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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 Secretary
A: United Nations Compensation Commission (UNCC)

DATE: 12 September 2011

REFERENCE: IAD: 11- 00563

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



SUBJECT: **Assignment No. AE2011/820/01 – Audit of UNCC claims payment for 2010-2011**

OBJET:

Overall results relating to disbursement of compensation awards were satisfactory

1. Attached please find the report on the above-mentioned audit.
2. The audit identified a number of opportunities for improvement (see Annex). While OIOS will not report on the implementation of these opportunities, we encourage you to implement them to improve the efficiency and effectiveness of your operations. OIOS will review their implementation as part of future audits.
3. Please note that under General Assembly resolution 59/272, a Member State may request that the final report be made available. Also note that pursuant to General Assembly resolution 64/263, OIOS has included the complete management response as an appendix to the present report.
4. We wish to express our appreciation to the Management and staff of UNCC for the assistance and cooperation extended to the auditors during the assignment.

cc: Mr. Jun Yamazaki, Assistant Secretary-General and Controller, Office of Programme Planning, Budget and Accounts, Department of Management
Ms. Pornthip Srethwatanakul, Officer-in-Charge, Financial Resources Management Service, United Nations Office at Geneva
Ms. Irene Muchira, Chief, Finance and Administration, UNCC
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Rohan Wijeratne, Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwanye, Executive Secretary, IAAC
Mr. Zachary Ikiara, Chief, Policy and Oversight Coordination Service, DM
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Mr. Christopher F. Bagot, Chief, Geneva Audit Service, OIOS
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

FINAL AUDIT REPORT

Audit of UNCC claims payment for 2010-2011

BACKGROUND

The United Nations Compensation Commission (UNCC) was created in 1991 as a subsidiary organ of the UN Security Council. Its mandate is to process claims and pay compensation for losses and damages suffered as a direct result of Iraq's invasion and occupation of Kuwait, including administration of the Compensation Fund. This fund is currently financed by the five percent of the oil revenue of Iraq as per the Security Council resolution 1483 (2003). This resolution also created the Development Fund for Iraq under the oversight of the International Advisory and Monitoring Board (IAMB). The Security Council resolution 1956 (2010) affects the existing arrangements for receipt of compensation revenue as it provides for the transition to a post-Development Fund mechanism and the transfer of the oversight function from IAMB to the Iraq Committee of Financial Experts (COFE) as of 1 July 2011.

The downsized UNCC has four staff members: the Executive Secretary, his Personal Assistant, the Chief, Finance and Administration, and a General Service staff member. The Controller's Office at the United Nations Headquarters continues to provide support for various activities, including recording and reconciliation of receipts, fund availability and remittances. In addition, the Executive Secretary supervises the Follow-Up Programme for Environmental Awards, which has five Professional and one General Service staff members. UNCC completed processing of claims in June 2005 and awarded a total amount of \$52.4 billion to successful claimants, 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 267 of the UNCC Governing Council.

OBJECTIVES AND SCOPE

The audit was conducted to assess whether UNCC implemented adequate risk management, control and governance systems to provide reasonable assurance regarding the achievement of its mandate related to disbursement of compensation awards. The key controls tested for the audit included those related to: (a) regulatory framework; and (b) programme management. The audit covered the period from June 2010 to April 2011.

AUDIT RESULTS

In OIOS' opinion, UNCC's risk management, control and governance processes examined were **satisfactory** to provide reasonable assurance regarding the achievement of its mandate related to disbursement of compensation awards.

UNCC had implemented adequate regulatory arrangements, to ensure that appropriate revenue was received, the compensation awards were disbursed and the payment records were accurate, properly documented and compliant with Governing Council decisions and the UN Financial Regulations and Rules. A well functioning system was also implemented for reporting on programme performance and finances; however, the future arrangements to ensure and report on the appropriateness of compensation revenue, following the transition to the post-Development Fund mechanism from 1 July 2011, need to be clarified in consultation with Iraq Committee of Financial Experts based on the actual arrangements they have proposed to put in place. Opportunities for improvement include the following:

- a) Establishing procedures for the valuation and receipt of five per cent on non-monetary sale of petroleum products, including the related monitoring and reporting procedures, to ensure appropriateness of the receipt of future compensation revenue.
- b) Regularly reconciling miscellaneous income with the data reported in the financial system to improve management of funds returned by receiving organizations.

ACKNOWLEDGEMENT

OIOS wishes to express its appreciation to the Management and staff of UNCC for the assistance and cooperation extended to the auditors during this assignment.