of its useful life and has not yet been disposed of, the potential of the global fleet management rental programme could not be fully reached. The programme's success depends on including vehicles that have reached the end of their useful life in the disposal and sale process.

297. The Board considers the evaluation report to be an important step. The report identified improvements and existing organizational and structural weaknesses, which will allow improvement in the processes and outcome of the global fleet management project. Once the structural weaknesses within the organization are removed, UNHCR will be in a position to review the effectiveness and efficiency of the project on the basis of operational and financial data.

298. The Board welcomes and concurs with the recommendations of the evaluation report on how to improve processes and outcome:

(a) UNHCR should develop a clear strategy to ensure that all operating costs and data are recorded and available for further analysis; this may include information from disposals;

(b) UNHCR should review personnel resources and assign sufficient personnel (fleet/asset managers) for global fleet management and asset management at all levels where global fleet management tasks are conducted in order to ensure strict compliance with relevant provisions. It should review and reorganize global fleet management, especially so as to ensure that all revenues are allocated to global fleet management as a business unit;

(c) UNHCR should communicate the benefits resulting from global fleet management, not only for UNHCR as a whole but also for country operations as customers, in order to permanently improve fleet management services;

(d) The training of trainers in the field should be enhanced for the purpose of establishing basic information about global fleet management at all locations where UNHCR is present;

(e) UNHCR should initiate an organizational development towards becoming a leading standardized organization for public auctions of vehicles and other items;

(f) UNHCR should review the configuration of the vehicles and upgrade their technical capabilities in order to reduce environmental pollution.

299. **The Board recommends that UNHCR incorporate the results of the evaluation report in the next fleet strategy and assess the sequence and importance of the processes needed to be implemented and prioritize them accordingly.**

300. **The Board recommends that the field level should be obliged to record all operational and financial data in the analysis tools (FleetWave/vehicle tracking system) and that global fleet management staff have access to all databases and have the capacity to carry out analytical services and evaluate the data.**

301. **The Board recommends that UNHCR consider a solution to integrate operational and cost data from commercially rented vehicles in the operational and cost analysis.**

302. UNHCR concurred with the recommendation and confirmed that a new fleet strategy, which makes reference to the evaluation and is informed by its recommendations, is already in place.

Contractors

Lack of strategy and framework for the use of individual contractors

303. Based on the United Nations administrative instruction on consultants and individual contractors (ST/AI/2013/4) in conjunction with the UNHCR respective policy and standard operating procedures (IOM/011–FOM/011/2013), a contractor is an individual engaged by the organization under a temporary contract to provide expertise, skills or knowledge for the performance of a specific task or piece of work. The work assignment may involve full-time or part-time functions similar to those of staff members. UNHCR stated that it has engaged over 1,000 contractors with expenses amounting to $10.5 million for the years from 2016 to 2018. Approximately 70 per cent of the contractors were hired by the field operations.

304. Operations, regional bureaux and headquarters may decide to engage individual contractors based on their expected needs. UNHCR policy requires that individual contractors may only be hired if the need for the required services cannot be found within UNHCR because of lack of availability. Therefore, the hiring manager (supervisor of the contractor) is obliged to seek suitable and available staff members within UNHCR who could perform the required functions. Before hiring contractors, the Career Management Support Section has the task of checking whether there are qualified employees in the workforce.

305. The Board noted that UNHCR did not comply with its policy. During our field visits, in none of the cases examined could the respective written confirmation of the Career Management Support Section be provided by the hiring entity. The Board found no evidence that UNHCR had mechanisms in place to assess in-house competencies and expertise before turning to individual contractors.

306. Assessment of the capacity of the existing workforce is central to deciding on the need for contractors. This assessment should be performed at the level of the hiring entity before the start of the hiring process. Otherwise it is not clearly evident which capacities a certain contractor brings along that were not available in-house. In order to guarantee that the documentation on the non-availability of in-house capacity is of a certain quality, UNHCR should make the documentation mandatory with the support of a workflow process to justify requests for contractors.

307. **The Board recommends that UNHCR should strengthen its justification and documentation for hiring individual contractors under the circumstances that the required capability is not available in UNHCR.**

308. UNHCR concurred with the recommendation.

Duration of the work assignment

309. According to the policy on individual contractors, the deployment of contractors is restricted to a maximum period of nine months of full time work in a 12-month period or to a timespan of 195 days (IOM/011–FOM/011/2013, para. 41). After nine consecutive months or 195 days, there must be a mandatory break in service of three full months. The Board noted that in 2018, out of 287 cases 95 contractor assignments exceeded the timespan and in 2017, out of 328 cases 90 contractor assignments exceeded the timespan. The Board is of the opinion that clarity in guidance and an appropriate accounting sheet for the duration of contractors' assignments are important for ensuring appropriate contract management and effective controls.

310. **The Board recommends that UNHCR ensure the mandatory break in service of three full months is fulfilled in every case. Therefore, UNHCR should monitor the duration of contracts to comply with the applicable limits set.**

311. UNHCR concurred with the recommendation. UNHCR will explore the possibility of configuring the respective finance system to disable the issuance of contractor assignments for a longer duration than the maximum specified time in the policy.

Clearance process, roles and responsibilities

312. UNHCR deals with different types of affiliate workforce arrangements to fulfil its tasks. The organization differentiates between affiliate personnel engaged through partner organizations and those engaged directly by UNHCR. Individual contractors are hired directly. In 2013, UNHCR set up a new unit at its Budapest office under the Division of Human Resources Management as a focal point to facilitate the management of affiliate personnel.

313. Pursuant to the UNHCR policy on affiliate workforce arrangements, affiliate personnel must refrain from any misconduct that would reflect on the organization. In August 2017, UNHCR launched a mandatory and comprehensive human resources clearance process for all requests to engage affiliate personnel with the aim of ensuring adherence to UNHCR policies, rules and regulations and that hiring managers do not engage individuals who had serious performance and/or misconduct issues during previous work with UNHCR as staff members or affiliates. During the human resources clearance process, the unit in Budapest reviews all elements of the request submitted by the hiring manager, including details of the proposed assignment such as its scope, duration, dates and payment schedule, as well as specific and measurable outputs with clear delivery dates. The unit then informs the hiring manager if the person is cleared or not.

314. The Board noted that UNHCR did not implement a mandatory verification process supported by technical tools to ensure that human resources clearances are endorsed. In cases when a request to hire an individual contractor is not submitted for clearance to the Affiliate Partnerships Unit, UNHCR nevertheless assumes without further checking that the hiring manager is acting in compliance with the UNHCR policies, rules and regulations. In several cases reviewed by the Board, the mandatory and comprehensive human resources clearance for all requests to engage affiliate personnel was not part of the contractor files.

315. The UNHCR policy on individual contractors assigns a major responsibility to the hiring entity. Taking into consideration the prominent role of this entity in the hiring process for contractors, human resources clearance is becoming more important. In order to prevent hiring entities from engaging individuals who have had serious performance or misconduct issues, the human resources clearance should become part of a mandatory verification process and should be embedded in a standardized process supported by technical tools. That requires not only clearly established roles and responsibilities in the guidelines, especially in the policy on individual contractors, but also tools and mechanisms that enable the processing of human resources clearance online.

316. **The Board recommends that UNHCR provide clear guidance to divisions and field operations (hiring entities) to enhance the awareness of human resources clearance. UNHCR should amend the respective policies with regard to human resources clearance and ensure the involvement of the Affiliate Partnerships Unit in the clearance process.**

317. **The Board also recommends that UNHCR establish tools that enable the processing of human resources clearance on an online basis.**

318. UNHCR is in the process of reviewing its policy on individual contractors and the administrative instruction on the use of affiliate workforce arrangements. UNHCR is currently assessing how to globally enhance and modernize systems and tools supporting the human resources functions.

Weakness in internal control

319. In terms of internal control procedures, the Board noted the following weaknesses:

Delegation of authority

320. The policy on individual contractors in conjunction with the standard operating procedures[3] assigns a huge responsibility to the hiring entities. This follows the UNHCR strategy towards greater decentralization in its organizational design and ways of working, with the aim of strengthening and empowering its country operations. According to the current policy, the hiring manager is responsible for the administration of contractor contracts. For instance, the hiring manager conducts the needs assessment, develops the terms of references, checks the availability of funds, selects the contractor for the work assignment, extends the contract and determines the fee. Once a contractor is hired, the evaluation and supervision is handled by the hiring manager.

321. In contrast to the leading role of the hiring manager in the recruitment and selection process, the role of the Director of the Division of Human Resources Management is limited. Pursuant to the policy, the Director delegates the authority to approve individual contractor contracts to other directors within the respective bureaux and divisions. These directors may also delegate the management of individual contractor contracts to a designated focal point who has the main responsibility for managing these contracts. Taking into consideration that each bureau or division applies a different approach to the management of contractors, the Board sees a lack of accountability with regard to the assignments of contractors. In addition, this may affect the transparency of the recruitment process and cause conflicts of interest in terms of the selection of the suitable candidates. Furthermore, UNHCR has not set up a specific monitoring process to focus in particular on the two modalities of the ownership of the whole recruitment process and the associated budget. Generally, contractors are hired from the operational budget of the hiring entity, to which the Division of Human Resources Management does not have access. In particular, the assigned personnel in the field are responsible for budget planning and ensuring that expenditures for contractors can be absorbed in the planned budget.

Budgeting process

322. UNHCR established a specific human resources module in its MSRP system. Away from headquarters, the bureaux and the divisions perform the entire recruitment process for contractors outside of this MSRP module. According to UNHCR, 401 contractors were engaged in 2016, 328 contractors in 2017 and 278 contractors in 2018 at headquarters and in the field. Approximately 70 to 74 per cent of the contractors were hired by the field during the years from 2016 to 2018. UNHCR expenses on individual contractors amounted to $4,685,660 in 2016, to $2,811,056 in 2017 and to $2,966,056 in 2018.

323. Owing to the fact that contractor's contracts were not always issued from the MSRP finance module as purchase orders, the financial figures reflected the amount allocated from purchase orders and not the amount that was eventually spent on contractors. The Board noted that there was no assurance on the quality and completeness of the data captured in the MSRP system for contractors. The Board is of the view that this may cause a lack of consistency related to the data on contractors.

324. **The Board recommends that UNHCR ensure that the entire contractor identification and selection process is independently verified or is based on an approval workflow process (as an integrated part of the MSRP module) in order**

[3] Standard operating procedures for the engagement of personnel under UNOPS individual contractor agreements, provided by the Affiliate Workforce Unit (Division of Human Resources Management), 14 March 2018.

to increase transparency and efficiency of the selection decision made by the hiring manager.

325. UNHCR accepted the recommendation.

Job description and performance evaluation

326. As stipulated in the policy, the job description of a contractor's assignment should include "clearly defined measurable deliverables" for the evaluation of a contractor's performance. In addition, the job description should include deadlines and delivery dates to ensure the efficiency and effectiveness of the assignment. In order to attest to the timely and satisfactory completion of the assignment and to release the final payment, a performance evaluation is required for contractors. UNHCR uses a standardized template for the performance evaluation. The template offers five classifications to evaluate a contractor's performance, as well as an area where the hiring manager should provide a narrative assessment of service delivery and linkages to the outcomes. During its field visits, the Board noted that the job descriptions did not include sufficient tangible and measurable outputs of the work and delivery dates. The Board noted also that the evaluation reports were not recorded in the MSRP human resources module. Furthermore, the evaluation reports were not always on file and sometimes were compiled late. The Board holds that the design, application and results of the performance evaluation do not provide a sufficient basis for an informed decision on future assignments.

327. **The Board recommends that UNHCR pay particular attention to preparing specific job descriptions that enable the responsible officials to evaluate the performance of contractors. Therefore, UNHCR should review the existing performance classification as a component of the evaluation report and consider whether the evaluation report and template could be established in the MSRP module.**

328. **The Board also recommends that UNHCR conduct an analysis to determine whether the assignment of contractors is the most cost-effective solution.**

329. UNHCR concurred with the recommendations.

Information technology/cybersecurity and data protection

330. For auditing cybersecurity, the Board applied the international standard ISO/IEC 27001:2013 (Information technology/Security techniques/Information security management systems/Requirements). This standard is one of the international cybersecurity standards developed by the International Standard Organization (ISO) used worldwide. The requirements set out in ISO/IEC 27001 are generic and are applicable to all organizations, regardless of type, size or nature. The standard includes requirements for assessing and treating information security risks tailored to the needs of the organization.

331. In 2014, the United Nations System Chief Executives Board for Coordination endorsed the United Nations system internal coordination plan on cybersecurity and cybercrime. Also in 2014, the UNHCR Operational Guidelines on Information and Communications Technology (ICT) Security entered into force. These Guidelines outline the approach and principles at UNHCR for secure ICT management.

332. In 2015, UNHCR adopted its data protection policy, which lays down the rules and principles relating to the processing of personal data of persons of concern to UNHCR. In processing personal data, there are inherent risks such as accidental or unauthorized loss or disclosure. Given the particularly vulnerable position of persons of concern to UNHCR, the nature of their personal data is generally sensitive. The data protection policy requires UNHCR to ensure and implement a high level of data

security, through organizational and technical measures, that are appropriate to the risks presented by the nature and processing of personal data. Compliance is mandatory for all UNHCR personnel.

333. In 2017, UNHCR contracted a consultant to carry out an assessment of UNHCR cybersecurity capabilities. Subsequently, the Division of Information Systems and Telecommunications reviewed the assessment report and launched the cybersecurity transformation programme in March 2018. Following the programme initiation document of July 2018, the cybersecurity transformation programme should be an organization-wide initiative to transform and enhance UNHCR information security capability by resolving existing issues and consolidating a secure ICT environment to protect UNHCR information and the information of persons of concern. The goal of the programme is to enhance UNHCR cybersecurity maturity from the stated level (approximately 1.5, between "rudimentary" and "foundational" under the consultant's methodology) to the target level (approximately 3.0, "baseline") over three years with a budget of $3 million per year. With the programme, the Division also has the goal of leading UNHCR closer to international cybersecurity standards in protecting information and ICT systems such as ISO/IEC 27001.

334. The Division divided the cybersecurity transformation programme into eight tracks. These tracks cover the following security themes:

(a) Establish a framework of essential standards, policies, controls and technologies;

(b) Ensure global, regional and local awareness through communications and training;

(c) Implement secure controls on user identities, authentication, privileges;

(d) Develop and deploy an advanced monitoring system and security operations centre;

(e) Secure centralized infrastructure;

(f) Secure centralized applications;

(g) Secure distributed systems;

(h) Deliver additional data protection policy support.

335. The Division plans to finish the transformation programme in 2021. Although the Division made great efforts to enhance cybersecurity, two assessments in 2017 and 2019 stated findings of weak information security and both confirmed that information security capabilities needed to be enhanced.

Decentralization gives rise to information security risks

336. Since the UNHCR policy on regionalization (see UNHCR/HCP/2015/8), regionalization had already been firmly embedded in the UNHCR global management strategy. The policy applies to all UNHCR regional offices, global service centres, regional service centres, regional bureaux at headquarters and headquarters divisions and services. Compliance with this policy is mandatory.

337. In April 2019, UNHCR had field operations in 131 countries. Field operations managed ICT field infrastructure locally and decided when, in what manner and in what scope they procured, developed, implemented, patched and replaced decentralized software and hardware. Over time, selected and well-funded operations have built up a large established base of infrastructure and applications developed and maintained in the field by staff outside budgetary and staff management structures of the Division of Information Systems and Telecommunications.

338. Decentralization and increased autonomy of field operations in ICT matters has had an impact on information security and cost-effectiveness. The Board noted, for example, that:

(a) In 2017, a consulting firm considered the cybersecurity protection maturity level of UNHCR to be rudimentary and identified numerous information security risks related to the decentralized level;

(b) In 2019, another consulting firm identified numerous information security risks in field operations in one country and in few selected applications;

(c) In the past, many field operations had extended the data structure of the decentralized Profile Global Registration System (proGres) V.3 application to meet local requirements. This made migration to the central application version of proGres V.4 tedious and time-consuming, as in each case local data had to be adapted and consolidated before migration;

(d) Owing to the lack of a central application register, it was possible that field operations had developed applications that were already available at other field operations.

339. By contrast, the influence of the Division of Information Systems and Telecommunications on the decisions of field operations on ICT security was limited. For example:

(a) The operational guidelines on ICT security of 2014 which outline the approach and principles of UNHCR for the secure management of ICT were not mandatory. Compliance was only expected;

(b) Despite regular reminders by the Division, field offices rarely allocated sufficient funds to address the obsolescence of their ICT assets such as workstations, network and local servers. This came also to the attention of the Independent Audit and Oversight Committee, which recommended creating a central capital fund. The Division included the central capital fund in the 2017 annual programme review. However, the fund was not approved.

340. The mandate of UNHCR to assist persons of concern includes protecting the personal data they provide. Even though UNHCR decentralization may better respond to the needs of persons of concern, in the Board's view, decentralization contributes to the increase of information security risks to data of persons of concern. As insight with regard to information security risks in field operations appears to be limited, many of these risks may still be unknown.

341. The Board also sees the risk that owing to the autonomy of field operations in ICT matters, local applications will continue to evolve independently. To mitigate existing information security risks and avoid their further increase, UNHCR needs to establish UNHCR-wide mandatory minimum information security standards in an ICT governance framework. The ICT governance framework should seek a balance between decentralization and information security requirements, as well as cost-effectiveness of ICT. Furthermore, the Board deems it necessary that field offices be obliged to inform the Division of Information Systems and Telecommunications when they intend to develop applications.

342. The Board also sees the need to make funds available to implement minimum information security standards in the field.

343. **The Board recommends that UNHCR establish mandatory UNHCR-wide minimum information security standards in an ICT governance framework as soon as possible.**

344. **The Board recommends that UNHCR establish a mandatory central clearance process to avoid the duplication of existing applications and establish a register for all applications developed in the field. Field offices should inform the Division of Information Systems and Telecommunications when they plan to develop additional applications.**

345. **The Board recommends that UNHCR make additional funds available to implement and monitor mandatory minimum information security standards in the field.**

346. UNHCR accepted the recommendations.

Incomplete information security risk management

347. ISO/IEC 27001 states that the organization shall define and apply an information security risk assessment process, including ensuring that repeated information security risk assessments produce consistent, valid and comparable results, establishing and maintaining information security risk criteria, and identifying, analysing and evaluating the information security risks. ISO/IEC 27005 provides guidelines for information security risk management in an organization.

348. In 2017, the Division of Information Systems and Telecommunications assessed control objectives and risks at headquarters using the COBIT (control objectives for information and related technologies) framework and aligned the outcome with the corporate risk register. Furthermore, the Division conducted annual ICT risk assessments. These risk assessments were in line with ISO 31000 as part of the enterprise risk management process. The corporate risk register of 12 December 2018 included eight approved ICT risks related to the Division.

349. In February 2019, UNHCR included the risk of "unauthorized access owing to insufficiently secure ICT systems and processes" in the strategic risk register. The strategic risk register is owned by the High Commissioner and captures critical risks at the organizational level. Most of those risks were directly manageable or steered by UNHCR. The purpose of the strategic risk register is to enable UNHCR to manage strategic risks and to support risk-informed decision-making.

350. In April 2019, the Board noted that the risk register of the Division of Information Systems and Telecommunications itemized only one ICT security risk area, even though, in 2017, a consulting firm had identified numerous ICT security risks and mitigation measures during an assessment of UNHCR cybersecurity. The Division has not worked out a more detailed and complete ICT security risk list apart from the corporate risk register.

351. Regarding ICT risks in the field, the Board noted that each country office kept its own risk register for the current formal risk process in UNHCR, with 19 country offices having one or two ICT risks integrated into the corporate risk register. The Division of Information Systems and Telecommunications reviewed this register and commented on the ICT risks in the field. Beyond the risks in the corporate risk register and the associated process, Division had no insight into ICT risks in the field.

352. According to chapter 8 of ISO/IEC 27005, "risk assessment determines the value of the information assets, identifies the applicable threats and vulnerabilities that exist (or can exist), identifies the existing controls and their effect on the risk identified, determines the potential consequences and, finally, prioritizes the derived risks and ranks them against the risk evaluation criteria set in the context establishment". It is furthermore stated in chapter that "an asset is anything that has value to the organization and which, therefore, requires protection".

353. To perform asset valuation, an organization first needs to identify its assets. Annex B of ISO/IEC 27005 distinguishes primary assets and supporting assets. Primary assets are business processes and activities and information. Supporting assets include hardware, software, networks and personnel assets. UNHCR had not yet documented its primary and supporting assets for risk assessment.

354. The Board recognizes the efforts already taken on information security risk management. However, the Board sees the need for UNHCR to establish a formal information security risk assessment process aligned to ISO 27005 and consolidate information security risks and mitigation measures in a UNHCR-wide information security risk register. This risk register should also include the information security risks identified in the cybersecurity assessment in 2017.

355. **The Board recommends that UNHCR establish an information security risk assessment process based upon or directionally aligning towards ISO 27005.**

356. **The Board recommends that UNHCR document primary and supporting assets for the information security risk assessment.**

357. **The Board recommends that UNHCR complement its information security risk register with already known information security risks.**

358. UNHCR concurred with the recommendations.

Inadequate information security organization

359. According to the operational guidelines on ICT security of 2014, the Chief Information Officer and the Deputy Director of the Division of Information Systems and Telecommunications are responsible for managing and enhancing ICT security. The guidelines are not mandatory. Compliance is only expected. In general, the Division is responsible for the ICT hardware and software needed by UNHCR so that staff can work efficiently, effectively and safely. UNHCR managers at all levels of the organization are responsible for ensuring the security of the ICT systems for which they have authority. In chapter 4.1 of the operational guidelines on ICT security, the role of a Chief Information Security Officer, who, according to ISO/IEC 27001, should coordinate all the activities related to security information in the organization and advise and inform the administration and top management of information security, is not mentioned.

360. Nevertheless, in 2015, UNHCR installed a Chief Information Security Officer in the ICT Operations Management Service of the Division of Information Systems and Telecommunications. According to the job description, the tasks of the Chief Information Security Office include:

(a) Performing the highest leadership role for establishing UNHCR-wide ICT security strategy and direction, and accountable for results across all ICT services within UNHCR;

(b) Guiding all staff in the appropriate use and application of security policies;

(c) Working closely with the service development team to ensure compliance with all security policies, solution architects to ensure that security is built into the applications and the underlying ICT infrastructure and systems, and ICT operations to ensure that security is maintained for all ICT services.

361. In April 2019, the Board noted that the Chief Information Security Officer was drafting a mandatory overarching administrative instruction on ICT security as part of the cybersecurity transformation programme, which should replace the guidelines. Furthermore, the Officer was head of the security incident management team and carried out awareness measures.

362. An overarching mandatory information security policy, signed by top management, was not in place. The Chief Information Security Officer at UNHCR does not report directly to top management. To inform top management about significant information security themes, the Officer has to report to the Deputy Director of the Division of Information Systems and Telecommunications ICT Operations Management Service. It depends on the Officer's superiors, the Deputy Director of the Division and the Chief Information Officer (the Director of the Division), whether they will follow up on the reported subject, escalate it or change the reports.

363. The task of the Division to provide ICT services effectively and efficiently, and the task of the Chief Information Security Officer to provide more information security, may result in conflicts because of their different views. For example, information security measures proposed by the Officer could negatively affect the performance of ICT systems or complicate processes so that the Division is reluctant to implement them. Because of these conflicts, the Chief Information Security Officer should not be integrated within the Division. In addition, there is the risk that placing the Chief Information Security Officer in the Division may reduce information security to technical aspects without regard for organizational and procedural aspects.

364. Furthermore, the Chief Information Security Officer had no instruments, such as a mandatory information security policy, to enforce security information in UNHCR. The Officer had no rights to request other divisions to implement information security measures and needs the support of top management to strengthen the role of the Chief Information Security Officer and to promote information security in UNHCR.

365. **The Board recommends that UNHCR strengthen the position of the Chief Information Security Officer and increase interaction with top management. To secure the position of the Officer, the Board recommends that UNHCR redefine and describe the role and tasks of the Chief Information Security Officer in an overarching information security mandatory guideline that defines mandatory requirements, controls and responsibilities of all stakeholders. The mandatory guideline should also grant the Chief Information Security Officer a reporting line to a consultative and reporting body that includes membership by top management.**

366. UNHCR concurred with the recommendation.

Security awareness

367. Pursuant to ISO/IEC 27001 (A 7.2.2), UNHCR should educate and train staff in information security awareness. UNHCR has implemented a mandatory information security awareness course for all staff members. By December 2018, 70 per cent of UNHCR staff had attended. However, less than 30 per cent of the D-1 and D-2 management and only 53 per cent of the headquarters staff had participated in this course.

368. The low participation rate indicates a lack of security awareness, especially by senior management and headquarters staff. As the awareness of superiors is one important factor for successfully achieving further information security, the Board considers it essential that management participate in the security awareness measures.

369. **The Board recommends that all senior management and staff at headquarters, as important stakeholders, participate in information security awareness training courses, given that they are responsible for ensuring information security measures.**

370. UNHCR concurred with the recommendation.

Protection of personal data

371. In October 2018, the High-level Committee on Management adopted the personal data protection and privacy principles as a basic, non-binding framework for the processing of personal data by, or on behalf of, the United Nations system organizations. According to these principles, organizations should have adequate policies and mechanisms in place to adhere to them.

372. UNHCR had already implemented a policy on the protection of personal data of persons of concern to UNHCR on 27 May 2015. The policy lays down the rules and principles relating to the processing of personal data of persons of concern to UNHCR including:

(a) Persons of concern are persons whose protection and assistance needs are of interest to UNHCR. This includes refugees, asylum-seekers, stateless persons, internally displaced persons and returnees;

(b) Personal data are any data related to an individual who can be identified from that data and other information or by means reasonably likely to be used related to that data;

(c) UNHCR needs to ensure and implement a high level of data security that is appropriate to the risks presented by the nature and processing of personal data, the availability and quality of the necessary equipment, the cost and the operational feasibility;

(d) Personal data are by definition classified as confidential and UNHCR data security measures are to protect personal data against the risk of accidental or unlawful/illegitimate destruction, loss, alteration, unauthorized disclosure of, or access to, personal data.

373. The data protection policy does not mention the protection of data of UNHCR personnel. In June 2018, an internal UNHCR task force chaired by the Assistant High Commissioner (Protection) decided to move ahead with the development of a global data protection policy to cover all personal data. There was a follow-up meeting of the task force in April 2019 to review and discuss the data mapping exercise undertaken to carry out this project and to review an outline of the global data protection policy. General Assembly resolutions, the United Nations Staff Regulations and Rules and associated United Nations and UNHCR issuances provide a degree of protection of personal data of personnel. Furthermore, the UNHCR ICT system, the MSRP system, is designed to limit access to staff members' personal data. The Board is nevertheless of the view that the data of UNHCR personnel also needs protection and, subject to applicable Assembly resolutions and the United Nations Staff Regulations and Rules, needs to be included in the data protection policy.

374. **The Board recommends that UNHCR plan to develop an overall data protection policy to include the protection of personal data of all UNHCR personnel.**

375. UNHCR concurred with the recommendation.

Tasks and efforts of the Data Protection Officer

376. In order to ensure accountability for the processing of personal data of persons of concern in line with the data protection policy, UNHCR has set up an accountability and supervision structure. Pursuant to chapter 7 of the policy, this structure consists of a Data Protection Officer at UNHCR headquarters, data controllers, who are usually the representatives at a UNHCR country office/operation and are responsible for establishing and overseeing the processing of personal data under their area of

responsibility, and data protection focal points in country offices/operations designated by the data controllers. In April 2019, 246 data controllers and data protection focal points in 132 countries formed the major part of the UNHCR global data protection network.

377. Pursuant to chapter 7 of the data protection policy, the Data Protection Officer's tasks include:

(a) Providing advice, support and training on data protection and the data protection policy;

(b) Maintaining inventories of information provided by data controllers and data protection focal points, including data transfer agreements, specific instances of data sharing by UNHCR with third parties, data protection impact assessments, data breach notifications and complaints by data subjects;

(c) Actively encouraging data controllers and other relevant actors to undertake measures aimed at compliance with the policy;

(d) Monitoring and reporting on compliance with the policy;

(e) Liaising with the Legal Affairs Service as necessary under the policy.

378. The Board noted that the Data Protection Officer provided advice and support such as:

(a) Guidance on the protection of personal data of persons of concern to UNHCR in 2018. This guidance complements the data protection policy and assists UNHCR personnel in the application and interpretation of the policy. It promotes principled and practical implementation across all UNHCR operations;

(b) Data protection toolkit, frequently answered questions, checklists, forms and templates on implementing data protection via the Intranet;

(c) Regular information for staff by email and various efforts to establish such support as webinars, e-learning and courses in the field. Since September 2018, the Data Protection Officer has sent five messages to the data protection network with comprehensive information on data protection and requests to provide information on data protection matters in the field.

379. The Board noted that the Data Protection Officer had not yet carried out all of the tasks provided for in the data protection policy. For instance, the Officer had not yet maintained inventories of information on data protection and had not yet monitored and reported on compliance with the data protection policy.

380. Pursuant to chapter 7.3.2 of the data protection policy, the Data Protection Officer is to submit an annual data protection report, through the Director of the Division of International Protection, to the Assistant High Commissioner (Protection). The Board noted that the last annual data protection report, for 2016, dated from March 2017. The Board noted that the Data Protection Officer intended to submit a data protection report for the two years 2017 and 2018.

381. UNHCR set up the position of the Data Protection Officer without supporting staff, albeit with the support of a network of data protection focal points. The incumbent was in staff category P-4 and had been in charge since July 2017, prior to which another UNHCR staff member performed the functions.

382. **The Board recommends that UNHCR review and update the Data Protection Officer's role and functions in such a way that the Officer is able to perform the tasks stated in the policy on the protection of personal data of persons of concern to UNHCR. The Board also recommends that as UNHCR**

develops its global data protection policy, it should ensure that accountability regarding protection of all personal data is addressed.

383. UNHCR concurred with the recommendation. The Board is aware of intentions to broaden the scope of the data protection policy to all personal data, not only of persons of concern.

Influence and position of the Data Protection Officer

384. Considering the volume of data and the need for sharing data with partners, the Board noted that there were not many reactions from the data protection network of data controllers and data protection focal points to messages and requests for information. For example:

(a) Only a few country offices answered the 10 questions from the Data Protection Officer in a message of September 2018 on the practice of communication of personal data in the field;

(b) In a message of October 2018, the Data Protection Officer asked the country offices to fill out an inventory table for recording the processing of personal data of persons of concern in their operation. Although the Officer reminded the country offices in a message in November 2018, only one out of 123 country offices in the data protection network completed the inventory table in a meaningful way;

(c) Based on requests the Data Protection Officer received regarding advice on data protection impact assessments since June 2018, the Officer estimated that about 40 of these assessments had to be carried out. Nevertheless, the Officer received copies of only four data protection impact assessments. As the data protection policy states, data controllers are to keep the Officer fully informed of any data protection impact assessment carried out under their responsibility and to share a copy of the respective assessment. UNHCR needs to carry out data protection impact assessments when developing new systems, projects or policies or before entering into data transfer arrangements with implementing partners or third parties that may negatively affect the protection of personal data of persons of concern;

(d) The Data Protection Officer received no notifications on data breaches from data controllers and data protection focal points;

(e) Furthermore, the Data Protection Officer had not received any complaints by individuals whose personal data were subject to processing by UNHCR.

385. UNHCR set up the position of Data Protection Officer within the Division of International Protection in the integrity team and in the UNHCR Global Service Centre in Copenhagen. The Data Protection Officer reports to the Director of the Division of International Protection. There was no reporting line for data protection matters to top management.

386. Initiatives undertaken by the Data Protection Officer are not yet given enough attention by field operations. The accountability and supervision structure to ensure accountability for the processing of personal data of persons of concern in line with the data protection policy does not yet work effectively. The Board is of the view that the level of influence and position in the organization of the Data Protection Officer are not adequate to the tasks stated in the data protection policy. Firstly, the Officer needs a position that makes it possible to carry out the tasks independently. Secondly, the Officer needs the possibility to report directly to top management on data protection matters. This would also strengthen the Officer's influence in the data protection network and in the whole of UNHCR.

387. **The Board recommends that the UNHCR Data Protection Officer have appropriate access to the top management.**

388. UNHCR concurred with the recommendation.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

389. UNHCR reported that it had formally written off assets of $0.1 million (2017: $3.8 million). The write-offs refer mainly to unrecoverable value added tax ($60,638) and unrecoverable receivables against two former staff members related to alleged fraudulent transactions ($20,872).

2. Ex gratia payments

390. UNHCR reported that it had not made ex gratia payments in 2018 (2017: three, totalling $13,874). That corresponds with the Board's review of the financial and management records of UNHCR, which has not identified any other such payments during the financial year.

3. Cases of fraud and presumptive fraud

391. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The Board's work, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud remains with management.

392. During the audit, the Board made enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risk of fraud, including any specific risks identified by management or brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries by OIOS.

393. UNHCR reported 43 cases of proven fraud during 2018 resulting in financial losses of $1.22 million (2017: 38 cases of $1.23 million). Of those fraud cases, 34 were committed by staff members, 6 by members of affiliated workforces and 3 by concerned partners. The cases involved embezzlement, registration fraud, entitlement/benefit fraud, procurement fraud, recruitment/academic fraud, non-compliance with United Nations/UNHCR administrative instructions, other fraud and theft.

D. Acknowledgement

394. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner, the Deputy and Assistant High Commissioners, the Controller and members of their staffs.

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India

(*Signed*) Jorge **Bermúdez**
Comptroller General of the Republic of Chile

24 July 2019

Annex

Status of implementation of recommendations up to the year ended 31 December 2017

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
1	2017	A/73/5/Add.6, chap. II, para. 21	The Board recommends that UNHCR establish a process of monitoring imminent camp closures so that any constructive obligation or contingent liability will be adequately reflected in the financial statements.	UNHCR confirms that questions designed to identify and allow UNHCR to account for constructive obligations and onerous contracts were included within the year-end questionnaire (annex 5 to the 2018 year-end closing instructions). This questionnaire consists of a checklist whereby representatives self-certify the application of various internal controls as part of the accounts closing instructions. These instructions included specific reference to an example of the restoration of camp sites to help ensure that this issue is adequately addressed. The responses received from the representatives to this questionnaire formed the basis for the 2018 year-end accounting and/or disclosure of contingent liabilities. This mechanism will continue to be applied from now onwards at each year-end closing. Therefore, UNHCR considers that a mechanism has been established and hence is requesting closure of this recommendation.	The Board took note of the example of the restoration of camp sites that was included in the year-end questionnaire (annex 5 to the 2018 year-end closing instructions). Likewise, the Board observed that UNHCR was of the opinion that this reference to the example adequately addressed the recommendation. Based on the assumption that UNHCR ensures knowledge management, accountability and responsiveness at the field level with regard to constructive obligations, the Board closes this recommendation.	X			
2	2017	A/73/5/Add.6, chap. II, para. 26	The Board recommends that UNHCR establish a process to highlight agreements subject to parliamentary approvals in the MSRP system to facilitate the review process and to support	Agreements subject to parliamentary approval are tracked in the MSRP system from 2018 onwards. Therefore, UNHCR believes that this audit recommendation has been implemented and requests closure	The Board noted that UNHCR has established a process to assign agreements to five categories: (a) parliamentary approval; (b) unilateral termination by the	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			asset recognition assessment under IPSAS 23.	of the recommendation during the current audit cycle.	donor; (c) parliamentary approval and unilateral termination by the donor; (d) Junior Professional Officer contributions; and (e) agreements without such clauses. Within the MSRP accounts receivable module, a field has been designated to hold a one-character code based on the above described categories. The Board holds that this categorization addresses the recommendation and considers the recommendation to be implemented.				
3	2017	A/73/5/Add.6, chap. II, para. 30	The Board recommends that UNHCR enhance the list of controls aimed at responding to the risk of fraud and corruption with regard to the financial statements. The control frequency, a control owner and a responsible person for monitoring should be documented in the list. Furthermore, manual detective controls should be added to verify the functioning of automated controls.	UNHCR has submitted a spreadsheet to the Board detailing the risks of fraud and corruption with regard to the financial statements and the related controls addressing those risks. This document elaborates on the key controls, both automated and manual, that are present in the current internal control environment. This document will be maintained and updated regularly from now on, and will be further refined as deemed necessary. It is also to be noted that UNHCR is in the process of developing a framework to enable the issuance of a statement of internal control. It is intended that this statement will be issued in March 2020 with the financial statements of 2019.	The Board holds that the updated spreadsheet on key controls sufficiently addresses the recommendation. The control frequency is indicated for example as daily, monthly or automated. A control owner is indicated and complemented by the staff position that is responsible for monitoring the control. The list indicates that a number of manual detective controls are supposed to be in place. Therefore, the Board closes the recommendation.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				Further updates and changes may be brought to the current list of internal controls as the project for development of the statement progresses. In light of the above updates, UNHCR is requesting closure of this recommendation.					
4	2017	A/73/5/Add.6, chap. II, para. 37	The Board recommends that UNHCR ensure that country operations implement cash-based interventions when approved standard operating procedures are in place, in line with the administrative instruction.	The tracking/inventory tool to record country operation standard operating procedures is fully operational and follow-up with countries is conducted to ensure compliance. All finalized standard operating procedures are stored on eSafe. The list of the top 20 countries, representing 98 per cent of direct cash-based intervention implementation operations that are compliant with the requirements for standard operating procedures, has been shared with the auditors. Based on the above, UNHCR considers this recommendation implemented and is requesting its closure.	The Board found cases in which operations started the implementation of cash-based intervention programmes without approved standard operating procedures in place. The cases were among the 20 largest UNHCR operations implementing cash-based interventions. Therefore, the Board is concerned that a material portion of cash-based intervention programmes is still commenced while the standard operating procedures are not approved. The Board closes this recommendation and has reiterated the recommendation in paragraph 179 of its report for 2018 (A/74/5/Add.6).	X			
5	2017	A/73/5/Add.6, chap. II, para. 46	The Board recommends that UNHCR strengthen the monitoring and evaluation of cash-based	The independent evaluation of the cash-based intervention programme, led by the Policy Development and Evaluation	The Board acknowledges that UNHCR has commissioned an evaluation study on the	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			intervention training impacts. The Board encourages UNHCR to expand in-depth, on-site cash-based intervention training and the training of participants who can multiply knowledge and capacities, that is, training the trainer or training the supervisor.	Service and the Global Learning and Development Centre, commenced in November 2018 and will be finalized at the end of the first quarter in 2019. The inception report for the evaluation engagement has been submitted and the final report will be shared with the Board as soon as it is available. UNHCR is committed to addressing the recommendations coming out of the evaluation report. As the aspects raised in this recommendation will be pursued based on the evaluation report, UNHCR is requesting closure of this recommendation.	proficiency of its capacity-building strategy. UNHCR provided the Board with the inception report and a draft of the final report. The Board holds that the commissioned study is suitable for monitoring the cash-based intervention training impacts. The Board considers the recommendation to be implemented.				
6	2017	A/73/5/Add.6, chap. II, para. 52	The Board recommends that UNHCR enhance the mechanisms for monitoring the cash-based intervention documents used by country operations through issuing additional guidance, conducting training and standardizing the key documentation required to be maintained as substantiation of the cash-based intervention transactions to the extent applicable when considering the local context.	UNHCR has provided additional guidance on maintaining standardized cash-based intervention key documentation through conducting financial training, field support missions and random desk sample reviews. The importance of maintaining good quality key documents, e.g. authorized distribution lists and confirmation of delivery by financial service providers, have been emphasized all along. In addition, the CashAssist tool provides enhanced monitoring of key cash-based intervention documents to increase standardization to the extent possible. In line with the project initiation document for CashAssist version 2, the tool is on track for its development. As of January, 50 per cent of all requirements have been developed. The CashAssist	The Board noted that UNHCR provided additional guidance to country operations by means of the administrative instruction for closure of UNHCR accounts in 2018. UNHCR launched additional learning programmes and headquarters extended its supportive contact with country operations. The Board considers this recommendation to be implemented.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				version 2 development will be finalized by July 2019 as foreseen. Good practices as described above are well established, hence UNHCR considers this recommendation implemented and is requesting its closure.					
7	2017	A/73/5/Add.6, chap. II, para. 53	The Board encourages UNHCR to further strengthen its guidance to country operations to enhance cash-based interventions refund and cut-off procedures.	UNHCR issued further guidance in the fourth quarter of 2018 in the form of: (a) UNHCR/AI/2018/14 on the closure of UNHCR accounts, which developed and emphasized the financial procedures related to receipting for cash-based interventions (4.2.18) and refund cut-off (4.8.13/14); (b) An online learning programme developed by the Division of Financial and Administrative Management and the Global Learning Centre (referred to in section 4.2.10 of UNHCR/AI/2018/14), which included slides, examples and evaluation questions particular to cash-based intervention implementation to enable UNHCR staff to apply correct cut-off procedures and to prevent inaccurate receipting for cash-based intervention transactions. In addition, monitoring by headquarters has been enhanced: a periodic/monthly analytical review of cash-based intervention transactional records and necessary follow-up actions has been implemented to enhance the monitoring controls in place.	The Board took note of the further guidance that was provided to country operations. The administrative instruction for closure of UNHCR accounts clearly describes the accounting procedure for cash-based intervention refunds and is flanked by additional learning programmes. The Board considers this recommendation to be implemented.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				Based on the above, UNHCR considers this recommendation implemented and is requesting its closure.					
8	2017	A/73/5/Add.6, chap. II, para. 63	The Board recommends that country operations better incorporate the project control's quality assurance function in the process of establishing project partnership agreements.	For quality assurance purposes, project control staff are systematically involved in the process of establishing project partnership agreements in country operations in the Middle East and North Africa and Africa regions (e.g. Egypt, Ethiopia, Jordan, Mauritania and the United Republic of Tanzania) by applying the quality assurance checklist to ensure that project partnership agreements have been prepared in line with the administrative instructions of UNHCR. Based on these updates, UNHCR requests closure of this recommendation.	The Board welcomes the well-integrated usage of the quality assurance checklist, which assists project control staff in assuring adequate quality control during the establishment of partner agreements. The Board considers the recommendation to be implemented.	X			
9	2017	A/73/5/Add.6, chap. II, para. 69	The Board recommends that during the results-based management review project UNHCR assess whether it is possible and useful to include the determination of baselines for output indicators in the new results-based management system. If the assessment concludes that this is useful, the Board recommends that UNHCR use such baselines to enhance the	The new approach in designing and implementing results-based management has been developed and endorsed by the senior executive team during the second part of 2018, and the bureaux and division directors were briefed at the Senior Management Committee meeting in December 2018. These briefing materials and a two-page summary overview of the new results-based management approach and design have been submitted to the Board to provide more explanation of the future results framework. The new results framework design introduces a substantial increase in flexibility and allows for user-defined	The new results-based management will combine core mandatory indicators based on globally endorsed frameworks with locally defined indicators, giving operators the flexibility to develop and manage their strategies and plans based on the local context and local stakeholder dynamics. The aim is to support operations in articulating collective outcomes and impacts agreed with partners through joint processes, which	X			

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			information given in the project description.	elements, including output. In the new design, outputs and output indicators can be freely formulated by the country operations, while a menu listing outputs and associated indicators frequently pursued by operations will be available. Taking this into consideration, the new results-based management approach will not include the introduction of baselines at the output level. The review of our current practices and other agencies' systems has also supported this conclusion as it is aligned with system-wide inter-agency reporting and the future business processes related to country-level operations management in line with the new results-based management approach. In summary, UNHCR has assessed the possibility to include the determination of baselines for output indicators in the new results-based management system as required by this recommendation. Based on the above, UNHCR considers this recommendation implemented and is requesting its closure.	exceeds direct and indirect deliverables (outputs) of UNHCR. Taking this into account, the decision not to include the implementation of baselines at the output level within the new results-based management approach seems reasonable. The Board considers the recommendation to be implemented.				
10	2017	A/73/5/Add.6, chap. II, para. 76	The Board recommends that UNHCR assess the newly introduced periodic progress report template with regard to the completeness of the information needed. This assessment should include whether the new	The simplified periodic performance progress reporting format was introduced and applied in most country offices and partners (a copy of the template and its questionnaire has been made available to the Board). Most users have found it user-friendly. A structured questionnaire was sent to country operations to collect	The Board noted that UNHCR assessed the newly introduced periodic progress report templates through: (a) implementing partner feedback; and (b) country office feedback. The assessment included	X			

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			template has led to increased usability.	sample feedback from users. The results of the survey have been made available to the Board. UNHCR is also pursuing other efforts to harmonize with other organizations and United Nations agencies, for example with the end of project performance reporting template as part of the Grand Bargain commitment. This was piloted in three countries (Iraq, Myanmar and Somalia). The feedback from these countries was submitted to the Grand Bargain workstream lead agencies (Government of Germany and the International Council of Voluntary Agencies) and, as a result, the template has been revised. The new harmonized template has also been put into use for all UNHCR country operations and partners as of the 2018 end-of-year reporting. The final version of the harmonized template has also been shared with the Board. Both templates provide the necessary information for reporting to UNHCR and subsequently to be used by donors. In addition, the frequency of reporting using these templates has been linked to risks. The revised templates and the approach have also reduced the administrative burden on partners and increased efficiency.	aspects of completeness of information, as well as the usability of the reports.				
11	2017	A/73/5/Add.6, chap. II, para. 81	The Board recommends that country operations assess the quality of partners' financial and performance reporting.	UNHCR country operations are assessing and monitoring partners' financial and performance reporting through periodic verification visits and reviews by multifunctional	The Board acknowledges that UNHCR country offices have assessed the reporting quality. The Board further noted that	X			

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			In case of low reporting quality, the country operations should take appropriate measures to improve reporting quality. The Board further recommends that UNHCR establish best practices and share them with operations.	teams. Several offices use the templates developed by headquarters, such as the performance monitoring and reporting template (coded PMC02) and the project verification report (coded PMC03). Two country operations were able to show a reduction of errors in partner reporting and an increase in quality. Periodic emails and letters to partners highlight key areas for improvement and corrective actions required. In addition, Jordan, Mauritania and the Bureau for Europe have carried out training workshops (for one or two days) for partners and affiliate organizations to train them on the most relevant UNHCR procedures, rules and strategies related to protection, programme management, reporting templates, supply chain management guidelines and project control. Based on these updates, UNHCR is requesting closure of this recommendation.	UNHCR shared examples of best practices within a region as well as globally. The Board therefore considers this recommendation to be implemented.				
12	2017	A/73/5/Add.6, chap. II, para. 88	The Board recommends that country operations enhance project planning for construction projects implemented by partners. The country operations should initiate corrective measures such as getting support from regional service centres in cases of lack of capacity or	To address the weaknesses noted by the Board in the recommendation, UNHCR is in the process of developing construction project guidance that seeks to strengthen the oversight role of UNHCR and provide greater clarity and differentiation of responsibilities of UNHCR technical staff and implementing partners. This documentation will describe phases and responsibilities throughout a	The Board acknowledges that UNHCR has introduced country-specific improvements. The Board further acknowledges the established road map of actions to take. The Board noted that the steps outlined in the road map needed to be implemented in the		X		

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			resources to plan and monitor projects adequately.	construction project, from planning, through implementation, to evaluation. It will also describe minimum construction standards for emergency response and more permanent construction, including clearly defined staffing requirements depending on the complexity of design and local contextual conditions. The guidance will also better define internal responsibilities with the UNHCR team so that the Shelter Officer and Settlements Planner are engaged early in preparatory processes from the planning stage onwards when other departments are planning construction under their budget (such as health and education). With improved early engagement, the guidance will support risk analysis so that complex construction projects are considered with adequate planning from technical specialists and local stakeholders, identifying risks and proposing mitigation measures. UNHCR will also include monitoring and evaluation of construction projects within the suite of the new guidance. It is envisaged that the first elements of the guidance will be completed in the fourth quarter of 2019, with some elements requiring field testing and consultation before the finalized versions can be completed. UNHCR believes that once such guidance becomes available, the recommendation	upcoming months. Therefore, the Board considers this recommendation to be under implementation.				

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				above would be substantially addressed.					
13	2017	A/73/5/Add.6, chap. II, para. 99	The Board recommends that UNHCR formulate a corporate position on Sustainable Development Goal engagement.	The corporate position has been prepared and it is now being circulated in the senior executive team for endorsement. It will be made available to the Board as soon as it is endorsed.	The Board noted that the official position of UNHCR on the Sustainable Development Goals was endorsed by the senior executive team on 24 June 2019. An official broadcast disseminated the position across the organization on 28 June 2019.	X			
14	2017	A/73/5/Add.6, chap. II, para. 100	In addition, the Board recommends that, based on the corporate position, UNHCR operationalize its Sustainable Development Goal engagement.	The Integrated Programme Service of the Division of Programme Support and Management will proceed with operationalizing the corporate position, once it is approved.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
15	2017	A/73/5/Add.6, chap. II, para. 108	The Board recommends that, based on its corporate position on Sustainable Development Goal engagement, UNHCR develop a results-based management system that is able to reflect the position of UNHCR on Sustainable Development Goal engagement in order to demonstrate its contributions to the achievement of the Goals in the long term.	The new approach in implementing results-based management, as well as the future results framework design, was developed and endorsed by the senior executive team during the second part of 2018, and the bureaux and division directors were briefed at the Senior Management Committee meeting in December 2018. These briefing materials and a two-page summary overview of the new results-based management approach and design has been made available to the Board. The new results framework design makes visible links to the key Sustainable Development Goals and targets, mainly at the levels of impact and outcome, based on the	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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				updated Sustainable Development Goal corporate position on engagement with the Goals. Based on the above, UNHCR is requesting closure of this recommendation.					
16	2017	A/73/5/Add.6, chap. II, para. 109	The Board further recommends that UNHCR identify data sources and establish baselines for measuring its contribution to the Sustainable Development Goals so as to be able to prepare for data processing as soon as the new results-based management system has been launched.	The new approach in implementing results-based management, as well as the future results framework design, has been developed and endorsed by the senior executive team during the second part of 2018, and the bureaux and division directors were briefed at the Senior Management Committee meeting in December 2018. These briefing materials and a two-page summary overview of the new results-based management approach and design has been made available to the Board. The new results framework design makes visible links to the key Sustainable Development Goals and targets, mainly at the levels of impact and outcome, based on the updated Sustainable Development Goals guidance, which describes the UNHCR corporate position on engagement with the Goals. The financial data will continue to be linked to outputs, which will be aggregated at the outcome and impact levels, making it possible in future to link UNHCR financial data to its contribution to the selected key Goals. Based on the above, UNHCR is requesting closure of this recommendation.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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17	2017	A/73/5/Add.6, chap. II, para. 113	The Board recommends that UNHCR conduct an analysis of the human resources requirements for operationalizing the newly developed corporate position on the Sustainable Development Goals and develop or refine its training to cover identified needs, if any.	Under the leadership of the Global Learning and Development Centre of the Division of Human Resources Management, the following actions will be taken: **Scheduled for the fourth quarter of 2019**: based on the findings of the Division of Programme Support and Management survey on Sustainable Development Goal-related activities, the Global Learning and Development Centre will develop and implement a specific training needs analysis to identify the existing learning needs, the staff grades to be targeted and, in particular, the content areas of potential learning activities. The guidelines are to be compiled by the Integrated Programme Service in collaboration with the Strategic Workforce Planning Section in the Division of Human Resources Management. **Scheduled for the first quarter of 2020**: subject to completion of the previous action, a mapping of the existing training proposal will be implemented, confirming the already available Sustainable Development Goal-related content in the learning portfolio. The owner of this action is Global Learning and Development Centre. **Scheduled for the fourth quarter of 2020**: if any knowledge and/or skills gaps are identified during the processes described above, training design activities can be started to develop newly required training contents in order to fill the	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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				identified gaps. The owner of this action is Global Learning and Development Centre.					
18	2017	A/73/5/Add.6, chap. II, para. 114	The Board also recommends that, based on the corporate position and the identified human resources needs, UNHCR refine job profiles and recruit or post staff accordingly.	In line with UNHCR updates last year, the Division of Human Resources Management is working with key functions in the organization to review and revise job descriptions (job profiles) as part of a project aimed at UNHCR knowing its jobs and its people. For the most part, it is expected that the Sustainable Development Goals will be mainstreamed into existing functions. It is worth noting that the core job profiles (standardized job descriptions) that will feature in the new set-up of the regional bureaux as part of the regionalization process will be prioritized for standardization.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
19	2017	A/73/5/Add.6, chap. II, para. 119	The Board recommends that UNHCR develop more specific guidance on how to implement the corporate position on the Sustainable Development Goals.	Upon approval of the UNHCR corporate position, the Division of Programme Support and Management will identify programming implications and lead the coordination and drafting of appropriate guidance to UNHCR operations on implementation of the Sustainable Development Goals. This guidance will also need to be informed by the upcoming decisions on United Nations reform in the area of development, which will affect engagement by UNHCR concerning the Goals at the country level.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
20	2017	A/73/5/Add.6, chap. II, para. 120	The Board also recommends that UNHCR define reasonable targets for	As part of operationalizing the UNHCR corporate approach to the Sustainable Development Goals, parameters will be identified that	The Board acknowledges that UNHCR is still working on this recommendation.		X		

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			developing, implementing and managing engagement of country operations in the Sustainable Development Goals so as to support an effective and coherent approach for UNHCR engagement in the Goals in the field.	will support an effective and coherent approach for engagement by UNHCR in diverse country contexts.	Therefore, the Board considers it to be under implementation.				
21	2017	A/73/5/Add.6, chap. II, para. 126	The Board recommends that, based on the corporate position and guidance to operationalize that position, country operations map and align current approaches so as to develop a plan on how they intend to support national Governments in implementing the Sustainable Development Goals through support, where applicable, of the comprehensive refugee response framework, the United Nations country teams and the implementation of the United Nations Development Assistance Framework.	While an overall corporate position with detailed instructions on the 2030 Agenda for Sustainable Development is being formalized, UNHCR offices in Europe and Africa have taken action to support national Governments in implementing the Sustainable Development Goals and have been proponents of incorporating the Goals into all aspects of the roll-out of the comprehensive refugee response framework/United Nations Global Compact. For example, the Bureau for Europe has actively participated in the work of the United Nations country teams and has aimed to ensure inclusion of UNHCR persons of concern under specific Sustainable Development Goals, as applicable. Furthermore, at the bureau level, UNHCR co-chairs the issue-based coalition on large movements of people, displacement and resilience, which is a platform under the auspices of the regional United Nations Sustainable Development Group team that aims to ensure the inclusion of persons of concern in the Sustainable	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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				Development Goal nationalization processes. UNHCR also plans to embark on discussions regarding the best way to roll out the global compact on refugees and the comprehensive refugee response framework to the United Nations country teams and for these to be compatible with United Nations Development Assistance Frameworks.					
22	2017	A/73/5/Add.6, chap. II, para. 130	The Board recommends that country operations further refine the risk registers in place to better capture risks deriving from Sustainable Development Goal engagement, the multi-year multi-partner planning process, where applicable, and engagement for the comprehensive refugee response framework.	Through the UNHCR enterprise risk management framework, field operations are asked to identify, analyse and manage risks to the achievement of the objectives of the funded activities of their operational plans. The UNHCR administrative instruction on planning for 2020–2021 explicitly requires that operational plans incorporate UNHCR engagement with the Sustainable Development Goals and the global compact on refugees, under which the comprehensive refugee response framework is now subsumed. These instructions gave detailed guidance on how this should be done (the instructions have been transmitted to the Board). The administrative instruction was issued in February 2019, after the most recent mandatory annual risk review and update of the corporate risk register in November 2018. With regard to risks to the multi-year, multi-partner planning process, there are 22 country operations that have formally developed multi-year, multi-partner	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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				strategies that would traverse the 2020–2021 planning and operational cycle. The administrative instruction on planning for 2020–2021 calls for these 22 country operations to once again develop their operations plan in alignment with their multi-year, multi-partner strategies. In sending instructions for the next mandatory annual risk review (due in November 2019), the Enterprise Risk Management Unit will directly reference the administrative instruction on planning for 2020–2021 and remind country operations of the need to reflect the risks related to the global compact on refugees/comprehensive refugee response framework and the Sustainable Development Goals. When this next risk review is complete, UNHCR expects to see the risks related to the Goals and the compact/framework better captured within the UNHCR corporate risk register. As with the Goals and compact/framework, the instructions for the November 2019 risk review will remind country operations of the need to reflect multi-year, multi-partner risks in their registers. For the 22 countries formally implementing the multi-year, multi-partner strategy, this will be something the Enterprise Risk Management Unit pays specific attention to when reviewing and providing feedback on the risk registers.					

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23	2017	A/73/5/Add.6, chap. II, para. 134	The Board recommends that UNHCR systematically collect country-level case examples of engagement in support of the Sustainable Development Goals so as to ensure knowledge transfer and provide adequate management responses.	UNHCR will collect lessons and experiences from countries in a survey and make these lessons available to offices throughout UNHCR through its intranet and other knowledge-sharing mechanisms, including workshops.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
24	2017	A/73/5/Add.6, chap. II, para. 145	The Board recommends that UNHCR country operations refine their risk assessments with regard to the identification of areas that are vulnerable to fraud and corruption.	Prevention of fraud and corruption were central to the risk management training organized for all risk focal points in the second half of 2018, aiming at ensuring a comprehensive identification and documentation of risks in this area and identification of relevant mitigation measures. The detailed planning instructions for 2019 also made reference to the management of fraud and corruption risks within the enterprise risk management framework. To date, some 600 of the risks linked to fraud and corruption have been identified as part of the risk reviews linked to the 2019 planning process. These risks come from all UNHCR regions and cover different aspects of fraud and corruption (including risk categories such as implementing partnership management, supply and asset management, human resources, fair protection processes and documentation, durable solutions, beneficiary selection, financial tracking, reporting and controls,	The Board took note of the increased consideration of fraud and corruption in the corporate risk registers and the high-level consideration in the strategic risk register. The Board furthermore acknowledges the awareness-raising initiatives that have been launched and the training sessions that have been conducted. These initiatives have led to a better understanding and reflection of the risk of fraud and corruption on the operational level. Based on this, the Board considers the recommendation to be implemented.	X			

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				cash-based interventions, etc.). The UNHCR strategic risk register raises fraud and corruption as high-level, organization-wide risks and outlines relevant mitigation measures. Furthermore, emphasis by UNHCR on the prevention of fraud and corruption has also been demonstrated in a recent decision to make the e-learning programme on the prevention of fraud and corruption mandatory. The Enterprise Risk Management Unit has systematically reviewed in 2018 the corporate risk registers of all field operations and provided feedback to risk owners and risk focal points. In this review, special attention was paid to risks that are at the centre of the risk management 2.0 initiative, including risks linked to fraud and corruption. With these developments, UNHCR proposes that this recommendation be closed.					
25	2017	A/73/5/Add.6, chap. II, para. 148	The Board recommends that UNHCR country operations develop or enhance comprehensive overall anti-fraud and anti-corruption strategies that are customized to the local context when the risk assessment of a country operation reveals a higher vulnerability to fraud and corruption.	In line with the previous update by UNHCR, the template for the anti-fraud and anti-corruption strategies in high-risk operations has already been developed and piloted in one country operation. Other high-risk operations have also been working on their strategies with the aim of having them completed by the end of March 2019. The pilot strategy developed for Kenya as well as the template have been shared with the auditors, as was the fraud prevention strategy for Iraq.	The Board was provided with the anti-corruption strategy template as well as with strategies of five country operations. The Board holds that the strategies represent a useful tool in the mitigation of the risk of fraud and corruption. The strategies are tailored to the specific local context and address high risk vulnerabilities.	X			

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				Strategies for the other countries will be shared with the Board as they become available. It is to be noted that these strategies build on the broader risk analysis and mitigation approaches in UNHCR operations (which incorporate fraud and corruption risks) and that they should be read in conjunction with the corporate risk registers. In light of the above, UNHCR considers that this recommendation has been substantially addressed and requests that the recommendation be closed (this approach will be taken forward in 2019 in those countries that have been identified as high-risk countries under risk management 2.0 and receiving dedicated risk management support. The Enterprise Risk Management Unit coordinates this action.).	The Board considers the recommendation to be implemented.				
26	2017	A/73/5/Add.6, chap. II, para. 152	The Board recommends that UNHCR country operations not selected for the risk management 2.0 initiative assess whether international staff could serve as a first contact point for staff of an office with regard to fraud and corruption prevention.	UNHCR has assessed the present structures and mechanisms in place from the three perspectives included in the Board's recommendation in respect of fraud prevention: (a) from the perspective of assuring a good assessment of risks that contributes to fraud prevention; (b) from the perspective of conducting activities for fraud prevention awareness; and (c) from the perspective of reporting and dealing with fraud suspicion, when it occurs, all in an attempt to identify who would be the most suitable official or function that could play the role of contact point	The risk management 2.0 initiative aims at a cultural change in risk management at UNHCR. The cultural change starts with a broadened awareness and responsibility of UNHCR staff members. The Board noted that, meanwhile, a number of contact points had been available in country operations all along dealing with risk management. Therefore, the Board considers the	X			

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				as mentioned in the recommendation. Our conclusion is that smaller, lower-risk operations that have not been selected for the risk management 2.0 initiative already have sufficient mechanisms in place to provide risk management with a focus on fraud and corruption prevention and integrity enhancement. UNHCR considers these mechanisms to be adequate and commensurate with local needs and resources, without the appointment of an additional first contact point for staff with regard to fraud and corruption prevention. Therefore, UNHCR is requesting that this recommendation be considered implemented.	recommendation to be implemented.				
27	2017	A/73/5/Add.6, chap. II, para. 155	The Board recommends that UNHCR country operations assess whether job rotation for national staff could be a useful mitigation measure. Such a job rotation process for national staff should be designed and developed depending on the organizational structure, responsibilities, skill sets and risk profiles.	Following the issuance of this recommendation, the bureaux have been invited to identify such opportunities in their respective country operations and to provide headquarters with examples where this approach was successfully applied. The feedback received from country operations, through their respective bureaux, shows, however, that this rotation, even if just limited to functional rotation and not referring to geographical rotation, can be best applied to national staff in headquarters locations and in larger operations for administrative and managerial reasons. Indeed, the UNHCR fraud prevention handbook indicates that job rotation is a good tool to	The Board welcomes the steps taken by UNHCR to prevent fraud issues by continuing to promote job rotation. The Board considers this recommendation to be implemented.	X			

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				prevent fraud, but the intention was to use job rotation rather in those functions that are more suitable to such a principle: for example in an office (generally at headquarters or large operations) where two or more "buyers" work together, in which case the buyers could swap their vendor portfolios with each other (within the same office) periodically to avoid establishing close relationships with particular vendors over time. Also, in operations with two or more Project Control Officers, partners can be rotated between the Officers. UNHCR will continue to promote job rotation across the organization as a good practice for fraud prevention within the possible scope as described. In light of this, UNHCR supports closure of this recommendation.					
28	2017	A/73/5/Add.6, chap. II, para. 162	The Board recommends that UNHCR continue to actively promote awareness of the negative impacts of fraud, corruption and sexual exploitation and abuse with staff, partners, intermediaries and persons of concern.	In September 2017 the High Commissioner launched the anti-fraud policy and operational guidelines on addressing fraud committed by persons of concern. The policy seeks to comprehensively address fraud committed by all persons of concern and throughout the individual case management continuum: from initial registration, through all protection and assistance activities, and to solutions. The policy requires that each operation establish communication and counselling mechanisms with persons of concern, in the course of which	The Board took note of the number of capacity-building activities and awareness-raising initiatives that took place in 2018 and that are ongoing. In particular, the deployment of Senior Risk Management and Compliance Advisers and roving risk advisers and enhanced coaching of risk focal points by headquarters fostered the awareness in country operations of the importance of the	X			

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				clear and effective anti-fraud messaging, appropriate to the operational context, must be provided, and advice is facilitated to persons of concern on the consequences of being involved in fraud. The policy additionally requires that each operation establish and maintain confidential and accessible complaints mechanisms. In March 2018, a senior coordinator was appointed to lead the work at UNHCR to prevent or respond to sexual exploitation and abuse and sexual harassment. In May, UNHCR issued a strategy and action plan regarding sexual abuse and exploitation and sexual harassment, which has been provided to the Board. Based on these updates, UNHCR is requesting that this recommendation be closed.	negative impacts of fraud and corruption. The Board considers the recommendation to be implemented.				
29	2017	A/73/5/Add.6, chap. II, para. 163	The Board also recommends that UNHCR country operations refine local training approaches on fraud and corruption prevention. Training programmes should be provided on a regular basis and be tailored to the daily work requirements, assigned responsibilities and the cultural context.	The online training on the prevention of fraud and corruption was made mandatory for all personnel in all duty stations in December 2018. To facilitate completion of the e-learning, it has been translated into French and the course is expected to be available in the rest of the United Nations official languages in the summer of 2019. As a result of these actions, 7,866 affiliate workforce and staff members had completed the course as at 18 March 2019. Furthermore, all Global Learning and Development Centre functional	The Board acknowledges that UNHCR has made the training on the prevention of fraud and corruption mandatory for all UNHCR staff members. Furthermore, the Board takes positive note of the increased number of completions of the training course. The Board considers the recommendation to be implemented.	X			

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				units are encouraged to incorporate the prevention of fraud and corruption content into their own learning and training activities. Currently the risk management team is working with the Centre's functional units to incorporate the risk management content into procedures and daily operations. Based on the above updates, UNHCR is requesting that this recommendation be closed.					
30	2017	A/73/5/Add.6, chap. II, para. 172	The Board recommends that UNHCR enhance compliance with its policy and standard operating procedures on individual consultants, ensure effective consultant contract management and consider centralizing some tasks of the hiring units to obtain a higher level of specialization.	In the context of the regionalization and decentralization of UNHCR, it has been decided that seven regional bureaux will be put in place by the end of 2019. Pending the determination of the actual composition of the bureaux and the related roles, responsibilities and delegation of authorities, the Division of Human Resources Management will be redesigning its role and processes to best assist the regional bureaux in terms of policy adherence and, at the same time, maintaining its oversight on the use of individual consultants worldwide.	The Board noted that UNHCR continued to pursue its strategy of decentralization. In this context, the Board appreciates that UNHCR intends to redesign its roles and its processes. The Board considers the recommendation to be under implementation.		X		
31	2017	A/73/5/Add.6, chap. II, para. 173	The Board also recommends that UNHCR assess whether an automated system control in the UNHCR MSRP system could be established for cases exceeding the threshold of $150,000.	Flagging payments in excess of the threshold entails the customization of the MSRP finance module; therefore, the potential cost implications are being assessed. Nevertheless, UNHCR is moving forward with the design of the new process, while considerations are being given to the possible reassessment of the $150,000 threshold as set by the policy. Detailed guidelines will be	The Board appreciates the action taken by the management of UNHCR. The Board urges UNHCR to assess the implementation of a technical control mechanism to ensure accountability in payments for consultants.		X		

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				developed as an annex to the revised administrative instructions explained in our updates below to the recommendation in A/73/5/Add.6, para. 181.	The Board considers the recommendation to be under implementation.				
32	2017	A/73/5/Add.6, chap. II, para. 174	The Board recommends that UNHCR establish a UNHCR-wide control to prevent duplicate payments of consultant fees from headquarters bank accounts in parallel to payments from an operation's bank account.	As an immediate measure, the Affiliate Partnerships Unit in the Division of Human Resources Management will run customized queries on a monthly basis to monitor the risk of duplicate payments. If a double payment is captured through these queries, the necessary administrative steps will be undertaken, depending on the details and specific aspects of the case. Based on the results of these monitoring activities, UNHCR will continue to assess the optimal permanent controls to be put in place across the organization.	The Board appreciates the action taken by the management of UNHCR and notes also its comments regarding the recommendation in paragraph 173 of A/73/5/Add.6. The Board considers the recommendation to be under implementation.		X		
33	2017	A/73/5/Add.6, chap. II, para. 181	The Board recommends that UNHCR review its policy and the standard operating procedures for the use of individual consultants. During this process UNHCR should enhance the guidance on advertising requirements, the segregation of duties, waiver processes, processes to determine and negotiate consultant fees, documents supporting payment reconciliation and the file management process.	The Division of Human Resources Management is currently revising IOM/030-FOM/031/2011 on affiliate workforce arrangements in UNHCR. As part of this work, the current IOM/009-FOM/009/2013/ Corr.1 on the policy on individual consultants is also under review. A draft administrative instruction has already been developed, taking into consideration the recent audit findings and other operational requirements. However, the finalization of the revised administrative instruction is pending the completion of the decentralization process in order to be able to better capture the needs of the new structure and the newly	The Board appreciates the action taken by the management of UNHCR and will follow up on the process. The Board considers the recommendation to be under implementation.		X		

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				established roles and responsibilities.					
34	2017	A/73/5/Add.6, chap. II, para. 192	The Board recommends that UNHCR continue to actively promote and further strive for equal access to employment opportunities within UNHCR for persons with disabilities.	The working group on disability inclusion was convened and met three times during 2018. Membership comprises colleagues in the field and at headquarters who either have a remit for an aspect of disability inclusion, have a disability themselves or are caregivers of someone with a disability. In addition, to kick-start cross functional working on this agenda, an interdivisional meeting was organized jointly by the Age and Disability Adviser and the Senior Adviser on Inclusion, Diversity and Gender Equity on 11 December. Emerging from this session were a number of recommendations and actions including an endorsement to develop a three-year strategy/ workplan for workforce disability inclusion. Development of the strategy will be in line with the United Nations system-wide policy indicators for disability inclusion, which are currently under development. Based on these ongoing activities and the commitment of UNHCR to continue to actively promote and strive for equal access to employment opportunities for persons with disabilities, UNHCR is requesting closure of this recommendation.	The Board is pleased to note that UNHCR pays respect to disability inclusion. The Board considers the recommendation to be implemented.	X			
35	2017	A/73/5/Add.6, chap. II, para. 193	The Board further recommends that	The Division of Human Resources Management has established	The Board appreciates the action taken by the		X		

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			UNHCR review the People Strategy implementation plan and data sources so as to be able to monitor progress until the new policy and corresponding monitoring framework for diversity and inclusion is established in 2019.	several human resources key performance indicators, including on gender parity. Enhancements in the collection of the relevant data are expected with the establishment of a systems and people analytics section in the Division in 2019, which will help track progress for this specific indicator. The section will comprise seven positions in total. At the time of this update, three staff members have been assigned and the rest of the team is in the recruitment process.	management of UNHCR and will follow up on the process. The Board considers the recommendation to be under implementation.				
36	2017	A/73/5/Add.6, chap. II, para. 194	The Board also recommends that UNHCR consider appointing a regular staff member as the focal point for disability issues at headquarters in order to institutionalize the function within its organizational structure.	UNHCR has designated a regular staff member as the focal point for disability issues in headquarters. The staff member has taken up the functions as Policy Officer in the Human Resources Policy Section of the Division as of 11 April 2019. Based on this, UNHCR is requesting closure of this recommendation.	The Board noted that UNHCR had designated a regular staff member as the focal point for disability issues at headquarters in the Human Resources Policy Section of the Division of Human Resources Management as of 11 April 2019. The Board considers this recommendation to be implemented.	X			
37	2017	A/73/5/Add.6, chap. II, para. 198	The Board recommends that UNHCR assess whether the global warehouse in Copenhagen provides a cost-effective solution for UNHCR. Alternative options should be considered.	UNHCR regularly reviews the suitability of the global warehouses, depending on the actual needs of the organization and the operational context. Currently, a logistics company is helping UNHCR conduct a supply network optimization analysis for the Copenhagen global stockpile. Based on the results, the Supply Management Service will plan and start executing necessary actions to	UNHCR has contracted a logistics company to examine the efficiency of the global warehouse in Copenhagen. Upon the results of this audit, UNHCR decides in June 2019 how to proceed in general warehousing. The Board considers the recommendation to be under implementation.		X		

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				move this project forward. The estimated date for these decisions to be made is June 2019.					
38	2017	A/73/5/Add.6, chap. II, para. 199	In addition, the Board recommends that UNHCR review the suitability of global warehouses on a periodic basis.	UNHCR regularly reviews the suitability of the global warehouses, depending on the actual needs of the organization and the operational context. Based on this, UNHCR is requesting closure of this recommendation.	Since the necessity of having global warehouses has been reviewed, the Board considers this recommendation to be implemented.	X			
39	2017	A/73/5/Add.6, chap. II, para. 202	The Board recommends that UNHCR conduct an annual stock count for as long as it keeps stock in the warehouse in Copenhagen. Furthermore, the Board recommends that UNHCR establish a methodology for these annual stock counts, as already agreed between UNICEF and UNHCR.	The 2018 year-end verification was conducted by a headquarters inventory team member and, as evidenced by the documents submitted to the Board, no discrepancies were found. The UNHCR stocks in this warehouse were transferred to a location in the warehouse where they were physically counted. As long as UNHCR keeps stock in the Copenhagen warehouse, this exercise will be repeated at each year-end. Based on this, UNHCR is requesting closure of this recommendation.	UNHCR intends to repeat the 2018 year-end exercise stock count done by a headquarters team at each year-end from now on. The Board considers the recommendation to be implemented.	X			
40	2017	A/73/5/Add.6, chap. II, para. 213	The Board recommends that UNHCR assess how a more efficient management of core relief items in stock, which includes supplies of country operations, could be put in place. This assessment should address the question as to whether UNHCR might be seen as one organization with regard	Currently, UNHCR is in the process of assessing various ways of managing stocks from a global perspective. Following this assessment, in the first half of 2019 UNHCR will start developing model proposals for discussion with the relevant stakeholders. It is envisaged that any concrete decision will most likely be made once the regionalization and decentralization process is completed.	UNHCR has launched the evaluation of potential organizational solutions on how to manage core relief items in a more efficient manner and with a global overview for effective use. A decision for organizational changes may be made after the regionalization process is finished.		X		

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			to "ownership" of its inventories.		The Board considers the recommendation to be under implementation.				
41	2017	A/73/5/Add.6, chap. II, para. 214	The Board further recommends that the Division of Emergency, Security and Supply review all UNHCR inventories on a periodic basis and, if the observations from these reviews permit it, advise regional bureaux and country operations on opportunities for an efficient stockpile management at the country level.	As the recommendations in paragraphs 213 and 214 are linked, UNHCR refers to the response related to paragraph 213. This recommendation also has limitations owing to staff reductions so it will be analysed in conjunction with the resource prioritization process.	Please refer to the recommendation in paragraph 213. The Board considers this recommendation to be under implementation.		X		
42	2017	A/73/5/Add.6, chap. II, para. 222	The Board recommends that UNHCR initiate an internal stakeholder process to assess how more efficient order placement and purchase planning could be put in place.	With the merge of the Procurement Service and the Supply Management and Logistics Service into one service (the Supply Management Service), the coordination between procurement and order placement has become more efficient. In addition, it is planned that the global frame agreements will be made available to country operations in the MSRP contract management module. However, the ongoing regionalization and decentralization may delay the implementation of this recommendation by a few months.	With the reallocation of the Supply Management and Logistics Service and the Procurement Service into one service and the decision to open the use of general frame agreements for the field, UNHCR is on the way to standardizing the purchase planning process. The elementary organizational restructuring exercise is delaying the finalization. The Board considers the recommendation to be under implementation.		X		
43	2017	A/73/5/Add.6, chap. II, para. 226	The Board recommends that UNHCR identify further opportunities for the consolidation of	UNHCR is working on guidance which will be part of its revised Manual (chap. 8, procurement), where criteria will be provided to	The revised Manual (chap. 8, procurement) includes standardizations for the identification of		X		

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			requirements, either at a regional or even a global level.	decide when and how a requirement should be consolidated and how the purchasing decision should be made, taking into consideration all available sourcing options. Such guidance will also clarify when and how volume discounts should be pursued. In addition, UNHCR is in the process of defining procurement criteria for many areas (e.g. related to the vehicle fleet, quality logistics etc.) so that a consistent procurement approach can be developed. Collaboration possibilities with other United Nations agencies and organizations are constantly being explored.	procurement needs and enables the organization to rely on unified terms of references and technical specifications for the solicitation process. UNHCR checks fields of potential cooperation with other United Nations bodies working at the same locations as UNHCR. Due to the delay of the finalization of chapter 8, for reasons explained in the comments of UNHCR below relating to the recommendation contained in A/73/5/Add.6, chap. II, para. 229, the Board considers this recommendation to be under implementation.				
44	2017	A/73/5/Add.6, chap. II, para. 229	The Board recommends that UNHCR expedite its revision of chapter 8 of the UNHCR Manual in order for staff to gain access to consistent and reliable guidance on procurement procedures.	The focus of UNHCR at this stage is to first promulgate the updated procurement policy and administrative instruction and then to incorporate the updates in chapter 8 of the Manual. The procurement policy and administrative instruction are now in the final stage of review and are expected to be issued in the third quarter of 2019. As these two documents will replace chapter 8 of the Manual as mandatory guidance on procurement, the recommendation will be fully implemented by that time. Chapter 8 will be transformed into	The revision of the Manual (chap. 8, procurement) is pending the finalization of the administrative instruction on procurement, which has been drafted and is in the process of consultation and review. Therefore, the revision is in progress. Therefore, the Board considers the recommendation to be under implementation.		X		

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				a soft guidance document to provide examples and practice aids based on the policy and the administrative instruction on procurement and completed in the fourth quarter of 2019.					
45	2017	A/73/5/Add.6, chap. II, para. 234	The Board recommends that UNHCR include the remaining applications in the disaster recovery plan to increase their data security.	UNHCR is evaluating options to provide disaster recovery for ProGres V.4, the biometric identity management system (BIMS) and eSafe. Implementation planning will be finalized by mid-2019.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
46	2017	A/73/5/Add.6, chap. II, para. 235	As part of overall business continuity management, the Board further recommends that UNHCR establish an ICT disaster recovery guideline.	UNHCR is in the process of getting a technical writer to develop the guideline.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
47	2017	A/73/5/Add.6, chap. II, para. 240	The Board recommends that UNHCR implement comprehensive backup and disaster recovery guidelines in every country operation. The guidelines should be embedded in the local business continuity management.	UNHCR will incorporate backup and disaster recovery guidelines in the ICT field operations manual, which is currently under development. Once the guidelines are issued, it will be up to each operation to include these in their business continuity plans.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		
48	2017	A/73/5/Add.6, chap. II, para. 244	The Board recommends that UNHCR review responses from the field to the checklist on ICT general computer controls for UNHCR field operations and that country operations take timely steps to address	UNHCR has reviewed the assessment questionnaire and incorporated some additional risks in it. As a next step, the questionnaire will be circulated to all country offices.	The Board acknowledges that UNHCR is still working on this recommendation. Therefore, the Board considers it to be under implementation.		X		

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			any significant weaknesses.						
49	2017	A/73/5/Add.6, chap. II, para. 249	The Board recommends that UNHCR use the newly introduced travel module in their enterprise resource planning to analyse why the compliance with the policy on travel for official purposes is low and, based on this analysis, that UNHCR assess how cost-effective prices for flight bookings can be achieved.	As of April 2019, a dedicated person is working on the in-depth analysis of all missions that occurred during the period of July–December 2018 based on a report from the MSRP travel module. The analysis is expected to be completed before the end of the second quarter 2019. One of the main objectives of the analysis will be to define the main reasons for the non-compliance with the 16-day rule and to propose adequate corrective measures.	UNHCR plans to conduct an organization-wide analysis of travel data (16-day policy) via MSRP-based evaluation tools. In addition to that, a second evaluation takes place on a monthly basis in the country financial reports. The overall analysis is scheduled for the end of the second quarter of 2019. The Board considers the recommendation to be under implementation.		X		
50	2016	A/72/5/Add.6, chap. II, para. 39	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	In June 2018, the Assets and Fleet Management Section followed up with the operations on the fleet planning exercise which was part of the annual programme review process. In November 2018, the Assets and Fleet Management Section set up teleconference meetings with the operations that have more than 100 vehicles. Examples of the summaries of these discussions have been shared with the Board. In addition, the Section compared the number of drivers, staff members to be served and vehicles available at the country operations in order to support the identification of the number of vehicles needed in a given operation.	Concerning the vehicle planning process, several regional offices had not documented their factors (such as infrastructural/ road conditions, distances, security-related specialties) being decisive for the orderly calculation and configuration of their vehicle fleets on the basis of transportation needs. UNHCR may optimize the use of this process in order to achieve sound financial management for global fleet management. The Board refers to the fact that one quarter of UNHCR vehicles is		X		

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			for advice or additional guidance.	UNHCR/AI/2018/13 on detailed planning and budgeting 2019, para. 4.44, states that light vehicles older than five years must be replaced by 31 December 2019. During the planning and the teleconferences with the field operations, approximately 1,500 vehicles were identified for which a decision needs to be taken as to whether to sell them via auction, where possible, or to transfer their ownership to partners or Governments, where the options for sale are limited by the local regulations. The Assets and Fleet Management Section will follow up with all the operations to ensure that the light vehicle fleet is reduced to a minimum in 2019. Based on the above, UNHCR considers this recommendation to be implemented.	scheduled to be written off but is still in use. UNHCR stated that they did not have the overall figures of locally rented cars and cars having reached the end of their useful life and still being in use. The Board considers the recommendation to be under implementation.				
51	2016	A/72/5/Add.6, chap. II, para. 59	The Board recommends that UNHCR consider the possibility of long-term investments to cover risk-adequate financing of after-service health insurance liabilities.	On 4 October 2018, the High Commissioner approved the request for asset investment management and governance in the context of after-service health insurance. UNHCR and another United Nations agency have agreed to establish a collaborative approach for after-service health insurance long-term asset investment management, which was formalized between the organizations on 19 October 2018. UNHCR had completed its own asset liability modelling on 5 September 2018 based on its specific after-service health insurance liability criteria and agreed funding. Under the	The Board took note of the further steps UNHCR took in 2018 to conclude a long-term investment strategy for after-service health insurance reserves. The Board welcomes the joint approach that UNHCR has chosen together with another United Nations agency. The Board is of the opinion that a harmonized investment strategy within the United Nations system can be further explored	X			

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				collaborative approach, UNHCR will leverage the other United Nations agency's investment contractual arrangements with relevant custodian and investment managers. The two organizations have engaged to collaborate and coordinate their long-term investment strategies for after-service health insurance long-term asset investment with the objective of mirroring asset allocations and use the same investment managers, thus leveraging together fee structures and service-level provision. Moreover, the two organizations will collaborate on the assessment of the investment manager performance aligned with the selected asset allocation, which will take into account risk-adequate strategy requirements, permissible tolerance levels of investment risk and expected long-term returns. For governance and reporting, UNHCR agreed to leverage and use the existing governance body of the other United Nations agency's Advisory Investment Committee and its established mechanisms to assess, review and oversee the long-term asset investment arrangement. Under the collaborative approach, each organization continues to independently manage its after-service health insurance-related asset investment management and keeps separate decision-making, reflecting their own requirements	in the future under the chosen approach. The Board understands that the specific contractual arrangements, accounting-related impacts and timing of the starting point need further clarification. The recommendation has been addressed by the steps taken so far. Therefore, the Board considers this recommendation to be implemented.				

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				while seeking consensus with each other as appropriate, and in consultation with external advisers as appropriate. The joint investment approach still leaves open the possibility to assess further harmonization options within the United Nations system and is currently being evaluated with the support of the Working Group on Common Treasury Services. In support of this update, UNHCR has provided the Board with the relevant supporting documents. UNHCR is currently finalizing the contractual arrangements and engagement with selected custodian and fund managers and upon full completion, which is anticipated by June 2019, UNHCR will start investing after-service health insurance reserves in the second half of 2019, with the exact entry point of placement of investment to be further determined in line with the specific fund management requirements and market conditions.					
52	2016	A/72/5/Add.6, chap. II, para. 71	The Board recommends that UNHCR pay close attention to the fact that high quality reviews and verifications of partners' financial reports are essential to control the implementing partnership expenses when implementing key	Section II of the paper (shared with the Board) describing the progress of the headquarters review speaks about how the Partnership Service was reconfigured. It also shows that this reconfigured Service works in close relation with the Implementing Partners Management Service and other services. At the date of reporting, the Implementing Partners	The Board was provided with the view of UNHCR on how the Partnership Service has been reconfigured and how the Service works in close relation with the Implementing Partners Management Service and other services.	X			

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			recommendations of the headquarters review.	Management Service continues to remain part of the Division of Financial and Administrative Management. In light of this, UNHCR believes that the recommendation is addressed.	The Board considers the recommendation to be implemented.				
53	2016	A/72/5/Add.6, chap. II, para. 76	The Board recommends that UNHCR review certain templates related to partnerships such as agreements, project descriptions, project workplans, monitoring plans and project risk registers/catalogues and assess if they might be enhanced to better assist country operations to use them in a more consistent way and, where appropriate, with less duplication of information.	A workshop was held on 2 and 3 August 2018, in which a select number of UNHCR field and headquarters staff and partners mapped out the process as it currently exists, including gaps and the desired status of how it should be and the related benefits. The constraints of using manual and offline processes were also identified. Changes that can be achieved immediately have been done (such as simplified midyear reporting and linking risk assessment to the project control toolkit rather than having it in the project description). The outcome of the workshop has been shared with the Board. Many of the identified challenges in processes are related to manual processes. Plans have been made requiring digitalization and longer-term investments for streamlining the process, reducing duplication and gaps and improving efficiency. The digitization of the partnership management processes will be done in stages. The UNHCR partner portal has been adopted by UNICEF and WFP and was launched as a common United Nations Partner Portal in November 2018. This contributes to further	The Board acknowledges that UNHCR has reduced duplication of information, for example by merging the workplan into the project description. The Board considers the recommendation to be implemented.	X			

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				streamlining, by harmonizing partner due diligence registration and reducing the administrative burden. Further enhancement of the Partner Portal by adding the integrity and assurance module was initiated in January 2019. Based on the above, UNHCR is requesting closure of this recommendation.					
54	2016	A/72/5/Add.6, chap. II, para. 81	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 the Implementing Partners Management Service could support such exercises.	The Implementing Partners Management Service in the Division of Financial and Administrative Management has provided the guiding principles, tools and arrangements for enhancing knowledge related to project risk assessment (e-learning, webinar, frequently asked questions, face-to-face guidance, phone calls and emails). An increasing number of operations are using the risk-based approach coherently. The training statistics for 2014–2018 made available to the Board show the substantial numbers of staff and partners who have benefited from training during 2018 and the preceding years. A notable increase in the use of the risk-based approach and in quality assessments has been achieved. All offices in Europe use the risk assessment matrix for project partnership agreements and the Bureau for Europe provides guidance if needed. The UNHCR office in Egypt has done the assessment of risks for each partner project agreement based on a consultative process between the	The Board positively noted the roll-out of the implementing partner monitoring and control toolkit in June 2017. The Board also recognized that UNHCR had offered online training sessions and started a series of workshops to increase capacity on risk-based monitoring. The Board welcomed the improved coherence in risk assessments, which could begin to be seen in 2018, which was the first full implementing partner budget cycle in which the toolkit was used. The Board therefore considers this recommendation to be implemented.	X			

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				partners and the multifunction team. Risk management plans (risk registers) and risk-based monitoring plans are developed and these determine the level of risks associated with each agreement. Risk registers and risk-based monitoring plans are monitored throughout the implementation period. UNHCR country operations with a high risk profile have mainstreamed the use of the risk assessment template provided by the Implementing Partners Management Service for each of their project partnership agreements. Risk-based monitoring plans have been developed in line with the register and they are reviewed throughout the implementation period in order to take timely corrective actions, if needed. In October 2018, one country operation held a two-day workshop with 52 participants from project control, supply and protection to ensure commitment by the respective multifunction teams for the preparation and implementation of the risk-based project monitoring plans for each of the agreements. Based on these updates, UNHCR is requesting closure of this recommendation.					
55	2016	A/72/5/Add.6, chap. II, para. 87	The Board reiterates its previous recommendation and encourages country operations to enhance the quality of their	In addition to guidance and monitoring provided to country operations to apply risk-based monitoring and enhance quality, a series of workshops on risk-based monitoring has taken place with the	The Board positively noted that UNHCR introduced risk-based monitoring workshops and welcomes the positive impact on the	X			

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			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.	participation of an audit firm. The model was piloted in six country operations, which has resulted in notable improvements in the quality of monitoring of agreements with partners. Similar workshops are being offered to other operations that need such support. The Implementing Partners Management Service has assessed the application of project monitoring and verification tools and noted the improvements made for 2017. The reports have been shared with the Board. Based on these updates, UNHCR is requesting closure of this recommendation.	quality of risk-based monitoring. The Board further noted that similar workshops should be continued in future to maintain the achieved improvements. Therefore, the Board considers this recommendation to be implemented.				
56	2016	A/72/5/Add.6, chap. II, para. 88	The Board also recommends that management in country operations and the regional bureaux regularly review the quality of financial and performance monitoring for projects implemented with partners.	Increasing the quality of financial and performance reviews made by country operations relating to projects implemented with partners is a continuous endeavour (see comments above concerning A/72/5/Add.6, chap. II, para. 81). The level of support in high risk countries has increased and the number of project control staff has increased from one staff member in 2017 to 10 in 2018. Five of these project control officers are in field locations where their main responsibility is to ensure linkage between the financial expenditures and progress of implementation of projects. Across UNHCR there are, however, different degrees of complexity and operations are not always uniform. Outcomes of in-depth analysis and compliance checks performed in	The Board recognizes the degree of complexity with regard to financial and performance monitoring for implementing partner projects. The recommendation advises UNHCR to perform a quality assessment of reporting by partners at the level of operations or bureaux to identify country- or region-specific weaknesses and possible corrective measures. Therefore, the Board considers the recommendation to be under implementation.		X		

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				higher risk countries are shared with other country operations to draw lessons learned and to better integrate those lessons into future operation cycles.					
57	2016	A/72/5/Add.6, chap. II, para. 105	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.	Capturing and recording lessons learned is a key part of the project closure document, which is one of the final deliverables for every project. These documents are stored in a SharePoint repository on the Portfolio Management Office portal where they are reviewed by project managers and others. These lessons are promoted by means of the updated project management lifecycle, which specifically includes a step where project managers review previous lessons learned during the initial phase of their project. Finally, the standard project management lifecycle training slide deck (made available to the Board) now highlights some of the major, common lessons learned from across UNHCR projects. Based on the above, UNHCR is requesting closure of this recommendation.	The Board acknowledges that UNHCR has stored documents related to lessons learned in a SharePoint repository on a portal where they are reviewed by project managers and others. A standard training slide deck highlights some of the major, common lessons learned from across the projects. The Board considers the recommendation to be implemented.	X			
58	2016	A/72/5/Add.6, chap. II, para. 113	The Board recommends that country operations monitor non-purchase order purchases on a regular basis and assess whether further efficiency gains could be realized by compiling individual non-purchase order purchases into framework agreements. The Board also advises	The development of the country supply report, which was focusing on procurement only, has been put on hold in order to integrate this requirement in the revamped country administrative report that will replace the country financial report and will be built through cooperation between the Division of Financial and Administrative Management and the Division of Emergency, Security and Supply as	On the occasion of its field visits, the Board could identify that by the end of 2018 there was still a certain part of non-purchase order purchases exceeding the defined legal ceilings. The regional office showed that in the meantime it controls these on its own and had		X		

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			that headquarters divisions liaise with country operations to explore how the monitoring and oversight of non-purchase order purchases could be facilitated.	part of the business intelligence and analytics project for finance and administrative data, a project which was recently approved by the ICT governance board.	prepared solicitation procedures in order to establish frame agreements in the cases the Board had highlighted. The Board considers this recommendation to be under implementation.				
59	2015	A/71/5/Add.6, chap. II, para. 14	The Board recommends that UNHCR develop a set of processes, tools and reports that can be applied at the field level to enhance the financial management of programme budgets and expenditure. This should include stronger links between finance and programme staff in the field through joint analysis and review processes.	All the members of the multifunctional team (and more so Project Control Officers) are fully involved in all relevant stages of the partnership agreement preparation, monitoring and financial verification (as can be seen in the quality assurance checklist and checklist for management of partnership agreements shared with the Board). As prescribed in the UNHCR Manual (chap. 4, programme manual, part I, point 2.4): The multifunctional team is at the heart of the participatory approach of UNHCR to operations management, bringing together individuals with different skills and perspectives to analyse the protection environment and design and deliver a response that is more complete and age-, gender- and diversity-sensitive (see also part II, sect. 1.4, of the programme manual). Formally defined, the multifunctional team is a group of persons from two or more functional areas working together to solve a problem that requires capabilities, knowledge and	The function of the multifunctional team approach is now implemented in the UNHCR Manual (chap. 4, programme manual, part I, point 2.4). It shows strengthened collaboration of all relevant functions in the multifunctional team in monitoring and financial verification of direct implementation expenditures, following already established mechanisms. The Board considers the recommendation to be implemented.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				training not available from a single source. The team does not call for a fixed structure; rather, it should be understood as a more flexible approach, with participation dependent on the specific matter at hand. At its core, the multifunctional team requires the participation of at least one colleague each from the UNHCR protection and programme functions. Additional functions, such as administration, finance, project control, supply and others are taken on board depending on the operational context. For certain exercises, such as participatory assessments and/or the design of an operations plan, UNHCR should expand the multifunctional team to include a wider range of actors, such as governmental counterparts, sister United Nations agencies, donors and other partners. The same multifunctional team approach was used in the guidance for direct implementation (published on the UNHCR intranet). It clearly shows strengthened collaboration of all relevant functions in the multifunctional team (including a specific role of project control or administration/finance) in monitoring and financial verification of direct implementation expenditures, following already established mechanisms. The guidance on direct implementation references a number of MSRP reports to foster a					

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				corporate approach to the monitoring of the budget, expenditures, encumbrance and pre-encumbrance. A useful report mentioned in the guidance for instance is query HBAE 187. Based on the above, UNHCR considers this recommendation to be implemented and is requesting its closure.					
60	2015	A/71/5/Add.6, chap. II, para. 55	The Board recommends that risk registers be reviewed at least on a quarterly basis as a standing item at senior management meetings. Country office representatives should take a cyclical approach to scrutinizing risks and their mitigations to ensure that the risk process is fully embedded in their local business processes and utilized in the development of country office plans.	Further to the update of July 2018, UNHCR emphasizes that the risk management focal point training delivered in autumn 2018 contained dedicated discussions on good practices in risk management (e.g. how to better link risk management to the planning cycle, how to improve the effectiveness of risk management, how to embed risk management into ongoing processes, etc.) and on the roles and responsibilities of both the risk owners and the risk focal points. One of the key conclusions from these discussions was that there needs to be continuous attention to risk management and that regular discussions in senior management meetings is a good practice that should be replicated across all operations. Such reviews are already taking place in many operations. Additionally, the planning instructions for the country operations plan development have been enhanced to highlight the importance of having the plan informed by risk considerations, and the same type of message will be also included in	The Board noted the risk management 2.0 initiative aimed at a cultural change in UNHCR risk management. The cultural change entails a broadened awareness and responsibility of UNHCR staff members. Furthermore, UNHCR has meanwhile embedded risk management in operations' management and planning cycle. As such, risk owners are involved in the risk process on a regular basis. Besides a review triggered by new emerging risks, a risk review is meanwhile required as a mandatory part of UNHCR processes and decision-making. Therefore, the Board considers the	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				the instructions for the midterm reviews. The Enterprise Risk Management Unit is also in the process of implementing additional email reminders to the risk owners that will include a reminder of the importance of regularly reviewing the risk register and the mitigation actions contained therein. With these developments, UNHCR proposes that this recommendation be closed.	recommendation to be implemented.				
61	2015	A/71/5/Add.6, chap. II, para. 65	The Board recommends that UNHCR headquarters develop a formal reporting mechanism on the frequency and comprehensiveness of verification exercises, enabling it to obtain assurance as to the accuracy of the data regarding its existing population of concern, and provide a stronger link between the results and the deployment of resources.	UNHCR has implemented a regular reporting mechanism on verification exercises in the field through its network of Senior Regional Registration Officers. Through this reporting mechanism, it has been established that verification exercises took place in 15 operations in 2016, 21 operations in 2017 and 19 operations in 2018, the majority of which took place in sub-Saharan Africa. Given the operational context in the Middle East and North Africa, Asia, Americas and Europe regions, where caseloads are generally smaller in size, are largely urban-based or conducted within the UNHCR mandate, effective continuous registration activities have been successfully implemented in these operations. Continuous registration refers to the updating and verifying of records that take place as part of day-to-day case management activities over time, such as document renewal. Such activities cannot however be implemented in	The Board acknowledges that UNHCR has started to implement a regular reporting mechanism on verification exercises in the field. Not all country operations have taken part yet and the centralized population registry (PRIMES) has not been rolled out in all UNHCR operations. Therefore, the Board considers this recommendation to be under implementation.		X		

						Status after verification			
No.	*Audit report year/ biennium*	*Report reference*	*Recommendation of the Board*	*UNHCR response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				several operations in sub-Saharan Africa and verification exercises need to be conducted on a regular basis to ensure updated population data. Based on the list of country operations where exercises have taken place in the past 24 months, and the list of operations where continuous registration processes cannot be reasonably implemented, a total of six operations should conduct a verification but have not in the past three years. Of these six operations, five are already planning to conduct a verification activity in 2019, while one is in the process of discussing with the bureau the need to obtain an increased operating level for the cost deriving from such an exercise. With the roll-out of the UNHCR centralized population registry (Population Registration and Identity Management EcoSystem – PRIMES), it is expected that reporting on verification exercises will be even further streamlined through the update of one single verification event to flag the frequency of verification activities in the field. Reports can also be generated to determine the accuracy of the verification exercise. To date, PRIMES has been rolled out to approximately 60 country operations and is expected to be completely deployed in all UNHCR operations by early 2020. Based on the above, UNHCR considers that this recommendation					

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				is substantially implemented and is requesting its closure.					
62	2015	A/71/5/Add.6, chap. II, para. 88	The Board recommends that UNHCR: (a) assess whether the level of scrutiny applied during its annual budget process is at an appropriate level and, in doing so, determine the costs involved at all stages of preparation; and (b) assess the merits of a multi-year planning approach to resource allocation decisions, as well as other models, such as targeted "deep dives" for the highest risk operations, and assess where these approaches should be rolled out further and where a lighter touch can be applied.	With respect to subparagraph (b), a lessons learned process stemming from the pilot initiative to develop multi-year, multi-partner strategies in 22 operations with support by relevant headquarters entities has highlighted that UNHCR business processes and systems are not yet fully set up to support multi-year planning. The ongoing results-based management revision will institutionalize multi-year planning and related processes in the future. Therefore, the current focus will be to support the 22 operations in implementing and monitoring their strategies. Based on the above, UNHCR considers that it sufficiently assessed the merits of the multi-year planning approach and is requesting closure of this recommendation.	The Board acknowledges the assessment of UNHCR and considers the recommendation to be implemented.	X			
63	2015	A/71/5/Add.6, chap. II, para. 106	The Board recommends that UNHCR further scrutinize the cost drivers and value for money within items of significant expenditure. In doing so, it should assess the opportunities for efficiencies to be found in the way they are delivered.	While UNHCR has not issued a separate corporate policy on value-for-money as such, this notion along with those of economy, efficiency and effectiveness are firmly reflected in the training activities, policies, procedures, manuals and guidelines that govern key UNHCR processes. These processes include planning, budgeting, reporting, procurement and supply chain, human resources, establishing partnerships, organizational realignment, the setting of internal controls and staff travel. The list of such policies and	The Board noted the efforts of UNHCR to further improve the efficiency and effectiveness within its key processes and by reviewing the main cost categories in the annual programme review. The Board considers the recommendation to be implemented.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				procedures was made available to the Board with this update. One key process reflected in the above-described policies is the annual programme review, where the main cost categories are reviewed, analysed and followed up. In addition, participation in the Business Innovations Group also reflects the commitment of UNHCR to identify further opportunities for cost efficiencies in items of significant expenditures. The impact on the enhanced role of the field operations (due to the decentralization) as well as the new flexibility built into the design of theories of change at the country level will require (and will allow) a more contextual approach to analysis in general and value for money in particular at the country level. Based on the above, UNHCR requests that this recommendation be considered implemented.					
64	2014	A/70/5/Add.6, chap. II, para. 68	The Board recommends that UNHCR review the existing scrutiny process, as there is an opportunity to further challenge and document the cost-effectiveness of proposed interventions at the headquarters level. In doing so, UNHCR should review opportunities to include performance metrics which enable cost-	UNHCR has developed a pilot report that shows performance metrics across the organization, referred to as the key performance indicator table. The objective of the table is to illustrate how a comprehensive report can deliver management information for guidance and decision-making. The report currently combines 2018 data from budget, inventory, audit and cash-based interventions, as well as partnership, travel and fleet management.	UNHCR reviewed the existing scrutiny process, as there is an opportunity to further challenge and document the cost-effectiveness of proposed interventions at the headquarters level. UNHCR has developed a pilot report that shows performance metrics across the organization (key performance indicator table).	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
			effectiveness to be measured.	The metrics were initially developed based on an analysis of trends, data quartiles (to define limits) and input from experienced managers, who considered different weights for four categories: quality assurance (15 per cent), financial management (20 per cent), alliance building and partnership (15 per cent), and programme delivery (50 per cent). As with enhancements to the first set of metrics used for illustration, UNHCR plans to develop a more robust and structured metric system to assess financial and administrative performance. In parallel to the preparation of the key performance indicator table, UNHCR has already started the implementation of a business intelligence solution: the business intelligence project. The project is currently working on fine-tuning data sources and preparing the data cubes that will allow further analysis. The first programmed delivery of the project consists in the transformation of UNHCR country financial reports (currently delivered through a Microsoft Excel file) into a dashboard to present the same management and detailed data in a format that is more useful, readable and ultimately user-friendly, to facilitate understanding and actions. UNHCR is still working on the first phase of the business intelligence project, but it is considering	The Board considers the recommendation to be implemented.				

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	*Status after verification* Implemented	Under implementation	Not implemented	Overtaken by events
				merging the key performance indicator table mentioned above into the business intelligence project deliverables with the aim of producing a comprehensive key performance indicator dashboard. In addition, the ongoing results-based management project is aimed at better connecting financial information with the results. The new approach in designing and implementing results-based management, was developed and endorsed by the senior executive team during the second part of 2018, and the bureaux and division directors were briefed at the Senior Management Committee meeting in December 2018. These briefing materials and a two-page summary overview of the new results-based management approach and design is being made available to the Board. The further development of content of the future results framework and the business processes is ongoing.					
65	2014	A/70/5/Add.6, chap. II, para. 82	The Board supports the plans of UNHCR to use its Focus system to better link costs and outcomes in each of its business sectors. UNHCR needs to take a tougher, clearer stance on the importance of information on costs and service performance, particularly on linkages between enrolment in education, delivery and retention, and the impact	The new proposed results-based management framework will be tightly linked to the related financial transactions to allow for comparison of results in relation to expenditure (including sources of funding). Additionally, the new framework will also enable multi-year planning, which is essential to launch improvements in efficiency. This can be leveraged for areas such as education to promote cost effectiveness. (This is also related to the comments below on the recommendation in para. 83	The further development of the content of the future results framework and the business processes, as well as the inclusion of performance metrics to facilitate the measurement of cost-effectiveness in the results-based management project, is ongoing. Therefore, the Board considers the		X		

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	*Status after verification*			
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
			of achieving good-quality education qualifications. Without such information, fully informed judgments on the value for money achieved, or the cost-effective targeting of assistance, are not possible.	of A/70/5/Add.6.) It is expected that the details of the results-based management framework, as well as the related joint reporting with finance, will be formally adopted by the first quarter of 2020 and we would recommend that the recommendation be closed at that point.	recommendation to be under implementation.				
66	2014	A/70/5/Add.6, chap. II, para. 83	The Board recommends that UNHCR headquarters issue central guidance to country teams on cost-effectiveness criteria in education services as an aid to decision-making and resource allocation in education programmes.	This recommendation is addressed by the same actions as those described above taken in response to the recommendation contained in paragraph 106 of chapter II of A/71/5/Add.6.	The Board noted that UNHCR attempted to further improve effectiveness within its programmes by reviewing the main cost categories in the annual programme review. The Board considers the recommendation to be implemented.	X			
67	2012–2013	A/68/5/Add.5, chap. II, para. 105	The Board recommends that UNHCR include in the new fleet management manual guidance on how to assess alternatives to the use of distant garages when remote servicing can result in excessive mileages, extended vehicle downtime and high transit costs. Guidance should include requirements for:	The recommendation has been overtaken by events and by the changes in the organization's approach to vehicle maintenance and repair. Since the issuance of this recommendation, global fleet management was introduced, bringing along a different approach to vehicle maintenance. Nevertheless, the work on repair and maintenance continues and the questionnaire referred to by the Board in its April 2018 update has been completed and shared with the Board.	A new checklist for car workshops, including detailed recommendations on the workshops' equipment and capabilities, is ready for use. The Board considers this recommendation to be implemented.	X			

No.	Audit report year/ biennium	Report reference	Recommendation of the Board	UNHCR response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			(a) Periodic testing of local markets for the availability of closer commercial maintenance facilities of the requisite standard; (b) Periodic review of the scope for United Nations agencies, non-governmental organizations and implementing partners to procure maintenance collectively, to leverage greater bargaining power or attract reliable operators to open facilities nearby; (c) Consideration of the maintenance of a stock of oil and filters at the field office level to enable the most basic (category A) servicing to take place in the field. (Serial number 61 in annex II to chap. II of A/69/5/Add.6)						
		Total				**35**	**32**	**–**	**–**
		Percentage				**52**	**48**	**–**	**–**

Chapter III

Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements

Letter dated 29 March 2019 from the United Nations High Commissioner for Refugees and the Controller and Director of the Division of Financial and Administrative Management of the Office of the High Commissioner addressed to the Chair of the Board of Auditors

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds administered by the High Commissioner.

To fulfil this responsibility, the Office of the High Commissioner operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the Board of Auditors during their respective audits.

In this context, the financial statements contained in chapter V, comprising statements I to V and the supporting notes, were prepared in accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10) and the International Public Sector Accounting Standards. In management's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

The accounts are hereby approved and certified.

(*Signed*) Filippo **Grandi**
United Nations High Commissioner for Refugees

(*Signed*) Hans G. **Baritt**
Controller and Director
Division of Financial and Administrative Management

Chapter IV
Financial report for the year ended 31 December 2018

A. Introduction

1. The United Nations High Commissioner for Refugees has the honour to submit the financial report and financial statements for the year ended 31 December 2018, in accordance with United Nations financial regulation 6.2 of the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4) and article 11 of the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10).

2. The financial report provides financial information relating to the voluntary funds administered by the High Commissioner, in accordance with the International Public Sector Accounting Standards. The voluntary funds include the Annual Programme Fund (consisting of the Global Refugee Programme and the Global Stateless Programme), the Global Reintegration Projects Fund, the Global Internally Displaced Persons Projects Fund, the Junior Professional Officers Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Working Capital and Guarantee Fund. It presents an overview of the operational context, financial analysis and budgetary performance by major activity groupings, highlighting trends and significant changes.

3. The financial report is designed to be read in conjunction with the financial statements, consisting of five statements and supporting notes.

B. Operational context and activities overview

4. The Office of the United Nations High Commissioner for Refugees (UNHCR) is mandated by the General Assembly to lead and coordinate international action for the protection of refugees and solutions to their plight. UNHCR seeks to reduce situations of forced displacement by encouraging States and other institutions to create conditions that are conducive to the protection of human rights and the peaceful resolution of disputes. It operates in an increasingly complex and unpredictable environment. In all of its activities, UNHCR pays particular attention to the needs of the most vulnerable and seeks to promote the equal rights of women and girls. In order to ensure protection and solutions for persons of concern, UNHCR needs to adapt and remain flexible, working closely together with affected communities and a wide range of other partners. UNHCR works in partnership with governments, international and non-governmental organizations, other United Nations agencies and persons of concern, as well as the private sector, international financial institutions and civil society, including think tanks, academia and faith leaders.

5. In 2018, the world witnessed a succession of humanitarian crises, as new and ongoing conflicts continued to cause massive displacement. The Office engaged in providing protection for and seeking solutions to the plight of 74.4 million refugees, internally displaced persons, returnees and stateless persons. The work was multifaceted, spanning the development of legal frameworks and providing life-saving relief, as well as pursuing comprehensive strategies in cooperation with States and organizations. For many refugees, the search for safety and protection has become more dangerous, owing to restrictive asylum practices and the risk of violence and exploitation on their journeys. For instance, in the Democratic Republic of the Congo, Iraq and the Syrian Arab Republic, displacement continues. Other protracted crises, such as in Afghanistan and Somalia, are now decades old and continue to uproot hundreds of thousands of people. Other major crises include Yemen, where two thirds of the population is in need of humanitarian assistance, and South Sudan, where one

in four people is displaced and refugee outflows continue. The past year was also marked by continued, mixed movements of refugees and migrants across the Mediterranean Sea to Europe, with more than 2,000 known to have lost their lives at sea in 2018.

6. Against this backdrop, the global compact on refugees, affirmed by the General Assembly in its resolution 73/151, provides a groundbreaking, practical model for increased solidarity and responsibility-sharing. Firmly based on international protection principles, it brings to bear new approaches, arrangements and resources that are already shaping a more predictable, effective and sustainable response to displacement. Building on the comprehensive refugee response framework that was applied in 14 countries[4] in 2018, the global compact is expected to shape the response to displacement across the full spectrum of operations. Rooted in a multi-stakeholder approach, the global compact aims to ease the pressure on countries that host large numbers of refugees and enhance their self-reliance, expand access to third-country solutions (including resettlement and complementary pathways for admission) and support conditions in countries of origin that can enable return.

7. UNHCR aims to ensure that every refugee has a unique digital identity that will empower and facilitate their inclusion. Over 7.2 million refugees are registered in the organization's digital Population Registration and Identity Management EcoSystem (PRIMES).[5] As registration remains a cornerstone of its ability to protect people of concern, efforts by UNHCR are continually made to develop appropriate tools that will enable field practitioners in the most remote locations to register refugees and respond more efficiently. An offline version of one of the PRIMES tools has facilitated registration activities in areas not connected to the Internet and in complex environments. In 2018, it was operational in 16 country operations, including Brazil, Kenya and Uganda.

8. Cash assistance is an integral part of the organization's protection and solutions strategy in country operations, and UNHCR aims to provide 20 to 25 per cent of its assistance through cash transfers. UNHCR continued to leverage its partnerships to deliver cash assistance in the most efficient manner. This is reflected in the joint commitment made in December 2018 by UNHCR, the World Food Programme, the United Nations Children's Fund and the Office for the Coordination of Humanitarian Affairs of the Secretariat to deliver this form of assistance through a common cash system.

9. Partnerships and emergency-response capacity to meet the needs of refugees and persons of concern were further strengthened through an increased number of appropriately trained staff (including partners) deployed to emergencies. To improve the planning of settlements, "master plan" guiding principles were developed and disseminated. The master plan approach to settlement planning provides a framework for the spatial design of humanitarian settlements and enables alignment with national, subnational and local development plans. It also facilitates efforts to link humanitarian responses with long-term development efforts.

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[4] Belize, Chad, Costa Rica, Djibouti, Ethiopia, Guatemala, Honduras, Kenya, Mexico, Panama, Rwanda, Somalia, Uganda and Zambia. Building on their national responses, Djibouti, Ethiopia, Kenya, Somalia and Uganda were also applying the framework in the regional context through the Nairobi Declaration on Durable Solutions for Somali Refugees and the Reintegration of Returnees in Somalia and the Nairobi Comprehensive Plan of Action for Durable Solutions for Somali Refugees, supported by the Intergovernmental Authority on Development. Similarly, Belize, Costa Rica, Guatemala, Honduras, Mexico and Panama applied comprehensive responses, building on existing regional and subregional cooperation mechanisms.

[5] PRIMES is a suite of interoperable registration, identity management and case management tools and applications used in UNHCR operations.

10. The Office continued to contribute to the objectives of the 2030 Agenda for Sustainable Development. The commitment to “leave no one behind” and to “reach those furthest behind first” aligns closely with the aims of the global compact on refugees. It provides an important opportunity for UNHCR to further advance the protection of and solutions for persons of concern. As the Sustainable Development Goals are universal, interlinked and apply to all human beings regardless of their status, they are of particular relevance to the circumstances of forcibly displaced populations. In order to enable refugees and other persons of concern to fulfil their potential, to live in dignity, free from poverty, and to enjoy a healthy environment, the Office will support Member States in their efforts to adopt an integrated and comprehensive approach towards achieving the Goals.

11. The total population of concern to UNHCR at the end of 2018 was estimated at 74.8 million persons. This estimate included 20.4 million refugees, 3.5 million asylum seekers, 41.4 million internally displaced persons protected or assisted by UNHCR, 2.8 million stateless persons and 3.8 million other persons of concern (including 2.6 million Venezuelans displaced abroad). In addition, it is estimated that during the year, some 594,000 refugees were repatriated and 2.3 million internally displaced persons returned to their places of origin.

12. In 2018, the total estimated budgetary requirements for addressing the needs of all persons of concern amounted to $8,220.5 million ($7,962.9 million in 2017). The total available funds were $4,710.3 million ($4,510.0 million in 2017), while UNHCR implemented activities in the amount of $4,226.3 million ($4,083.4 million in 2017) (see table IV.3).

C. Financial analysis

13. The financial position of UNHCR at year-end and the annual financial performance since 2014 are summarized in table IV.1.

Table IV.1
Financial position and financial performance, 2014–2018
(Millions of United States dollars)

	2014	*2015*	*2016*	*2017 (restated)*	*2018*
Total assets	2 000	2 315	2 570	2 973	3 305
Total liabilities	883	859	940	998	986
Net assets	**1 117**	**1 456**	**1 630**	**1 975**	**2 319**
Revenue	3 056	3 582	3 979	4 230	4 338
Expense[a]	3 360	3 279	3 852	3 851	4 083
Surplus/deficit	**(305)**	**303**	**127**	**379**	**256**

[a] Including foreign exchange gains/losses.

14. As at 31 December 2018, total fund balances and reserves amounted to $2,319.1 million (see statement I), representing an increase of $344.1 million, or 17.4 per cent, compared with the balance as at 31 December 2017. This increase was a result of the performance surplus of $255.8 million (see statement II) and the gain arising from the actuarial valuation of employee benefit obligations of $88.3 million (see statement III).

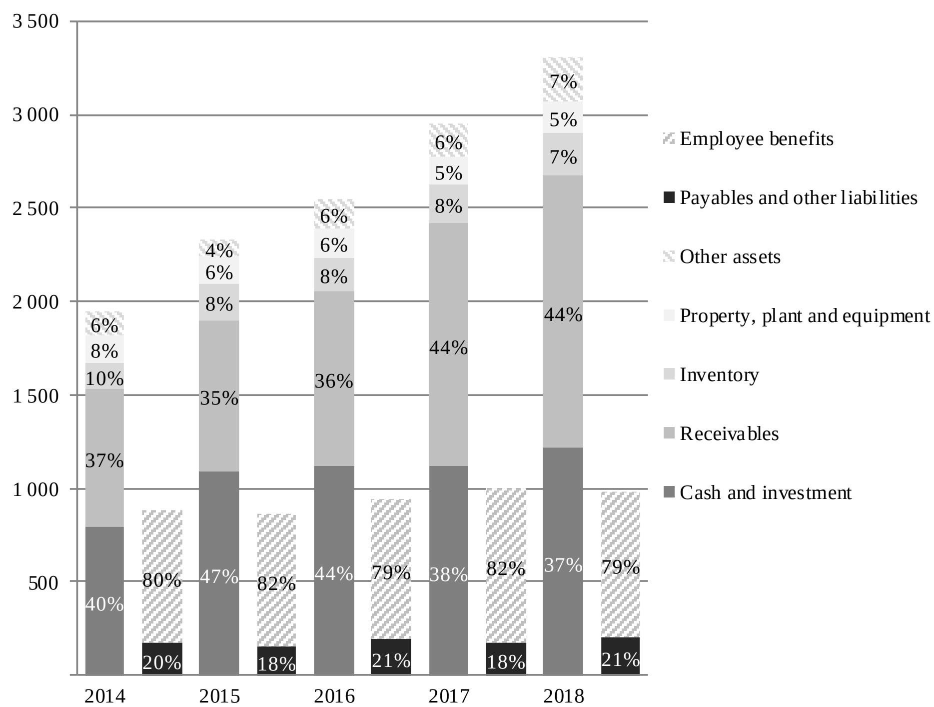
15. The fund balances and reserves comprise the accumulated fund balances and reserves ($2,744.4 million), the Working Capital and Guarantee Fund ($100.0 million), the Medical Insurance Plan ($41.8 million) and the Staff Benefits Fund (net deficit of $567.0 million).

16. The accumulated fund balances and reserves include, in addition to the balance of the Annual Programme Fund ($2,490.9 million), the operational reserve ($10.0 million), the new or additional mandate-related activities reserve ($20.0 million), the Project Funds ($209.7 million), the Junior Professional Officers Fund ($14.1 million) and the United Nations Regular Budget Fund (net deficit of $0.3 million), as detailed in note 3.11.

17. The composition by main category of the assets and liabilities of UNHCR as at the year end for the years 2014 to 2018 is depicted in figure IV.I below.

Figure IV.I
Assets and liabilities, 2014–2018

(Millions of United States dollars)



18. As at 31 December 2018, financial instruments such as cash, investments and receivables accounted for 81 per cent of total assets, most of which are current assets. Employee benefit obligations accounted for 79 per cent of total liabilities, largely pertaining to long-term obligations.

19. Table IV.2 provides some key financial ratios as at 31 December 2018 compared with those as at 31 December 2017.

Table IV.2
Key financial ratios

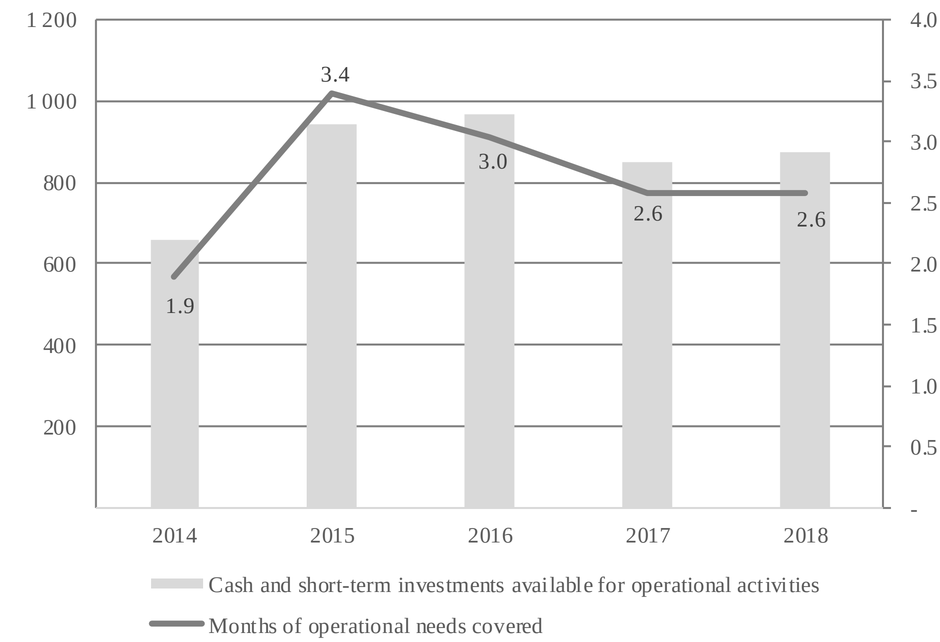
	As at 31 December 2018	*As at 31 December 2017 (restated)*
Current assets to current liabilities	9.53	9.86
Total assets to total liabilities	3.35	2.98
Cash and cash equivalents to current liabilities	3.20	3.66

20. The current ratio (current assets to current liabilities) is a liquidity ratio reflecting the balance between those assets that will materialize within the next 12 months and those liabilities/payments that the organization needs to settle within the next 12 months. The higher the current ratio, the more capable the organization is of meeting its obligations. At the end of 2018, the current ratio was 9.53. This needs to be seen in the context of the specific activities performed by UNHCR. In general, entities that have control over the timing of revenue generation attempt to synchronize the generation of liabilities with the pattern of revenue; therefore, a straight comparison between current asset and current liability provides a good indication of the ability of the entity to meet its current obligations. In the case of UNHCR, much of the revenue recognized as receivable over the next 12 months is pledged when the annual pledging conference takes place, just before year-end. The contribution pledges are generally based on a budget designed to match the budgeted costs of delivering programmes for the same period. However, the budgeted projection of expenses does not constitute a liability, resulting in a mismatch in the timing of recognition of the revenue and assets and the corresponding liabilities. This mismatch produces a higher current ratio at the end of the financial year than would be the case if the timing of revenue pledges were more closely matched with the incurrence of costs for the programmes that such revenue is expected to fund.

21. As at 31 December 2018, the total amount of cash and short-term investments was $1,215.1 million, an increase of $99.4 million compared with $1,115.6 million in 2017. Excluding the amounts pertaining to the Working Capital and Guarantee Fund, the Staff Benefits Fund and the Medical Insurance Plan, the cash and short-term investments available for operational activities amounted to $875.8 million ($849.0 million in 2017). This covers approximately 2.6 months of operational needs on the basis of average monthly expenses in 2018. At the time of the certification of the financial statements (29 March 2019), the balance of cash and investments available for operational activities had fallen to $666.5 million, representing 2.0 months of operational needs.

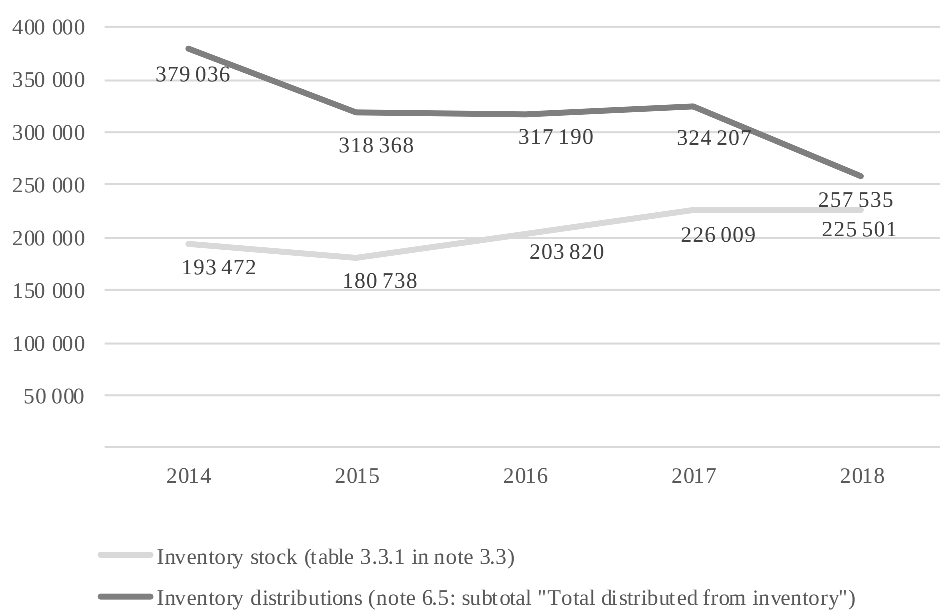
22. Figure IV.II depicts the total amount of cash and short-term investments available for operational activities as well as the number of months of operational needs covered on the basis of average monthly expenses for the period from 2014 to 2018.

Figure IV.II
Total amount of cash and short-term investments for operational activities/months of operational needs covered, 2014–2018
(Millions of United States dollars/number of months)



23. Figure IV.III depicts the average inventory distribution (see note 6.5) together with the inventory on stock (see table 3.3.1 in note 3.3) at year-end over the past five years.

Figure IV.III
Inventory distribution and on stock at year-end, 2014–2018
(Thousands of United States dollars)

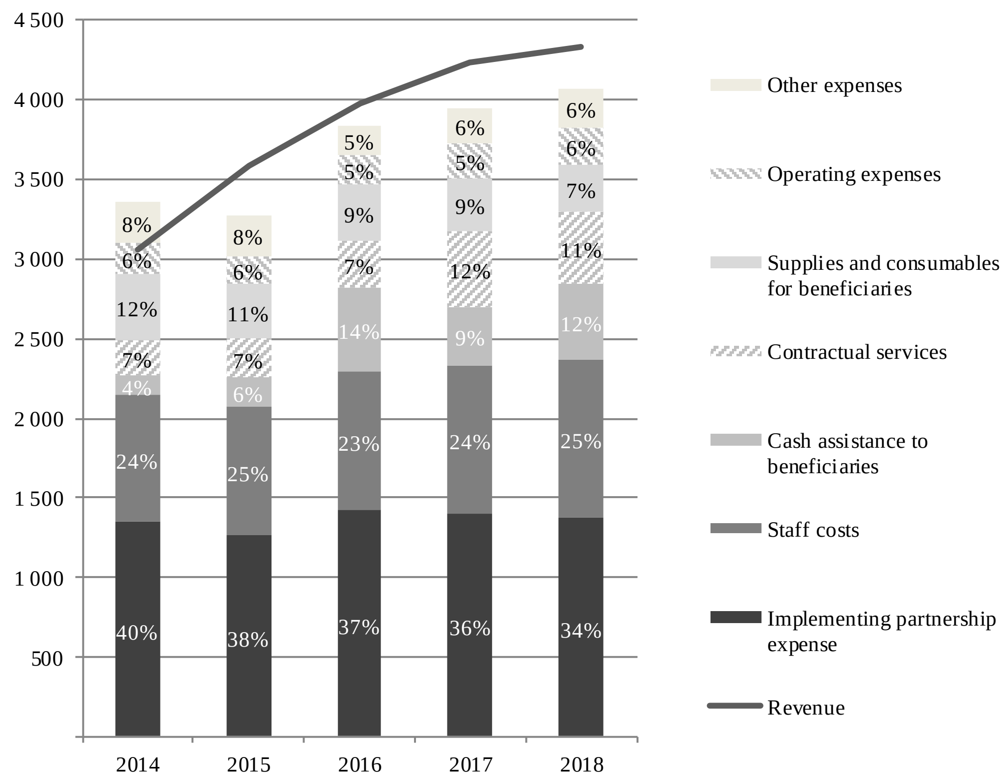


24. In terms of financial performance (see statement II), UNHCR ended the year with a surplus (revenue minus expenses, including foreign exchange losses) of $255.8 million, compared with a surplus of $379.5 million at the end of 2017.

25. The change in the annual result of 2018 in comparison with 2017 was driven mainly by the increase in voluntary contributions revenue of $108.8 million together with a decrease in implementing partnership expenses of $29.0 million and in supplies and consumables for beneficiaries of $50.9 million, offset by an increase in cash assistance to beneficiaries of $101.8 million, foreign exchange losses of $18.5 million (a change of $112.3 million compared with gains of $93.8 million in 2017) and an increase in salaries and employee benefits of $66.6 million.

26. Figure IV.IV depicts the revenue and expenses for the period from 2014 to 2018.

Figure IV.IV
Revenue and expenses, 2014–2018
(Millions of United States dollars)



27. The total revenue for 2018 was $4,338.3 million, an increase of $107.9 million, or 2.6 per cent, compared with 2017. Voluntary contributions from donors, including in-kind contributions, amounted to $4,260.8 million (accounting for 98.2 per cent of the total revenue), of which $1,130.5 million was intended for future years' activities (2019–2022).

28. The total expenses for the financial period amounted to $4,064.0 million, an increase of 3.0 per cent compared with 2017 ($3,944.7 million). Statement V presents the 2018 expenditure of $4,226.3 million on a modified cash basis used for budgeting purposes. The reconciliation between the two bases is presented in note 7. Notable changes from 2017 in annual expenses reported in statement II for 2018 are explained in the paragraphs below.

29. Expenses pertaining to agreements signed with implementing partners, amounting to $1,375.1 million, decreased by 2.1 per cent compared with 2017 ($1,404.1 million). Substantial decreases occurred primarily in Iraq, Lebanon and Kenya, whereas the largest increases occurred in Bangladesh, Libya and the Niger. UNHCR continues its support to national partners as part of its commitment to support localization and to increase the resources entrusted to them.

30. Staff salaries and benefits, amounting to $996.4 million, increased by 7.2 per cent compared with 2017 ($929.7 million), reflecting the impact of the demands of emergencies faced during the period.

31. Cash assistance to beneficiaries represents support provided directly by UNHCR and excludes amounts distributed through partners, which are reported as part of implementing partnership expenses. The cash assistance managed directly by UNHCR, amounting to $472.4 million, increased by 27.5 per cent compared with 2017 ($370.5 million). The main increases related to the programmes in Greece ($48.0 million), Yemen ($42.4 million) and Iraq ($23.8 million), while the main decreases related to Afghanistan ($15.7 million), Jordan ($12.9 million) and Somalia ($11.6 million).

32. Expenses for contractual services, amounting to $455.4 million, decreased by 2.4 per cent compared with 2017 ($466.6 million). Decreases were observed across major operations for various specialized contracts, primarily for transport and cargo handling ($38.8 million) and services for beneficiaries ($61.0 million).

33. Expenses for supplies and consumables for beneficiaries amounted to $289.3 million, representing a decrease of 15.0 per cent compared with 2017 ($340.1 million). Major decreases related to Iraq, Turkey and the Syrian Arab Republic.

34. The year 2018 continued to be characterized by low interest rates in respect of the United States dollar and the euro. The organization's investment management objective is to emphasize capital preservation and liquidity over the rate of return. Interest revenue of $18.1 million ($9.9 million in 2017) was generated during the year. The increase compared with 2017 is attributable to slightly higher average cash balances and higher average interest rates, mainly with regard to the United States dollar.

35. The composition of the surplus for 2018 is shown in the statement of changes in net assets (statement III). The revenue for 2018 included the recognition of $1,130.5 million relating to monetary contributions and pledges from donors recorded and recognized in 2018 but intended for future-period activities (2019–2022), as shown in table 5.1.2. Furthermore, UNHCR had legal commitments (open purchase orders) of $367.7 million as at 31 December 2018 for goods and services to be received early in 2019. Accordingly, some of the revenue recognized in 2018 will only be matched by expenses to be incurred during 2019 and subsequent years.

D. Programme budget performance highlights

36. While the financial statements have been prepared on an accrual basis, the programme budget of UNHCR continues to be formulated and presented on a modified cash basis. Therefore, for the purpose of budgetary management and performance analysis, expenses are converted to an equivalent basis. A summary of the comparison of budget and actual amounts is shown in statement V.

37. All figures quoted in the present section as expenditure, income or funds available refer to modified cash basis figures, comparable with budgets and exclusive

of the Working Capital Fund, the Staff Benefits Fund, the Medical Insurance Plan and any special accounts held during the period.

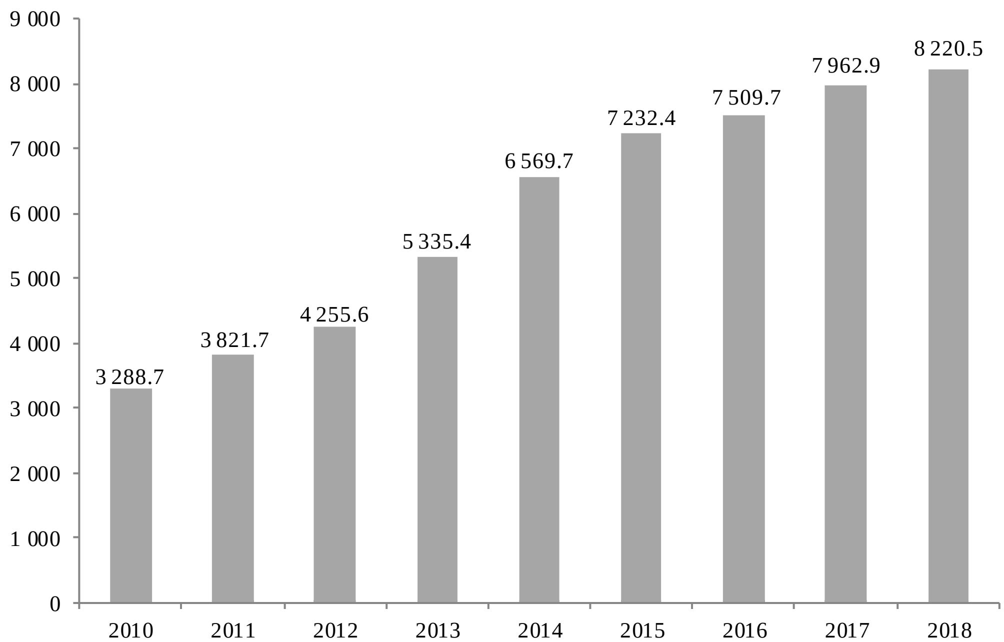
38. The programme budget of UNHCR is formulated on the basis of a global needs assessment methodology, meaning that an assessment of the needs of persons of concern to UNHCR serves as the basis for the formulation of programme budget estimates.

39. Subsequent to the approval of the budget by the Executive Committee, a global appeal is launched for fundraising purposes. The High Commissioner authorizes the allocation of funds for the implementation of programmes and projects on the basis of the availability of funds. During the implementation period, the High Commissioner may revise the budget with supplementary budgets, in accordance with article 7.5 of the financial rules for voluntary funds administered by the High Commissioner, to meet new or additional needs arising in the course of the same period.

40. The original budget for 2018 approved by the Executive Committee at its sixty-eighth session (October 2017) amounted to $7,508.4 million. Subsequently, at its sixty-ninth session (October 2018), the Executive Committee approved the revised budget for 2018 amounting to $8,275.3 million as at 30 June 2018, incorporating supplementary budgets of $766.9 million. The final budget for 2018 amounted to $8,220.5 million, representing the sum of the approved original budget of $7,508.4 million and the final supplementary budgets established by the High Commissioner in the course of the year in the amount of $712.0 million. The supplementary budgets established in 2018 pertained to responses to the situations in the Central Mediterranean routes ($96.0 million), the Democratic Republic of the Congo ($67.6 million), Myanmar ($208.2 million), South Sudan ($38.0 million) and the Syrian Arab Republic ($259.2 million), and the Venezuela situation ($43.0 million). The drop in the supplementary budgets from $766.9 million to $712.0 million was due to the supplementary budget for the South Sudan situation. Originally estimated at $92.9 million, it was subsequently decreased by $54.9 million to $38.0 million, mainly due to a lower planning figure for new arrivals.

41. Since the introduction of the global needs assessment budget in 2010, requirements have reflected a steady increase, reaching $8,220.5 million in 2018, a 3.2 per cent increase compared with the $7,962.9 million reported for 2017 (see figure IV.V).

Figure IV.V
Requirements, 2010–2018
(Millions of United States dollars)



42. The resource requirements of UNHCR are grouped under each of the four main programme pillars: the Global Refugee Programme (pillar 1), the Global Stateless Programme (pillar 2), Global Reintegration Projects (pillar 3) and Global Internally Displaced Persons Projects (pillar 4).

43. Table IV.3 shows the breakdown of total requirements, funds available and expenditure by pillar, with the United Nations Regular Budget Fund and the Junior Professional Officers Fund included under pillar 1. The difference between the total requirements (global needs assessment budget) and the funds available represents the unfunded needs of persons of concern to UNHCR. In 2018, unfunded needs amounted to $3,510.2 million, or 43 per cent of total requirements.

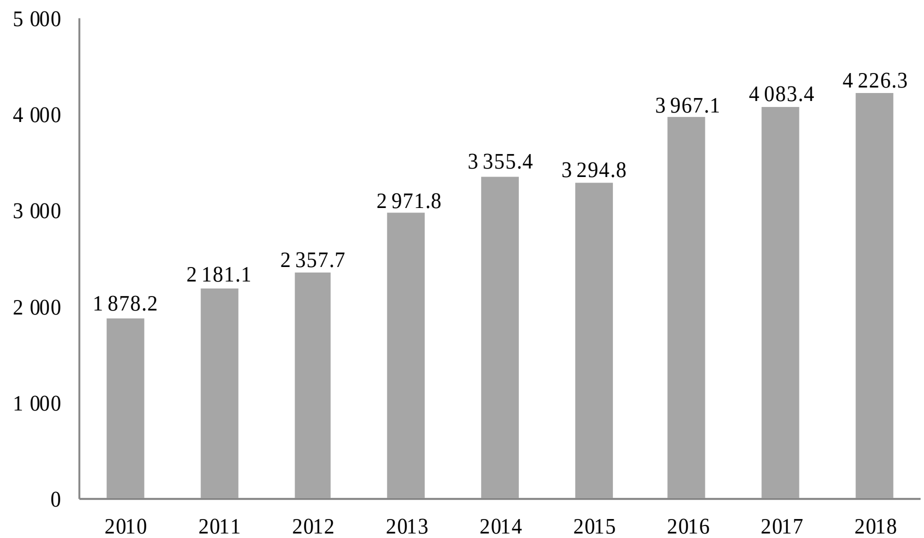
Table IV.3
Total requirements, funds available and expenditure, 2018[a]
(Millions of United States dollars unless otherwise indicated)

	Pillar 1[b]	*Pillar 2*	*Pillar 3*	*Pillar 4*	*Total*
Total requirements (global needs assessment budget)	6 383.4	78.9	488.9	1 269.3	8 220.5
Funds available	3 922.4	38.0	120.5	629.3	4 710.3
Expenditure	3 474.4	38.0	120.1	593.8	4 226.3
Carry-over	448.0	0.1	0.4	35.5	484.1
Expenditure on total requirements (percentage)	54	48	25	47	51
Expenditure on funds available (percentage)	89	100	100	94	90

[a] Totals in the table may not add up owing to rounding.
[b] Pillar 1 is inclusive of the United Nations Regular Budget Fund, the Junior Professional Officers Fund, the operational reserve and the reserve for new or additional mandate-related activities.

44. The expenditure amount of $4,226.3 million in 2018 represents an increase of $142.9 million, or 3.5 per cent, compared with the expenditure amount in 2017 ($4,083.4 million). Figure IV.VI illustrates annual expenditure over the period from 2010 to 2018.

Figure IV.VI
Expenditure, 2010–2018
(Millions of United States dollars)



45. Table IV.4 shows 2018 expenditure, broken down in terms of programme, programme support, management and administration costs and the Junior Professional Officers Programme, with comparative figures for 2017.

Table IV.4
2018 expenditure by programme, programme support, management and administration and Junior Professional Officers Programme
(Millions of United States dollars)

	2018		*2017*	
	Amount	*Percentage*	*Amount*	*Percentage*
Programme	3 411.2	80.7	3 315.7	81.2
Programme support	647.8	15.3	608.3	14.9
Management and administration	159.2	3.8	151.7	3.7
Junior Professional Officers Programme	8.1	0.2	7.7	0.2
Total expenditure	**4 226.3**	**100.0**	**4 083.4**	**100.0**

46. The evolution of the expenditure for the programmed activities under the three budget components, namely, programme, programme support and management and administration costs (excluding the Junior Professional Officers Programme), is presented in figures IV.VII and IV.VIII for the period from 2010 to 2018 in values and percentages, respectively.

Figure IV.VII
Evolution of expenditure, 2010–2018
(Millions of United States dollars)

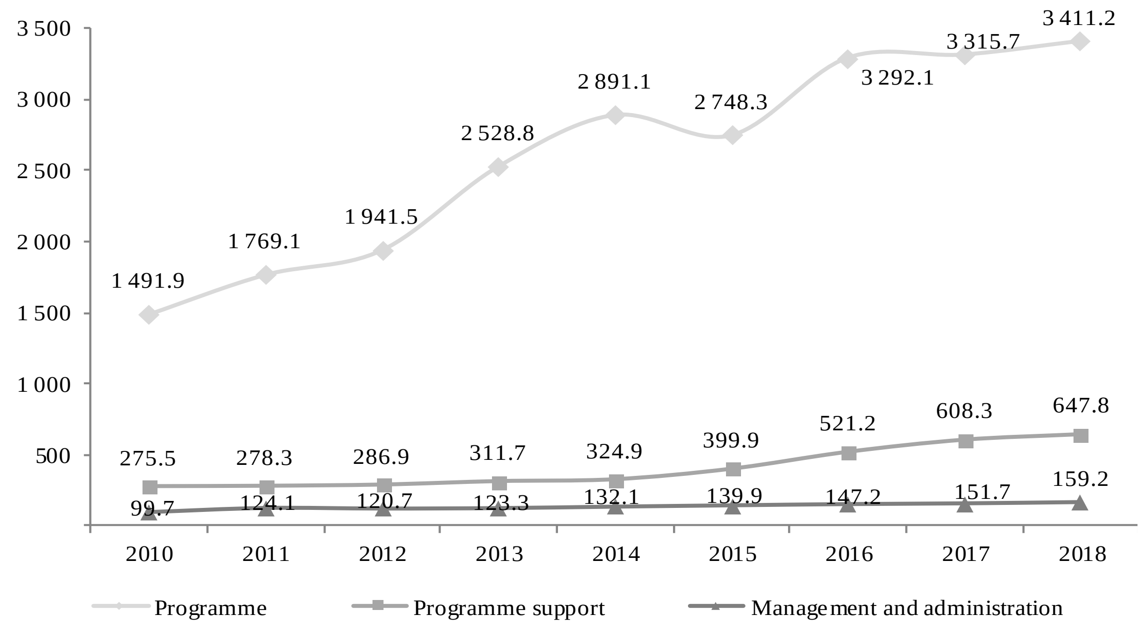
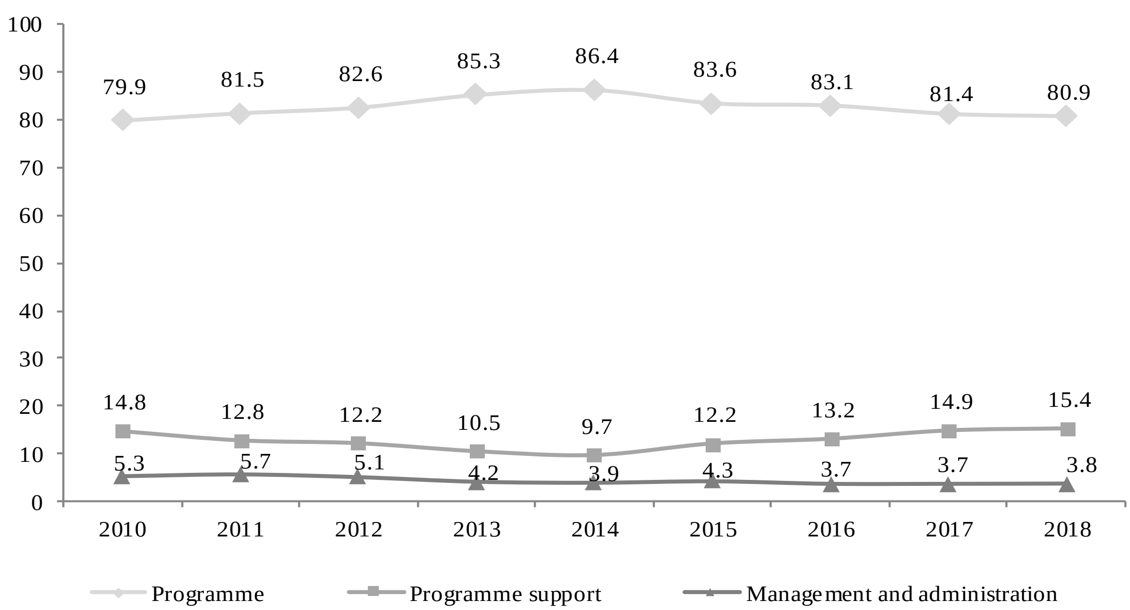


Figure IV.VIII
Evolution of expenditure, 2010–2018
(Percentage)



E. Risk management

Enterprise risk management

47. In October 2017, the High Commissioner launched the "Risk management 2.0" initiative to strengthen the organization's approach to managing risk with the aim of further enhancing the integrity and effectiveness of UNHCR programmes. This initiative builds on the Office's organizational risk management policy of 2014, which formalized top-down and bottom-up risk identification and assessment processes.

48. In 2018, building on this framework, UNHCR made considerable progress in strengthening risk management across the organization. Risk management staffing capacity was reinforced in both the field and at headquarters, while work to embed risk management in the organization's day-to-day activities and processes continued. In this regard, risk management has been integrated into training and learning initiatives and is a key consideration at all stages of the operations management cycle.

49. A key indicator of success in 2018 was that all UNHCR entities, both in the field and at headquarters, carried out an annual risk assessment as an integral part of the planning process for 2019. The results of this process enhanced country-level planning and informed the revision of the organization's strategic risk register by the High Commissioner and the senior executive team. The strategic risk register, which captures major risk trends stemming from the corporate risk register and global trends, enables UNHCR to manage risks in a proactive and transparent manner in support of the achievement of organizational objectives.

Financial risk management

50. Financial risk management is carried out by the Office of the Controller, in compliance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner for Refugees, where applicable. The Office applies rigorous strategic planning and resource allocation, together with integrated liquidity and foreign exchange management. The Investment Committee, chaired by the Controller, provides oversight of the financial risk management and effective investment of available cash holdings of UNHCR not required for immediate use.

51. UNHCR maintains and manages a multi-currency portfolio derived from the receipt of voluntary contributions and the disbursement of payments in various currencies that are naturally hedged. The organization resorts only to limited monthly foreign exchange hedging transactions, with no open contracts to report at year-end. Integrated supply, finance and treasury management systems provide the basis for managing global cash flows on a real-time basis and sound cash-flow forecasting capability.

52. UNHCR risk management policies limit the amount of credit exposure to any one institution and include the application of minimum credit quality guidelines. All surplus fund placements have been concluded with financial institutions that have been accorded the strongest ratings by the primary rating agencies.

F. Internal control system

53. In accordance with UNHCR financial rule 10.1, the Controller is responsible to the High Commissioner for establishing internal controls to ensure: (a) the regularity of receipt, custody and disposal of all assets entrusted to him; and (b) the conformity of commitments and expenses with the directives of the Executive Committee or, as

appropriate, with the purpose and conditions of the funds or accounts administered by UNHCR.

54. Internal control and accountability processes are exercised continually at all operational levels within the organization, constituting a key element of a proactive system and a pillar of accountability. Internal controls are applied to ensure that UNHCR adheres to its established policies, rules and procedures so that it is delivering its mandate in line with the principle of stewardship of resources. There are a multitude of controls embedded in various forms in the day-to-day operations of all organizational units of UNHCR. Such controls are either embedded in the enterprise resource planning system used by UNHCR, or implemented outside that system through adherence to requirements emanating from the Financial Regulations and Rules and the Staff Regulations and Rules of the United Nations or from UNHCR internal legislation in the form of policies, administrative instructions and procedures.

55. UNHCR applies the "three lines of defence" approach in allocating internal control responsibilities across the organization. In the first line of defence, operational management is responsible for maintaining effective internal controls and executing risk management and control procedures on a day-to-day basis. Operational managers implement the organization's control and risk management processes. These include internal control processes designed to identify and assess significant risks, execute activities as intended, highlight inadequate processes, address control breakdowns, escalate critical issues, emerging risks and outliers to the second line of defence and communicate with key stakeholders of the activity.

56. The second line of defence, which covers monitoring and compliance, is executed by management. Management establishes various risk-management and compliance-monitoring functions to ensure that controls and procedures implemented by the first line of defence are designed appropriately and operate as intended. Second line functions may also develop, implement and/or modify internal control measures, including policies, procedures, administrative instructions and operational guidance.

57. With the third line of defence, UNHCR benefits from a robust oversight system conducted by the following bodies: the UNHCR Internal Audit Service, provided by the Office of Internal Oversight Services (OIOS); the Inspector General's Office, responsible for investigations and inquiries; and the Evaluation Service.

58. The oversight mechanisms across the three lines of defence, as complemented by the external mechanisms, all contribute to a robust system of review of the effectiveness of internal controls in a manner set out in further detail below.

Office of Internal Oversight Services

59. OIOS has performed internal audit services at UNHCR since 1997, in accordance with UNHCR financial rule 12.1 and United Nations financial regulation 5.15. A memorandum of understanding between UNHCR and OIOS defines the arrangements for internal audit services to be provided by OIOS. The current memorandum of understanding was signed on 5 March 2018. The UNHCR Audit Service of the Internal Audit Division of OIOS is based in Geneva, with offices in Nairobi, Amman and Budapest. The Service consists of 26 staff, and all but two positions in Geneva were encumbered as at 1 April 2019. The internal auditors undertake regular missions to review UNHCR operations in the field and organizational units, functions and systems at headquarters. The UNHCR Audit Service also undertakes thematic audits, reviews of recurrent issues and advisory engagements. The audit observations and recommendations are issued as internal audit reports addressed to the High Commissioner. All reports are made public on the OIOS website. OIOS also provides an annual summary report on its activities and assessments both to the UNHCR Executive Committee and to the General Assembly.

In 2018, OIOS issued 23 reports. These included 15 audit reports on field operations, 7 audit reports on headquarters/thematic areas and 1 advisory report. The headquarters/thematic audits and reviews covered areas such as version 4 of the Profile Global Registration System (proGres) registration and case management system; telecommunications expenditure control and billing; a regional bureau; the upgraded Managing Systems, Resources and People (MSRP) human resource module; recurrent issues in programme monitoring; warehouse management; and reporting on the use of donor funds. The advisory engagement dealt with a review of the implementation of risk management and control responsibilities of functions considered part of the second line of defence at UNHCR.

Independent audit of projects implemented by partners

60. UNHCR carries out a high percentage of its activities through implementing partners. In 2018, UNHCR continued to collaborate with more than 1,070 partners in conducting its operations. The audit of projects implemented by partners is an important management tool for field offices and headquarters, as it assists the organization in obtaining:

(a) Reasonable assurance that the final report submitted by the partner is free from material misstatement and in accordance with the terms of the project partnership agreement;

(b) A review of the partner’s compliance with the partnership agreement;

(c) An assessment of the partner’s internal controls and financial management practices.

61. UNHCR applies a risk-based audit approach in relation to the projects implemented by partners. The methodology of selection of projects is based on a risk assessment of the project. Audit services have been centrally procured and four global, independent and reputable audit service providers have been engaged by UNHCR, resulting in a competitive selection of audit services, an efficient process of project audit certification, enhanced timely delivery of reports and improved consistency and quality of reports. The quality of audit work delivered as part of this arrangement is monitored and assessed during the year against key performance indicators and mutually agreed terms of reference.

Independent Audit and Oversight Committee

62. The Independent Audit and Oversight Committee assists the High Commissioner and the Executive Committee in exercising their oversight responsibilities, in accordance with relevant best practice, industry standards and the financial and staff regulations and rules applicable to UNHCR. In 2018, the Committee held two sessions, during which it discussed and made observations on various issues relating to the oversight architecture and functions, including internal and external audits, financial management, investigations, evaluation, the organization’s accountability framework, ethics, risk management, fraud prevention, human resources, change management and cybersecurity. The Committee communicated its concluding observations following each session and presented its annual report to the Standing Committee in September 2018.

Inspector General’s Office

63. The Inspector General’s Office is an independent internal oversight body headed by the Inspector General. Through its work, it supports the effective, efficient and accountable management of UNHCR field operations and headquarters activities, while informing the High Commissioner of challenges, problems and deficiencies in

delivering the UNHCR mandate. In addition, the Inspector General administers the memorandum of understanding with OIOS for the provision of internal audit services on behalf of UNHCR, and provides the necessary support to facilitate the work of the OIOS-provided UNHCR Audit Service. The Inspector General's Office comprises two services (Investigation and Strategic Oversight). The Investigation Service undertakes investigations and conducts inquiries in response to incidents involving violent attacks on UNHCR personnel, operations or premises where these fatalities, major injuries or large-scale damages result in actual or potential reputational damage or major financial or material losses to UNHCR. Strategic Oversight, established in 2017, analyses oversight findings, identifies root causes and recurring systemic issues, brings significant oversight matters to the attention of management, and conducts inquiries into matters or other events that could directly impact or pose a serious risk to the organization's responsibilities, reputation, interests or operations. It also coordinates matters related to the work of the Joint Inspection Unit of the United Nations system and provides secretariat support to the Independent Audit and Oversight Committee, with a view to enhancing cohesion among oversight functions.

Other tools and mechanisms

64. It is worth noting the following additional efforts made by UNHCR to strengthen its internal control system and maximize the effective and efficient use of its resources:

(a) Focusing management attention on effective follow-up to recommendations made by internal and external oversight bodies, reporting regularly to the Independent Audit and Oversight Committee and the Executive Committee on the volume and nature of the outstanding recommendations;

(b) Documenting all actions to be taken to address the recommendations of the Board of Auditors;

(c) Reviewing and streamlining, when deemed necessary, the internal policies, procedures and guidance available to staff;

(d) Holding periodic senior management committee meetings to review and discuss aspects relating to the reinforcement of risk and performance management practices throughout the organization.

G. Going concern

65. The consequences of any potential reductions, delays in receipt or defaults in payments of contributions, in particular within the context of the global economic and financial situation, have been evaluated by the management of UNHCR. Management considers that the organization has adequate resources to continue its operations as planned in the medium term. This assertion is based on the approval by the Executive Committee of the revised budget requirements for 2019 during its meeting in October 2018 and the historical trend of the collection of pledges in recent years. Therefore, UNHCR has adopted the going-concern basis in the preparation of its financial statements.

Chapter V

Financial statements for the year ended 31 December 2018

United Nations High Commissioner for Refugees

I. Statement of financial position as at 31 December 2018

(Thousands of United States dollars)

	Reference	*31 December 2018*	*31 December 2017 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 3.1	965 055	945 635
Investments	Note 3.1	250 000	170 000
Contributions receivable	Note 3.2	1 226 581	1 049 686
Inventories	Note 3.3	225 501	226 009
Other current assets	Note 3.4	204 445	153 577
Total current assets		**2 871 582**	**2 544 907**
Non-current assets			
Contributions receivable	Note 3.2	230 742	255 994
Property, plant and equipment	Note 3.5	171 628	145 429
Intangible assets	Note 3.6	30 717	26 235
Total non-current assets		**433 087**	**427 658**
Total assets		**3 304 669**	**2 972 565**
Liabilities			
Current liabilities			
Accounts payable and accruals	Note 3.7	200 403	161 276
Employee benefits	Note 3.8	92 570	92 714
Provisions	Note 3.10	4 578	–
Other current liabilities	Note 3.9	3 824	4 182
Total current liabilities		**301 376**	**258 173**
Non-current liabilities			
Employee benefits	Note 3.8	684 105	725 650
Provisions	Note 3.10	64	13 708
Total non-current liabilities		**684 169**	**739 359**
Total liabilities		**985 545**	**997 531**
Net assets		**2 319 125**	**1 975 034**
Fund balances and reserves			
Accumulated fund balances and reserves	Note 3.11	2 744 365	2 515 500
Working Capital and Guarantee Fund	Note 3.12	100 000	100 000
Medical Insurance Plan	Note 3.13	41 759	37 041
Staff Benefits Fund	Note 3.14	(566 999)	(677 507)
Total fund balances and reserves		**2 319 125**	**1 975 034**

The accompanying notes form an integral part of these financial statements.
The amounts in the statements and note tables are rounded to the nearest thousand dollars. Totals may not add up owing to rounding.
The 2017 amounts are restated as explained in note 2 and note 3.5.

United Nations High Commissioner for Refugees

II. Statement of financial performance for the year ended 31 December 2018

(Thousands of United States dollars)

	Reference	*2018*	*2017 (restated)*
Revenue			
Voluntary contributions	Note 5.1	4 260 756	4 151 995
United Nations regular budget		38 642	47 755
Interest revenue		18 130	9 896
Other revenue	Note 5.2	20 766	20 766
Total revenue		**4 338 294**	**4 230 412**
Expenses			
Implementing partnership expenses	Note 6.1	1 375 073	1 404 093
Salaries and employee benefits	Note 6.2	996 364	929 722
Cash assistance to beneficiaries	Note 6.3	472 381	370 540
Contractual services	Note 6.4	455 425	466 595
Supplies and consumables for beneficiaries	Note 6.5	289 269	340 120
Operating expenses	Note 6.6	240 646	216 192
Equipment and supplies	Note 6.7	87 635	78 463
Travel expenses		74 046	66 164
Depreciation, amortization and impairment	Note 6.8	45 030	44 592
Other expenses	Note 6.9	28 112	28 249
Total expenses		**4 063 980**	**3 944 729**
Foreign exchange (gains)/losses	Note 6.10	18 539	(93 774)
Surplus/(deficit) for the year		**255 775**	**379 457**

The accompanying notes form an integral part of these financial statements.

The amounts in the statements and note tables are rounded to the nearest thousand dollars. Totals may not add up owing to rounding.

The 2017 amounts are restated as explained in note 2 and note 3.5. The restated amounts are reflected in the relevant expense (note 6).

United Nations High Commissioner for Refugees

III. Statement of changes in net assets for the year ended 31 December 2018

(Thousands of United States dollars)

	Reference	*Accumulated fund balances and reserves*	*Working Capital and Guarantee Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*
Net assets at 31 December 2016		2 213 987	50 000	(666 239)	32 351	1 630 099
Accounting policy changes	Notes 2, 3.5	(13 820)	–	–	–	(13 820)
Net assets at 1 January 2017 (restated)		**2 200 167**	**50 000**	**(666 239)**	**32 351**	**1 616 279**
Movements in fund balances and reserves in 2017						
Surplus/(deficit) for the period	Notes 3.11, 3.12, 3.13, 3.14	325 103	99 713	(50 050)	4 690	379 457
Loss on after-service health insurance actuarial valuation	Note 3.8	–	–	(20 702)	–	(20 702)
Funding of long-term employee liabilities	Notes 3.8, 3.14	(59 483)	–	59 483	–	–
Transfers	Notes 3.11, 3.12, 3.13, 3.14	49 713	(49 713)	–	–	–
Total movements during 2017		**315 333**	**50 000**	**(11 268)**	**4 690**	**358 755**
Net assets at 31 December 2017 (restated)		**2 515 500**	**100 000**	**(677 507)**	**37 041**	**1 975 034**
Movements in fund balances and reserves in 2018						
Surplus/(deficit) for the period	Notes 3.11, 3.12, 3.13, 3.14	305 496	(10 665)	(43 774)	4 718	255 775
Gain on actuarial valuations of post-employment benefits	Note 3.8	–	–	88 316	–	88 316
Funding of long-term employee liabilities	Notes 3.8, 3.14	(65 966)	–	65 966	–	–
Transfers	Notes 3.11, 3.12, 3.13, 3.14	(10 665)	10 665	–	–	–
Total movements during 2018		**228 865**	**–**	**110 508**	**4 718**	**344 091**
Total net assets at 31 December 2018		**2 744 365**	**100 000**	**(566 999)**	**41 759**	**2 319 125**

The accompanying notes form an integral part of these financial statements.
The amounts in 2017 are restated as explained in note 2 and note 3.5.
The amounts in the statements and note tables are rounded to the nearest thousand dollars. Totals may not add up owing to rounding.

United Nations High Commissioner for Refugees

IV. Statement of cash flow for the year ended 31 December 2018

(Thousands of United States dollars)

	Reference	*2018*	*2017 (restated)*
Cash flows from operating activities:			
Surplus/(deficit) for the period		**255 775**	**379 457**
Depreciation, amortization and impairment	Notes 3.5, 3.6	45 030	44 592
(Increase)/decrease in contributions receivable	Note 3.2	(151 643)	(371 411)
(Increase)/decrease in inventories	Note 3.3	508	(22 189)
(Increase)/decrease in other assets	Note 3.4	(50 869)	(19 137)
Increase/(decrease) in accounts payable and accruals	Note 3.7	39 127	(22 771)
Increase/(decrease) in employee benefits liabilities, net of actuarial gain/loss		46 627	51 468
Increase/(decrease) in provisions	Note 3.10	(9 066)	10 509
Increase/(decrease) in other liabilities	Note 3.9	(358)	(2 083)
(Gain)/loss on disposal of property, plant and equipment, and intangibles		(4 481)	(5 218)
Revenue from in-kind contributions of property, plant and equipment		(189)	(65)
Net cash flows from operating activities		**170 461**	**43 152**
Cash flows from investing activities:			
Purchase of property, plant and equipment	Note 3.5	(74 527)	(50 130)
Purchase of intangible assets	Note 3.6	(7 784)	(10 356)
Proceeds from sale of assets		11 270	10 619
Purchase of short term investments		(910 000)	(470 000)
Maturities and sale of short term investments		830 000	450 000
Net cash flows from investing activities		**(151 041)**	**(69 867)**
Cash flows from financing activities:			
Net cash flows from financing activities		–	–
Net increase/(decrease) in cash and cash equivalents		**19 420**	**(26 715)**
Cash and cash equivalents at beginning of the year		**945 635**	**972 350**
Cash and cash equivalents at end of the year		**965 055**	**945 635**

The accompanying notes form an integral part of these financial statements.

The amounts in 2017 are restated as explained in note 2 and note 3.5.

The amounts in the statements and note tables are rounded to the nearest thousand dollars. Totals may not add up owing to rounding.

United Nations High Commissioner for Refugees

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2018[a]

(Thousands of United States dollars)

	Reference	Global needs assessment budget		Actual on comparable basis	Variances: final budget and actual amounts
		Original[b]	Final[c]		
Field operations					
Africa		2 600 517	2 755 634	1 304 144	1 451 490
Middle East and North Africa		2 168 103	2 481 767	1 255 052	1 226 715
Asia and the Pacific		492 271	700 538	369 201	331 337
Europe		876 290	881 360	485 445	395 915
Americas		152 553	205 996	133 679	72 317
Total field operations		**6 289 734**	**7 025 294**	**3 547 520**	**3 477 775**
Global programmes		**421 726**	**465 518**	**435 570**	**29 948**
Headquarters		**217 274**	**239 972**	**235 076**	**4 896**
Operational reserve and new or additional activities – mandate-related reserve		**567 680**	**477 668**	**–**	**477 668**
Junior Professional Officers Fund		**12 000**	**12 000**	**8 088**	**3 912**
Total	Note 7	**7 508 414**	**8 220 453**	**4 226 254**	**3 994 199**

[a] The accounting basis and the budget basis are different. While the accounting basis is the International Public Sector Accounting Standards, this statement of comparison is prepared on a modified cash basis (further information is provided in note 7).

[b] The original budget for 2018 of $7,508.4 million was approved by the Executive Committee of the Programme of the High Commissioner at its sixty-eighth session (2–6 October 2017), as contained in A/72/12/Add.1, paragraph 14.

[c] At its sixty-ninth session (1–5 October 2018), the Executive Committee approved the revised budget for 2018 of $8,275.3 million based on additional requirements as at 30 June 2018 (see A/73/12/Add.1, para. 13). The final budget figure, $8,220.5 million, represents the sum of the approved revised budget of $7,508.4 million and the final supplementary budgets of $712.0 million established by the High Commissioner in 2018 in accordance with article 7.5 of the UNHCR financial rules.

The accompanying notes form an integral part of these financial statements.

The amounts in the statements and note tables re rounded to the nearest thousand dollars. Totals may not add up owing to rounding.

United Nations High Commissioner for Refugees
Notes to the financial statements

Note 1
Office of the United Nations High Commissioner for Refugees, its objectives and activities

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) was established by the General Assembly in its resolution 319A (IV). Its mandate is laid down in the statute of the Office (Assembly resolution 428 (V), annex). In accordance with the statute, the High Commissioner, acting under the authority of the Assembly, shall assume the function of providing international protection, under the auspices of the United Nations, to refugees who fall within the scope of the statute and of seeking permanent solutions for the problem of refugees.

2. The General Assembly has also called upon the High Commissioner to provide assistance to returnees and to monitor their safety and well-being on return (Assembly resolution 40/118). In addition, on the basis of specific requests from the Secretary-General or the competent principal organs of the United Nations, and with the consent of the State concerned, the High Commissioner provides humanitarian assistance and protection to internally displaced persons (Assembly resolution 48/116). As to the High Commissioner's assistance activities, the basic provisions of the statute were expanded by the Assembly in its resolution 832 (IX).

3. UNHCR has been mandated by the General Assembly to provide international protection to refugees and to find solutions to their plight. While States bear the primary responsibility for protecting refugees on their territory, UNHCR was established to ensure protection on behalf of the United Nations and to promote accessions to and supervise the application of the 1951 Convention relating to the Status of Refugees and the 1967 Protocol thereto. Through successive resolutions, the Assembly has recognized additional categories of persons of concern to the Office, including refugees who have returned to their country of origin (returnees), stateless persons and, in certain circumstances, internally displaced persons. It has also authorized the Office to undertake a wider array of activities, such as the provision of humanitarian assistance and support for reintegration, as necessary, to fulfil the mandate of international protection and solutions. The UNHCR mandate on statelessness was further consolidated upon the entry into force of the 1961 Convention on the Reduction of Statelessness in 1975.

4. The High Commissioner reports annually to the General Assembly through the Economic and Social Council. The Executive Committee of the Programme of the High Commissioner was established pursuant to Assembly resolution 1166 (XII) to provide advice to the High Commissioner in the exercise of his or her functions and to approve the use of voluntary funds made available to the High Commissioner. The annual cycle of meetings of the Executive Committee consists of one plenary session and a number of intersessional meetings of its subsidiary body, the Standing Committee. In 2018, the Executive Committee consisted of 102 members. Each year, the report on the session of the Executive Committee is submitted to the General Assembly as an addendum to the annual report of the High Commissioner.

5. UNHCR has its headquarters in Geneva, with Global Service Centres in Budapest and Copenhagen, its Information and Communications Technology Service Centre in Amman and liaison offices in New York and Brussels. As at 31 December 2018, UNHCR had a presence in 131 countries, where its core work is managed from a series of regional offices, branch offices, sub-offices and field offices in the following five regions: Africa; the Americas; Asia and the Pacific; Europe; and the Middle East and North Africa. Global programmes are managed by a number of divisions at headquarters.

Note 2
Accounting policies

Basis of preparation

6. The financial statements of UNHCR have been prepared on an accrual basis of accounting, in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

7. The financial statements have been prepared on a going-concern basis. This assertion is based on the approval by the UNHCR Executive Committee of the revised budget requirements for 2018 and the biennial budgets for 2018–2019 during its sixty-ninth session in October 2018 and the historical trend of collection of pledges over the past years. The accounting policies have been applied consistently throughout the financial period. The amounts in the tables of the financial report, the financial statements and the notes to the financial statements are rounded to the nearest thousand dollars. Totals may not add up owing to rounding.

Transactions and balances

8. In accordance with the financial rules for voluntary funds administered by the High Commissioner for Refugees (A/AC.96/503/Rev.10), the functional and reporting currency of UNHCR is the United States dollar.

9. Foreign currency transactions are translated into dollars using the United Nations operational rate of exchange, which approximates the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the year-end closing rate of the operational rate of exchange.

10. Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of foreign currency denominated monetary assets and liabilities are recognized in the statement of financial performance.

Statement of cash flow

11. The statement of cash flow is prepared using the indirect method.

Materiality and use of judgment and estimates

12. The financial statements necessarily include estimated amounts based on management’s knowledge, judgment and assumptions with regard to events and actions. Estimates include but are not limited to the fair value of donated goods and services, accrued charges and liabilities for after-service employee benefits, the impairment on accounts receivable, inventories, property, plant and equipment, and contingent assets and liabilities.

13. The concept of materiality is applied for the development of accounting policies and the preparation of financial statements.

Restatements and reclassifications

14. In 2018, UNHCR adjusted its accounting policies on property, plant and equipment, resulting in the derecognition of certain subclasses of property, plant and equipment and the restatement of comparative amounts for the prior-year asset balances and depreciation expenses as indicated in the relevant notes.

15. The classification of most expenses related to United Nations Volunteers and the United Nations Office for Project Services (UNOPS) was changed from

implementing partnership expenses to contractual services. The comparative amounts for the prior-year expenses have been reclassified and significant presentation changes are indicated accordingly in the relevant notes.

16. The classification of some expenses related to contractual services was changed to other expense categories to better reflect the nature of the related services. The comparative amounts for the prior-year expenses have been reclassified and significant presentation changes are indicated accordingly in the relevant notes.

17. Certain salary and employee benefit expenses are reclassified within the same expense group to other subcategories. The impact of the reclassification is disclosed in note 6.2.

18. Advances of cash assistance to financial service providers are initially recorded as prepayments and expensed upon delivery to final beneficiaries. In 2017 those deliveries identified by the year end, but not yet reported by financial service providers, were accounted for as a separate accrual pending final reporting. In 2018, an offset against prepayments was recorded. Therefore 2017 comparative amounts have been reclassified. The impact of the reclassification is disclosed in note 3.7.

19. In-kind contributions and expenses have been restated to fully reflect the market value of rental property provided by government donors at lower-than-market rates. The impact of the restatement is disclosed in note 5.1 and note 6.6.

Revenue

Non-exchange revenue

20. Revenue from the United Nations regular budget, voluntary contributions and pledges of voluntary contributions confirmed in writing are recognized as non-exchange transactions in accordance with IPSAS 23: Revenue from non-exchange transactions. UNHCR considers that, owing to the application of substance over form, and while there are stipulations that represent restrictions on the use of contributions it receives, no stipulation meets the definition of a condition as described under IPSAS 23.

21. Voluntary and non-conditional cash contributions from donors for which no formal binding agreements are required are recognized as revenue when the cash contribution is received from the donor.

22. Refunds of voluntary contributions for which revenue was recognized in prior years are recorded as revenue adjustments in the year that the refund requirement is identified.

In-kind contributions

23. In-kind contributions of goods and services that directly support operations and activities and can be reliably measured are recognized as revenue at fair value. Fair value is generally measured by reference to the price of the same or similar items in an active market. These contributions include goods which are distributed to beneficiaries, use of premises, utilities, transport and personnel. In-kind contributions of goods are recognized as revenue and assets either when the related pledges are confirmed in writing or upon receipt of the goods, whichever is earlier. In-kind contributions of services are treated as both revenue and expense upon receipt.

Exchange revenue

24. Revenue arising from the rendering of services, sale of goods or use by others of UNHCR assets is recognized as exchange revenue in accordance with IPSAS 9: Revenue from exchange transactions.

Interest revenue

25. Interest revenue is recognized over the period that it is earned.

Expenses

26. In accordance with the accrual basis of accounting, expense recognition occurs at the time of delivery by the supplier or service provider and acceptance of goods or services. Expenses are recorded and recognized in the financial statements for the periods to which they relate.

Financial instruments

27. Financial instruments are contractual arrangements that result in a financial asset for one entity and a financial liability or equity instrument for another. UNHCR financial instruments comprise cash and cash equivalents, investments, accounts receivable and accounts payable and accruals. All of the financial assets of UNHCR are currently classified as loans and receivables. The classification is subject to annual review.

Assets

Cash and cash equivalents

28. Cash and cash equivalents are held at fair value and comprise cash on hand, cash at banks and short-term deposits with maturities of three months or less.

Investments

29. Investments are short-term deposits with maturities between 3 and 12 months. Investment revenue is recognized over the period that it is earned and is included in interest revenue.

Contributions and other receivables

30. Current receivables are stated at nominal value, less allowance for doubtful accounts. Allowances for doubtful accounts are recognized when there is objective evidence that a receivable is impaired. Allowances are recognized on the basis of historical collection experience and/or evidence indicating that the collection of a particular receivable is in doubt. Impairment losses are recognized in the statement of financial performance of the year in which they arise. Non-current receivables are discounted where the effect of the time value of money is considered material.

Inventories

31. Inventories consist primarily of items which are distributed to beneficiaries – mainly non-food items such as tents, bedding materials, household items, medical and hygienic supplies and apparel, and construction materials and related equipment.

32. Inventories are stated at fair value, measured as the lower of cost and current replacement cost. Inventory items received as in-kind contributions are measured at fair value as at the date the related asset is initially recorded.

33. The cost of inventories includes purchase cost (or fair value if received in kind) and all other costs, such as transportation, insurance and inspection costs incurred to bring the inventories to the first UNHCR receiving location in the final destination country.

34. The cost of inventories purchased and shipped directly to field offices is determined by using specific identification of their individual actual cost. The cost of inventories purchased and initially shipped to central warehouses is determined on a weighted average basis.

35. Inventories are expensed when control is relinquished through direct distribution by UNHCR to beneficiaries, transferred to implementing partners for final distribution or upon transfer to other entities for relief assistance purposes.

36. Inventories are reviewed periodically for obsolescence and an allowance is made on the basis of past experience.

Property, plant and equipment

Measurement of costs at recognition

37. Property, plant and equipment are considered non-cash-generating assets, as they are not held to generate a commercial return and are stated at historical cost, less accumulated depreciation and any impairment losses.

38. Individual items of movable property, plant and equipment are capitalized when their expected original acquisition price is equal to or greater than the threshold of $10,000.

39. As stated in the present note, the accounting policy for the capitalization of specific categories of property plant and equipment was changed in 2018:

(a) All buildings costing in excess of $10,000 except permanent buildings located outside of UNHCR headquarters, UNHCR regional offices or UNHCR representations were previously capitalized and depreciated over their estimated useful lives;

(b) Permanent buildings are now capitalized when their expected original acquisition price or construction costs, including capitalizable internal costs, are equal to or greater than the threshold of $250,000, and only in locations of UNHCR headquarters, UNHCR regional offices or UNHCR representations. The threshold has been increased from the previous level of $10,000 to better balance the costs of tracking of minor projects at a detailed level with the limited informational value thereby derived;

(c) Acquisition or construction costs of all other permanent buildings are expensed at the time of acquisition or construction. UNHCR rights in relation to other buildings, used primarily for operations in direct support of beneficiaries, are regularly limited and not fully equivalent to a title of ownership;

(d) Temporary buildings are expensed at the time of acquisition or construction, regardless of the location of their initial deployment;

(e) The financial impact of the change in the capitalization thresholds is disclosed in the relevant note (see para. 92 below).

Depreciation method and useful life

40. Depreciation is charged so as to allocate the cost of assets over their estimated useful lives. Property, plant and equipment is depreciated using the straight-line method, except for land, which is not subject to depreciation. The estimated useful

lives for the various classes of property, plant and equipment are as follows and are subject to annual review:

Class	*Estimated useful life (in years)*
Permanent buildings – headquarters	40
Permanent buildings – other locations	20
Leasehold – major improvements and alterations	The lesser of the remaining lease term, plus any renewal option expected to be exercised, and the asset's useful life
Donated right of use – major improvements and alterations	The lesser of the period for which UNHCR expects to use the asset and the asset's useful life
Motor vehicle equipment – heavy	10
Motor vehicle equipment – light	5
Equipment, including generators, telecommunications, security and safety, storage and office furniture and fittings	5
Computers and workshop equipment	3

41. Assets that are subject to depreciation or amortization are reviewed annually for evidence of impairment to ensure that the carrying amount is still considered to be recoverable.

Intangible assets

42. Intangible assets are considered non-cash-generating assets as they are not held to generate a commercial return and are stated at historical cost less accumulated amortization and any impairment losses. For donated intangible assets, the fair value as of the date of acquisition is used as a proxy for cost. Capitalized intangible assets under development are recorded at cost where such cost can be reliably measured. Any remaining research and development costs are immaterial.

43. Intangible assets are capitalized if their original acquisition cost is equal to or greater than the threshold of $30,000. As stated in the present note, the accounting policy for the capitalization of intangible assets was changed in 2018: internally developed software, including any reliably measurable internal staff costs incurred in development, is capitalized above a total cost threshold of $250,000. The previous threshold was $150,000. However, the threshold increase has not required any restatement of balances, as no existing assets are affected by the change.

44. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for the intangible asset classes are as follows:

Class	*Estimated useful life (in years)*
Software acquired externally	3 years
Software developed internally	5 years
Licences and rights, copyrights, intellectual property and other intangible assets	Shorter of the licence or rights period and useful life of 3 years

Liabilities

Financial liabilities

45. Financial liabilities include accounts payable and accruals, employee benefits liabilities, provisions and other financial liabilities.

Accounts payable and accruals

46. Accounts payable are financial liabilities in respect of either goods or services that have been acquired and received by UNHCR and for which the invoices have been received from the suppliers, or payments due to implementing partners against agreements with those partners. They are initially recognized at fair value and, when applicable, subsequently measured at amortized cost using the effective interest method. As the accounts payable of UNHCR generally fall due within 12 months, the impact of discounting is immaterial, and nominal values are applied to initial recognition and subsequent measurement.

47. Accruals are liabilities for goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

Other liabilities

48. Other liabilities primarily include obligations for future refunds and other miscellaneous items such as unapplied cash receipts. They are designated similarly to accounts payable and accruals and are recorded at nominal value, as the impact of discounting is immaterial.

Employee benefits

49. UNHCR recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period during which employees rendered the related service;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

Short-term employee benefits

50. Short-term employee benefits in UNHCR comprise mainly salaries, wages and payroll-related allowances, employee benefits on initial assignment, education grants and other benefits such as paid annual leave. Short-term employee benefits are measured at nominal value.

Post-employment benefits

51. Post-employment benefits in UNHCR include defined benefit plans, such as the United Nations Joint Staff Pension Fund, after-service health insurance and repatriation grants.

52. The liability recognized for these benefits, other than for the Pension Fund, is the present value of the defined benefit obligations at the reporting date. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from changes in actuarial assumptions are recognized directly in equity.

United Nations Joint Staff Pension Fund

53. UNHCR is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international or intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

54. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNHCR and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNHCR in the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNHCR has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39: Employee benefits. UNHCR contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

Other long-term employee benefits

55. Other long-term employee benefits include end-of-service grants.

Provisions and contingencies

56. A provision is made when UNHCR has a present legal or constructive obligation as a result of past events and it is probable that UNHCR will be required to settle the obligation, and the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. This estimate is discounted where the effect of the time value of money is material.

57. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNHCR.

Budget comparison

58. The UNHCR budget is formulated on a modified cash basis. In the statement of financial performance (statement II), expenses are classified and listed by the nature of expenses, whereas in the statement of comparison of budget and actual amounts (statement V), expenditure is classified by operation.

59. The UNHCR budget is based on a global needs assessment and provides a comprehensive statement of resources required to address the needs of persons of concern. The High Commissioner may approve supplementary budgets under the biennial programme budget in the case of new needs that cannot be fully met from the operational reserve. These adjustments are reported to each subsequent meeting of the Standing Committee. The High Commissioner is authorized to implement the budgets to the extent that funds become available under the voluntary funds administered by the High Commissioner.

60. The statement of comparison of budget and actual amounts (statement V) shows the original budget and compares the final budget to actual amounts on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and the financial statements differ, note 7 provides the reconciliation between the actual amounts presented in statement V and the actual amounts presented in the statement of financial performance (statement II).

Segment reporting

61. In accordance with IPSAS 18: Segment reporting, the financial statements are also presented by segment. A segment is a distinguishable activity or group of activities for which financial information is reported separately for the purpose of evaluating the entity's past performance in achieving its objectives and in making decisions about the future allocation of resources.

62. UNHCR classifies all its activities into three segments: (a) programmes; (b) projects; and (c) special funds and accounts. UNHCR reports on the transactions of each segment during the year and on the balances held at the end of the year.

63. Programmes include the Global Refugee Programme (pillar 1), the Global Stateless Programme (pillar 2) and the activities funded by the United Nations Regular Budget Fund and the Junior Professional Officers Fund. The Global Refugee Programme relates to the UNHCR mandate regarding refugees and covers protection, assistance and durable solutions in countries of asylum (including all activities to facilitate the voluntary repatriation of refugees), together with capacity-building, advocacy and resource mobilization activities. The Global Stateless Programme relates to the UNHCR mandate regarding statelessness and covers all programmes addressing stateless persons, including populations with undetermined nationality. The Junior Professional Officers Fund covers activities relating to the recruitment, training and development of young professionals sponsored by various Governments.

64. Projects include the Global Reintegration Projects (pillar 3) and the Global Internally Displaced Persons Projects (pillar 4). The Global Reintegration Projects relate to an area where UNHCR has joint responsibilities with other United Nations system organizations covering longer-term activities to reintegrate returning refugees in their country of origin or to locally integrate refugees in their country of asylum. The Global Internally Displaced Persons Projects cover operations for internally displaced persons where UNHCR is operating within the inter-agency cluster approach.

65. The High Commissioner submits the financial requirements for programmes and projects under the four pillars, including the operational reserve and the new or additional mandate-related activities reserve, biennially to the Executive Committee for approval.

66. As at 31 December 2018, the special funds and accounts comprised the Working Capital and Guarantee Fund, the Staff Benefits Fund and the Medical Insurance Plan.

New accounting standards

67. IPSAS 39: Employee benefits, was issued in 2016 and replaced IPSAS 25: Employee benefits, with an effective date of 1 January 2018. As UNHCR did not apply the corridor method under IPSAS 25 and does not currently hold legally segregated and protected plan assets, IPSAS 39 has not had an impact on the financial statements.

68. IPSAS 40: Public sector combinations, was issued in 2017 with an effective date of 1 January 2019 and is not expected to be applicable to UNHCR in the foreseeable future.

69. IPSAS 41: Financial instruments, was issued in 2018 with an effective date of 1 January 2022 and its impact on the financial statements of UNHCR upon adoption is currently being assessed.

Note 3
Assets and liabilities

3.1 Cash and cash equivalents and investments

Table 3.1.1
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Cash and cash equivalents		
Headquarters	55 559	61 809
Field offices	159 496	113 826
Short-term deposits	750 000	770 000
Total cash and cash equivalents	**965 055**	**945 635**

70. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in short-term deposit accounts are available at short notice.

71. Table 3.1.2 shows the purposes for which cash and cash equivalents were held.

Table 3.1.2
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Operational	852 697	831 518
Working Capital and Guarantee Fund	98 352	99 171
Junior Professional Officers Fund	14 006	14 946
Total cash and cash equivalents	**965 055**	**945 635**

72. Table 3.1.3 shows short-term investments held by source of funding.

Table 3.1.3
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Staff Benefits Fund	199 124	130 432
Medical Insurance Plan	41 760	37 049
Operational	9 116	2 519
Short-term investments	**250 000**	**170 000**

73. Investments pertain to the Staff Benefits Fund, the Medical Insurance Plan and a temporary surplus of cash holdings in operational activities that are not required for immediate use. The investments are placed in money markets with maturities ranging between 3 and 12 months.

3.2 Contributions receivable

74. The following tables summarize the composition of contributions receivable by donor type (table 3.2.1) and year due (table 3.2.2).

Table 3.2.1
(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Current contributions receivable		
Governments	744 652	728 235
United Nations system organizations and funds	31 190	20 319
Other intergovernmental organizations	394 439	222 626
Private donors	64 974	84 656
Current contributions receivable before allowance	**1 235 255**	**1 055 836**
Allowance for doubtful accounts	(8 674)	(6 149)
Total current contributions receivable	**1 226 581**	**1 049 686**
Non-current contributions receivable		
Governments	117 984	186 622
United Nations system organizations and funds	1 885	3 123
Other intergovernmental organizations	109 031	52 770
Private donors	1 843	13 479
Total non-current contributions receivable	**230 742**	**255 994**
Net contributions receivable	**1 457 323**	**1 305 680**

Table 3.2.2
(Thousands of United States dollars)

Year due	*31 December 2018*	*Percentage*	*Year due*	*31 December 2017*	*Percentage*
2017 and before	39 226	2.7	2016 and before	10 371	0.8
2018	145 377	10.0	2017	171 405	13.1
2019	1 041 977	71.5	2018	867 910	66.5
Total current contributions receivable	**1 226 581**	**84.2**		**1 049 686**	**80.4**
2020	220 721	15.1	2019	165 633	12.7
2021	5 990	0.4	2020	87 303	6.7
2022	4 031	0.3	2021	3 058	0.2
Total non-current contributions receivable	**230 742**	**15.8**		**255 994**	**19.6**
Total contributions receivable	**1 457 323**	**100**		**1 305 680**	**100**

75. The movement of the allowance for doubtful accounts during 2018 was as follows:

Table 3.2.3

(Thousands of United States dollars)

	31 December 2017	*Write-offs*	*Increase*	*(Decrease)*	*31 December 2018*
Allowance for doubtful accounts	6 149	(3 048)	5 673	(99)	8 674

76. Contributions receivable are shown net of allowances for doubtful accounts. Allowances for doubtful accounts are recognized when there is objective evidence that a receivable is impaired. Allowances are recognized on the basis of historical collection experience and/or evidence indicating that the collection of a particular receivable is in doubt.

Table 3.2.4

(Thousands of United States dollars)

Contributions receivable	*Gross nominal amount*	*Allowances (impairment)*	*Net nominal amount*
Not overdue as at 31 December 2018	1 263 148	(89)	1 263 059
Overdue as at 31 December 2018 but not impaired	187 979	–	187 979
Less than 12 months overdue	6 570	(1 087)	5 483
More than 12 months overdue	8 299	(7 498)	802
Total	**1 465 997**	**(8 674)**	**1 457 323**

3.3 Inventories

77. UNHCR holds inventory items to be distributed to its beneficiaries in 159 warehouses (153 warehouses in 2017) worldwide and 7 global central warehouses. These are located in Accra, Amman, Copenhagen, Douala (Cameroon), Dubai (United Arab Emirates), Kampala and Nairobi. During 2018, the value of inventory items distributed totalled $257.5 million ($324.2 million in 2017) and is recorded as an expense in the statement of financial performance (see note 6.5).

78. The following tables show the composition of the inventory balance at year-end (table 3.3.1) and the reconciliation of inventory changes during the year (table 3.3.2).

Table 3.3.1

(Thousands of United States dollars)

Inventory type	*31 December 2018*	*31 December 2017*
Bedding materials	63 568	68 996
Tents	61 581	61 188
Household items	55 077	58 284
Construction materials and related equipment	27 980	15 431
Medical hygienic supplies and apparel	19 024	22 983
Food and other supplies	2 360	3 681
Material consumables	1 044	566
Subtotal	**230 634**	**231 129**
Less: inventory valuation allowance	(5 133)	(5 120)
Total inventory	**225 501**	**226 009**

Table 3.3.2

(Thousands of United States dollars)

Inventory reconciliation	*2018*	*2017*
Opening inventory as at 1 January	226 009	203 820
Cost of goods acquired[a]	245 097	338 143
Cost of goods distributed and sold	(257 535)	(324 307)
Other adjustments	11 943	(1 481)
Change in inventory valuation allowance	(13)	9 834
Closing inventory as at 31 December	**225 501**	**226 009**

[a] Including in-kind contributions.

79. The cost of goods distributed and sold in 2017 includes $0.1 million related to the sale of inventory items.

80. Inventory quantities derived from the UNHCR inventory tracking system are validated by physical stock counts and adjusted as necessary.

81. The movement of the inventory valuation allowance is as follows:

Table 3.3.3

(Thousands of United States dollars)

	31 December 2017	*Increase/(decrease)*	*31 December 2018*
Inventory valuation allowance	5 120	13	5 133

82. The inventory valuation allowance at 31 December 2018 reflects value adjustments for inventories beyond their shelf lives ($3.8 million) and inventory items overdue from suppliers ($1.4 million).

83. At year-end, UNHCR held inventory items with a total value of $225.5 million net of valuation allowances. This is equivalent to approximately 10 months' distribution made in 2018 (approximately 8 months in 2017).

3.4 Other current assets

Table 3.4.1

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (reclassified)*
Prepayments	128 519	77 786
Implementing partner receivables and advances	53 847	52 211
Value added tax receivables	26 513	23 576
Deposits with suppliers	3 286	3 802
Staff advances	3 063	3 889
Other assets	8 170	8 769
Subtotal	**223 397**	**170 032**
Less: allowance for other current assets	(18 952)	(16 456)
Total other current assets	**204 445**	**153 577**

84. Prepayments are payments made in advance of the period to which the expense relates and include implementing partnership agreements, rent, education grants and travel advances. Prepayments for implementing partnership agreements of $47.8 million (2017: $48.8 million) include: (a) $15.9 million for 45 projects where the delivery of services was extended into 2019 (2017: $24.3 million against 45 extended projects); and (b) $31.9 million in first instalments for 89 projects due for implementation in 2019 (2017: $24.5 million against 66 new projects).

85. Advances of cash assistance to financial service providers are initially recorded as prepayments and expensed upon delivery to final beneficiaries. In 2017 those deliveries identified by year-end, but not yet reported by financial service providers, were accounted for as a separate accrual pending final reporting. In 2018, an offset against prepayments was recorded and cash assistance prepayments amounted to $43.6 million after offsetting. As a result of this new accounting procedure, an amount of $2.6 million was reclassified from accruals to prepayments in 2017.

86. In previous periods, significant transactions with United Nations Volunteers and UNOPS were accounted for as transactions with implementing partners, but in 2018 those transactions were recategorized as contractual services. The amounts reported as prepayments and other assets for 2017 have been reclassified accordingly. UNOPS advances ($1.6 million) in 2017 have also been reclassified within other current assets from the other assets subcategory to prepayments.

87. Implementing partner receivables and advances includes $27.3 million (2017: $27.3 million) of refunds receivable for ineligible and underspent funding.

88. Reporting to UNHCR on advances to implementing partners in the amount of $149.7 million (2017: $112.2 million (reclassified)) is still pending (see note 6.1). Based on past experience, the pending reports are expected to confirm implementing partner expenses of approximately $133.0 million. The estimated refunds due to ineligibility and underspending of $16.7 million (2017: $16.7 million) are recorded under implementing partner receivables and advances.

89. Staff advances consist primarily of advances towards rental subsidies, travel, medical expenses, salary and other staff entitlements.

90. The allowance for other current assets primarily covers valid value added tax receivables from a limited number of host countries where recovery is being actively pursued but has not been forthcoming.

3.5 Property, plant and equipment

91. The main asset classes for property, plant and equipment comprise land and buildings, major alterations and improvements to properties, motor vehicles, generators, and computer and telecommunications equipment.

92. The 2017 prior-year comparative numbers have been restated to reflect the changes in accounting for property, plant and equipment as described in paragraph 39 above. The impact of the accounting change was to reduce the opening and closing net book value of 2017 by $13.8 million and $11.8 million, respectively, and to decrease the depreciation charge and additions for 2017 by $5.3 million and $3.9 million, respectively, compared with the previously disclosed amounts. The changes in reported assets were reflected in the asset classes of other equipment, land and buildings and major alterations and improvements.

Table 3.5.1
Property, plant and equipment, 2018
(Thousands of United States dollars)

	Land and buildings	*Major alterations and improvements*	*Motor vehicles*	*Generators*	*Computer and telecommunications equipment*	*Other equipment*	*Total*
Cost/valuation							
Opening balance at 1 January 2018 (restated)	9 900	5 670	267 017	32 151	19 034	14 464	348 237
Additions – purchased	(701)	701	64 050	6 605	1 710	2 162	74 527
Additions – contributions in kind	–	–	44	63	81	–	189
Disposals	(552)	(421)	(31 783)	(1 477)	(746)	(2 428)	(37 407)
Closing balance at 31 December 2018	**8 647**	**5 951**	**299 328**	**37 343**	**20 078**	**14 199**	**385 546**
Accumulated depreciation							
Opening balance at 1 January 2018 (restated)	(4 061)	(4 638)	(149 383)	(21 408)	(14 903)	(8 415)	(202 808)
Disposals	552	84	26 886	1 336	720	1 041	30 618
Depreciation charge for the year	5	(612)	(32 635)	(4 393)	(2 090)	(2 003)	(41 728)
Impairment	–	–	–	–	–	–	–
Closing balance at 31 December 2018	**(3 504)**	**(5 165)**	**(155 132)**	**(24 466)**	**(16 273)**	**(9 377)**	**(213 918)**
Net book value							
Opening balance at 1 January 2018 (restated)	5 839	1 033	117 634	10 743	4 131	6 049	145 429
Closing balance at 31 December 2018	**5 143**	**785**	**144 196**	**12 878**	**3 805**	**4 821**	**171 628**

Table 3.5.2

Property, plant and equipment, 2017

(Thousands of United States dollars)

	Land and buildings	*Major alterations and improvements*	*Motor vehicles*	*Generators*	*Computer and telecommunications equipment*	*Other equipment*	*Total*
Cost/valuation							
Opening balance at 1 January 2017 (restated)	8 621	5 698	253 015	29 589	21 567	13 852	332 342
Additions – purchased	1 279	(27)	41 510	4 625	679	2 065	50 130
Additions – contributions in kind	–	–	–	–	65	–	65
Disposals	–	–	(27 508)	(2 062)	(3 277)	(1 452)	(34 300)
Closing balance at 31 December 2017	**9 900**	**5 670**	**267 017**	**32 151**	**19 034**	**14 464**	**348 237**
Accumulated depreciation							
Opening balance at 1 January 2017 (restated)	(3 525)	(3 355)	(141 797)	(19 606)	(14 585)	(7 042)	(189 911)
Disposals	(2)	–	24 172	2 008	2 260	524	28 963
Depreciation charge for the year	(543)	(1 283)	(31 834)	(3 814)	(2 595)	(1 929)	(41 998)
Impairment	8	–	76	4	18	32	138
Closing balance at 31 December 2017	**(4 061)**	**(4 638)**	**(149 383)**	**(21 408)**	**(14 903)**	**(8 415)**	**(202 808)**
Net book value							
Opening balance at 1 January 2017 (restated)	5 096	2 343	111 214	9 984	6 983	6 809	142 431
Closing balance at 31 December 2017	**5 839**	**1 033**	**117 634**	**10 743**	**4 131**	**6 049**	**145 429**

3.6 Intangible assets

The movements in intangible assets during the year are as follows:

Table 3.6.1
(Thousands of United States dollars)

	Intangible assets under development	*Licences, software and other*	*Total 2018*
Cost			
Opening balance 1 January 2018	16 278	15 664	31 942
Additions	7 784	–	7 784
Transfers into service	(18 917)	18 917	–
Disposals	–	–	–
Closing balance 31 December 2018	**5 145**	**34 581**	**39 725**
Accumulated amortization			
Opening balance 1 January 2018	–	(5 706)	(5 706)
Amortization charge for the year	–	(3 302)	(3 302)
Disposals	–	–	–
Closing balance 31 December 2018	**–**	**(9 008)**	**(9 008)**
Net book value			
Opening balance 1 January 2017	16 278	9 958	26 235
Closing balance 31 December 2018	**5 145**	**25 572**	**30 717**

Table 3.6.2
(Thousands of United States dollars)

	Intangible assets under development	*Licences, software and other*	*Total 2017*
Cost			
Opening balance 1 January 2017	15 455	6 222	21 677
Additions	10 341	15	10 356
Transfers into service	(9 518)	9 518	–
Disposals	–	(92)	(92)
Closing balance 31 December 2017	**16 278**	**15 664**	**31 942**
Accumulated amortization			
Opening balance 1 January 2017	–	(3 002)	(3 002)
Amortization charge for the year	–	(2 732)	(2 732)
Disposals	–	28	28
Closing balance 31 December 2017	**–**	**(5 706)**	**(5 706)**
Net book value			
Opening balance 1 January 2017	15 455	3 220	18 675
Closing balance 31 December 2017	**16 278**	**9 958**	**26 235**

93. The capitalized value of internally developed software excludes those costs related to research and maintenance.

94. Intangible assets under development as at 31 December 2018 represents ongoing software development projects for which the total costs of development are each expected to exceed the capitalization threshold of $0.25 million. The largest relates to the upgrade (phase 2) of the finance and supply chain management modules of the enterprise resource planning system (Managing Systems, Resources and People (MSRP)). The other ongoing development projects concern an upgrade (phase 2) of the human resources and payroll modules of MSRP, and the "CashAssist" project.

95. Licences, software and other primarily represents rights acquired and development costs incurred for the use of software. The cost of acquired licences and software is amortized over the licence or rights period or three years, whichever is shorter. The cost of internally developed software is amortized over five years from the date of deployment. During 2018, a total of $18.9 million was capitalized for internally developed software projects completed during the year. These are: the Profile Global Registration System (ProGres); the upgrade of the UNHCR health information system (Twine); robotic process automation; and the intranet enhancement project (phase 2).

3.7 Accounts payable and accruals

(Thousands of United States dollars)

	31 December 2018	*31 December 2017 (reclassified)*
Accounts payable		
Commercial and other suppliers	78 622	74 624
Implementing partners	33 151	24 281
Total accounts payable	**111 773**	**98 905**
Accruals		
Commercial and other suppliers	88 573	58 316
Implementing partners	57	4 055
Total accruals	**88 630**	**62 371**
Total accounts payable and accruals	**200 403**	**161 276**

96. Accounts payable to commercial and other suppliers relate primarily to amounts due for goods and services for which invoices have been received.

97. Accounts payable to implementing partners represent payments due against agreements with those partners for delivered services.

98. Accruals are liabilities for the cost of goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

99. Advances of cash assistance to financial service providers are initially recorded as prepayments and expensed upon delivery to final beneficiaries. In 2017 those deliveries identified by year-end, but not yet reported by financial service providers, were accounted for as a separate accrual pending final reporting. In 2018, an offset against prepayments (see note 3.4) was recorded and net cash assistance prepayments amounted to $43.6 million. For comparison purposes, $2.6 million was reclassified from accruals to prepayments in 2017.

3.8 Employee benefits liabilities

Table 3.8.1

(Thousands of United States dollars)

	2018	*2017*
Employee benefits liabilities		
After-service health insurance	588 581	633 273
Repatriation benefits	103 311	103 110
Annual leave	72 773	69 963
Salaries and other staff benefits	10 552	10 923
Other separation benefits	1 458	1 095
Total employee benefits liabilities	**776 675**	**818 364**
Composition		
Current	92 570	92 714
Non-current	684 105	725 650
Total employee benefits liabilities	**776 675**	**818 364**

100. After-service health insurance is available in the form of continued membership in the United Nations Staff Mutual Insurance Society, an insurance scheme managed by the United Nations Office at Geneva, or through the Medical Insurance Plan for locally recruited staff members and retirees who served at designated duty stations away from headquarters, and their eligible dependants.

101. Annual leave liabilities are calculated for the unused annual leave balance. Separating staff are entitled to be paid for unused annual leave they may have accrued, up to a maximum of 60 days.

102. Salaries and other staff benefits include short-term employee benefits such as salary and wage increments arising from the revision of salary scales, home leave, education grants and other benefits.

Actuarial valuation of post-employment liabilities

103. Liabilities related to after-service health insurance and repatriation benefits are calculated by an independent actuary. Actuarial assumptions are summarized as follows:

	Assumptions used in valuation of after-service health insurance obligations
Discount rate	2.81% (2017: 2.35%) – Each year's projected after-service health insurance cash flow is discounted at a spot rate for high-quality corporate bonds payable in each major currency appropriate for that maturity to arrive at a single weighted average of discount rates of three major currencies representing after-service health insurance liabilities, namely, the United States dollar, the euro and the Swiss franc.
Expected rate of medical cost increase	1.80% (2017: 1.80%) – Weighted average of health-care cost trend rates estimated for United States dollar, euro and Swiss franc claims reimbursement.

	Assumptions used in valuation of repatriation benefit obligations
Discount rate	4.05% (2017: 3.40%) – The entitlements to repatriation benefits are determined in United States dollars. Each year's projected cash flow is discounted at a spot rate for high-quality corporate bonds payable in United States dollars appropriate for that maturity. The discount rate is the single equivalent rate that produces the same discounted present value.
Expected rate of salary increase	2.20% (2017: 2.20%)

After-service health insurance liability

Table 3.8.2

(Thousands of United States dollars)

	2018		*2017*	
	Present value of future benefits	*Accrued liability*	*Present value of future benefits*	*Accrued liability*
Gross liability	1 206 768	858 739	1 309 472	923 059
Offset from retiree contributions	(376 288)	(270 158)	(406 762)	(289 786)
Net liability as at 31 December	**830 480**	**588 581**	**902 710**	**633 273**

104. The present value of future benefits is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and to active staff from the date of expected retirement. The accrued liability represents the already earned portion of the present value of benefits that has accrued from the staff member's date of entry on duty until the valuation date. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Thus, for retirees and active staff members who are eligible to retire with benefits, the present value of future benefits and the accrued liability are equal. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula.

105. The following table presents a reconciliation of opening and closing balances of the after-service health insurance liability:

Table 3.8.3

(Thousands of United States dollars)

After-service health insurance	*2018*	*2017*
Defined benefit obligation at 1 January	633 273	581 605
Service cost for year	30 298	26 852
Interest cost for year	14 810	15 045
Benefits paid (net of participant contributions)	(5 577)	(5 604)
Actuarial (gain)/loss	(84 223)	15 375
Defined benefit obligation at 31 December	**588 581**	**633 273**

106. Actuarial gains and losses are recognized as a direct charge or credit to reserves, while service and interest costs are recognized as an expense. The expense recognized in the statement of financial performance (statement II) in 2018 is $45.1 million ($41.9 million in 2017), as detailed in note 6.2. The actuarial gain of $84.2 million in 2018 is attributable primarily to the combined effect of the higher discount rate ($71.4 million) and a reduction in average per capita claims experience ($14.1 million) since 2017, as detailed in paragraph 103 above.

107. The after-service health insurance liability for active and retired staff and their dependants who are or were funded by the United Nations regular budget is not included in these financial statements as it constitutes a liability of the United Nations. The after-service health insurance expense for this group of staff is paid directly by the United Nations.

108. Since 1 January 2012, UNHCR has funded after-service health insurance liabilities for past service by charging 3 per cent of the net base salary of all Professional and General Service staff under the United Nations Staff Mutual Insurance Society health-care plan. From April 2017, the 3 per cent charge also includes General Service staff covered by the Medical Insurance Plan. From 1 January 2017, the funding level was increased to also cover the current-year costs (service and interest). The amount funded as at 31 December 2018 is $182.6 million ($117.4 million in 2017). The amounts funded are not held by a trust that is legally separate from UNHCR and are thus not considered to be plan assets for the purpose of IPSAS 39.

Table 3.8.4

(Thousands of United States dollars)

After-service health insurance	*31 December 2018*	*31 December 2017*
Defined benefit obligations	588 581	633 273
Funded	(182 639)	(117 356)
Unfunded defined benefit obligations	**405 942**	**515 917**

109. The contribution of UNHCR in 2019 for after-service health insurance is estimated at $81.0 million.

Sensitivity analysis

110. On the basis of the actuarial assumptions used, the effect of an increase or decrease of one percentage point in the assumed medical cost trend rate on (a) the aggregate of the current service cost and interest cost component of net periodic post-employment medical cost and (b) the accumulated post-employment benefit obligation is shown in table 3.8.5.

Table 3.8.5

(Thousands of United States dollars)

	2018	*2017*
Effect on the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs		
One percentage point increase	16 697	17 407
One percentage point decrease	(11 356)	(11 996)
Effect on year-end accumulated post-employment benefit obligation		
One percentage point increase	242 597	186 566
One percentage point decrease	(178 607)	(136 320)

Repatriation benefits

111. In line with the Staff Regulations and Rules of the United Nations, staff members in the Professional category and other relevant staff members are entitled to repatriation grants and related relocation costs upon their separation from the organization, based on the number of years of service. The organization's actuarially determined accrued liability for repatriation grant and travel as at 31 December 2018 was $103.3 million ($103.1 million in 2017), as shown in table 3.8.6.

Table 3.8.6
(Thousands of United States dollars)

	31 December 2018		*31 December 2017*	
	Present value of future benefits	*Accrued liability*	*Present value of future benefits*	*Accrued liability*
Repatriation grant	83 211	56 647	83 839	57 306
Travel and shipment	46 664	46 664	45 804	45 804
Net liability	**129 875**	**103 311**	**129 643**	**103 110**

112. The accrued liability represents the already earned portion of the present value of repatriation benefits. The present value of future benefits is the discounted value of all expected benefits to be paid in the future, including the portion expected to be earned until the maximum entitlement is vested.

113. The following table presents a reconciliation of opening and closing balances of the repatriation liability:

Table 3.8.7
(Thousands of United States dollars)

Repatriation grant and travel	*2018*	*2017*
Net obligation at 1 January	103 110	86 152
Service cost for the year	5 126	4 076
Interest cost for the year	3 374	3 108
Past service cost	–	8 460
Benefits paid	(4 206)	(4 013)
Actuarial (gain)/loss	(4 093)	5 327
Total obligation at 31 December	**103 311**	**103 110**

114. The repatriation liability for staff whose salaries are funded by the United Nations regular budget is included in these financial statements, as the settlement of this liability will be discharged by UNHCR.

115. The aggregate of the current-year service and interest costs, and past service costs, are recognized as expenses in the statement of financial performance (statement II). For 2018, the total expense recognized was $8.5 million ($15.6 million in 2017), as detailed in note 6.2.

Table 3.8.8

(Thousands of United States dollars)

Repatriation grant and travel	*31 December 2018*	*31 December 2017*
Total obligations	**103 311**	**103 110**
Funded	(16 486)	(13 216)
Unfunded obligations	**86 825**	**89 894**

116. The contribution by UNHCR in 2019 for repatriation benefits is estimated at $3.4 million.

United Nations Joint Staff Pension Fund

117. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

118. The financial obligation of UNHCR to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

119. During 2017, the Pension Fund identified anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements.

120. The actuarial valuation as at 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 per cent (150.1 per cent in the 2016 valuation). The funded ratio was 102.7 per cent (101.4 per cent in the 2016 valuation) when the current system of pension adjustments was taken into account.

121. After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2017, for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

122. During 2018, the contributions paid by UNHCR to the Pension Fund amounted to $122.7 million ($112.4 million (reclassified) in 2017). Expected contributions due in 2019 are approximately $141.1 million.

123. Membership in the Pension Fund may be terminated by a decision of the General Assembly upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination are to be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

124. The Board of Auditors carries out an annual audit of the Pension Fund and reports on the audit to the Pension Board of the Fund and the General Assembly every year. The Fund publishes quarterly reports on its investments, which can be viewed on its website at www.unjspf.org.

3.9 Other current liabilities

125. Other current liabilities include various payroll withholdings for third parties and contributions received by UNHCR before the agreements with donors were finalized. Upon finalization of the agreements, the amounts involved are recognized as revenue.

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Other payables	2 759	3 878
Contributions pending agreement	1 065	303
Total other current liabilities	**3 824**	**4 182**

3.10 Provisions

(Thousands of United States dollars)

	31 December 2018	*31 December 2017*
Type of provision		
Provisions for refunds of contributions	64	996
Legal claims	4 578	12 712
Total provisions	**4 642**	**13 708**
Composition of provision		
Current	4 578	–
Non-current	64	13 708
Total provisions	**4 642**	**13 708**

126. Provisions for legal claims represent cases where payment is probable and the amount of the settlement claim can be reliably estimated. UNHCR is in ongoing commercial disputes with a small number of suppliers regarding the quantities delivered and the prices charged. These disputes are subject to negotiation and may ultimately be settled through arbitration, with uncertain outcome. The estimated additional cost to settle the agreements in arbitration is included as a legal provision. During 2018, most of the legal claims reported in 2017 were settled and related amounts were either transferred to accounts payable and accruals prior to payment

($6.6 million) or were reversed and reduced miscellaneous expenses by $1.5 million (see note 6.9).

3.11 Accumulated fund balances and reserves

(Thousands of United States dollars)

	Closing balance 31 December 2017 (restated)	*Surplus/ (deficit)*	*Funding of long-term employee liabilities*	*Transfer in*	*Transfer out*	*Closing balance 31 December 2018*
Annual Programme Fund						
Annual Programme Fund net of reserves	2 274 807	283 398	(65 966)	467 332	(468 637)	2 490 935
Operational reserve	10 000	–	–	–	–	10 000
New or additional activities – mandate-related reserve	20 000	–	–	–	–	20 000
Total Annual Programme Fund	**2 304 807**	**283 398**	**(65 966)**	**467 332**	**(468 637)**	**2 520 935**
United Nations Regular Budget Fund	4 010	(4 316)	–	–	–	(305)
Junior Professional Officers Fund	14 877	(786)	–	–	(5)	14 086
Project Funds	191 806	27 200	–	16 297	(25 653)	209 650
Total accumulated fund balances and reserves	**2 515 500**	**305 496**	**(65 966)**	**483 630**	**(494 295)**	**2 744 365**

127. Fund balances represent the unexpended portion of contributions recorded as revenue that are intended to be utilized in future operational requirements of the organization.

128. Transactions for pillar 1: Global Refugee Programme, and pillar 2: Global Stateless Programme, are recorded in:

(a) The Annual Programme Fund;

(b) The Regular Budget Fund;

(c) The Junior Professional Officers Fund.

Transactions for pillar 3: Global Reintegration Projects, and pillar 4: Global Internally Displaced Persons Projects, previously allocated and reported as separate elements of accumulated fund balances, are consolidated into the Project Funds.

129. The operational reserve is utilized to provide assistance to refugees, returnees and displaced persons for which there is no provision in the programmes and projects approved by the Executive Committee. The reserve is maintained at not less than $10 million by replenishments from the Working Capital and Guarantee Fund.

130. The new or additional activities – mandate-related reserve is utilized to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities that are consistent with the activities and strategies in the approved annual programme budget and the mandate of the Office. This reserve is constituted at $50.0 million for each financial period of the biennial programme budget, or at a different level if so decided by the Executive Committee. For the financial period 2018, within the approval of the total 2018 revised budget, the Executive Committee approved $20.0 million as the new or additional activities – mandate-related reserve.

3.12 Working Capital and Guarantee Fund

131. The Working Capital and Guarantee Fund is maintained by revenue from interest on invested funds, savings from prior-year programmes, voluntary contributions and other miscellaneous revenue. It is utilized to replenish the operational reserve and to meet essential payments and guarantee obligations pending receipt of pledged contributions. An increase in the ceiling of the Fund from $50.0 million to $100.0 million was approved by the Executive Committee in October 2016. The funded portion within the ceiling increased from $50 million to $75 million effective 1 January 2017. A further increase of the funded amount to $100 million was approved by the High Commissioner and became effective on 9 March 2017.

(Thousands of United States dollars)

	31 December 2017	*Surplus/ (deficit)*	*Transfer in*	*Transfer out*	*31 December 2018*
Working Capital and Guarantee Fund	100 000	(10 665)	190 429	(179 764)	100 000

3.13 Medical Insurance Plan

(Thousands of United States dollars)

	31 December 2017	*Surplus/ (deficit)*	*Transfer in*	*Transfer out*	*31 December 2018*
Medical Insurance Plan	37 041	4 718	–	–	41 759

132. The Medical Insurance Plan was established by the General Assembly at its forty-first session in accordance with United Nations staff regulation 6.2. The Plan is maintained by premiums from field staff and proportional contributions from UNHCR, as well as by interest revenue. Expenses include claims processed during the year and associated administrative expenses. Coverage under the Plan is limited to locally recruited General Service staff members and National Professional Officers in the field.

3.14 Staff Benefits Fund

(Thousands of United States dollars)

	31 December 2018			*31 December 2017*		
	Liabilities	*Funding*	*Net fund balance*	*Liabilities*	*Funding*	*Net fund balance*
After-service health insurance	(588 581)	182 639	(405 942)	(633 273)	117 356	(515 917)
Repatriation	(103 311)	16 486	(86 825)	(103 110)	13 216	(89 894)
Annual leave	(72 773)	–	(72 773)	(69 963)	–	(69 963)
Other separation benefits	(1 458)	–	(1 458)	(1 593)	(141)	(1 734)
Total	**(766 124)**	**199 124**	**(566 999)**	**(807 939)**	**130 432**	**(677 507)**

133. The Staff Benefits Fund was established to record transactions relating to end-of-service and post-retirement benefits.

134. In accordance with the decision of the Standing Committee in June 2011, UNHCR started funding after-service health insurance liabilities for past service by charging 3 per cent of the net base salary of all Professional and relevant General Service staff under the United Nations Staff Mutual Insurance Society plan, with

effect from 1 January 2012. From April 2017, following a decision of the Standing Committee in March 2017, the 3 per cent charge also includes General Service staff covered by the Medical Insurance Plan. UNHCR charges the current-year cost of after-service health insurance (service and interest) to the annual budget for staff costs. The amount funded as at 31 December 2018 is $182.6 million ($117.4 million in 2017).

135. In addition, in accordance with the decision of the Standing Committee, a total of $16.5 million has been reserved for funding repatriation benefits since 2012.

136. All of the funds and reserves referred to above were established by the Executive Committee or by the High Commissioner with the concurrence of the Executive Committee.

Note 4
Risk analysis

Credit risk

137. Credit risk is the risk of financial loss resulting from a counterparty to a financial instrument failing to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and credit exposure to outstanding receivables. The carrying value of financial assets is the maximum exposure to credit risk.

Cash and investments

138. UNHCR risk management policies limit the amount of cash and investment holdings with any bank. In the identification and maintenance of the list of approved custodians, the risks of loss of principal in the event of counterparty default are mitigated through the application of risk management evaluations and bank risk rating grades. Surplus funds are placed with financial institutions worldwide with the greatest financial strength as measured by adequacy of capital and reserves. Geographical distribution and specific threshold limits by counterparty are practiced. All surplus funds placements are made with financial institutions that are accorded the strongest credit ratings by the primary rating agencies.

Receivables

139. Contributions receivable are composed primarily of voluntary contributions due from Member States. Historically, no material amounts have remained uncollected. The risk has been assessed at $8.7 million and has been provided for, as indicated in table 3.2.3 on the contributions receivable.

Liquidity risk

140. UNHCR total cash and cash equivalent holdings amounted to $965.1 million as at 31 December 2018, compared with $945.6 million as at 31 December 2017.

141. UNHCR total cash and cash equivalents are composed of unencumbered operational cash holdings amounting to the equivalent of $866.7 million and encumbered non-operational cash holdings amounting to $98.4 million (see note 3.1).

142. The average balance of unencumbered operational cash holdings during 2018 represents a coverage of 2.6 months of expenses (2017: 2.6 months).

143. The implementation of UNHCR programme and emergency activities is planned using cash flow forecasting for actual and estimated pledged contributions and special appeals. Liquidity management procedures and monitoring are in place to ensure that sufficient liquid cash holdings are available to meet contractual liabilities as and when due. However, UNHCR is heavily dependent upon cash flows from a small number

of major donors. Due to donor restrictions (“earmarking”), not all liquid assets are available to fund general operations in the event of delays in the receipt of funds pledged, declining contributions or other unanticipated events that negatively impact liquidity. At 31 December 2018, the cash balance included $195.1 million and accounts receivable included an additional $802.4 million in respect of contributions that are earmarked for specific purposes in 2019 and beyond. Similarly, short-term future charges on net assets also include the obligation to liquidate commitments for the acquisition of goods and services, as well as capital commitments contracted but not delivered by 31 December (see note 9.2). Typically, approximately 60 per cent of the total of such commitments at year-end are liquidated within the first three months of the subsequent period.

Interest rate risk

144. The organization earns interest revenue derived from surplus balances that it maintains in operational and non-operational cash holdings throughout the year. The implementation of the Office’s programme and budget is not directly dependent on interest earnings.

Foreign exchange risk

145. The organization is impacted by the foreign exchange risk derived from direct cash flows throughout the year of contributions that are received primarily in 11 major currencies and payments that are made in 95 currencies worldwide. UNHCR manages currency risk at the multi-currency portfolio level by establishing actual and forecasted net cash flow positions by currency pairs that are highly correlated between receiving and paying currencies. Therefore, short-term hedging interventions are limited. There are no open contracts at year-end.

146. There is significant foreign exchange risk derived from pledges of voluntary contributions, specifically in the timing of the receipt of a pledge. UNHCR addresses the underlying uncertainty by using an established risk methodology to substantiate and validate the benefit of a high degree of diversification in its currency portfolio.

147. UNHCR mitigates foreign exchange impacts for each currency flow by matching cross-correlated currencies at the portfolio level. The automated cash flow forecasting tool embedded in UNHCR enterprise resource planning systems is a key component for tracking and optimizing forthcoming cash flows worldwide in underlying transactional modules.

148. UNHCR procures all major convertible currencies centrally at headquarters through standardized electronic trading platforms managing worldwide operational needs in approximately 130 countries.

Sensitivity analysis

149. The effect of a strengthening or weakening of the United States dollar against all other relevant currencies by one percentage point between 31 December 2018 and the date of settlement of monetary assets and liabilities is to increase or decrease net assets by approximately $12.6 million.

Note 5
Revenue

5.1 Voluntary contributions

Table 5.1.1
(Thousands of United States dollars)

	2018	*2017 (restated)*
Monetary contributions		
Government	3 045 506	3 230 981
Other intergovernmental organizations	706 206	456 388
Private donors	371 839	354 042
United Nations system organizations and funds	106 830	83 694
Total monetary contributions (before adjustments)	**4 230 382**	**4 125 105**
Refunds to donors and other reductions in prior-year revenue	(5 810)	(11 431)
Reversal of discounting	–	1 508
Total monetary contributions	**4 224 571**	**4 115 182**
In-kind contributions		
Government	19 930	18 754
Private donors	15 971	17 045
United Nations system organizations and funds	284	1 015
Total in-kind contributions	**36 184**	**36 814**
Total voluntary contributions	**4 260 756**	**4 151 995**

150. Monetary contributions revenue is adjusted for refunds made to donors and reductions in prior-year revenue arising from underspending against earmarked funding.

151. In-kind contributions represent donations of goods and, where material, services received that directly support operations. In-kind contributions generally include inventory items to be distributed to beneficiaries and the use of premises and personnel. The amount of in-kind contributions in 2018 comprised $12.2 million for goods ($14.0 million in 2017) and $24.0 million for services ($22.8 million in 2017). In-kind contributions for 2017 have been restated and are higher by $3.9 million than the amount previously reported to fully reflect the market value of rental property provided by government donors at lower-than-market rates.

152. The total monetary contributions (before adjustments) of $4,230.4 million recorded in 2018 are further analysed below by year funded and by type of earmarking:

Table 5.1.2
Monetary contributions recognized

(Thousands of United States dollars)

By year	*2018*	*By year*	*2017*
2018	**3 099 924**	**2017**	**3 101 368**
Future years		**Future years**	
2019	1 025 367	2018	828 673
2020	94 697	2019	134 306
2021	10 331	2020	58 344
2022	63	2021	2 414
Subtotal	**1 130 458**		**1 023 737**
Total monetary contributions (before adjustments)	**4 230 382**		**4 125 105**

Table 5.1.3
Monetary contributions by type of earmarking

(Thousands of United States dollars)

	2018	*2017*
Country/sector level	2 777 285	2 491 020
Regional/subregional level	564 744	718 052
Pending earmarking	204 656	173 688
Thematic	36 749	39 008
Unrestricted	646 948	703 338
Total monetary contributions (before adjustments)	**4 230 382**	**4 125 105**

5.2 Other revenue

(Thousands of United States dollars)

	2018	*2017*
Sale of assets	9 404	9 003
Use of guest-house accommodations	4 091	4 205
Medical premiums from Medical Insurance Plan participants	3 137	2 871
Use of office space and parking	811	635
Miscellaneous revenue	3 323	4 051
Total other revenue	**20 766**	**20 766**

153. Sale of assets primarily represents the gains from the sale of vehicles.

Note 6
Expenses

6.1 Implementing partnership expense

154. The total expenses incurred by implementing partners during the financial period amounted to $1,375.1 million ($1,404.1 million (reclassified) in 2017) and is analysed by type of implementing partner and by pillar, as follows:

Table 6.1.1

(Thousands of United States dollars)

					Total expenses	
Pillar	*Government*	*International non-governmental organizations*	*Local non-governmental organizations*	*United Nations system organizations*	*2018*	*2017 (reclassified)*
Refugees	177 597	526 437	428 658	12 412	1 145 104	1 116 092
Stateless	741	3 256	5 523	513	10 033	7 297
Reintegration	4 495	16 758	15 729	74	37 056	40 916
Internally displaced persons	10 107	78 604	93 559	610	182 880	239 788
Total	**192 940**	**625 055**	**543 469**	**13 608**	**1 375 073**	**1 404 093**

155. Transactions with United Nations Volunteers and UNOPS were accounted for in previous periods as implementing partner transactions with United Nations system organizations, but most have been recategorized as contractual services in 2018. The corresponding amounts previously reported as implementing partner expenses for 2017 have been reclassified accordingly. Included under local non-governmental organizations is $54.0 million ($52.7 million in 2017) with partners for fundraising and awareness-raising.

156. The expense through partnerships includes payments of $31.6 million ($39.1 million in 2017) to international partners representing the UNHCR contribution towards projects and headquarters support costs for the monitoring, administration and oversight of projects implemented in the field. The contribution is not expected to cover the full cost of the international partners' headquarters support costs.

157. Implementing partnership expenses by rights group across pillars are shown in the table below:

Table 6.1.2

(Thousands of United States dollars)

Rights group	*Global Refugee Programme*	*Global Stateless Programme*	*Global Reintegration Projects*	*Global Internally Displaced Persons Projects*	*Total expenses 2018*	*Total expenses 2017 (reclassified)*
Basic needs and essential services	453 722	443	7 617	47 810	509 592	577 735
Fair protection processes and documentation	163 879	2 068	95	3 048	169 090	164 489
Logistics and operations support	108 364	721	5 592	12 843	127 520	130 825
Community empowerment and self-reliance	85 772	1 094	8 613	26 757	122 237	125 174
Security from violence and exploitation	63 549	–	2 495	19 375	85 420	84 593
Headquarters and regional support	75 387	–	–	–	75 387	84 071
Favourable protection environment	38 859	2 178	160	21 563	62 760	57 253
Durable solutions	37 312	2 900	3 834	2 305	46 351	45 442
Leadership, coordination and partnerships	23 863	45	949	19 025	43 883	40 151
Expenses reported by implementing partners against current-year agreements	**1 050 708**	**9 449**	**29 357**	**152 726**	**1 242 240**	**1 309 734**
Report pending receipt or processing	103 651	853	8 476	36 672	149 652	112 163
Prior-year agreement adjustments[a]	(9 254)	(269)	(777)	(6 519)	(16 819)	(17 803)
Total expense	**1 145 104**	**10 033**	**37 056**	**182 880**	**1 375 073**	**1 404 093**

[a] The prior-year agreement adjustments amount of $16.8 million (2017: $17.8 million) includes refundable unspent balances of $42.7 million (2017: $42.7 million) and recoveries resulting from partner audits of $2.6 million (2017: $3.7 million), which are offset by partner expenses in the current year against previously recorded prepayments of $28.5 million (2017: $28.6 million).

158. The amount of $1,375.1 million reported as implementing partner expenses (2017: 1,404.1 million) includes $149.7 million (2017: $112.2 million) already paid to implementing partners in respect of which reporting is pending receipt or final processing by UNHCR. The estimated refunds for underspending are recorded within implementing partner receivables and advances (see note 3.4).

159. The total amount of funds recovered from implementing partners in 2018 for unjustified expenses was $2.7 million ($3.8 million in 2017). These were determined through UNHCR review of audit reports of projects implemented by partners.

160. Interest and miscellaneous revenue amounting to $3.8 million ($2.5 million in 2017) were received from implementing partners for the year.

6.2 Salaries and employee benefits

(Thousands of United States dollars)

	2018	*2017 (reclassified)*
Salary	544 960	501 579
Pension	122 688	112 379
Allowances	97 167	89 464
Temporary assistance	58 454	52 110
After-service health insurance	45 108	41 897
Medical insurance – current	31 217	27 769
Reassignment	28 859	24 200
Education grant	21 602	25 978
Repatriation grant	8 500	15 644
Appointment	7 322	7 301
Termination	4 808	5 543
Reimbursement of income tax	4 765	5 639
Evacuation	3 724	4 828
Annual leave accrual	2 810	3 015
Home leave	2 111	1 940
Other personnel costs	12 269	10 435
Total salaries and employee benefits	**996 364**	**929 722**

161. As a result of the reclassification from pension ($3.6 million) and temporary assistance ($1.1 million) to medical insurance – current, the amount reported for medical insurance – current for 2017 is $4.7 million higher than previously reported.

162. The amount reported for repatriation grant in 2017 includes the past service costs ($8.5 million) attributable to changes in the level of benefits that became effective during the year.

163. Included in other personnel costs are $6.0 million for staff rental subsidy (2017: $5.7 million), $3.9 million for rest and recuperation (2017: $4.0 million) and $2.1 million for overtime payments (2017: $2.2 million). In 2018, it also included an offset of $2.4 million (2017: $4.2 million) reflecting the capitalization of internal staff costs in the development of intangible assets.

6.3 Cash assistance to beneficiaries

(Thousands of United States dollars)

	2018	*2017*
Basic needs (multipurpose cash)	434 440	340 190
Repatriation needs	8 740	22 409
Other cash assistance	29 201	7 941
Total cash assistance to beneficiaries	**472 381**	**370 540**

6.4 Contractual services

(Thousands of United States dollars)

	2018	*2017 (restated)*
Affiliated workforce and individual contractors	145 357	122 353
Direct services for beneficiaries	60 957	79 222
Construction contracts	50 685	32 994
Advertising, marketing and public information	45 868	42 142
Transport, cargo handling and warehouse management	38 791	72 132
Professional services	23 195	22 465
Data processing	20 720	22 181
Individual consultants	12 765	16 527
Translation, printing and publication	9 998	9 219
Other services	47 088	47 359
Total contractual services	**455 425**	**466 595**

164. Primarily as a result of the reclassification from implementing partnership expense to contractual services of costs for the provision of personnel to support operations by UNOPS and United Nations Volunteers, the amount reported as contractual services for 2017 is $104.9 million higher than the previously reported amount, mainly within the subcategory affiliated workforce and individual contractors.

165. An amount of $12.1 million previously reported as other services in 2017 has been reclassified to other subcategories ($9.7 million) of contractual services and to various other expense categories ($2.4 million) to more accurately reflect the nature of the services consumed.

166. Direct services for beneficiaries includes the provision of medical care, accommodation and other services where UNHCR contracts with service providers on behalf of persons of concern in lieu of cash assistance to beneficiaries. Other services include various specialized services of a technical, analytical and operational nature provided through contractual arrangements.

6.5 Supplies and consumables for beneficiaries

(Thousands of United States dollars)

	2018	*2017 (restated)*
Distributed from inventory		
Household items	71 444	107 431
Bedding materials	68 984	92 444
Medical, hygienic supplies and apparel	43 533	50 923
Construction materials and related equipment	35 146	26 714
Tents	24 986	39 475
Basic food	5 817	3 443
Other supplies and equipment	7 624	3 778
Total distributed from inventory	**257 535**	**324 207**
Other costs of supplies and distributions		
Other supplies and consumables distributed	35 796	24 920
Inventory obsolescence and write-off	(4 061)	(9 008)
Total supplies and consumables for beneficiaries	**289 269**	**340 120**

167. The reclassification of certain expenses in 2018 resulted in supplies and consumables for beneficiaries reported for 2017 being $0.1 million higher than the previously reported amount.

168. Other supplies and consumables distributed include expenses pertaining to consumable items that are not considered inventory. These include medical items amounting to $22.3 million (2017: $12.2 million).

169. Inventory valuation allowance expenses in 2018 primarily reflect allowances for inventories beyond their shelf lives and inventory items overdue from suppliers.

6.6 Operating expenses

(Thousands of United States dollars)

	2018	*2017 (restated)*
Rental and maintenance of premises	72 269	70 143
Security	44 184	40 911
Communications	34 626	28 981
Fuel and lubricants	27 075	24 644
Guest houses	13 126	6 028
Bank charges	11 025	8 957
Rental and maintenance of vehicles and equipment	8 119	7 437
Utilities	7 703	12 364
Insurance	3 418	3 860
Other operating expenses	19 100	12 867
Total operating expenses	**240 646**	**216 192**

170. As a result of the restatement related to contributions in kind for leased premises at lower-than-market rates, asset capitalization policy changes and miscellaneous

reclassifications of expenses, operating expenses for 2017 are $5.1 million higher than the previously reported amount.

6.7 Equipment and supplies

(Thousands of United States dollars)

	2018	*2017 (restated)*
Equipment and related supplies	51 879	44 683
General office supplies	12 838	12 223
Furniture and fixtures	7 969	5 877
Vehicles and workshop supplies	6 398	4 160
Property, plant and equipment transferred or disposed	4 722	7 391
Land and buildings (non-capitalizable)	2 517	1 546
Software and licenses	1 047	2 341
Alterations and improvements	264	242
Total equipment and supplies	**87 635**	**78 463**

171. Expenses recognized under equipment and supplies include the purchase of items below their respective capitalization thresholds.

172. As a result of the changes in accounting policy to increase the threshold for the capitalization of construction contracts for qualifying buildings to $0.25 million and to expense all temporary buildings upon acquisition, the amount for equipment and supplies presented for 2017 is $1.9 million higher than the previously reported amount, primarily within the subcategory property, plant and equipment transferred or disposed.

6.8 Depreciation, amortization and impairment

(Thousands of United States dollars)

	2018	*2017 (restated)*
Depreciation of property, plant and equipment	41 728	41 998
Amortization of intangible assets	3 302	2 732
Impairment reversal of property, plant and equipment	–	(138)
Total depreciation, amortization and impairment	**45 030**	**44 592**

173. As a result of changes in accounting policy, expenses recorded in 2017 under depreciation of property, plant and equipment have been restated and are $5.3 million lower than the previously reported amount.

6.9 Other expenses

(Thousands of United States dollars)

	2018	*2017 (restated)*
Seminars and workshops	15 871	16 288
Bad debt expense	7 749	8 736
Training	7 045	7 509
Miscellaneous expenses	(2 553)	(4 285)
Total other expenses	**28 112**	**28 249**

174. Primarily as a result of the reclassification of expenses in 2018 to more accurately reflect the nature of the items, other expenses for 2017 have been restated and are $2.5 million higher than the previously reported amount.

175. Miscellaneous expenses include adjustments to prior-year expenses.

6.10 Foreign exchange gains and losses

(Thousands of United States dollars)

	2018	*2017*
Unrealized (gain)/loss	52 771	(69 223)
Realized (gain)/loss	(34 231)	(24 551)
Total foreign exchange (gains) and losses	**18 539**	**(93 774)**

176. In 2018, the unrealized exchange losses of $52.8 million resulted primarily from the impact of the strengthening of the United States dollar against those currencies in which UNHCR held accounts receivable and bank balances as at 31 December 2018. Euro-denominated items accounted for more than half of these losses.

Note 7
Statement of comparison of budget and actual amounts

177. As required by IPSAS 24: Presentation of budget information in financial statements, reconciliation is provided between the actual amounts on a comparable basis, as presented in statement V, and the actual amounts, as shown in the financial accounts identifying separately any basis, timing and entity differences which are described below:

(a) **Basis differences**: the budget of UNHCR is formulated on a modified cash basis and the financial statements are prepared on an accrual basis, thereby giving rise to a basis difference;

(b) **Timing difference** occurs when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNHCR for the purpose of comparison between budgets and actual amounts;

(c) **Entity differences** occur when the budget does not include programmes or entities that are part of the main entity for which the financial statements are prepared. In UNHCR, the budget does not include activities relating to the Working Capital and Guarantee Fund and the Medical Insurance Plan;

(d) **Presentation differences** are due to differences in the format and classification schemes adopted for presentation of the statement of financial performance (statement II) and the statement of comparison of budget and actual amounts (statement V). The UNHCR budget in statement V is presented on an operational and geographical basis, while expenses are presented by nature of expense in the statement of financial performance (statement II).

178. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of financial performance (statement II) for the year ended 31 December 2018 is presented below:

(Thousands of United States dollars)

	2018
Actual amount on a comparable basis (statement V)	**4 226 254**
Basis differences	
Property, plant and equipment, and intangible assets	(33 633)
Depreciation, amortization and impairment of property, plant and equipment, and intangible assets	45 030
Inventory	100 114
Commitments (excluding those dealt with elsewhere under entity or basis differences)	(188 189)
Implementing partner expenditure current year	(17 118)
Employee benefits funding	(59 611)
Elimination of inter-segment expenses	(50 543)
Implementing partnership refunds and adjustments for prior-year projects	(18 304)
Bad debt expense	9 221
Inventory obsolescence	(4 060)
Other	(6 001)
Total basis differences	**(223 094)**
Entity differences	
Working Capital and Guarantee Fund	3 776
Medical Insurance Plan	9 942
Staff Benefits Fund	47 102
Total entity differences	**60 820**
Total expense	**4 063 980**

179. Explanations of material differences between the original budget and the final budget and the actual amounts are presented in section D of chapter IV above.

Note 8
Segment reporting

8.1 Statement of financial position by segment as at 31 December 2018

(Thousands of United States dollars)

	Programmes	*Projects*	*Special funds and accounts*	*Total*
Assets				
Cash and cash equivalents	765 841	100 862	98 352	965 055
Investment	9 116	–	240 884	250 000
Contributions receivable	1 457 323	–	–	1 457 323
Inventories	154 198	71 303	–	225 501
Property, plant and equipment	154 476	17 152	–	171 628
Intangible assets	30 450	267	–	30 717
Other assets	163 384	39 414	1 648	204 445
Total assets	**2 734 787**	**228 998**	**340 884**	**3 304 669**
Liabilities				
Accounts payable and accruals	183 487	16 915	1	200 403
Employee benefits	8 830	1 722	766 124	776 675
Provisions	4 036	606	–	4 642
Other liabilities	3 719	105	–	3 824
Total liabilities	**200 072**	**19 348**	**766 125**	**985 545**
Net assets	**2 534 715**	**209 650**	**(425 241)**	**2 319 125**
Fund balances and reserves				
Accumulated fund balances and reserves	2 534 715	209 650	–	2 744 365
Working Capital and Guarantee Fund	–	–	100 000	100 000
Medical Insurance Plan	–	–	41 759	41 759
Staff Benefits Fund	–	–	(566 999)	(566 999)
Total fund balances and reserves	**2 534 715**	**209 650**	**(425 241)**	**2 319 125**

8.2 Statement of financial performance by segment for the year ended 31 December 2018

(Thousands of United States dollars)

	Programmes	*Projects*	*Special funds and accounts*	*Inter-segment*	*Total*
Revenue					
Voluntary contributions	3 928 292	332 464	–	–	4 260 756
United Nations regular budget	38 642	–	–	–	38 642
Transfers	(370 560)	370 560	–	–	–
Interest revenue	2 325	–	15 806	–	18 130
Other revenue	17 788	(159)	13 833	(10 696)	20 766
Total revenue	**3 616 486**	**702 866**	**29 638**	**(10 696)**	**4 338 294**

	Programmes	*Projects*	*Special funds and accounts*	*Inter-segment*	*Total*
Expenses					
Implementing partner expenses	1 155 337	219 736	–	–	1 375 073
Salaries and employee benefits	811 275	139 003	56 782	(10 696)	996 364
Cash assistance to beneficiaries	397 473	74 908	–	–	472 381
Contractual services	409 588	45 795	41	–	455 425
Supplies and consumables for beneficiaries	159 264	129 927	78	–	289 269
Operating expenses	201 923	34 927	3 796	–	240 646
Equipment and supplies	73 951	13 681	3	–	87 635
Travel expenses	66 352	7 617	77	–	74 046
Depreciation, amortization and impairment	38 329	6 701	–	–	45 030
Other expenses	24 699	3 371	42	–	28 112
Total expenses	**3 338 191**	**675 666**	**60 820**	**(10 696)**	**4 063 980**
Foreign exchange (gains)/losses	–	–	18 539	–	18 539
Surplus/(deficit) for the year	**278 296**	**27 200**	**(49 721)**	**–**	**255 775**

8.3 Long-lived asset additions by segment

(Thousands of United States dollars)

	Programmes	*Projects*	*Total*
2017 asset additions (restated)			
Property, plant and equipment	43 922	6 273	50 195
Intangible assets	10 256	100	10 356
Total	**54 178**	**6 373**	**60 551**
2018 asset additions			
Property, plant and equipment	68 394	6 321	74 716
Intangible assets	7 718	66	7 784
Total	**76 112**	**6 387**	**82 499**

180. As a result of changes in accounting policy to increase the threshold for capitalization of construction contracts for qualifying buildings to $0.25 million and to expense all temporary buildings upon acquisition, long-lived asset additions recorded in 2017 have been restated.

181. Some internal activities lead to accounting transactions that create inter-segment revenue and expense in the financial statements. The organization's share of medical insurance premiums in respect of the Medical Insurance Plan created inter-segment amounts in 2018 of $10.7 million ($9.8 million in 2017).

182. Earmarked contributions are recorded to the applicable fund/pillar upon receipt. Unearmarked and broadly earmarked contributions are initially recorded under pillar 1 (Global Refugee Programme) and are subsequently transferred to other pillars, as needed, to cover budgetary requirements. Accumulated fund balances under programmes, projects and special accounts represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements.

Note 9
Commitments and contingencies

9.1 Leases

183. Obligations for operating leases are as follows:

(Thousands of United States dollars)

	2018
Obligations for operating leases	
Under 1 year	26 061
1–5 years	34 560
Beyond 5 years	4 008
Total obligations for operating leases	**64 629**

184. As at 31 December 2018, UNHCR did not have any finance leases.

9.2 Commitments

185. At 31 December 2018, UNHCR had commitments for the acquisition of goods and services, as well as capital commitments contracted but not delivered, as follows:

(Thousands of United States dollars)

	2018
Assets and supplies	193 131
Services	99 145
Instalments due against partnership agreements	32 489
Operating expenses	36 412
Consultants	2 190
Other commitments	4 287
Total open commitments	**367 653**

186. Commitments are not recognized as expenses in the statement of financial performance (statement II) on the basis of IPSAS 1: Presentation of financial statements, and on the basis of the delivery principle. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods and services.

9.3 Legal or contingent liabilities

187. Voluntary contribution revenue includes revenue that, under the terms of the contribution agreement, must be spent within a specified period and for an agreed purpose ("earmarked"). Where UNHCR has clearly not fully spent an earmarked contribution by the agreed deadline, such shortfalls are accounted for as a reduction in revenue and disclosed in table 5.1.1.

188. As at 31 December 2018, potential underspending has been identified for certain expired contributions for which a final determination of spending status will be established in 2019. To the extent that these ultimately indicate underspending, UNHCR may be required to make a refund to the donor. However, it is not possible

to reliably estimate the amount of the potential refunds. Therefore, they represent contingent liabilities as at 31 December 2018. The maximum extent of the refund obligation is estimated at approximately $1.2 million.

189. As at 31 December 2018, there were 86 outstanding cases relating to various claims from staff members or former staff members under management evaluation, pending United Nations Dispute Tribunal judgments against UNHCR or under appeal, with a total potential financial compensation amounting to approximately $2.9 million.

190. Furthermore, there are 33 unresolved third-party claims against UNHCR. The main third-party claims relate to ongoing commercial disputes with a small number of suppliers regarding the prices and quantities charged for their services. These disputes are subject to negotiation and some may be settled through arbitration, with uncertain outcome. While the best estimate of additional costs to settle the agreements in arbitration has been accounted for as accruals and legal provisions and disclosed in note 3.10, there are additional contingent liabilities for possible third-party claims of approximately $28.5 million.

Note 10
Losses, ex gratia payments and write-offs

191. UNHCR financial rule 10.5 provides that ex gratia payments may be approved by the Controller for an amount not exceeding $5,000, when such payments are considered desirable in the interest of the organization. Ex gratia payments in excess of $5,000 require the approval of the High Commissioner. A statement of ex gratia payments was submitted to the Board of Auditors and to the Executive Committee with the financial statements. For 2018, no ex gratia payments were approved.

192. Financial rule 10.6 provides that write-offs up to $10,000 owing to the loss of cash or of the book value of accounts receivable may be authorized by the Controller, while the write-off of amounts in excess of $10,000 requires the approval of the High Commissioner. A statement of all amounts written off was submitted to the Board of Auditors. In 2018, write-offs amounted to $0.1 million, comprising mainly irrecoverable value added tax receivables, compared with $3.8 million in 2017, which consisted primarily of donation reductions from two donors totalling $3.6 million.

193. In 2018, 43 fraud cases (38 cases in 2017) were reported, with a total estimated amount of $1.22 million ($1.23 million in 2017), including misappropriation of the organization’s funds; misuse of assets and procurement fraud by staff, affiliate workforce or partners; falsification of documents; solicitation and receipt of bribes; and submission by staff of fraudulent claims for various entitlements. As of the end of 2018, there were also 59 open fraud allegation cases (42 cases in 2017) for which investigations were ongoing, and their outcome will be reported, as appropriate, once the determination is concluded.

Note 11
Related party disclosures

194. The key management personnel of UNHCR are the High Commissioner, the Deputy High Commissioner, the two Assistant High Commissioners and the Controller, as they have the authority and responsibility for planning, directing and controlling the activities of UNHCR.

(Thousands of United States dollars)

	Number of posts filled	*Compensation and post adjustments*	*Entitlements*	*Pension and health plans*	*Total remuneration*	*Outstanding advances against entitlements*	*Outstanding loans*
Key management personnel, 2018	5	1 204	68	254	1 526	50	–

195. The table above summarizes aggregate remuneration paid to key management personnel, which includes net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs and employer pension and current health insurance contributions.

196. Key management personnel also qualify for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified. They are also ordinary participants in the Pension Fund.

197. UNHCR relies on implementing partnerships and national fundraising partners for its operational activities. The transactions with these parties are at arm's length.

Note 12
Events after the reporting date

198. The reporting date for the Office of the United Nations High Commissioner for Refugees is 31 December of each year. At the date of signing these financial statements, 29 March 2019, no material events, favourable or unfavourable, had occurred since 31 December 2018 that would have impacted the present statements.

199. The financial statements were approved on 29 March 2019 and submitted to the Board of Auditors for opinion. No one other than UNHCR has the authority to amend these financial statements.

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