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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Mojtaba Kazazi, Executive Head  
A: United Nations Compensation Commission

DATE: 21 April 2009

REFERENCE: IAD: 09- 02374

FROM: Fatoumata Ndiaye, Acting Director  
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AE2008/820/01 - Audit of claim payments of the United Nations Compensation Commission**  
OBJET: **Commission**

**Award payments were correctly determined and records of claim payments were adequately kept**

1. I am pleased to present the report on the above-mentioned audit which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. In order for us to close the recommendation, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

Cc: Ms. Irene Muchira, Chief, Payments Section, UNCC  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat  
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS  
Mr. Christopher Bagot, Chief, Geneva Audit Service, OIOS

## **EXECUTIVE SUMMARY**

### **Audit of claim payments of the United Nations Compensation Commission**

OIOS conducted an audit of claims payments of the United Nations Compensation Commission (UNCC). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls in the processing of award payments, including compliance with United Nations Financial Regulations and Rules and UNCC Governing Council payment decisions. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The audit covered the period July 2007 to December 2008. During this period, a total of approximately \$4 billion were paid to claimants through their submitting entities, which are mainly governments or United Nations organizations.

UNCC had adequate controls in place to ensure that award and payment records and reports were accurate, properly documented and in compliance with Governing Council decisions and United Nations Financial Regulations and Rules. The only major exception noted was that governments and other submitting entities had not submitted audit certificates relating to \$34 million awards paid to them. Since audit certificates can provide independent assurance that the submitting entities had distributed the funds to claimants, OIOS recommended, and UNCC agreed, to pursue its efforts to obtain the outstanding audit certificates.

## I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of claim payments of the United Nations Compensation Commission (UNCC).

5. UNCC was created in 1991 as a subsidiary organ of the United Nations Security Council. Its mandate is to process claims and pay compensation for losses and damages suffered as a direct result of Iraq's unlawful invasion and occupation of Kuwait.

6. Funds for claim award payments and for the administrative cost of UNCC are drawn from the Compensation Fund that is currently financed by five percent of the oil revenue of Iraq. The United Nations Controller's office releases the funds available in the Compensation Fund for payment of claims every three months.

7. UNCC completed processing of claims in June 2005 and its operations have been downsized. The Registry Unit was the last unit that finished its task and was closed in 2008. At the time of the audit, the UNCC secretariat had four staff members: the Executive Head and his Administrative Assistant and the Chief, Payments Section and a General Service staff member in the Claims Payment Section (CPS). CPS is also responsible for other administrative functions of UNCC.

8. In addition, there were two Professional staff working for a special programme, i.e., the Follow-Up Programme for Environmental Awards. This programme was established in 2005 to monitor the implementation of environmental remediation and restoration projects being undertaken with funds awarded to the environmental (F4) category of claims. The project is funded by the participating claimant governments through voluntary deductions from the awards at a rate proportional to the value of those awards.

9. UNCC awarded a total of \$52.4 billion to successful claimants. Claims were received from claimants through over 100 submitting entities, mainly governments and a few international organizations. Payments are made to the submitting entities, which are then responsible for distributing the awards received to the claimants. The current payment mechanism is governed by Decision 256 of the UNCC Governing Council, henceforth referred to as the Governing Council.

10. During the period July 2007 to December 2008, UNCC paid a total of \$4.1 billion to the submitting entities. Table 1 shows the status of awards made, paid and outstanding as at 31 December 2008.

**Table 1: Status of award payments as at 31 December 2008**

Description	Amount (thousands of US\$)
Total Amounts awarded	52,383,356
Less: Amounts awarded but not payable: Mainly awards for claimants who were not located within the deadline of 30 September 2006.	(78,706)
Add: Over payments not yet recovered. These relate to awards that were paid but were subsequently reduced for various reasons. \$5.3 million of this amount is recoverable, as it will be deducted from the	35,533

last payment to Kuwait. The rest is unlikely to be recovered and the United Nations Controller approved the write off in 2008.	
Less: Net amounts paid to submitting entities	(26,152,416)
Less : Amounts available for distribution but withheld by UNCC; mainly in relation to environmental claims as part of the Follow-Up Programme for Environmental Awards	(173,432)
Outstanding payable balances: (12 category E and F claims)	<b>26,014,335</b>

11. Comments made by UNCC are shown in italics.

## II. AUDIT OBJECTIVES

12. The main objectives of the audit were to assess the:

- (a) Adequacy and effectiveness of internal controls and the reliability of the system used by UNCC to ensure accuracy of processing award payments, reporting and recording; and
- (b) Effectiveness of the procedures used by the Claims Payment Section in ensuring compliance with United Nations Financial Regulations and Rules and in monitoring governments and submitting entities' compliance with Governing Council payment decisions.

## III. AUDIT SCOPE AND METHODOLOGY

13. The audit covered award payments made during the period from July 2007 to December 2008. The audit methodology included review and assessment of internal control systems, interviews with responsible staff, review of supporting documents, and verification of the accuracy of payments and records maintained.

## IV. AUDIT FINDINGS AND RECOMMENDATIONS

### Procedures for disbursing funds and maintaining records were adequate

14. The UNCC Claims Payment Section (CPS) had adequate controls to ensure that the Governing Council decisions were complied with. The audit confirmed that the \$4.1 billion disbursed to claimants during the period under review were distributed to outstanding claimants in accordance with the Governing Council decisions. The amounts to be distributed to each government or international organization were correctly computed and disbursed.

15. CPS maintained accurate records of awards and payments and regularly reconciled its payment records with the records in the Integrated Management Information System (IMIS). The databases that were previously used to maintain payment and award records were closed in July 2007 because the UNCC Information Technology Section was closed. Since then, CPS maintains the records in an Excel worksheet. As the numbers of claims outstanding is small, this arrangement is efficient. Test checks confirmed that the worksheets were accurate.

16. CPS prepared a reconciliation of the awards and payments to the amounts outstanding, as summarized in Table 1 above. This was a useful initiative as it provided additional assurance about the accuracy of the records. Since the UNCC databases had been closed, the audit verified the amounts to schedules extracted by CPS from databases, which the United Nations external auditors previously covered in their audits of UNCC.

Outstanding distribution reports and audit certificates

17. UNCC makes payments to submitting entities and monitors distribution to ensure compliance with guidelines issued by the Governing Council in its decisions 18 and 48. These decisions require that 12 months after the submitting entities have received payment, they should submit distribution reports, and return any undistributed funds to UNCC. Details to be included in the distribution reports are outlined in Governing Council decision 18. Further, the Governing Council at its September 2003 session decided that submitting entities should submit audit certificates to accompany the distribution reports.

18. The audit certificates and distribution reports provide assurance that the governments distributed the funds as required. Therefore, for claims where reports and certificates have not been submitted, there is no adequate assurance that the submitting entities distributed the payments to the claimants.

19. As at 31 December 2008, there were outstanding distribution reports and audit certificates with awards totalling \$3.8 million and \$34 million respectively. Overall, these represented less than 1.5 percent of the total value of awards that were subject to the audit certificates and distribution reports requirements. However, most of these reports and certificates have been outstanding for over one year as shown in Table 2 below:

**Table 2: Outstanding distribution reports and audit certificates**

Description	Distribution reports	Audit Certificates
Number of submitting entities with outstanding reports	12	20
Value of claims in outstanding reports/certificates (In thousands of US dollars)	3,796	34,010
Percentage of reports that have been outstanding for more than one year	91 per cent	88 per cent

**Recommendation 1**

**(1) The UNCC secretariat should pursue its efforts to obtain the outstanding audit certificates and distribution reports.**

20. *UNCC accepted the recommendation and stated that the secretariat will continue its efforts to obtain the remaining outstanding distribution reports which represent 0.01 percent of the total paid amounts as well as the outstanding audit certificates which represent 1.23*

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*percent of the certifiable payments as at 31 December 2008. UNCC will continue to update OIOS on the status of compliance as the distribution reports and audit certificates are submitted by the governments and international organizations. Recommendation 1 remains open pending receipt of evidence showing that the submitting entities have submitted the outstanding audit certificates and distribution reports or justification as to why the reports cannot be submitted.*

#### Phasing out strategy

21. The future of the UNCC secretariat was dependent on the decision that would be made regarding the distribution of \$24 billion outstanding awards relating to nine claims, all payable to the Government of Kuwait. With the round of payments made in January 2009, of approximately \$500 million, the number of claims with outstanding awards had been reduced to these nine claims and one other environmental claim that had an outstanding award of \$1.5 billion.

22. For the nine claims, the Governing Council decided that the UNCC secretariat should facilitate a meeting between the Governments of Iraq and Kuwait to discuss other options of settling these awards. At the time of the audit, this meeting had not taken place. The UNCC Executive Head indicated that the meeting was likely to take place within two months, by around April 2009. If the two governments agree on an alternative mode of payment, it is likely that UNCC will be downsized further. However, the downsizing will not be earlier than mid-2010 because the environmental claim with an outstanding award of \$1.5 billion in January 2009 will continue to be paid using the normal procedures. At the current rate of receipt of funds, this claim is not likely to be paid off before mid-2010.

23. In addition, the Governing Council at its next session in April 2009 is expected to start discussions on the administration and structure of the Follow-Up Programme for Environmental Awards. The main issue to be determined is whether this programme will continue to be administered as a UNCC programme, or outside the United Nations system. The decision made will also have an impact on the future of UNCC. Because of these uncertainties, the issue of phase out could not be assessed.

## V. ACKNOWLEDGEMENT

24. We wish to express our appreciation to the Management and staff of UNCC for the assistance and cooperation extended to the auditors during this assignment.

#### **CONTACT INFORMATION:**

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## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/ O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	The UNCC secretariat should pursue its efforts to obtain the outstanding audit certificates and distribution reports.	Operational	Medium	O	Receipt of evidence showing that the submitting entities have submitted the outstanding audit certificates and distribution reports or justification as to why the reports cannot be submitted.	Not provided

1. C = closed, O = open

2. Date provided by UNCC in response to the recommendation.