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BOARD OF AUDITORS
NEW YORK
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OPENING STATEMENT TO THE FIFTH COMMITTEE OF
THE GENERAL ASSEMBLY ON
THE REPORTS OF THE BOARD OF AUDITORS ON
THE FINANCIAL STATEMENTS OF THE VOLUNTARY FUNDS ADMINISTERED
BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE
YEAR ENDED 31 DECEMBER 2010 AND THE STATUS OF IMPLEMENTATION
OF RECOMMENDATIONS FOR THE BIENNIUM 2008-2009

WEDNESDAY, 5 OCTOBER 2011

Mr. Chairman, Distinguished Delegates,

On behalf of the members of the Board; Mr. Liu Jiayi of China, Mr. Terence Nombembe of South Africa and Mr. Amyas Morse of the United Kingdom, I have the honour to introduce the reports of the Board of Auditors on the financial statements of the Voluntary Funds Administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2010 and the status of implementation of the Board's recommendations for the biennium 2008-2009.

United Nations High Commissioner for Refugees

Background

UNHCR provides vital support (food and shelter) and protection services (security and legal support) to some 33.9 million persons of concern displaced from their homes or own countries. It operates as a devolved organisation with over 6,300 regular staff mostly working in some 380 offices located in 125 countries.

Since 2006 UNHCR has been involved in an organisation wide change programme to reinforce its delivery capability, implement results based management, and improve its accountability and cost-effectiveness. New planning, budgeting and management approaches and structures are being gradually implemented, and the change programme remains ongoing.

Results of the audit

The results of our audit indicated that there were no material errors on the financial statements and sufficient appropriate audit evidence was obtained to support an unmodified “fairly represents” audit opinion on these statements. There were however, a number of significant audit issues including:

- UNHCR was seriously unprepared for the final audit, with an absence of audit trails to enable reconciliation from its accounting systems to the financial statements;
- there were large numbers of errors; and
- accounting policies did not reflect accounting practices.

During the course of the financial audit we were able to resolve all these areas to our satisfaction in terms of the opinion on the financial statements; including some \$39 million of misstatements being corrected. This enabled the Board to issue an unmodified audit opinion which means the financial statements present fairly, in all material respects, the financial position of UNHCR.

Whilst the Board was able to provide an unmodified opinion on the financial statements we did identify significant concerns about UNHCR’s financial management which we comment on in the long form report.

Key messages in the long-form report

The long-form report highlights the following main issues:

- **The inherent uncertainties in being an organisation heavily reliant on voluntary funding** and the impact of this on resource management and decision making, in particular the incentive to focus on short-term activities on which UNHCR can spend quickly which may not always represent best value;
- **Weaknesses in financial management and control**, in particular (1) a backlog of bank reconciliations (a key basic financial control) (2) an absence of rigorous management checks on both the financial statements production and during the year in key areas such as on receivables and inventory and (3) low financial management capability in the field, including limited local management understanding and use of the functionality of UNHCR's enterprise resource planning system;
- **The risks to successful IPSAS adoption**, in particular the ability to produce accurate and timely end of year accounts, a critical test of readiness for IPSAS implementation; and alongside this the readiness and capacity of the field network, given the greater level of standards, processes and rigour required under IPSAS. There is also a need for greater managerial grip of benefits realisation from IPSAS, including the change management processes needed across the entire organisation to achieve this. At this point successful IPSAS implementation will require high prioritisation by, and a concerted effort from, UNHCR management with support from the Board;

- **Slow progress towards implementing improved performance reporting and results based management.** Despite embarking on the introduction of results based management in 2005, UNHCR performance reporting does not enable management to make effective judgements on the cost-effectiveness of projects and activities or to hold local managers to account for performance. Data is incomplete and unreliable; performance indicators are inconsistent and not focused on mission critical activities, nor do they focus on efficiency and effectiveness; and there is no clear linkage between performance and financial data. As a result UNHCR remains unable to gather and analyse basic financial and performance information on its operations;
- **The absence of a formal and systematic organisation wide approach to risk management** (despite previous attempts to implement enterprise risk management in 2005 and 2008);
- **Weaknesses in the management of implementing partners** on which UNHCR is heavily dependent for the delivery of some 1,600 projects worldwide and the management of around one third of its expenditure (some \$677 million in 2010). In particular, the process for selecting implementing partners lacks rigour and transparency, with over half working with UNHCR for five years or more and just under a third for over ten years; this lack of turnover without periodic testing or some form of reconsideration, exposes UNHCR to an increased risk of fraud and corruption, inefficiency and poor partner performance. This risk is exacerbated by weaknesses and variability in the extent, rigour and reporting of UNHCR financial and performance monitoring of implementing partners;

- **Protracted Refugee Situations are a major and growing strategic issue with significant resource management implications for UNHCR**, but despite this UNHCR's response is fragmented with an absence of robust financial and performance data to aid decision making. Over half of the refugees served by UNHCR have been in protracted refugee situations for five years or more requiring long term support. Expenditure on such situations is projected to increase to over \$300 million in 2011, approaching one fifth of UNHCR annual expenditure. Durable solutions require well developed and implemented social and economic development in support of local integration programmes. This is not a core expertise of UNHCR. In the meantime, UNHCR's Global Plan of Action for protracted refugee situations has no senior accountable owner, ownership is fragmented, it lacks concrete measures of progress or indicators of success and there is no tracking of how UNHCR has deployed its resources across this important initiative. Business cases for durable solutions are not well developed (in part reflecting the absence of robust resource information), and spending on durable solutions is relatively small compared to the cost of such situations.

Overall conclusion

Overall we conclude that UNHCR is as yet unable to demonstrate tangible benefits from its change programme. The Board has identified significant concerns over important aspects of UNHCR financial, risk and performance management and the difficulties it is encountering in its attempts to put value for money at the heart of its decision making and operations. As a result UNHCR cannot fully and objectively demonstrate that it is using its resources cost-effectively.

UNHCR's response

UNHCR broadly accepted all of the Board's conclusions and recommendations, and as we acknowledge, has itself identified and recognised many of the weaknesses. The Board is now concerned that UNHCR takes the necessary steps to prioritise and take decisive action to address the weaknesses and implement the Board's recommendations, recognising that not all the weaknesses and issues identified can be resolved within one year. The Board is committed to supporting UNHCR in achieving this, including IPSAS adoption, and is pleased to note the positive response to date of UNHCR management to the report.

Status of implementation of the Board's recommendations
for the biennium 2008-2009

The report covers 15 organizations on which the Board reports on a biennial basis to the General Assembly. It does not cover activities on which the Board reports annually, or which are not reported to the General Assembly.

The report is compiled from the statistics provided by the various administrations as at 31 March 2011. The Board validated these statistics where it was possible to do so. In other cases, the data will be validated in the context of the current audit cycle.

The total number of recommendations issued for the biennium 2008-2009 was 590, compared with 507 for the previous biennium, an increase of 16 per cent. The rate of full implementation of these recommendations was 46 per cent, compared with the 47 per cent for the previous biennium, a slight decrease.

The Board has noted that generally the administrations have been considering its recommendations seriously and have developed a range of good practice in the enhanced follow-up. The Board nevertheless encourages an intensification of efforts to ensure a higher rate of fully implemented recommendations.

The recommendations covered a wide variety of topics across many organisations and the rates of implementation vary at the organisational level. As such, the Board was unable to identify any patterns or trends that it could highlight.

In relation to partially implemented recommendations and those that are under implementation, the Board noted that there was a slight increase from 46 per cent to 48 per cent, compared with the previous biennium.

Given that most of the entities have set target dates for the partially implemented recommendations and that some recommendations are to be systematically addressed through the implementation of IPSAS, new or improved Enterprise Resource Planning systems, or other business transformations, the Board has no major overall concern about the level of partial implementation. The Board nevertheless encourages entities to take action as quickly as possible to ensure full implementation of all of its recommendations.

The Board has identified a number of areas that some organisations could address to expedite the full implementation of the recommendations. These are set out in the relevant section of the report.

The Board noted that five per cent of its recommendations had not been implemented, compared with four per cent for the previous biennium. While the Board recognises that some entities may have valid reasons for non-implementation, there are no other entities that are yet to begin the process of implementation.

Mr. Chairman, Distinguished Delegates, this concludes my brief introduction of the Board's reports on the financial statements of UNHCR for the year ended 31 December 2010; and the status of implementation of the Board's recommendations for the biennium 2008-2009.

My colleagues and I would be happy to answer any questions from the Committee at its informal session and/or to provide any clarification as are needed.

LIU Yu

Director of External Audit (China) &
Chairman of the Audit Operations
Committee

5 October 2011