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**Summary report on main risk areas raised in the
Report of the Board of Auditors on the accounts
for 2009****Contents**

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I. Introduction

1. For several years now, at the September meeting of the Standing Committee, UNHCR has presented a summary report on key issues raised in the recommendations of the Board of Auditors on the accounts of the previous year. This conference room paper comments on the main issues raised in respect of the accounts of 2009.

2. The summary report presented at the 46th meeting of the Standing Committee in September 2009 (EC/60/SC/CRP.20) described four main risk areas identified by the Board of Auditors during the audit of the 2008 accounts. One of these risks, relating to potential errors in accounting for contributions, has since been adequately addressed by UNHCR and is no longer considered an audit issue. The other three risk areas continue to be areas of concern: implementing partner (IP) audit certification; management of non-expendable and expendable property; and funding for end-of-service and post-retirement benefits liabilities. Of these, deficiencies in management of non-expendable property, non-disclosure of the value of expendable property on the financial statements, and absence of funding for end-of service liabilities are of sufficient concern to be reported as emphases of matter in the 2009 report of the Board of Auditors (A/65/5/Add.5). This document reviews the risk areas identified by the Board of Auditors, including an analysis of each area, and outlines how UNHCR plans to address them.

3. In their report on the 2009 accounts, the Board of Auditors has noted progress in the implementation of audit recommendations, as compared to previous years. UNHCR has implemented 42 per cent of the recommendations made in the Auditors' report on the accounts of 2008, compared to 33 per cent of the recommendations made in the Auditors' report of the accounts of 2007. The Annex to the Auditors' report provides a status update of the recommendations of all prior years, and the details of the recommendations and their updated status are provided in the audit matrix located on UNHCR's website (www.unhcr.org). The following 11 recommendations remain open from 2007 and 2008, and are repeated in the Board of Auditors' report on the accounts of 2009:

- Reinforce mechanisms for controlling validity of unliquidated obligations;
- Set up funding for accrued end-of-service and post retirement liabilities;
- Monitor closure and set up effective controls on oversight of bank accounts in the Field;
- Ensure accuracy of data maintained in the non-expendable property database;
- Disclosure of the value of expendable properties in the financial statements;
- Continue efforts to reduce the number of staff in-between assignments and not on temporary duty;
- Improve timely receipt of expenditure reports from implementing partners on installments paid;
- Take measures to obtain reports, or to recover funds, from the implementing partners where expenditure reports remain outstanding for more than one year;
- Compliance with deadline to obtain audit certificates from implementing partners by 30 April of each year;
- Take measures with the Office of Internal Oversight Services (OIOS) to reduce the time required for filling the vacant posts for internal auditors; and
- Various suggestions relating to the Office of UNHCR's Inspector-General.

4. UNHCR will continue to work on addressing each of these issues. Progress updates are provided on a regular basis in the relevant follow-up matrices, which are made available on UNHCR's website.

II. Risk areas relating to 2009 accounts

A. Implementing partner audit certification

5. The Board of Auditors has reiterated previous recommendations regarding the implementing partner (IP) audit certification process, namely to intensify efforts to obtain audit certificates from IPs by 30 April each year, and to intensify efforts to conduct an in-depth analysis of the audit certificates with qualified audit opinions in order to make adjustments to prior-year expenditures in the financial statements, if required. Additionally, the Board recommended that efforts continue to obtain expenditure reports from partners on a timely basis, to justify the instalments paid by UNHCR.

6. UNHCR has taken several steps to address these recommendations. Dedicated resources were assigned throughout 2009 and in 2010 to ensure timely receipt of IP expenditure reports and audit certificates. Furthermore, in-depth analysis has been conducted on audit certificates received with a qualified audit opinion, in order to determine the root causes of the qualifications and to assess the financial impact, if any. Where there is a potential financial impact, the relevant operation is contacted and follow-up continues until the issue is resolved. UNHCR established a system of regular reminders to heads of offices in the Field, including reporting on the status of their IP financial situation and IP compliance for action and follow-up. Guidance and direction were given to field operations experiencing difficulties.

7. As a result of these efforts, marked improvements in compliance with the issues raised by the Board of Auditors were achieved. However, the Board of Auditors continues to consider this a main risk area, because compliance rates improved only after the audit was completed and not in accordance with established deadlines; in some cases, follow-up is outstanding on matters relating to prior years.

8. To illustrate, the compliance rate for receipt of IP audit certificates on 30 April 2010 (established deadline) was 55.9 per cent. By 22 June 2010, compliance had dramatically improved, reaching 98.8 per cent, and 98.9 per cent by 28 June 2010. Prior to 2007, the deadline for receipt of IP audit certificates was set for June of the following year. In 2006, the Board of Auditors recommended that audit certification should be received by UNHCR by 30 April each year, and UNHCR complied with this recommendation. Experience has proven that, despite intensive efforts, it is unrealistic to reach acceptable compliance with existing policies by the deadline of 30 April each year.

9. Operational constraints impacting effective IP performance monitoring and audit compliance were described in the previous summary report on this subject (EC/60/SC/CRP.20), and continue to be relevant. To address this risk area, UNHCR undertook to review its current policy on audit requirements and IP monitoring and to consider alternative approaches that are relevant and cost-effective, and which can be realistically implemented. A study began in February 2010 to identify the root causes of deficiencies in IP monitoring and internal controls, to study and benchmark policies and IP oversight mechanisms across United Nations agencies, and to document best practices and results achieved, along with the tools being used. A report on the analysis conducted so far is currently being drafted. The preliminary conclusions suggest that UNHCR might

consider taking a more risk-based approach to managing implementing partners. The next phase of the study will define how a risk-based approach would work; the modalities for implementation; and the implications for the organization, both in terms of financial and staff resources required to implement and maintain the new model, as well as in relation to roles and responsibilities. The final report is expected to be available for consideration by senior management at the end of 2010.

10. To conclude, UNHCR will continue its efforts to maintain the progress achieved towards complying with existing policies, while also continuing to evaluate alternative approaches for future implementation.

B. Asset management

Non-expendable property

11. In its report on the 2009 accounts, the Board of Auditors noted several improvements made by UNHCR: the correction of erroneous data in the non-expendable property; the strengthening of the Asset Management Unit; and the putting into place of a monitoring system to follow up on physical counts of assets performed in the Field. In spite of these improvements, the Board of Auditors continues to consider this a risk area, because of weaknesses identified with asset management practices observed during the audits of three particular field offices. In offices in Malaysia and the Syrian Arab Republic, during audits which took place in November and December 2009, the Board of Auditors observed inadequate monitoring and tracking of assets held by implementing partners, and in Kenya, during the audit held in April 2009, weaknesses were observed in the timely recording of some essential information in the asset database. Accordingly, recommendations have been made to strengthen asset management practices on assets held by IPs and to take additional measures to ensure that the database is maintained and reconciled with physical assets on a timely basis.

12. Specific measures have been taken with regard to the UNHCR Representation in Malaysia, and the office has reported that it has carried out all actions outlined in the relevant recommendations. All implementing partners holding assets in Malaysia have submitted their listings, including items donated by UNHCR and those purchased by the implementing partner using UNHCR funds. These lists have been checked by UNHCR and updated in the Managing Systems, Resources and People (MSRP) system. In addition, random checks of assets have been conducted during site visits and recorded through a monitoring checklist. Seven financial verification visits have been conducted in 2010. Similarly, the UNHCR Representation in the Syrian Arab Republic has reported improvements since the time of the audit and lists of IP assets are now duly signed and stamped by UNHCR and attached to final Implementing Partner Financial Reports (IPFR). UNHCR's Representation in Kenya has since captured asset information in the database, reinforced internal checks and performed a physical count of assets held.

13. Many improvements have been made at an organizational level since the field visits mentioned by the Board of Auditors took place. In late 2009, UNHCR provided additional guidance to its offices and instructed them to conduct a physical count of non-expendable property as a result of new policies and procedures for management of non-expendable property for the financial year 2010. The physical count was required by all offices to establish the opening balance of assets held in 2010: discrepancies are being investigated and values are being corrected in the database in order to record assets in compliance with the new policy established for the year 2010. Additionally, UNHCR has introduced an escalation system, whereby non-compliance issues are noted, in order to ensure adherence by the concerned Representatives.

14. Accordingly, improvements have been made on physical stocktaking, and the recording of the status and location of assets, which is now undertaken every six months - or more frequently if required. Matching and reconciliation of assets in hand with the MSRP system records is completed following the physical stocktaking. UNHCR is currently coordinating a full review of non-expendable property for every country. Through its Asset Management Unit (AMU), UNHCR will continue to work closely with the Field to finalize the clean-up of the system data, which was 95 per cent complete at the time of writing of this report, during 2010. Along with the introduction of the new procedures mentioned above, in the latter part of 2010, system controls will also be enhanced to ensure that assets purchased by UNHCR are recorded in the database on a timely basis. UNHCR is committed to making further improvements to monitoring and tracking of assets controlled by UNHCR and held by implementing partners.

Expendable property

15. The Board of Auditors reiterated its previous recommendation to record the value of expendable property unused at the end of the year in the financial statements, in order to provide a more complete and accurate account of the organization's assets. In response to this recommendation in last year's summary report, UNHCR made a commitment to clean up the inventory database by the end of 2009, in anticipation of implementing International Public Sector Accounting Standards (IPSAS) accounting for inventory in the year 2010.

16. Although the strategy for IPSAS implementation has been changed and the implementation date deferred to 2012, UNHCR is taking steps to record inventory in the financial statements of 2010 under the United Nations System Accounting Standards (UNSAS). Accordingly, a physical asset count was performed to establish the opening balance of the inventory as of January 2010, and the necessary changes to systems and procedures and cleansing of data are in progress in order to report an accurate value as of 31 December 2010.

C. End-of-service and post-retirement benefits liabilities

17. The Board of Auditors reiterated its previous recommendation that UNHCR establish specific funding for its accrued end-of-service and post-retirement liabilities, noting that the increased level of the liability in the 2009 accounts requires appropriate financing.

18. In its previous response to this issue, UNHCR reported upon information presented to the Standing Committee in June 2009 on approaches used by other United Nations agencies. A possible funding strategy was presented, and feedback was sought from Member States on possible funding options through bilateral discussions (see EC/60/SC/CRP.20, paragraphs 28 and 29). As noted in that report, UNHCR was also awaiting the outcome of relevant discussions taking place in the General Assembly, in order to align its proposals with those of the United Nations Secretariat; however, the General Assembly, in its resolution A/RES/64/241 of 24 December 2009, deferred its decision on funding proposals for end-of-service and post-retirement liabilities to its 67th session.

19. At the 48th meeting of the Standing Committee in June 2010, UNHCR again put forward a series of funding options for consideration by Member States (see EC/61/SC/CRP.19).

20. In its report, the Board of Auditors has summarized the options presented by UNHCR, and noted with concern that no decision has been made with regard to funding, and that the liabilities are still not supported by an approved funding plan, with the risk that

UNHCR might not be in a financial position to fully meet its obligations with regard to these liabilities.

21. At the 48th meeting of the Standing Committee, Member States expressed divergent views on the subject, and requested that an informal consultative meeting be held in September 2010 to discuss this further. Following these consultations, UNHCR hopes to have received sufficient guidance from Member States to be able to prepare a cost estimate of various options and to present a preferred funding option for end-of-service and post-retirement liabilities.

III. Conclusion

22. UNHCR gratefully acknowledges the assistance of the Board of Auditors in identifying the enterprise-level risks to which the organization is exposed. The Office has made significant progress in order to address several of these risks. Compliance rates with existing policies to obtain IP audit certificates and expenditure reports and to follow up on qualified opinions have improved, while, in parallel, a study is underway to identify alternative IP performance monitoring mechanisms that can be realistically implemented. Management of assets is continuously improving, and new policies, systems and procedures to better manage property, plant and equipment and to record inventory in the accounts of the year 2010 will be introduced in the latter part of 2010. Finally, a series of funding options for end-of-service and post-retirement liabilities have been presented, for further deliberation by Member States.
