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

DATE: 3 October 2011

REFERENCE: IAD: 11- 00609

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

Fatoumata

SUBJECT: **Assignment No. AR2011/113/01 – Audit of UNHCR operations in Zambia**

OBJET:

Overall results relating to the achievement of UNHCR's role for assistance to refugees and persons of concern living in Zambia were partially satisfactory

1. Attached please find the final report on the above-mentioned audit.
2. Annex-I shows the status of recommendations. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and to the Secretary-General, annually for important recommendations (nos. 1-2).
3. The audit also identified an opportunity for improvement (see Annex-II). 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.
4. 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.
5. We wish to express our appreciation to the Management and staff of UNHCR for the assistance and cooperation extended to the auditors during the assignment.

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. Kumiko Matsuura-Mueller, Controller and Director, Division of Financial and Administrative Management, UNHCR
Mr. George Okoth-Obbo, Director, Bureau for Africa, UNHCR
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Mr. Christopher F. Bagot, Chief, Geneva Audit Service, OIOS

Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

AUDIT REPORT

Audit of UNHCR operations in Zambia

BACKGROUND

The main objectives of United Nations High Commissioner for Refugees (UNHCR) operations in Zambia were to:

- strengthen the capacity of the Government to provide refugees protection in line with Zambia's international obligations;
- improve the registration process in line with international standards; and,
- promote and implement durable solutions by facilitating voluntary repatriation, promoting adoption of legal framework for local integration and achieving the resettlement targets.

At the time of the audit, the Representation in Zambia assisted 32,000 persons of concern living in the capital, Lusaka, and the two refugee settlements, Meheba and Mayukwayukwa. In 2010, the Representation worked with 15 (17 in 2009) Implementing Partners (IPs) to implement projects with total programme budget amounting to \$10.3 million in 2010 and \$12.4 million in 2009. During the period under review, the Representation procured goods and services totaling \$3.6 million. In January 2011, the UNHCR approved workforce in Zambia comprised 56 regular posts of which 48 were filled.

OBJECTIVE AND SCOPE

This audit was conducted to assess the adequacy and effectiveness of UNHCR Zambia Representation's risk management, control and governance processes in providing reasonable assurance regarding the achievement of its role for assistance to refugees and persons of concern living in Zambia. The key controls tested for the audit included those related to: (a) strategic planning; (b) project management; (c) needs assessment and planning; (d) performance monitoring; and (e) regulatory framework. The audit covered UNHCR Zambia's operations related to the selected key controls for the period 2009-2010.

AUDIT RESULTS

In OIOS' opinion, UNHCR Representation's risk management, control and governance processes examined were **partially satisfactory** to provide reasonable assurance regarding the achievement of its role for assistance to refugees and persons of concern residing in Zambia.

Controls were in place to ensure achievement of objectives in the areas of strategic planning towards durable solutions, project management for projects implemented through IPs and needs assessment and planning for voluntary repatriation and closure of camps. UNHCR had taken action to improve monitoring of the registration process and avoid reoccurrence of previously identified registration fraud. Verification of expenditures reported by IPs had improved in 2010 and action had been taken to initiate timely follow up of IP audit recommendations and results in financial verification reports. The Representation may further benefit from preparing a plan for monitoring performance activities of its Implementing Partners.

Need to review and clean-up Property, Plant and Equipment (PPEs) and Serially Tracked Items (STIs)

Although PPE and STI verification was carried out at the end of 2009 and is about to be completed for 2010, there were still many discrepancies between Management Systems Renewal Project (MSRP) records and physical quantities. For instance, 107 items with an acquisition value of \$138,914 were not found during the 2009 verification and 185 items with an acquisition value of \$221,312 have not been checked since 1 January 2010. New items are not always barcoded and do not appear in MSRP and some barcoded items could not be found in MSRP. In addition, 50 vehicles that had been identified for disposal were still in the compounds. It is essential that such a verification and disposal exercise be undertaken expeditiously so that UNHCR can fulfill its obligations under the International Public Sector Accounting Standards (IPSAS) and to ensure safeguarding valuable assets.

(1) The UNHCR Representation in Zambia should undertake a thorough verification of its assets, dispose of obsolete assets and update MSRP to ensure accuracy of records of Property, Plant and Equipment and Serially Tracked Items.

The UNHCR Administration accepted recommendation 1 stating that following the closure of the northern operation, complete asset verification was undertaken in December 2010, resulting in the identification of a large number of assets for disposal and redeployment. The office has since been working diligently on the sale and relocation and is about to finalize the process. All PPEs have been verified, 67 STIs remain to be verified but cannot be located. The office has opted not to write them off at this stage but continue to look for them. Wherever applicable, assets have been disposed of in MSRP. Recommendation 1 remains open pending receipt of documentation confirming verification, completeness and accuracy of assets and its records.

MSRP Warehouse module needs updating

As per IOM52/2009-FOM51/2009 “IPSAS: physical count of inventory as at 31 December 2009”, all inventory needs to be reflected in MSRP warehouse module including recording of receipts and issuances. The Representation did not use MSRP to record all inventory movements. The stock in the warehouse contains many items that are not currently in MSRP. Data entry errors in purchase orders and in receiving have resulted in discrepancies between the actual physical inventory and warehouse records.

Without an accurate, consolidated, up-to-date and independent inventory system, management cannot plan adequately for procurement needs. With the adoption of IPSAS, the UNHCR Representation may encounter difficulties accurately reporting inventory amounts in the financial statements. Furthermore, donor reporting is more time consuming and the detection of errors or misappropriations in the supply chain is more difficult.

(2) The UNHCR Representation in Zambia should perform a full inventory count in its warehouses and clean up the data in MSRP warehouse module in all locations.

The UNHCR Administration accepted recommendation 2 stating that verification of all inventory items and update in the MSRP warehouse module has been finalized. The use of the warehouse module has been decentralized to the field and relevant staff trained (Solwezi only), which should result in a timely update of MSRP database. Based on the actions taken, recommendation 2 has been closed.

ACKNOWLEDGEMENT

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

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations of the United Nations High Commissioner for Refugees (UNHCR) in Zambia.

II. AUDIT OBJECTIVE

2. This audit was conducted to assess whether UNHCR had implemented adequate risk management, control and governance systems to provide reasonable assurance regarding the achievement of its role for assistance to refugees and persons of concern living in Zambia. The key controls tested for the audit included those related to: (a) strategic planning; (b) project management; (c) needs assessment and planning; (d) performance monitoring; and (e) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) Strategic planning - those controls that are designed to provide effective overall strategic planning of the programme towards durable solutions, based on detailed information of the population of concern, such as profiling information and refugee willingness to return or assessment of criteria for resettlement.

(b) Project management - those controls that are designed to ensure adequate management of projects and IPs.

(c) Needs assessment and planning - those controls designed to provide an assurance on the adequacy of arrangements for the planning of important project objectives, such as voluntary repatriation and closure of camps, and relate to matching the resources to the required activities in the short term, and ensuring plans have been established to implement these activities.

(d) Performance monitoring - those controls that are designed to provide reasonable assurance that metrics are established in order to ensure that the Representation delivers its objectives in accordance with expectations and that performance against these metrics is reported, analyzed and communicated.

(e) Regulatory framework - those controls designed to provide reasonable assurance that risks relating to the Representation's inability to provide expected services and support due to an inadequate or ineffective set of regulatory instruments such as rules and regulations, procedures and guidelines or appropriate organizational structure are mitigated.

III. AUDIT SCOPE AND METHODOLOGY

3. OIOS conducted this audit from February to April 2011. The audit covered UNHCR Zambia's operations related to the selected key controls for the period 2009-2010.

4. To gain a general understanding of the current practices, processes and activities of the UNHCR Representation in Zambia, OIOS interviewed staff at the Representation, UNHCR regional office and Headquarters and reviewed relevant documents including policies, guidelines and procedures relating to UNHCR field offices. The audit team conducted an activity-level risk assessment to identify and evaluate specific risk exposures and to confirm the relevance of the selected five key controls in mitigating the associated risks.

5. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of written policies and procedures and whether they were implemented consistently.

IV. OVERALL ASSESSMENT

6. In OIOS' opinion, UNHCR Representation's risk management, control and governance processes examined were **partially satisfactory** to provide reasonable assurance regarding the achievement of its role for assistance to refugees and persons of concern residing in Zambia. Controls were in place to ensure achievement of objectives in the areas of strategic planning towards durable solutions, project management for projects implemented through IPs and needs assessment and planning for voluntary repatriation and closure of camps. UNHCR had taken action to improve monitoring of the registration process and avoid reoccurrence of previously identified registration fraud. Verification of expenditures reported by IPs had improved in 2010 and action had been taken to initiate timely follow up of IP audit recommendations and results in financial verification reports. The Representation may further benefit from preparing a plan for monitoring performance activities of its Implementing Partners.

V. AUDIT RESULTS

A. Strategic planning

7. The Representation had analyzed the profiling information obtained from the 2010 re-registration exercise and refugee groups were identified for all locations for durable solutions, such as voluntary repatriation, local integration and resettlement. The results were translated into durable solution activities for 2011, such as voluntary repatriation of some 8,000 Angolans. The Representation was in the process of implementation of these durable solution activities for its caseload, although this was hampered by external factors, such as concerns from the Angolan Government on the implementation of the return strategy, and the pending approval of local integration strategy by the Zambian Government. For these, the Representation had developed a strategy in cooperation with UNHCR Headquarters, such as a tripartite meeting to be held in April 2011 in order to agree on the repatriation modalities for Angolans.

B. Project management

8. The Representation had developed capacity-building activities of its IPs throughout 2010 due to concerns of the government IPs capacity in implementing UNHCR projects. Since the Representation is restricted from using any other IPs in the two settlements, except the government IPs, capacity building was an important control to improve project delivery. Furthermore, controls were adequate and working effectively to evaluate low performing IPs in financial management. For example, lack of improvement in financial controls at one international IP had resulted in the termination of the partnership.

C. Needs assessment and planning

9. Controls were in place to secure and redeploy assets before and at the time of closing the two camps and two UNHCR offices in the north of Zambia. Handover documents were signed with the Zambian Government for the remaining structures in the two closed camps. Controls were in place to facilitate voluntary repatriation of Angolans, which had been hampered by external factors. Congolese voluntary repatriation was organized with the assistance of the International Office for Migration (IOM) and the number of returnees had exceeded expectations.

D. Performance monitoring

Action taken to improve registration process monitoring

10. Following the detection of a registration fraud at the Meheba settlement at the end of 2009, several experts' assistance missions from UNHCR Headquarters and the Regional Office were conducted throughout 2010, which produced recommendations to mitigate the risk of the registration fraud from reoccurring. However, recommendations from the experts' mission reports related to the following areas have not been implemented by the Representation:

- a) Updating of Standard Operating Procedures (SOP);
- b) Maintenance and operation of the ProGres database;
- c) Refugee access to UNHCR staff and information to refugees clarifying the process; and,
- d) Detection of irregularities in the registration.

11. In addition, the Representation needed to develop procedures ensuring confidentiality of data in the Government's ProGres database. The Confidentiality Guidelines (IOM71/2001) and chapter 1.8 of UNHCR registration manual provide the terms under which UNHCR may share information of persons of concern with others. Although user and access IDs have been established for UNHCR and Commissioner of Refugees (COR) staff in the ProGres database, since the Representation is not the owner of the ProGres database in Zambia, procedures for UNHCR staff on what to share in this Government database and how to assure confidentiality of refugee data are required as per the confidentiality guidelines.

12. *The UNHCR Administration clarified that most of the recommendations from the 2009 joint COR-UNHCR investigation into corruption and fraud in the Meheba refugee settlement as well as from follow-up support missions have been implemented. The office's "Note on UNHCR's implementation of the recommendations from the 2009 Joint UNHCR-COR investigation into corruption and fraud in the Meheba refugee settlement", which outlines which recommendations have so far been implemented, which are in the process of being implemented and which are yet to be implemented will continue to be updated on a regular basis and re-worked into an action plan, encompassing also the implementation of recommendations from related support-missions in 2010. Procedures governing the recording of, and access to, sensitive information in the registration database will be developed in connection with the planned revision of UNHCR's and COR's joint SOPs on the continuous registration of asylum-seekers and refugees and the establishment of a radio link connecting COR's mother proGres database with UNHCR..*

Action taken to follow up on the results of IP audits and financial verification reports

13. IOM/064-FOM/067/2007 require Representatives to review the contents of all audit certificates and develop action plans to remedy any issues identified. Although the Representation had followed up on the recommendations relating to the two qualified 2009 IP audit reports, there was no evidence of follow-up actions on the audit recommendations in the other five IP audit reports. Examples of weaknesses noted by the auditors of the IP sub-projects were:

- Advances to staff (\$32,091) not repaid;
- Uncleared cheques totaling \$30,000;
- Unsupported expenditures totaling \$15,000;
- Contracts for project staff not signed;
- Unsupported payments of \$9,600;
- Lack of competitive bidding in procurement procedures;

AUDIT RESULTS

- Bank reconciliations not maintained;
- Lack of budget monitoring or variance analysis;
- Asset registers were not maintained; and,
- Logbooks of vehicles were not reviewed.

14. Failure by the Representation to undertake timely follow up and implementation of the recommendations exposed UNHCR to an increased risk of losing project funds and assets.

15. Although in the second half of 2010 the Representation had increased the frequency and extent of financial verifications performed on the IP sub-project monitoring reports, the documentation of follow-up action recommended in the financial verification reports was not evidenced. The Representation's project control staff had noted weaknesses and adjustments to the authorized expenditures, but it was unclear what action had been taken to address issues noted and what adjustments had been recommended and implemented. Project control staff explained that only authorized expenditures were uploaded and authorized as recommended per their financial verification reports, but this was not clear from the financial verification reports. Moreover, the financial verification reports lacked a systematic follow-up on internal control weaknesses identified at IPs.

16. To address the issue OIOS recommended that the UNHCR Representation in Zambia follow up on all recommendations contained in IP audit reports, and document action taken by the Representation and the IPs to improve implement the recommendations. In addition they should, document the follow up action taken on recommendations and internal control weaknesses identified in the financial verification reports of IP sub-project monitoring reports. *The UNHCR Administration stated that follow-up verification reports have been developed for all audited IPs and shared with them. Follow-up on recommendations is included in the standard financial verification and will from now on be clearly documented in the verification reports.*

Plan for monitoring performance activities of Implementing Partners

17. As per Chapter 4, Part 6 of the UNHCR manual, upon receipt of the IP sub-project monitoring report (SPMR), UNHCR offices should monitor that agreed results and milestones have been achieved by the IPs and certify that the outputs are in place. As per the Representation's standards and indicators report 2010 for the Meheba settlement, some health, sanitation and education indicators did not meet the minimum established standards, and therefore required a more thorough follow-up and action for improvement. Furthermore, the initial narrative 2010 sub-project monitoring reports received from the IPs were of low quality because they hardly reported on the actual achievements against performance indicators set in the sub-project agreements.

18. **The UNHCR may benefit from preparing a plan for monitoring performance activities of its Implementing Partners.** *The UNHCR Representation in Zambia stated that it has developed monitoring sheets for Implementing Partners and direct implementation, based on the performance and impact targets set in the sub-agreements. Structured performance monitoring will be undertaken on a quarterly basis and this is on top of the existing weekly monitoring of the progress made based on the IPS monthly work-plan. All collected data on performance monitoring will be used during the financial verification and included in the IP files. The difficulty must be noted, of ensuring compliance when the possibility of changing ineffective or non-compliant partners does not exist. OIOS takes note of the management's response and will not follow up on this opportunity for improvement.*

E. Regulatory framework

Review of Property, Plant and Equipment (PPEs) and Serially Tracked Items (STIs)

19. As per IOM75/2008-FOM077/2008 and IOM067/2010-FOM067/2010, which set out UNHCR's policies towards PPEs and STIs following the adoption of International Public Sector Accounting Standards (IPSAS), the recording of all assets needs to reflect the current physical situation based on full asset verification. Although PPE and STI verification was carried out at the end of 2009 and was about to be completed for 2010, there were still discrepancies between records in the Management Systems Renewal Project (MSRP) and physical quantities. Out of 743 items in the country which appeared as "in-service" in MSRP at the time of the audit, 107 items (with an acquisition value of \$138,914) had not been checked in the 2009 verification exercise and 185 (with an acquisition cost of \$221,312) had not been checked since 1 January 2010. New items were not always barcoded and did not appear in MSRP and some barcoded items could not be found in MSRP.

20. In addition, 50 vehicles that had been identified for disposal were still in the compounds. The person in charge of asset recording and verification is also in charge of fuel and supply. Consideration should be given to allocating some additional resources for a one-time clean-up exercise. It is essential that such a verification and disposal exercise be undertaken expeditiously so that UNHCR can fulfill its obligations under the new IPSAS accounting measures and to ensure safeguarding valuable assets. Vehicles left idle awaiting disposal are vulnerable to cannibalism, reducing their resale value.

Recommendation 1

(1) The UNHCR Representation in Zambia should perform a thorough verification of its assets, dispose of obsolete assets and update Management Systems Renewal Project to ensure accuracy of records of Property, Plant and Equipment and Serially Tracked Items.

21. *The UNHCR Administration accepted recommendation 1 and stated that following the closure of the northern operation, complete asset verification was undertaken in December 2010, resulting in the identification of a large number of assets for disposal and redeployment. The office has since been working diligently on the sale and relocation and is about to finalize the process. All PPEs have been verified, 67 STI remain to be verified but could not be located. The office has opted not to write them off at this stage but continue to look for their current location. Wherever applicable, assets have been disposed of in MSRP. Recommendation 1 remains open pending receipt of documentation confirming verification, completeness and accuracy of asset records.*

MSRP warehouse module needs updating

22. As per IOM52/2009-FOM51/2009 "IPSAS: physical count of inventory as at 31 December 2009", all inventory needs to be reflected in MSRP warehouse module including recording of receipts and issuances. The Representation did not use MSRP to record all inventory movements. The stock in the warehouse contains many items that are not currently in MSRP. Data entry errors in purchase orders and in receiving have resulted in discrepancies between the actual physical inventory and warehouse records.

23. At field office Solwezi, the MSRP warehouse module is not used at all, even though the warehouse is recognized as such in MSRP. Warehouse records are maintained manually and Non Food Items (NFI) stock movements are relayed to Lusaka for input into MSRP, contrary to IOM52/2009-FOM51/2009. This could delay and cause errors in stock records. It was not possible to reconcile stock

AUDIT RESULTS

levels in MSRP reports with the stocks physically in the warehouse due to delays and inaccuracies in inventory records. At field office Solwezi, the NFI did not have a warehouse manager. Senior Programme Field Clerk was in charge of inventories, thus performing conflicting duties of custodian and recorder of stock movements.

24. Without an accurate, consolidated, up-to-date and independent inventory system, management cannot plan adequately for procurement needs. With the adoption of IPSAS, the UNHCR Representation may encounter difficulties accurately reporting inventory amounts in the financial statements. Furthermore, donor reporting is more time consuming and the detection of errors or misappropriations in the supply chain is more difficult.

Recommendation 2

(2) The UNHCR Representation in Zambia should perform a full inventory count in its warehouses and clean up the data in the Management Systems Renewal Project warehouse module in all locations.

25. *The UNHCR Administration accepted recommendation 2 stating that verification of all inventory items and update in the MSRP warehouse module has been finalized. The use of the warehouse module has been decentralized to the field and relevant staff trained (Solwezi only), which should result in a timely update of MSRP database.* Based on the actions taken, recommendation 2 has been closed.

AUDIT RESULTS

ANNEX I
STATUS OF RECOMMENDATIONS
Audit of UNHCR operations in Zambia

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNHCR Representation in Zambia should perform a thorough verification of its assets, dispose of obsolete assets and update Management Systems Renewal Project to ensure accuracy of records of Property, Plant and Equipment and Serially Tracked Items.	Operational	Important (Medium)	O	Receipt of documentation confirming verification, completeness and accuracy of assets and its records.	31 July 2011
2	The UNHCR Representation in Zambia should perform a full inventory count in its warehouses and clean up the data in the Management Systems Renewal Project Warehouse module in all locations.	Operational	Important (Medium)	C	Action completed.	

AUDIT RESULTS

ANNEX II
OPPORTUNITIES FOR IMPROVEMENT
Audit of UNHCR operations in Zambia

Para. no.	Recommendation	Client comments
18	The UNHCR may benefit from preparing a plan for monitoring performance activities of its Implementing Partners.	<i>The UNHCR Representation in Zambia has developed monitoring sheets for implementing partners and direct implementation, based on the performance and impact targets set in the sub-agreements. Structured performance monitoring will be undertaken on a quarterly basis and this is on top of the existing weekly monitoring of the progress made based on the IPS monthly work-plan. All collected data on performance monitoring will be used during the financial verification and included in the IP files. The difficulty must be noted, of ensuring compliance when the possibility of changing ineffective or non-compliant partners does not exist.</i>