



INTERNAL AUDIT DIVISION

AUDIT REPORT

Effectiveness and efficiency of
implementation of project activities in
UNHCR operations in Pakistan

Need to strengthen arrangements for selection, monitoring and capacity building of Implementing Partners (IPs) to support the policy of increased use of IPs and to mitigate the risk associated with the use of a large number of national IPs in programme delivery.

15 June 2011
Assignment No. AR2010/141/01

United Nations  Nations Unies

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. António Guterres,
A: United Nations High Commissioner for Refugees
(UNHCR)

DATE: 15 June 2011

REFERENCE: IAD: 11- 00450

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



SUBJECT: **Assignment No. AR2010/141/01 - Audit of effectiveness and efficiency of implementation of project activities in UNHCR operations in Pakistan**
OBJET: **project activities in UNHCR operations in Pakistan**

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the recommendations, 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 (i.e., recommendation 1) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Alexander Aleinikoff, Deputy High Commissioner, UNHCR
Ms. Erika Feller, Assistant High Commissioner (Protection), UNHCR
Ms. Janet Lim, Assistant High Commissioner (Operations), UNHCR
Ms. Karen Madeleine Farkas, Controller and Director, Division of Financial and Administrative Management, UNHCR
Mr. Kasidis Rochanakorn, Director, Bureau for Asia and the Pacific, UNHCR
Mr. Mengesha Kebede, Representative, UNHCR Pakistan
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INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of effectiveness and efficiency of implementation of project activities in UNHCR operations in Pakistan

The Office of Internal Oversight Services (OIOS) conducted an audit of the effectiveness and efficiency of implementation of project activities in United Nations High Commission for Refugees (UNHCR) operations in Pakistan. The overall objective of the audit was to assess the adequacy of arrangements to support effective and efficient implementation of project activities in accordance with UNHCR rules and regulations. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UNHCR operations in Pakistan in 2009 and 2010 were characterized by operating in emergency situations and, in difficult security conditions. In the first half of 2009, the humanitarian situation changed dramatically with approximately two million people uprooted by the emergency. In the summer of 2010, the floods that hit Pakistan affected more than 20 million people. In addition, the volatility and unpredictability of the security situation in 2009 forced UNHCR to close the Quetta office and three field units for several months and the Peshawar office for part of the year. This audit was therefore included in the 2010 workplan; recognizing the high volume of activities (the budget was \$132 million in 2009 and \$176 million in 2010), the significant (300 per cent) increase of budget and expenditures from 2008 to 2009 and the complexity of operations.

The overall conclusion is that current arrangements to support effective and efficient implementation of project activities need to be strengthened in the following key areas, which have been accepted by UNHCR and implementation is in progress.

The emergency situation had resulted in insufficient attention being paid to selection, monitoring and capacity building of Implementing Partners (IPs), which need to be addressed urgently to mitigate the risk associated with usage of a large number of IPs, and to support the policy of increased use of national IPs.

The Representation needed to strengthen controls over the planned usage of national IPs to conduct procurement amounting to \$81 million. Comprehensive monitoring of IP procurement procedures is required together with review by the Local Committee on Contracts. Moreover, the Representation should consider the additional expenditure that will result from usage of IPs to undertake procurement as IPs are not exempt from Value Added Taxes (17 per cent), which would amount to around \$13 million on the planned procurement using IPs.

Asset and warehouse management needed significant improvement. The physical count of assets and inventory was not carried out at the time of the audit as required, and the asset and warehouse records were not up to date. The main warehouse was not being operated in compliance with rules exposing UNHCR to the risk of losses. An accurate record of items for disposal was not available, and insurance had not been obtained resulting in potential losses to UNHCR for

destroyed and lost items. There is need to remedy these deficiencies and identify accountability for losses.

OIOS also raised a number of recommendations which were implemented by the time of issuing the final report. Details of the key recommendations and actions taken are described in the body of the report.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the effectiveness and efficiency of implementation of project activities in United Nations High Commission for Refugees (UNHCR) operations in Pakistan. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. This audit was included in the 2010 workplan because of the high volume of activities (the budget was \$132 million in 2009 and \$176 million in 2010), the significant (300 per cent) increase of budget and expenditures from 2008 to 2009 and the complexity of UNHCR operations in Pakistan.

3. UNHCR operations in Pakistan in 2009 and 2010 were characterized by operating in emergency situations and in difficult security conditions. In the first half of 2009, the humanitarian situation changed dramatically with approximately two million people uprooted by the emergency in North-West Frontier Province (NWFP) and the Federally Administered Tribal Areas (FATA). In the summer of 2010, the floods that hit Pakistan affected more than 20 million people in four regions of Pakistan. The volatility and unpredictability of the security situation in 2009 forced UNHCR to close the Quetta Office and three field units for several months and the Peshawar office for parts of the year. As a result, some of the activities could not be implemented.

4. At the time of the audit, the Representation in Pakistan was responsible for approximately 4.7 million persons of concern living in refugee villages, camps and cities (1.7 million refugees, 1.9 million Internally Displaced Persons (IDPs) and 1.1 million of returned IDPs).

5. In 2010, the Representation worked with 52 (42 in 2009) Implementing Partners (IPs) to implement projects with total programme budget amounting to about \$176 million in 2010 (\$132 million in 2009). During the period under review, the Representation procured goods and services totalling \$159 million of which \$139 million (87 per cent) was local procurement. In October 2010, the UNHCR approved workforce in Pakistan comprised 312 regular staff: 45 Professional (D and P level), 34 National Officer staff, 184 General Service (GS) and Field staff and 49 Temporary Assistants (TA).

6. Following a bomb attack in Islamabad in October 2009, the UN introduced new security measures and implemented the recommendations of the Policy Committee and the Inter-Agency Mission to Pakistan on the criticality of the programme. This included the reduction of Professional staff and the transfer of activities to local and national NGOs. As a result, from 21 local IPs in 2008, the figure almost doubled to 39 local IPs in 2010. The number of posts for Professional staff was also reduced and 10 National Officer posts were added and significant efforts were made to fill the vacant posts. As a result, 18 National Officers, 43 GS staff and 25 staff on temporary assistance status were appointed between 2009 and the end of 2010.

II. AUDIT OBJECTIVES

7. The main objective of the audit was to assess the adequacy of arrangements put in place to support effective and efficient implementation of programme activities in accordance with UNHCR regulations and rules.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit, which took place from November 2010 to January 2011, covered 2009 and 2010 programme activities. It reviewed key aspects of UNHCR operations particularly related to programme management such as the adequacy of the current organizational structure, selection of new IPs and the assessment of their capacity and the monitoring of the activities of the IPs. The audit also reviewed the support functions performed by the UNHCR in relation to the programme implementation.

9. The audit activities included a review and assessment of internal controls implemented by management, interviews with selected staff and IP representatives, analysis of applicable data, documents and records using a judgmental sampling approach.

IV. AUDIT RESULTS

A. Human resources management

Need for urgent filling of vacant professional posts

10. At the time of the audit, 15 of the 44 approved professional posts were vacant. The Representation had experienced difficulty in filling these vacancies, and was concerned about the impact these vacancies had on operations, given the key nature of some of the posts, which included:

- Two Assistant Representatives (P-5), one Senior Protection Officer (P-4), two Protection Officers (P-3) and one Programme Officer (P-3) were vacant.
- The Protection Unit had professional staff on mission or temporary assignment throughout 2010, except for two staff (P-3) who left during the year. At the time of the audit, there was only the Resettlement Officer appointed on the post (P-3), who had just arrived in November 2010.
- In the Programme Unit, Professional staff had been on mission in 2010 until the arrival of the Senior Programme Officer and one Programme Officer in August 2010.

11. The number of Professional staff was reduced because of the security situation, placing an added burden on those remaining and increasing the impact of vacancies on the ability to deliver operations. In this instance, control weaknesses described in the remainder of the report are partly attributable to the vacancies, emphasizing the need to fill the professional posts. To address the

issue OIOS recommended Division of Human Resources Management to assist the Representation in Pakistan, in filling vacant Professional posts. UNHCR took prompt action and informed OIOS that *all vacant posts were prioritized in a special Joint Review Board and, as a result, all professional staff had been appointed to the vacant posts.* Based on the action taken by UNHCR, no further action is recommended.

B. Programme management

Need to ensure that national IPs have the capacity to perform the functions assigned

12. In October 2009, the Representation conducted an operational review that resulted in the overall policy framework for UNHCR operations in Pakistan. Under this policy framework, the following strategy was decided: “.. to embark on a significant handover of functions to national partners, which would be gradual and supplemented with strong capacity building of these national partners”. The strategy of building up capacity of IPs is in accordance with UNHCR manual (Monitoring of IP Chapter 4 – 3.1) which requires that once IPs are selected, UNHCR should establish a regular dialogue and perform joint assessments for the planning process. Whenever the IP is no longer capable to perform satisfactorily, UNHCR should react pro-actively to remedy the weaknesses by developing capacity building activities, training and coaching.

13. At the time of the audit, UNHCR had increased the number of national IPs to 39 as compared to 21 in 2008. Whilst the number had increased in line with strategy there was no evidence of regular dialogue and assessment of these IPs to determine the capacity building needs and a plan put in place to strengthen IP capacity as required by the policy and the UNHCR manual. The Representation explained that the capacity building of IPs had received little attention due to the flood emergency in combination with vacancies in the Programme Unit. Whilst appreciating the response, a strategy to handover significant functions to IPs without the necessary controls in place to ensure that the IPs have the capability to perform the tasks allocated in a manner that meets UNHCR standards presents a reputational and financial risk that needs to be mitigated.

14. An example of the consequences arising from the failure to meet the objective of strengthening capacity building of national IPs was the termination of the partnership with Foundation for Integrated Development Action (FIDA) in 2010. This IP had shown strong operational strengths and was able to carry out the distribution of Non Food Items (NFIs) to targeted beneficiaries despite extremely difficult conditions. The decision to terminate the partnership was based on a disclaimer of opinion by the sub-project’s audit certificate: due to lack of accounting and internal control systems, the auditor was unable to verify a substantial amount of expenditure (\$93,000) for the 2009 sub-project. The IP acknowledged the shortcomings to the Representation, which were due to organizational and operational constraints of operating in a very volatile security environment. This had obliged FIDA management to expand quickly its workforce and to focus on the programme side at the expense of internal

oversight. In spite of FIDA's financial control weaknesses, there was no evidence of any assessment of the IP's controls and capabilities before entering into a sub-agreement or any financial verification during the project's implementation phase or any capacity building activities.

Recommendation 1

(1) The UNHCR Representation in Pakistan should undertake a review of the existing capacity of national Implementing Partners and develop a capacity building plan based on the results of the review.

15. *The UNHCR Representation in Pakistan accepted recommendation 1 and stated that implementation is in progress:*

- Assessments have been carried out by the Sub Office in Peshawar and Quetta to review existing strengths and weakness of the partners working in the KPK and Baluchistan provinces respectively. A similar exercise is planned for the end of May for IPs working in Punjab and Sindh.

- Based on review findings, a number of capacity building trainings covering areas of protection, project planning and implementation, monitoring and reporting, financial management and procurement have been identified and a comprehensive plan is being prepared.

- Meanwhile, training/orientations on some of the identified areas have been implemented. Many IPs were invited for training during which extensive sharing of information in relation to UNHCR's policy priorities, objectives, and results-based programming was discussed.

- IPs were also trained in project planning and proposal writing along the lines of Result Based Management (RBM) principles, target setting, beneficiary selection criterion, etc. IPs were also made familiar with MRSP and FOCUS related reporting formats, financial management, asset management and staffing.

- Training/orientation on procurement and 'UNHCR IP procurement guidelines' have been provided to IPs undertaking major procurement (above US\$ 100,000). Recommendation 1 remains open pending receipt of documentary evidence of the review/assessments of IPs carried out and a copy of the comprehensive plan for capacity building activities of IPs.

Need to improve controls over selection of IPs

16. As per the guidance provided in the IOM-FOM 003/2009, "Pre-selection Checklist for UNHCR Implementing Partners", an IP checklist should be completed to assess and demonstrate that the selected IP possesses the capability to carry out the work required. A multi-functional selection committee should be put in place to carry out the assessment by gathering the required information per IP checklist and subsequently advising on the selection of IPs.

17. In 2010, the Representation entered into new partnerships with 16 IPs (13 national, three international) to cover activities related to the flood emergency and Refugee Affected Hosting Areas projects (RAHA). The IP checklist had been prepared for the newly selected IPs. However, there was no evidence that information obtained had been analysed and that a multi-functional selection

committee had assessed whether IPs had the capacity to carry out the activities for which they were being selected.

Recommendation 2

(2) The UNHCR Representation in Pakistan should establish a multi-functional selection committee for assessing and selecting new Implementing Partners to demonstrate whether Implementing Partners had the capacity to carry out activities for which they were being selected.

18. *The UNHCR Representation in Pakistan accepted recommendation 2 and stated that a multi-functional team has been established in each location comprising members from different sections (such as protection, programme, field, community services) and staff of different levels. The Representation has started to carry out IP assessment and selection, within the multi-functional team framework. Recommendation 2 remains open pending receipt of documentary evidence of the assessments of new IPs carried out by the selection committee including assessed strengths and weaknesses of these IPs to demonstrate whether IPs had the capacity to carry out activities for which they were being selected.*

Documentation of both financial and performance monitoring activities needed improvement

19. As per Chapter 4, Part 6 of the UNHCR Manual, the signing by the UNHCR Programme Officer of the quarterly IP Sub-Project Monitoring Report (SPMR) implies the acceptance of the expenditures submitted by the IP and results in the release of the next instalment to continue with the project's activities. This acceptance should be evidenced by documentation on monitoring activities carried out to verify the expenditures reported and to verify that the agreed results and milestones of the project have been achieved.

20. Although the Project Control Officer explained that financial verifications of SPMRs were carried out on a quarterly basis, before the release of the next instalment, the programme files in Branch Office (BO) Islamabad showed, on average, only two financial verification reports per sub-project per year, and so, not all financial verification visits were documented. Moreover, the extent and content of actual financial review activities could not be assessed due to the lack of reference to budget lines reviewed in the available financial verification reports. The lack of documentation increases the risk that follow-ups of internal control weaknesses were not performed systematically and capacity-building needs were not identified.

21. Documentation of project performance monitoring activities also needed improvement, as per a review of the programme files in branch office Islamabad and sub office Peshawar. Although the Programme Officer explained that several units performed performance monitoring, there were no documents on file, and therefore the on-going process of performance monitoring against sub-project agreement objectives could not be assessed.

Recommendation 3

(3) The UNHCR Representation in Pakistan should ensure that project (financial and performance) monitoring activities are adequately documented to support the signing of the quarterly Implementing Partner Sub-Project Monitoring Report.

22. *The UNHCR Representation in Pakistan accepted recommendation 3 and stated that implementation is in progress. All offices (Country Office, Sub Offices and Field Office) will henceforth carry out monitoring within the multi-functional team framework and will submit a verification report upon completion of the exercise. The sub-project monitoring reports will be signed off by the authorized staff only after reviewing the progress, as evidenced by the verification report. The adequacy of documentation will further be cross-checked when installment payment is processed. Recommendation 3 remains open pending receipt of copies of verification reports prepared by multi-functional teams in support of the signing the IP Sub-Project Monitoring Reports.*

Need to develop remote monitoring activities

23. In countries like Pakistan where the security situation does not allow adequate monitoring activities by UNHCR staff, a strategy for remote monitoring is required. Remote monitoring activities are conducted by trained local consultants or local experts or by local IP staff, for whom the security risk is much lower due to familiarity and knowledge of the people, local conditions and culture. In its 2010 report to UNHCR EXCOM, OIOS highlighted the need for guidance on remote monitoring arrangements for high security situations to improve effectiveness of programme monitoring.

24. Although remote monitoring activities were carried out on ad-hoc basis in Pakistan, the Representation should develop this concept further to enhance the quality of programme monitoring in areas where security is the most volatile. Other UNHCR operations such as in Iraq and Afghanistan, have taken various types of initiatives to perform programme monitoring remotely.

Recommendation 4

(4) The UNHCR Representation in Pakistan should seek support from UNHCR Headquarters to develop a plan for remote monitoring of project activities.

25. *The UNHCR Representation in Pakistan accepted recommendation 4 and stated that implementation is in progress. The Afghanistan and Iraq experiences have been sought and provided. Each office will commence GPS and photo recording of project activities for monitoring /documentation purposes when the required equipment is available. The Representation and the Bureau will also take into consideration the findings of UNHCR Policy Development and Evaluation Service's review of how operations in Pakistan and Afghanistan have adapted to operating in insecure environments. This report is currently under*

preparation. Recommendation 4 remains open pending receipt of a plan for implementation of remote monitoring activities.

Need to follow up on IP audit recommendations in a timely manner

26. IOM/064-FOM/067/2007- Implementing Partner Audit Certification – Roles, Responsibilities and Accountabilities states that: “Representatives should review the contents of all audit certificates and develop action plans to remedy any issues identified.” In 2010, although the Representation had requested all IPs to respond to the audit recommendations by the end of July 2010, at the time of the audit, 24 responses out of 58 (41 per cent) had not been received. The Representation did not follow up with IPs who did not provide a response and take necessary action to improve the response rate.

27. For the ones received, there was no evidence of follow-up actions on the management letters by the Programme/Project Control Unit. There was also no evidence of any action taken by UNHCR where the auditor’s prior year’s recommendations had not been implemented. For example, in the audit of 2009 IP sub-projects, there was an issue with the lack of supporting documentation for a payment of a grant amounting to \$382,000, by IP, Chief Commissioner Afghan Refugees (CCAR) to two Commissioners of Afghan Refugees in the provinces. The Representation explained that this amount is part of the RAHA projects, for which instalments are distributed through CCAR. However, there was no evidence of action taken by the Representation to verify the correctness and validity of the expenditure. In absence of this the Representation is at risk that UNHCR funds have not been spent as intended and that the IP’s expenditures have been overstated. As a result, UNHCR had missed an opportunity for improving IPs’ internal control systems.

Recommendation 5

(5) The UNHCR Representation in Pakistan establish procedures to follow up on all recommendations contained in external auditor management letters and ensure all Implementing Partners submit an action plan to resolve the audit recommendations.

28. *The UNHCR Representation in Pakistan accepted recommendation 5 and stated that implementation is in progress. For systematic and timely follow-up on audit matters with IPs, focal persons have been designated in each location. The respective Sub/Field Offices will make periodic follow-up with partners in their respective locations to resolve the outstanding recommendations and report to the Representation on action taken by Sub/Field Offices and the IP on a monthly basis. The Representation’s Project Control Unit will consolidate the report from Sub/Field Offices, review progress on a monthly basis as well as provide technical support to the Sub/Field Offices, as required. The Representation has followed up with Chief Commissioner Afghan Refugees (CCAR) by letter and has not yet received a formal response. By 15 May 2011, if there is no progress, the Representation will commence joint verification procedures by deploying staff to each location. If the locations are not accessible*

due to security reasons, UNHCR will seek the services of an independent audit team for the verification of expenditure by 15 June 2011. Recommendation 5 remains open pending receipt of the consolidated report evidencing the periodic follow-up of all audit recommendations and their resolution, and receipt of the verification report by UNHCR staff on the CCAR expenditure amount of \$382,000 or confirmation of reimbursement by CCAR.

C. Procurement

Need to strengthen controls over IPs delegated procurement for transitional shelters

29. At the time of the audit, the Representation was in the process of delegating to non-prequalified IPs procurement for the construction of transitional shelters. The total amount involved is \$81 million.

30. Procurement was delegated due to a lack of internal capacity to deal with such a volume of activities, and to take advantage of national IP local sourcing capabilities for shelter materials. In OIOS' opinion, there are significant risks in delegating high value procurement to non-prequalified IPs, whose procedures may not be well developed and therefore may not be in compliance with UNHCR IP procurement guidelines.

31. To assist in mitigating the risk, a mission from UNHCR headquarters was on going at the time of the audit to assess the IPs' procurement procedures for transitional shelters. To further mitigate the risks, there is a need to strengthen controls, develop a comprehensive monitoring plan of IP procurement procedures, and have the delegation approved by the Local Committee on Contracts (LCC) as required by the UNHCR manual. The delegation of procurement to each IP of over \$100,000 should be approved by the LCC before signing the sub-project agreement, as required by UNHCR IP procurement guidelines. This provides the LCC with the opportunity to review and advise on the adequacy of monitoring activities to support the delegation.

32. When delegating procurement to IPs, the Representation should also consider the effect of taxes. Because IPs are not tax exempted in Pakistan, the Value Added Taxes (VAT), 17 per cent, on procurement of shelter materials would be charged to these UNHCR projects. For the shelter projects, this would mean that the Representation pays approximately \$13 million (17 per cent of \$81 million) of VAT through the sub-projects implemented by the IPs.

33. To address the issue OIOS recommended the Representation to develop a monitoring plan of procurement procedures executed by IPs, including the delegation of procurement to IPs over \$100,000 being reviewed and approved by the LCC before signing the sub-project agreement while considering the impact of the 17 per cent VAT. UNHCR took prompt action and informed OIOS that *UNHCR HQs deployed a Supply Officer (procurement) to assist the Representation in reviewing IP procurement procedures and training IP staff on procurement. Training was conducted for all existing partners (with delegated procurement of \$100,000); adequacy of procurement procedure was jointly*

assessed with IPs. To ensure adequate monitoring of the IP procurement, the Representation put in place additional measures, viz:

- *All IPs have been provided with UNHCR IP guidelines. IPs not pre-qualified for procurement are required to confirm in writing that they agree to follow UNHCR IP guidelines.*
- *UNHCR participates in all major procurement processes, including opening of bids, comparison and final award of the contract.*
- *Prior to selection of new IPs, a risk assessment is carried out by a team applying the standard UNHCR check list.*
- *Proposals for the delegation of IP procurement are reviewed by the LCC before signing of the sub-project, and approved only if the above process is duly completed and is also seen to be the best operational option.*
- *A plan/check list has been developed for monitoring of IP procurement (pre and post award of the contract) which will be carried out by UNHCR team under multi-functional structure.*

Based on the action taken by UNHCR, no further action is recommended.

Need to determine for security works carried out whether losses were incurred and accountability is assigned for any losses

34. The Representation engaged a local company to construct T-walls around the office building to protect the office from bomb blasts. The contract, worth \$194,276, started in October 2009, after approval by the Committee on Contracts (CoC) but without obtaining advice from a bomb blast expert at the inception of the project. In November 2009, when this contract was already underway, a bomb blast expert, on mission from UNHCR headquarters, assessed that the extra security measures were not adequate and called for extra work, namely three meters' high T-walls that would cost an extra \$129,665. To comply with the expert's advice, the Field Safety Advisor, acting beyond his authority and without any competitive bidding, or request for a waiver for bidding, orally authorized the contractor to carry out the additional work. The management of branch office Islamabad only became aware of the issue when the contractor filed a claim after completion of the work. The Supply Unit sought retroactive approval from the LCC, which was turned down. The matter is still outstanding and the contractor has not been paid. The LCC requested the Field Safety Advisor to acknowledge in writing the non-compliance before proceeding, which had not happened at the time of the audit.

Recommendation 6

(6) The UNHCR Representation in Pakistan should investigate the circumstances of authorizing the additional work to be carried out in relation to construction of the T-walls and determine whether there was any financial loss to UNHCR and to determine accountability.

35. *The UNHCR Representation accepted recommendation 6 and stated that implementation is in progress. A written request has been submitted to the former Field Security Advisor and his response is awaited. The Head of DESS has also been asked to assist to enable the Representation to follow-up for*

settlement of this case. Recommendation 6 remains open pending confirmation from the Representation in Pakistan that the circumstances prevailing around the authorization of additional work have been properly investigated and confirmation by the Representation of determination whether there was any loss to UNHCR and determination of its accountability.

Evaluation of vendors' performance needs to be performed periodically

36. There was no systematic evaluation of vendor performance during the period under review. The competence of the vendors was only measured by the timeliness of the delivery on a case-by-case basis, without a systematic approach to find out whether there were any weak and non-performing vendors as required by UNHCR Manual, chapter 8 and additional guidance provided by IOM-FOM/45/2010 Revision: Vendor Registration Process. The Representation explained that staffing levels were inadequate to spare resources on evaluation, given the fact that it was an emergency operation. Whilst appreciating the situation, there was no assessment of the risks associated with the decision such as restricting evaluation to high-risk items. The lack of measures taken to evaluate the overall performance of the vendors increased the risk that non-compliance with the established specifications might not easily be detected.

Recommendation 7

(7) The UNHCR Representation in Pakistan should put in place measures for the periodic conduct of performance reviews of vendors as per UNHCR Manual, chapter 8 and additional guidance provided by IOM-FOM/45/2010 Revision: Vendor Registration Process. The measures should include the practice to be used in emergencies.

37. *The UNHCR Representation accepted recommendation 7 and stated that implementation is in progress. By the end of March 2011, a separate file for all suppliers (with Frame Agreements and other frequently used suppliers) exceeding a contract value of \$5,000 (a threshold requiring formal tendering) has been established. The file contains suppliers' verification reports, delivery records, inspection records and non-compliance on contract clauses (POs etc), as applicable. The local frame agreements for all NFI suppliers expire on 31 May 2011. A detailed review of all local frame agreement suppliers will be carried out upon contract expiry. The Representation's Supply Unit has advertised for establishment of new Frame Agreements for NFIs. Once agreements are established, quarterly review of the vendors will be conducted.* Recommendation 7 remains open pending confirmation from the Representation in Pakistan that a performance review of all local frame agreement suppliers has been carried out, and quarterly reviews of vendors are taking place.

Need to comply with the Cooperation Agreement to recover the taxes on motor vehicles procured locally

38. In 2010, the Representation bought six vehicles locally for \$107,583 for which \$19,000 tax was paid but was not reimbursed by the Government.

Government officials informed the Representation that they had exhausted their quota for the importation of vehicles into Pakistan tax free. As a result, any subsequent procurement of vehicles, either locally or internationally, would attract taxation, unless the obsolete part of the fleet was disposed of, to free up space on the quota.

39. The host government requested UNHCR to dispose of its aged and worn-out fleet to free up space of the duty-free imported vehicles, without which, no imports would be permitted free of tax. However, according to Pakistan tax laws, whoever buys should pay the full amount of tax assessed on the original purchase amount when the vehicle was brand new. It therefore proved difficult to find interested buyers.

40. The Representation has explored various disposal options including donating them to charities or selling them broken up for spare parts to relevant dealers. However, all of these alternatives are hindered by the tax requirement. What this essentially means is that all future purchases of vehicles shall attract tax. This is contrary to the Cooperation Agreement signed between the Government of Pakistan with UNHCR in 1993. The Government committed itself to abide by the Convention on the Immunities and Privileges of the United Nations, which states that the UN and organizations under it shall be exempted from all direct taxes; customs duties and prohibitions and restrictions on imports and exports in respect of articles imported or exported by the United Nations for its official use. This issue affects all UN bodies operating in Pakistan, and as such should be tackled at the UN country team level.

Recommendation 8

(8) The UNHCR Representation in Pakistan should, with the assistance of the Bureau for Asia and the Pacific and Legal Affairs Section approach the UN Country team to pursue the possibility of joint discussions with the Government of Pakistan on the issue of taxes on old and new vehicles, in relation to the Cooperation Agreement on the procurement of duty free vehicles.

41. *The UNHCR Representation in Pakistan accepted recommendation 8 and stated that implementation is in progress. A request for refund of sale tax has been sent to the Ministry of Foreign Affairs for 6 Toyota Corolla cars locally purchased in 2010. In future, prior authorization from the Ministry will be requested. The Bureau and Legal Affairs Section will ascertain the issues and assist the Representation in consultations with the UNCT in Pakistan regarding a coordinated approach to the Pakistani authorities on the issue of taxes imposed on the procurement of UN vehicles. Recommendation 8 remains open pending confirmation from the Representation that the issue of taxes on vehicles was successfully cleared with the Pakistani authorities in line with the Cooperation Agreement.*

D. Asset and warehouse management

Physical verification and measures to record the stock movements in MSRP are urgently required to mitigate the risk of losses

42. Sarhad Rural Support Programme (SRSP), the UNHCR IP responsible for warehouse management from April 2010 did not undertake physical counts of stock and provide UNHCR with the necessary data to update asset records in the Management Systems Renewal Project (MSRP). Under the sub-agreement and a contract for Logistics Solutions, which was a part of the sub-agreement, SRSP was responsible for inventory control, including regular physical stock counting and reporting; providing UNHCR all the required information and updated stock at any given time as required per Chapter 8 of the UNHCR Manual. SRSP was also required to provide on a daily basis, a stock report, showing all new receipts, dispatches and the balance per item.

43. The IP did not perform stock verification due to, according to SRSP Programme Manager, the constant involvement in emergency relief work. For the recording of data in MSRP, SRSP was maintaining the manual records, which were to be updated in MSRP by UNHCR staff. However, recording in MSRP could not be done as foreseen as all the UNHCR staff were busy coping with other contingencies. The receipt of NFIs was recorded, as it was done directly by UNHCR staff when processing the procurement transactions. However, the issue records from the warehouse for distribution were not updated.

44. Because of unsystematic storage and inadequate physical inventory compilation procedures, no test check of the assets or NFIs to assess the authenticity of records and confirm the accuracy of the stock physically available could be performed. As a result, no assurance about the authenticity, accuracy and completeness of the inventory and assets in stock could be obtained. The risk of unsystematic storage in the warehouse is that UNHCR may not be able to determine the actual stock position in the warehouse and may not be able to perform timely analysis about the stock movements, aging and condition of inventory. It might also result in faulty procurement decisions.

45. To address the issue OIOS recommended the Representation to conduct a physical count of assets and inventories in warehouses and update the records for assets and inventories in the Management Systems Renewal Project. UNHCR took prompt action and informed OIOS that *in accordance with the exceptional deadline granted to the Pakistan Operation by DESS, the physical verification of Property, Plant and Equipment as well as the inventory count was carried out and relevant reports were submitted to HQ on 10 February 2011. MSRP records are completely updated for all warehouses stock. Extension of the Right of Use (ROU) agreements with IPs is being implemented, which is based on the outcome of the physical verification of assets.* Based on the action taken by UNHCR, no further action is recommended.

Need to address noncompliance with UNHCR rules on the evaluation of IP capacity for warehouse management

46. SRSP did not comply with the terms of the contract for Logistics Solutions, clause 5, which stated that SRSP was responsible for storing UNHCR

consignments according to international warehousing practices. As per clause 5, SRSP was required to (a) provide solid covered or open warehouses; (b) store goods in a controlled environment; (c) adopt inventory control measures like arrangement of stock/ Bin cards, stake cards, tally sheets etc.; (d) provide storekeeping services, and (e) arrange 24-hour security of the warehouses. These were not complied with at the largest warehouse, Azakhel, a compound consisting of 28,000 sq. meters with 25 domes and a storage hall. For example, the warehouse lacked efficient layout management plan and effective space utilization, it lacked shelves, proper stacking, bin cards, compliance with First-in First-out principle and the warehouse contained a lot of obsolete and damaged assets and NFIs.

47. Furthermore, the Azakhel warehouse did not comply with all of the best practices for warehouse management contained in the UNHCR manual, Chapter 8, part 4. For example, it lacked inadequate cleaning and pest control activities, inadequate ventilation system, inadequate safety measures against the threats of the floods and fire and blockage of alternate exits in each dome, by assets/NFIs dumped in front of them.

48. The non-compliance issues discussed above could have been prevented had the Representation complied with UNHCR Manual, Chapter 8, Part 4, Section 2, which contains detailed instructions/guidelines for warehouse management to be used as guidelines to assess the capacity of an IP for managing a warehouse. The assessment process is part of the feasibility study required to be performed before outsourcing warehouse management. The Representation did not conduct such a feasibility study before delegating the warehouse operations to SRSP.

49. The instructions given by the Representation to SRSP for warehouse management were very brief containing three process flow charts and slides on best practices in warehousing, resource requirements and general implementation plan. The principles of good management require that the UNHCR prepares Standard Operating Procedures (SOPs) containing detailed procedures for the layout planning, effective space utilisation, storage of assets by using palettes and stacks, keeping records, performing physical counts and verification of stocks. According to the Head of sub office, Peshawar, SOPs had not been prepared because of the contingency caused by the flood.

50. To address the issue OIOS recommended the Representation to identify the most suitable option to address the issue of warehouse management. As part of this exercise, any decision to outsource should include an evaluation of the capacity of any Implementing Partner (IP) or service provider. UNHCR took prompt action and informed OIOS that *it had taken over the management of the central warehouses as of 1 February from the IP (SRSP). UNHCR has hired two experienced staff for the warehouse and plans to deploy one additional staff member in an effort to improve the efficiency, effectiveness, management and supervision of the warehouse operations. Flow charts for the development of SOPs are complete, bin cards, GRNs etc are in use.* Based on the action taken by UNHCR, no further action is recommended.

Lack of insurance on inventory resulted in losses for which accountability needs to be assessed

51. UNHCR manual Chapter 8 on Supply Chain Management requires that the warehouse inventory be insured as a safety mechanism against the threats of theft, floods, and other contingencies. Clause 9 of the sub-agreement between the Representation and SRSP for logistics solutions, transport and freight forwarding services states that the issue of insurance will be decided after mutual negotiations between UNHCR and the IP. UNHCR allocated \$47,000 for insurance in SRSP's budget for 2010, which was given to them in April 2010. However, the insurance had not been concluded before the arrival of the floods in July 2010 destroying valuable inventory. The external auditors of SRSP had also observed before the flood that the IP should insure the inventory. SRSP indicated having initiated the process in May 2010 for procuring insurance, which was before the floods, which could not be completed in a timely manner due to procedural delays. In early December 2010, UNHCR Headquarters, on recommendations of the Supply Management Section (SMS), procured insurance from an international firm on behalf of UNHCR Pakistan.

Recommendation 9

(9) The UNHCR Representation in Pakistan should determine whether there was negligence for not having insurance and establish accountability for losses arising because of the absence of insurance.

52. *The UNHCR Representation in Pakistan accepted recommendation 11 and stated that it was implemented. Warehouse has been insured with Global Insurance Company (Hughwood) which has a Global Frame Agreement with UNHCR HQ. The case was reviewed by the LAMB in its meeting dated 10 February 2011 and endorsed for write off. The case has been further submitted to the HAMB for decision.* Recommendation 11 remains open pending receipt of documentary evidence of the determination whether there was any negligence for not having insurance for the lost inventory items, valued per the LAMB minutes at \$2.9 million. The provided LAMB minutes do not address the issue of negligence of not having insurance as required by the UNHCR manual or do not establish accountability for the loss of the uninsured inventory items valued at \$2.9 million.

Clean up and disposal of old assets and NFIs is urgently required

53. The Representation did not dispose of obsolete PPE assets as required by UNHCR Manual Chapter 8. Though the MSRP asset records showed four assets in BO Islamabad and 32 assets in SO Peshawar as old as 15 years which had not been disposed of, a visit to the warehouses in Azakhel Peshawar revealed over 100 PPE, Serially-Tracked Items (STIs) and NFIs that had not been disposed of. The warehouses in Azakhel were severely affected by the floods in July 2010, which damaged assets, STIs and sizeable stocks of NFIs. The Representation explained that asset disposal had been a lower priority due to the high number of emergencies that had occurred starting with the earthquake in 2005. In addition,

a large number of the items were vehicles, which were affected by the tax issue discussed earlier in the report.

54. At the time of audit visit to sub office Peshawar, the IP had just provided the lists of the lost/ destroyed items to the Programme Officer, SO Peshawar. The Programme Officer planned to estimate the value of the lost/ destroyed items before submission of the case to the Local Asset Management Board (LAMB).

Recommendation 10

(10) The UNHCR Representation in Pakistan should ensure that assets, Non Food Items and other Serially Tracked Items damaged, lost or destroyed by the floods are submitted to the Local Asset Management Board for write off and subsequent disposal.

55. *The UNHCR Representation in Pakistan accepted recommendation 10 and stated that implementation was in progress. The case for items destroyed due to floods has been endorsed by LAMB for write off in its meeting No 01/2011 held on 10 February 2011. The case has been submitted to HAMB for final decision. The decision is still awaited from HAMB.* Recommendation 10 remains open pending receipt of documentary evidence that also assets and STIs damaged, lost or destroyed were submitted to the LAMB for write off and subsequent disposal. The LAMB meeting (01/2011) decided only on inventory/Non Food Items lost due to the floods.

E. Information technology management

Need to submit Information Technology (IT) cases to Information and Communications Technology Governance Board

56. The Information and Communications Technology (ICT) Governance Board established by the IOM-FOM/57/2006 required that all the business units would submit all IT initiatives and projects having a value of \$50,000 or more to the Division of Information Service Technology (DIST) for submission to the ICT Governance Board. The purpose of these instructions is intended to ensure that the information and communication technology needs of the UNHCR field missions are properly identified and IT initiatives are aligned with the overall goals and priorities of the High Commissioner.

57. The Representation did not submit to the ICT Governance Board for approval any of its IT projects. In 2009, the Representation paid \$284,000 and \$294,000 to an IT service provider for Iris Technology (BioID) and, in 2010, delegated to two IPs, BEFARe and National Database and Registration Authority (NADRA), the implementation of the following IT projects with a total budget of \$7.1 million:

- Population Profiling, verification and Response for Afghan refugees in Pakistan (PPVR) (Budget \$1.2 million); and,
- Secure Cards for Afghan Citizens (SCAC) (Budget \$5.9 million).

Recommendation 11

(11) The UNHCR Representation in Pakistan should comply with IOM-FOM/57/2006 and submit to the Information and Communications Technology Governance Board for ex-post facto approval the projects delegated to Implementing Partners and directly implemented.

58. *The UNHCR Representation in Pakistan accepted recommendation 11 and stated that implementation was in progress.* Recommendation 11 remains open pending confirmation by the Representation that the projects delegated to IPs and directly implemented have been submitted to the ICT Governance Board at UNHCR Headquarters for ex-post facto approval.

Action required on Disaster Recovery and Business Continuity

59. Disaster Recovery and Business Continuity (DRBC) plans ensure protection of information and restoration of information processing systems in case of a major disaster or evacuation. However, the Representation had not made arrangements for DRBC planning for its IT and communication facilities nor for the projects being implemented by its IPs. In compliance with best practices in IT management, there should be arrangements in place to protect and back-up the database servers against risks of fire, flooding and other disasters.

60. The sub-agreements with the IPs NADRA and BEFARe did not have clauses regarding DRBC policies or contingency arrangements should the service provider not be available. NADRA and BEFARe and its service provider for software development (EBDM) were maintaining backup facilities at the premises. EBDM took daily back ups of the data in removable discs, which were stored with the Project Director and Project Manager BEFARe, who have the offices in the same premises. The intended server room in BEFARe had no grill and had no arrangements for maintaining a controlled temperature. Similarly, NADRA were taking daily back ups, which were stored in the same building. The generally accepted principles of good management require that the back up should be safely stored in other premises. The Project coordinator in NADRA expressed the view that DRBC would increase the costs of the project and should only be considered for projects involving large volumes of data.

61. To address the issue OIOS recommended the Representation seek advice from DIST on data backup and recovery and when IPs involved in the implementation of IT projects should be requested to prepare and submit DRBC plans. UNHCR took prompt action and informed OIOS that *it had implemented Disaster Recovery and Business Continuity (DRBC), with the shift of the PPV server to the Country Office, standardized back-ups (son-father-grandfather, which are daily back-ups that get backed up again every Saturday. The system involves 6 hard drives (son), and then the weekend back-up (father), 4 times per month and the monthly back up (grandfather) ensures the data is never lost. This cycle gets repeated every month. Audit logs record when/who accessed them. The UNHCR also has all source codes for the PPV interactive data-entry*

software, so will be able to maintain and update the software as needed. The Representation nevertheless in future will seek HQ advice, as may be required, for technical assistance. The creation of a comprehensive Information Security Policy (including Disaster Recovery and Business Continuity plans) will be one of the primary responsibilities of the future incumbent of the newly created Senior ICT Security Officer position in DIST. Based on the action taken by UNHCR, no further action is recommended.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNHCR Representation in Pakistan should undertake a review of the existing capacity of national Implementing Partners and develop a capacity building plan based on the results of the review.	Strategy	High	O	Receipt of documentary evidence of the review/assessments of IPs carried out and a copy of the comprehensive plan for capacity building activities of IPs.	31/10/2011
2	The UNHCR Representation in Pakistan should establish a multi-functional selection committee for assessing and selecting new Implementing Partners to demonstrate whether implementing Partners had the capacity to carry out activities for which they were being selected.	Compliance	Medium	O	Receipt of documentary evidence of the assessments of new IPs carried out by the selection committee including assessed strengths and weaknesses of these IPs to demonstrate whether IPs had the capacity to carry out activities for which they were being selected.	28/02/2011
3	The UNHCR Representation in Pakistan should ensure that project (financial and performance) monitoring activities are adequately documented to support the signing of the quarterly Implementing Partner Sub-Project Monitoring Report.	Operational	Medium	O	Receipt of copies of verification reports prepared by multi-functional teams in support of the signing the IP Sub-Project Monitoring Reports.	15/07/2011
4	The UNHCR Representation in Pakistan should seek support from UNHCR Headquarters to develop a plan for remote monitoring of project activities.	Operational	Medium	O	Receipt of a plan for implementation of remote monitoring activities.	30/08/2011
5	The UNHCR Representation in Pakistan establish procedures to follow up on all recommendations contained in external auditor management letters and ensure all Implementing Partners submit an action plan to resolve the audit recommendations.	Operational	Medium	O	Receipt of the consolidated report evidencing the periodic follow-up of all audit recommendations and their resolution, and receipt of the verification report by UNHCR staff on the CCAR expenditure amount of \$382,000 or confirmation of reimbursement by CCAR.	30/06/2011
6	The UNHCR Representation in Pakistan	Governance	Medium	O	Confirmation from the Representation in	30/08/2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	should investigate the circumstances of authorizing the additional work to be carried out in relation to construction of the T-walls and determine whether there was any financial loss to UNHCR and to determine accountability.				Pakistan that the circumstances prevailing around the authorization of additional work have been properly investigated and confirmation of determination whether there was any loss to UNHCR and determination of its accountability.	
7	The UNHCR Representation in Pakistan should put in place measures for the periodic conduct of performance reviews of vendors as per UNHCR Manual, chapter 8 and additional guidance provided by IOM-FOM/45/2010 Revision: Vendor Registration Process. The measures should include the practice to be used in emergencies.	Compliance	Medium	O	Confirmation from the Representation in Pakistan that a performance review of all local frame agreement suppliers has been carried out, and quarterly reviews of vendors are taking place.	30/06/2011
8	The UNHCR Representation in Pakistan should, with the assistance of the Bureau for Asia and the Pacific and Legal Affairs Section approach the UN Country team to pursue the possibility of joint discussions with the Government of Pakistan on the issue of taxes on old and new vehicles, in relation to the Cooperation Agreement on the procurement of duty free vehicles.	Compliance	Medium	O	Confirmation from the Representation that the issue of taxes on vehicles was successfully cleared with the Pakistani authorities in line with the Cooperation Agreement.	30/06/2011
9	The UNHCR Representation in Pakistan should determine whether there was negligence for not having insurance and establish accountability for losses arising because of the absence of insurance.	Governance	Medium	O	Receipt of documentary evidence of the determination whether there was any negligence for not having insurance for the lost inventory items, valued per the LAMB minutes at \$2.9 million. The provided LAMB minutes do not address the issue of negligence of not having insurance as required by the UNHCR manual or do not establish accountability for the loss of the uninsured inventory items valued at \$2.9 million.	31/03/2011
10	The UNHCR Representation in Pakistan	Compliance	Medium	O	Receipt of documentary evidence that also	30/06/2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
	should ensure that assets, Non Food Items and other Serially Tracked Items damaged, lost or destroyed by the floods are submitted to the Local Asset Management Board for write off and subsequent disposal.				assets and STIs damaged, lost or destroyed were submitted to the LAMB for write off and subsequent disposal. The LAMB meeting (01/2011) decided only on inventory/Non Food Items lost due to the floods.	
11	The UNHCR Representation in Pakistan should comply with IOM-FOM/57/2006 and submit to the Information and Communications Technology Governance Board for ex-post facto approval the projects delegated to Implementing Partners and directly implemented.	Compliance	Medium	O	Confirmation by the Representation that the projects delegated to IPs and directly implemented, have been submitted to the ICT Governance Board at UNHCR Headquarters for ex-post facto approval.	31/05/2011

1. C = closed, O = open

2. Date provided by the UNHCR Representation in Pakistan in response to recommendations.

