



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNCC claims payments

Overall results relating to the disbursement of compensation awards were initially assessed as satisfactory

FINAL OVERALL RATING: SATISFACTORY

10 December 2012

Assignment No. AE2012/820/01

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AUDIT REPORT

Audit of UNCC claims payments

I. BACKGROUND

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

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3. UNCC was created in 1991 as a subsidiary organ of the United Nations Security Council (SC). 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 SC resolution 1483 (2003). Under this resolution, the Development Fund for Iraq (DFI) was created and subjected to oversight from the International Advisory and Monitoring Board (IAMB). However, in accordance with SC resolution 1956 (2010), the arrangements for the receipt of compensation revenue transitioned to a post-Development Fund mechanism and the oversight function was transferred from IAMB to the Iraq Committee of Financial Experts (COFE) on 1 July 2011. The Compensation Fund continues to receive oil revenues from Iraq.

4. During 2012, UNCC Secretariat staffing increased from four to five staff members: the Executive Head, his Special Assistant (a new post), the Administrative Assistant, the Chief of Finance and Administration and a General Service staff member. The Executive Head and his Special Assistant also support the UNCC Follow-Up Programme for Environmental Awards (50 per cent of their costs are reimbursed by the Programme), which has five Professional and one General Service staff members. UNCC was in the process of filling the post of the Executive Head, as the previous incumbent retired on 31 October 2012.

5. The Controller's Office at the United Nations Headquarters continues to provide support to UNCC for various activities including recording and reconciliation of receipts, fund availability and remittances. The successful claimants were awarded a total amount of \$52.4 billion by UNCC, who completed the approval process for the submitted claims in June 2005. Disbursements of the awards are made to the submitting entities (governments and international organizations), 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 (GC). From May 2011 to August 2012, the period under review, UNCC received \$5.79 billion from Iraq's oil revenues and made five payments totaling \$5.43 billion to Kuwait, the remaining submitting entity with outstanding awards. As at 31 August 2012, the total value of outstanding unpaid awards was \$14.72 billion.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the UNCC governance, risk management and control processes in providing reasonable assurance regarding the **effective disbursement of compensation awards**.

7. The audit was included in the 2012 internal audit work plan for UNCC as General Assembly resolutions 59/270 and 59/271 require OIOS to provide internal oversight of the entire UNCC claims process.

8. The key controls tested for the audit were: (a) programme management reporting system; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Programme management reporting system** - controls that provide reasonable assurance that a system and procedures exist to report on programme performance, including financial performance; and

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the receipt of revenues, disbursement of compensation awards and maintenance of payment records; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from September to November 2012. The audit covered the period from May 2011 to August 2012.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The UNCC governance, risk management and control processes examined were assessed as **satisfactory** in providing reasonable assurance regarding the **effective disbursement of compensation awards**.

13. UNCC had control mechanisms in place and functioning to ensure that the compensation awards were disbursed and recorded accurately and in compliance with the Governing Council decisions and the United Nations Financial Regulations and Rules. UNCC continued to receive and monitor Compensation Fund revenue. A system was in place for reporting on programme and financial performance and was functioning as intended.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **satisfactory**. *The UNCC Secretariat was pleased to note the satisfactory overall rating.*

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective disbursement of compensation awards	(a) Programme management reporting system	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: SATISFACTORY					

A. Programme management reporting system

UNCC continued to receive and monitor Compensation Fund revenue in compliance with resolution 1483

15. Following the transition to a post-Development Fund mechanism and the transfer of the oversight function from IAMB to COFE on 1 July 2011, SC resolution 1956 (2010) requested that every six months, the Secretary-General provide an evaluation of Iraq's continued compliance with its obligations to transfer compensation revenue to UNCC, in compliance with resolution 1483. UNCC continued to receive revenue equivalent to five per cent of Iraqi oil export sales. The level of income to the Compensation Fund during 2012 increased by 55 per cent as compared to the revenue received in 2010. This increase was mainly due to increased oil export sales by Iraq and higher crude oil prices. On behalf of UNCC, the Controller's Office continued to reconcile the compensation revenues received with Iraq's Oil Proceeds Receipts Account to ensure that five per cent of the oil export sales was actually received into the Compensation Fund. This reconciliation was done annually as the bank statements pertaining to Iraqi oil export sales were received only at the end of the year. The UNCC Secretariat continued to report on its programme performance and finances to the GC. The revenue received in 2010-2011 reconciled with the oil export sales reported in the audited financial statements for DFI.

16. The audit of DFI and its successor account covering the period from 1 January to 31 December 2011 gave a qualified opinion, similar to the external auditors' opinions issued in prior years, as a fully operational leading and metering system for oil exports was not operating and the external auditors were not satisfied that all quantities extracted and pumped to export terminals were properly recorded. UNCC Secretariat however reported to the GC that given the regular and increased flow of oil revenues to the Compensation Fund, the Government of Iraq continued to be in compliance with its obligations under paragraph 21 of resolution 1483.

B. Regulatory framework

Compensation awards were disbursed and recorded accurately and in compliance with Governing Council decisions and rules

17. During the period from May 2011 to August 2012, UNCC received \$5.79 billion as oil revenue and it disbursed five payments totaling \$5.43 billion towards the remaining outstanding claims, all payable to Kuwait. Review of all five payment worksheets, related press releases, distribution reports and auditor's certificate provided by Kuwait and disbursement vouchers indicated that allocation of funds to

the outstanding claims complied with GC decision 267 and the disbursements were made in compliance with the United Nations Financial Regulations and Rules. Further, reconciliations between the Integrated Management Information System (IMIS) records and bank reconciliations for the compensation receipt and disbursement accounts were regularly carried out and there were no long outstanding unreconciled items. UNCC continued to follow up with recipient governments on outstanding distribution reports and/or audit certificates. As at the date of audit, no distribution reports were outstanding and only one government remained non-compliant with the requirement to provide audit certificates.

18. With respect to withheld funds under the UNCC Follow-up Programme for Environmental Awards, the second payment of accrued interest in compliance with GC decision 268 was effected in November 2011. Interest accrued as of 30 September 2011 amounting to \$23.56 million was transferred to the Governments of Jordan, Kuwait and Saudi Arabia. The transfer to Iran was not yet made due to lack of banking details.

IV. ACKNOWLEDGEMENT

19. 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.



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