



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/041

Audit of programme and financial management of United Nations High Commissioner for Refugees operations in Kenya

Overall results relating to the effective programme and financial management of UNHCR operations in Kenya were initially assessed as partially satisfactory. Two recommendations have been implemented; implementation of three important recommendations remains in progress.

FINAL OVERALL RATING:
PARTIALLY SATISFACTORY

20 May 2013
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AUDIT REPORT

Audit of Programme and Financial Management of United Nations High Commissioner for Refugees Operations in Kenya

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of programme and financial management of United Nations High Commissioner for Refugees (UNHCR) operations in Kenya.
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. UNHCR has been present in Kenya since 1969. In 2011, it undertook a comprehensive review of its presence, which resulted in a new organization structure effective 1 January 2012. Under the new structure, UNHCR Kenya has a Branch Office located in Nairobi and two sub offices in Dadaab and Kakuma. It is also waiting for security clearance to establish a third field office in Alinjuguru.
4. Over 80 per cent of the Kenyan operation was funded by earmarked contributions from donors: \$75.4 million in 2010, \$131 million in 2011 and \$108 million in 2012. The budget/expenditures of the Representation were around \$100 million/\$96 million in 2010 and, \$144 million/\$102 million in 2011. In January 2012, the operation had 448 posts of which 421 were filled.
5. The population of concern at the beginning of 2012 consisted of 634,800 refugees, asylum seekers, and 300,000 Internally Displaced Persons (IDPs). There were three camps in Dadaab in North Eastern Kenya and one in Kakuma in the Rift Valley. UNHCR worked with 24 Implementing Partners (IPs) in 2010 and 27 in 2011/2012.
6. Comments provided by the UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the Representation's governance, risk management and control processes in providing reasonable assurance regarding the **effective programme and financial management of UNHCR operations in Kenya**.
8. This audit was included in the 2012 OIOS risk-based work plan, in discussion with the Bureau for Africa, due to high risk presented by the operational environment and the relatively high value of the funds used on UNHCR operations in Kenya.
9. The key controls tested for the audit were (a) project management and, (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Project management** - controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of the Representation's project activities, and, project activities have been carried out in compliance with UNHCR policies and procedures;

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures exist to guide the Representation’s operations in programme and finance management.

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

11. OIOS conducted the audit from February to May 2012. Additional work was done in January 2013 following comments raised by the Representation in response to the Detailed Audit Result. The audit covered the period from 1 January 2010 to 31 December 2012.

12. 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

13. The Representation’s governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **effective programme and financial management of UNHCR operations in Kenya**. OIOS made five recommendations to address issues identified in the audit. For project management, the Representation had: (a) prepared an action plan for Internally Displaced Persons (IDPs); and, (b) requested the Global Learning Centre (GLC) at headquarters for assistance in providing urban refugee training to Kenyan programme and protection staff. For regulatory framework the Representation had: (a) requested UNHCR at headquarters to review the possibility to develop modalities of tracking the earmarked expenditures by donor; (b) requested Donor Relations and Resource Mobilization Service (DRRM) for assistance to organize training for staff working on donor funding; and, (c) requested direction from IP Management Service on which part of the sub-agreement the information should be recorded on whether IP accounts are interest bearing or not. In 2013 the Representation was ensuring that the documentation justifying use of a non-interest bearing account was kept on the file of the concerned IP.

14. The initial overall rating was based on assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

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 programme and financial management of UNHCR operations in Kenya	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management

The Representation established an annual monitoring plan for performance and financial monitoring of Implementing Partner (IPs)

15. At the time of the fieldwork, the Representation carried out field visits to IPs but these were not undertaken as part of a formal schedule of monitoring visits as required by UNHCR rules. The Representation took corrective action and monitoring schedules and plans were attached to the IP agreements from January 2013. In view of the steps taken, no further action was recommended.

Action taken for direct implementation of activities relating to Internally Displaced Persons (IDPs)

16. An action plan had not been produced for direct implementation of activities relating to IDPs. The Country Operations Plan (COP) for 2012 provided examples of IDP work to be carried out by the Representation, including advocacy, strengthening protections monitoring and capacity building. It did not, however, meet the criteria of the Global Management Accountability Framework as it did not show the expected outcomes or clearly define responsibilities and timelines for each activity, explaining what would be done by UNHCR and the IP. These aspects were needed as a means of holding UNHCR and the IP accountable for producing deliverables within planned time frames.

(1) The UNHCR should, in accordance with the Global Management Accountability Framework, prepare an annual action plan which documents the Representation's role with regard to Internally Displaced Persons (IDPs) in Kenya.

UNHCR Representation in Kenya accepted recommendation 1 and stated that an action plan for IDPs for 2012-2013 had been prepared and shared with OIOS. Having built the capacity of the local authorities in the earlier years, UNHCR since 2012 has limited its roles to advocacy, promotion of legal framework and coordination activities. Based on the actions taken by the Representation, recommendation 1 has been closed.

Urban refugee training required for staff involved with the implementation of the policy on urban refugees

17. The programme and protection staff had not undergone any of the required formal training on urban refugees. The training was needed because the Representation was undertaking outreach activities in urban areas where estimated 54,000-registered urban refugees were residing and another estimated 50,000 were unregistered. It was also needed as a means of improving the effectiveness of outreach activities whilst ensuring staff were better equipped to comply with UNHCR's urban refugee policy. The Representation indicated that the training had not been scheduled because its focus had been on camp based refugees in Dadaab.

(2) The UNHCR should develop an action plan to provide urban refugee training to the Kenyan programme and protection staff as required by UNHCR rules.

UNHCR Representation in Kenya accepted recommendation 2 and stated that a request dated 15/03/2013 had been sent to Global Learning Centre (GLC) requesting their assistance with the provision of this training for UNHCR and selected partner staff working in the urban program. In any event, training would be organized internally with the office resource persons in June 2013. Recommendation 2 remains open pending confirmation that urban refugee training has been provided to Kenyan programme and protection staff.

B. Regulatory framework

Action needed to enable Managing for Systems, Resources and People (MSRP) to record donor earmarked expenditure

18. UNHCR's financial system MSRP, did not have the facility to record earmarked expenditures, though this was required by their rules. A work around, using a unique identifier, was done for two of the 25 donors but for the remaining 23, details of earmarked expenditures were maintained manually in excel spreadsheets. Whilst there was no evidence of financial data errors, the existing manual arrangements posed a high risk of a misstatement occurring, given the size of earmarked contributions being handled. This was especially important in the case of Kenya where over 80 per cent of the operation was funded by earmarked contributions from 25 donors amounting to \$131 million in 2011 and \$108 million in 2012.

(3) The UNHCR should enable the Managing for Systems, Resources and People (MSRP) to record at activity or output level all donor-earmarked expenditures, as required by UNHCR rules.

UNHCR Representation in Kenya accepted recommendation 3 and stated that in the context of future MSRP upgrade, the Division of Financial and Administrative Management (DFAM) would review the possibility to develop modalities of tracking the earmarked expenditures by donor, taking into account the Results Based Management (RBM) structure. Recommendation 3 remains open pending confirmation that UNHCR has reviewed the possibility to develop modalities of tracking the earmarked expenditures by donor.

Action needed to train staff working on donor funding

19. Four of five staff members working on donor funding had not received training on managing and the tracking of different donor funds, as required by UNHCR rules. Staff interviewed stated they were not familiar with many of the donors and their requirements as they had not received donor related training to help them familiarize themselves with specific donors. These staff members were provided, in January 2013, with final donor agreements as a means of further familiarizing themselves with the finding arrangements agreed with donors.

(4) The UNHCR should schedule training for staff working on donor funding.

UNHCR Representation in Kenya accepted recommendation 4 and stated that a request had been addressed to Donor Relations and Resource Mobilization Service (DRRM) and Division of External Relations (DER) for assistance to organize this training and planned for the last week of May 2013. Recommendation 4 remains open pending confirmation that staff working on donor funding have received training.

Action taken to obtain final signed agreements and reports to track and monitor compliance with donor agreement requirements

20. During audit fieldwork, the Representation had neither the final agreements signed by the donors nor the final reports issued by UNHCR to the donors. According to the Representation final donor agreements and reports were signed off, issued and maintained at UNHCR headquarters. It used the unsigned agreements and reports plus budgets and donor Contribution Details (CDs) downloaded from MSRP to track and monitor donor earmarked projects in compliance with donor agreements. The

Representation, however, agreed that, since budgets and donor conditions could change during the year it was important that the Representation maintained the final signed versions to mitigate the risk of errors in tracking and monitoring compliance with donor requirements.

21. The Representation in January 2013 obtained final signed documents from UNHCR headquarters and OIOS reviewed a sample of ten donor projects. Other than delays of up to two months in submission of the final reports in the case of two donors, no anomalies were noted in the compliance with the donor agreements. On this basis, the arrangements in place to ensure compliance with donor agreement were considered adequate. The Representation indicated it would in future maintain copies of all final documents to mitigate the risk of errors and facilitate independent reviews. Based on the actions taken by the Representation, no further action was recommended.

Action taken to obtain procedures covering treatment of interest and non-interest bearing Implementing Partner (IP) bank accounts in the IP agreement

22. Twenty three of the 27 IP agreements signed in 2011 did not show correct information about the type of bank accounts maintained by the IP and whether they were expected to generate interest that would be credited to UNHCR:

- Seventeen were referred to as being interest bearing accounts, when in fact they were non-interest bearing. The Representation explained that non-interest bearing accounts had been authorized as being more cost effective. However, there was no documentary evidence available to support cost ineffectiveness of this agreement.
- Six were pool accounts, meaning that UNHCR funds were co-mingled with other donor funds received by the IP. The IP agreements did not explain that these were non-interest bearing accounts. As with the 17 mentioned above, the Representation had approved the accounts as non-interest bearing although there was no documentary evidence available to support cost ineffectiveness of this project.

23. The remaining four IP agreements correctly showed that the IPs had opened interest bearing accounts, and, at the time of this report, the interest, amounting to \$3,452 as at end 2011, had been credited to UNHCR.

(5) The UNHCR should put in place procedures to ensure that Implementing Partner agreements show whether a bank account operated by an IP is or is not interest bearing. The procedures should cover the documentation that should be retained to justify any approved use of non-interest bearing accounts.

UNHCR Representation in Kenya accepted recommendation 5 and stated that UNHCR headquarters responded as follows: 'In principle, UNHCR maintains that partners are required to deposit all funds received from UNHCR in an interest bearing account. In case of waiver, the authorization of UNHCR Controller will be sought. When such approval is granted, it will be reflected in the Project Description (Annex A) which is an integral component of the Project Agreement. UNHCR Headquarters has decided not to alter the standard clause related in the Standard Template of Project Agreement with Partners, in order to main the coherency with the existing rules'. Meanwhile in 2013, the Representation will ensure that the documentation justifying where a non interest bearing account is being used is kept on the file of the concerned IP. Based on the actions taken by the Representation, recommendation 5 has been closed.

Action taken to implement budget and expenditure monitoring in Sub-Offices (SO)

24. There was no evidence that the Branch Office was monitoring whether expenditures for the sub offices at Dadaab and Kakuma were within budget and spent according to highest priority needs, as required by the rules. As a consequence of this there was a risk of expenditure not being maintained within the budgets. While the audit established that the SO Kakuma expenditure was within budget, the administrative budget of SO Dadaab was overspent by \$8,426 as at 27 February 2012. To rectify this situation, from December 2012 the finance team from the Branch Office visited the sub offices on a monthly basis to review expenditure levels and supporting documents to ensure that total expenditure did not exceed the approved spending authority. In SO Dadaab the Associate Administration and Finance Officer was assigned to perform these checks on a continuous basis. Based on the actions taken no additional recommendation was made.

IV. ACKNOWLEDGEMENT

25. 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.

(Signed) David Kanja
Assistant Secretary-General for Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of Programme and Financial Management of United Nations High Commissioner for Refugees (UNHCR) Operations in Kenya

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR should, in accordance with the Global Management Accountability Framework, prepare an annual action plan which documents the Representation's role with regard to Internally Displaced Persons (IDPs) in Kenya.	Important	C	Action completed	Implemented
2	The UNHCR should develop an action plan to provide urban refugee training to the Kenyan programme and protection staff as required by UNHCR rules.	Important	O	Confirmation that urban refugee training has been provided to Kenyan programme and protection staff.	June 2013
3	The UNHCR should enable the Managing for Systems, Resources and People (MSRP) to record at activity or output level all donor-earmarked expenditures, as required by UNHCR rules..	Important	O	Confirmation that UNHCR has reviewed the possibility to develop modalities of tracking the earmarked expenditures by donor.	December 2014
4	The UNHCR should schedule donor training for staff working on donor funding.	Important	O	Confirmation that staff working on donor funding have received donor training.	May 2013
5	The UNHCR should put in place procedures to ensure that Implementing Partner agreements show whether a bank account operated by an IP is or is not	Important	C	Action completed	Implemented

1 Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

2 Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

3 C = closed, O = open

4 Date provided by [client] in response to recommendations. [Insert "Implemented" where recommendation is closed; (implementation date) given by the client.]

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	interest bearing. The procedures should cover the documentation that should be retained to justify any approved use of non-interest bearing accounts.				

AUDIT RECOMMENDATIONS

Audit of UNHCR Operations in Kenya (Programme and Finance Management)

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR should, in accordance with the Global Management Accountability Framework, prepare an annual action plan which documents the Representation's role with regard to Internally Displaced Persons (IDPs) in Kenya	Important	Yes	Assistant Representative Programme.	Implemented March 2013.	The action plan for IDPs for 2012-13 is shared as an annex. Having built the capacity of the local authorities in the earlier years, UNHCR since 2012 has limited our roles to advocacy, promotion of legal framework and coordination activities.
2	The UNHCR should develop an action plan to provide urban refugee training to the Kenyan programme and protection staff as required by UNHCR rules.	Important	Yes	Assistant Representative, Protection and Durable Solutions.	June 2013	A request dated 15/03/2013 has been sent to GLC requesting their assistance with the provision of this training for UNHCR and selected partner staff working in the urban program. In any event, training will be organized internally with the office resource persons in June 2013. The Project workplan for the "Protection and assistance for refugees in Urban Areas" and the "Direct implementation Logframe matrix – Programme" are shared as annexes.
3	The UNHCR should enable the UNHCR financial system Managing for Systems, Resources and People (MSRP) to enable the system to record at activity or output	Important	Yes	The Controller, DFAM	December 2014	In the context of future MSRP upgrade, DFAM will review the possibility to develop modalities of tracking the earmarked expenditures by donor, taking into account the RBM structure.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	level all donor-earmarked expenditures, as required by UNHCR rules.					
4	The UNHCR should schedule donor earmarking training for staff working on donor funding	Important	Yes	Senior Programme Officer		A request has been addressed to DRRM-DER for assistance to organize this training and planned for the last week of May 2013.
5	The UNHCR should put in place procedures to ensure that Implementing Partner agreements show whether a bank account operated by an IP is or is not interest bearing. The procedures should cover the documentation that should be retained to justify where non-interest bearing accounts are used.	Important	Yes	Assistant Representative Programme.	January 2013.	<p>The recommendation has been shared with the IP Management Service (DFAM) in Geneva for their advice and direction as to which part of the sub-agreement agreement the information on whether the IPs account is interest bearing or not should be recorded.</p> <p>The IP Management Unit responded stating that in principle, UNHCR maintains that partners are required to deposit all funds received from UNHCR in an interest bearing account. In case of waiver, the authorisation of the UNHCR Controller will be sought. When such approval is granted, it will be reflected in the Project Description (Annex A) which is an integral component of the Project Agreement. UNHCR Headquarters has decided not to alter the standard clause related in the Standard Template of Project Agreement with Partners, in order to main the coherency with the existing rules.</p> <p>Meanwhile in 2013, the Representation will ensure that the documentation justifying where a non interest bearing account is being used are kept on the file of the concerned Implementing Partner.</p>