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OIOS AUDIT OF UNHCR'S REGIONAL OFFICE IN SWEDEN

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OIOS AUDIT OF UNHCR'S REGIONAL OFFICE IN SWEDEN (AR2004/121/03)

EXECUTIVE SUMMARY

In November 2004, OIOS conducted an audit of UNHCR's Regional Office in Sweden, covering the Nordic and Baltic countries. The audit covered activities with a total expenditure of US\$ 0.9 million in 2002 and 2003. A draft of this report was shared with the Director of the Bureau for Europe, the Regional Representative and the Head of the Private Sector and Public Affairs Service. The comments provided by the Regional Representative are reflected, as appropriate, in this final report. *The Regional Representative has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR operations under the responsibility of the Regional Office as average, it was adequately run and the majority of key controls were applied. Certain improvements, however, could be made in order not to compromise the overall system of internal control.

Programme Management

- The definition of objectives and performance indicators for implemented projects could be further improved. Some of the objectives established were not realistically achievable and the majority of them were not quantifiable, thus limiting monitoring and performance evaluation. The Division of Operational Support issued guidance on standards and indicators in 2004, which concentrated on the operational sectors related to camp settings. Work is currently ongoing to address other sectors of UNHCR operations. *The Regional Representative would welcome the establishment of adequate performance indicators and standards for legal/protection advocacy, public information and awareness raising activities.*
- Formal project financial and performance monitoring of implementing partners was not performed. As this is a relatively new activity for the Regional Representation, OIOS suggested that assistance of the Bureau for Europe be sought either to provide training or to assign staff member on mission to conduct the work. It is essential that this function is carried out competently. *The Regional Programme Officer, based in Budapest, provided training on project monitoring to relevant staff. Project reviews are scheduled for the last week of January 2005.*
- For the partner reviewed, Lithuanian Red Cross (LRC), reasonable assurance could be taken

that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS assessed that the accounting and internal control systems were generally in place and operating effectively. However, efforts should be made to ensure that duties are properly segregated, the number of cash transactions further reduced and supporting documents improved. *The Regional Representation has discussed the issues with LRC and they confirmed that they would improve their practices.*

- The Regional Representation contributed close to US\$ 15,000 in 2002-2003 for specific public awareness projects. There was not sufficient documentation supporting these transactions or evidence of what the expected outcome or deliverables would be. *The Regional Representation stated that appropriate action would be taken in the future, and proper agreements would be signed.*
- The Regional Representation undertook various private sector fundraising initiatives, with the aim to broaden the funding base by involving more private donors. The Regional Representation, however, was not fully equipped to facilitate private donations, as they did not have local bank accounts in the targeted countries. OIOS recommended that the Private Sector and Public Affairs Service and Treasury assist the Regional Representation in resolving administrative obstacles in this respect. *The Regional Representation indicated they would welcome the support of the Private Sector and Public Affairs Service and the Treasury Section to facilitate donations from the private sector.*

Procurement

- Procurement activities needed to be improved by formalising the process and enhancing the filing system. Proper competitive bidding procedures were not always applied, purchase orders or contracts were not systematically issued and exceptions to procurement procedures were not documented or acknowledged by a Local Committee on Contracts. *The Regional Representation has established a Local Committee on Contracts and has introduced control mechanisms to ensure that UNHCR procurement procedures are adhered to.*

Administration

- In the areas of administration and finance, the UNHCR Regional Office in Sweden generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.
- OIOS noted that staff members procured personal goods and services (such as computer equipment and DHL) through the office and recommended to discontinue this practice. *The Regional Representation confirmed that the practice of procuring personal goods and services through the office was discontinued.*

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I. INTRODUCTION

1. From 15 to 22 November 2004, OIOS conducted an audit of UNHCR's Regional Office in Sweden, covering the Nordic and Baltic countries. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Regional Representation in Sweden and its implementing partner in Lithuania.
2. OIOS' previous audits of UNHCR in Sweden and the Baltic States were conducted in September 2000 and August 2001 respectively. The 2000 audit of Sweden focused on office administrative expenditure of some US\$ 490,000 for the years 1998 and 1999. No major audit findings were reported. The 2001 audit of the Baltic States concentrated on the programme and administrative expenditure of some US\$ 780,000 for the years 1999 and 2000. Programme and administrative activities were well managed, however, some weaknesses in procurement and programme monitoring were identified.
3. The operation focused on protection issues: to positively influence the overall direction of national refugee related policies, legislation and practices as well as capacity building activities in refugee law. Other activities were public information and awareness campaigns including private sector fund raising in five Nordic and three Baltic countries. Since 2002, when the UNHCR office in Latvia was closed, the Regional Representation had taken over the responsibility for the Baltic countries.
4. Exit Conference Notes outlining the audit findings and recommendations were shared with the Regional Representative during the exit conference held on 22 November 2004. Also, a draft of the report was shared with the Director of the Bureau for Europe, the Regional Representative and the Head of the Private Sector and Public Affairs Service. The comments provided are reflected, as appropriate, in this final report.

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations;
 - Safeguarding of assets; and,
 - Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2002 and 2003 programme activities directly implemented by the Regional Representation under projects 02/AP/SWE/CM/200 and 03/AP/SWE/CM/200 with expenditure of US\$ 161,000 and sub-projects 02/AP/BAL/CM/200 (c) and 03/AP/BAL/CM/200 (c) with expenditure of US\$ 168,000 implemented by the Lithuanian Red Cross (LRC).
7. The audit reviewed the administration of the Regional Representation with administrative budgets totalling US\$ 570,000 for the years 2002 and 2003 and assets (as

recorded on Headquarters AssetTrak) with an acquisition value of US\$ 369,000 and a current value of US\$ 58,000. As at November 2004, the number of staff working for the UNHCR Operation in Sweden was 19. This included 12 staff on regular posts, a project staff member in Lithuania and six interns.

8. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme Management

9. OIOS reviewed the performance indicators and related targets established by the Regional Representation as well as their reporting on the impact and achievement of key activities to assess whether they were adequate for measuring and evaluating the Regional Representation's performance. Some progress to improve these tools had been made, however, further improvements were necessary to allow proper independent performance assessment and monitoring. For instance, for the programmes reviewed in Sweden the majority of performance indicators did not define quantifiable targets. They did not allow to adequately measuring progress towards the achievement of planned outcomes.

10. *The Regional Representation responded that the UNHCR programmes in Western Europe had objectives and proposed achievements, which were not easily measurable. This situation may need intervention from the Bureau for Europe to provide guidance on setting the standards for such activities as advocating refugee related legislation, public information and awareness. OIOS agrees that there is a degree of challenge in setting performance indicators for such programme areas to ensure those established are a useful monitoring tool. OIOS consulted the Programme Coordination & Operations Support Section, Division of Operational Support (DOS). DOS stated that the recently issued IOM/014/2004-FOM/014/2004 "A Practical Guide to the Systematic Use of Standards and Indicators in UNHCR Operations" targeted the most important aspects of the protection status and well-being of refugees residing in defined camp settings. The work to cover other UNHCR operational sectors is ongoing with current focus on the urban refugee related activities. OIOS appreciates the work undertaken by DOS and looks forward to the establishment of adequate performance indicators and standards in all operational settings.*

11. The objectives as they were set for some of projects were not achieved. For instance, project 04/AB/BAL/CM/200, which had the objective of ensuring that the Lithuanian refugee related legislation be established in line with international standards and practices could not be achieved. The Lithuanian law "On the legal status of aliens" adopted on 29 April 2004 does not satisfy international refugee and human rights law standards. In OIOS' opinion, the Bureau for Europe should, when establishing objectives, ensure they are achievable. *The Regional Representation indicated that following extensive lobbying by UNHCR among many other advocates, the draft law was in line with international standards, thus the objective was felt realistic when it was set.*

Recommendation:

- The UNHCR Division of Operational Support should complete the exercise of defining performance indicators and standards for all sectors of UNHCR operations including advocating refugee legislation and those relating to public information and awareness (Rec. 01).

12. *The Regional Representation indicated that they would welcome the establishment of adequate performance indicators and standards for legal/protection advocacy and public information and awareness raising activities. Also, feedback and advice from the Bureau for Europe would be welcome in the development of programme objectives.*

(a) Project Monitoring

13. Proper project monitoring procedures needed to be established. OIOS found that no formal project financial monitoring of partners activities had been conducted, since the UNHCR Liaison Office in Riga had been closed and the responsibility for project monitoring transferred to the Regional Representation.

14. Similarly, OIOS could not see evidence that the Regional Representation had performed any formal performance monitoring of partners' activities, although the Regional Programme Officer based in Budapest had done some monitoring. In OIOS' opinion, regular monitoring visits should be conducted. OIOS suggested that the Bureau for Europe assist the Regional Representation by providing the necessary training or assigning staff members on mission to perform monitoring activities to ensure this function is carried out competently.

15. The 2003 and 2004 sub-project budgets for the partner LRC were established in US\$ even though expenditures were incurred in Lithuanian Litas. OIOS would refer to UNHCR Manual, Chapter 4 Section 4.4, whereby sub-project budgets should normally be calculated and prepared in the currency of expenditure. The Lithuanian currency is relatively stable and should be used as the basis of budget calculations. Moreover, it would have been more appropriate to use EURO rather than US\$, and this is even more pertinent considering the US\$ devaluation over the last two years. *The Regional Representation pointed out that the office was dealing with three different currencies of different stabilities. Also, they stated that the funding portion allocated per year by Headquarters was still US\$, regardless in which currency the sub-project was prepared.* OIOS appreciates that working in a number of currencies can, at times, be complicated. Nonetheless, OIOS would reiterate that it is UNHCR's policy to prepare sub-project budgets in the currency of implementation. The currency used by UNHCR Headquarters in making budget allocations is therefore not relevant and not a valid argument for not establishing sub-projects budgets in local currency.

16. The level of achievement by LRC of sub-project objectives could not be properly measured due to the lack of quantifiable performance indicators for 2002. While the situation was partly rectified in 2003, LRC did not include in their narrative report the progress achieved as measured against relevant indicators (impact and performance). *The Regional Representation will ensure that project reports properly reflect progress achieved against relevant indicators.*

Recommendations:

- The UNHCR Regional Representation in Sweden in conjunction with the Bureau for Europe should ensure that proper project financial and performance monitoring procedures of partners activities are implemented. Assistance may be required to either train staff in Sweden or provide the necessary resources from offices in the Region or from Headquarters (Rec. 02).
- The UNHCR Regional Representation in Sweden should comply with UNHCR's policy and calculate and prepare budgets in the currency of expenditure (Rec. 03).

17. *The Regional Representative accepts the above recommendations and indicated that following the closure of the UNHCR office in Riga, the Regional Programme Officer, based in Budapest had provided useful support, including project monitoring training, to relevant staff. She added that project reviews were scheduled for the last week of January 2005 and that the Regional Representation would consult Headquarters on the currency issue.*

(b) Review of Implementing Partner – Lithuanian Red Cross (LRC)

18. For LRC, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. The accounting system was assessed as satisfactory and the chart of accounts and budgetary codes allocated allowed expenditure transactions to be easily separated per donor and project. OIOS assessed that internal controls systems were generally in place and operating effectively. Efforts should be made, however, to segregate banking responsibilities, reduce the number of cash transactions and ensure payment requests are systematically prepared and attached to the supporting documents. In addition, OIOS recommended improvements to streamline document flow of social and legal assistance expenditures. *The Regional Representation has discussed the issues with LRC and confirmed that the structure of segregation was now in place. LRC will respect the structure and improve their payment practices.*

19. LRC's annual expenditure for 2002 and 2003 was below the established threshold for audit certification of US\$ 100,000. Nevertheless, an audit was conducted at the end of 2001 for the project "Asylum Support and Tolerance-Building Activities in Lithuania" implemented in 2000 and 2001, funded by the European Union (EU), UNHCR and the International Federation of Red Cross and Red Crescent Societies (IFRC). An unqualified audit opinion was expressed.

20. LRC was implementing programmes funded from several sources including the EU and the Lithuanian government. We understand that UNHCR's contribution is essential to secure co-funding, which national NGOs provide while approaching the EU financial sources. Any reduction in UNHCR funding would subsequently reduce the funds provided to LRC from the EU.

21. LRC did not submit with the final SPMR a Staffing Table listing project staff and showing for each staff member the name, functional title, period of employment and total cost

charged to the sub-project. The submission of a Staffing Table is a control mechanism over staffing costs. OIOS confirmed, however, that labour contracts and salary related taxes were maintained in accordance to the local legislation and that staff costs agreed to the established budget.

(c) Public Information and Public Awareness

22. An amount of Swedish Krona (SEK) 70,000 (US\$ 9,000 or 10 per cent of the 2003 budget) was paid to the Non-Governmental Organization, Nykterhetsrorelsens Bildningsverksamhet (the Educational activity of the Sobriety movement) (NBV) in November 2003 to initiate the research for the film production “Integration of youth in the Nordic region”. The Regional Representation had not signed any contract to substantiate what was the expected outcome of the contribution, therefore, it was not clear what the end deliverable from NBV would be. Further, the draft project budget estimated UNHCR’s outlay to be SEK 1,000,000 (some US\$ 140,000). This exceeded the Regional Representation’s annual programme budgets for 2002 and 2003. The reasoning for participating in the preliminary stage of this project was unclear. *The Regional Representation indicated that the film project was initially seen as a potential good tool to further the goals of refugee integration in the region. Also, on receipt of the draft budget of SEK 1,000,000 from NBV it was made clear that such expectations were nonsensical. The Regional Representation agreed UNHCR’s participation in the project should have been based on a signed contract.*

23. The Regional Representation also made a contribution of SEK 50,000 (US\$ 5,600) to the Non-Governmental Organization “Demokrati Akademni” in November 2002 to co-finance the organisation of the Swedish Forum for Human Rights. This was a UNHCR public awareness activity. These expenditures were not supported by sponsorship agreements identifying deliverables to UNHCR. *The Regional Representation stated that they would endeavour to provide OIOS with the supporting documents.*

24. For the future, for public information and public awareness activities, the Regional Representation should ensure that there is proper documentation justifying the reasons for contributions as well as clearly establishing the expected benefits. *The Regional Representation agreed that for the future they would ensure that clear agreements are signed between all parties involved.*

(d) Private Sector Fund Raising (PSFR)

25. The Regional Representation is actively involved in the PSFR activities. They estimate that over the last three years they have raised funds of some US\$ 2.2 million. The majority of this was cash donations from Statoil and *pro bono* services from the IBM and McKinsey.

26. The Regional Representation is currently undertaking various PSFR initiatives. The recent focus is on targeting private donors in different Nordic countries. In order to receive donations, however, the Regional Representation needs a (giro) bank account in each country to simplify the donating process and to make it more practical for private donors. *The UNHCR Treasury informed us that the general policy of the Organisation is to minimise the number of bank accounts in use, however, there would be no restrictions to operate a bank account if a reasonable cash flow is expected.* The Private Sector and Public Affairs Service

in conjunction with the Treasury should assist the Regional Representation to overcome the technical and administrative restrictions in order to facilitate their PSFR efforts.

Recommendation:

- The UNHCR Private Sector and Public Affairs Service in conjunction with the Treasury Section and the Regional Representation in Stockholm should assess the feasibility of opening bank accounts in each of the Nordic countries to facilitate donations from the private sector (Rec. 04).

27. *The Regional Representation indicated that they would welcome the support of the Private Sector and Public Affairs Service and the Treasury Section to facilitate donations from the private sector.*

B. Procurement

28. Procurement activities needed to be improved. The process should be formalised and the filing system improved. OIOS found that proper competitive bidding procedures were not always applied, purchase orders or contracts were not systematically issued and exceptions to procurement procedures were not documented or acknowledged by the Local Committee on Contracts.

29. During the period 2002 to 2004 the Regional Representation procured a variety of printing services totalling some US\$ 100,000. The procurement was conducted on a case-to-case basis, and each time the same service provider was engaged. OIOS suggested that the Regional Representation select a printing supplier competitively and enter into a frame agreement with the company offering the most competitive prices. This would help to streamline procedures and reduce the administrative workload.

30. For other high value services such as LAN maintenance, shipment of personal effects and travel, it had been more than three years since the suppliers had been selected competitively. OIOS recommended that for the procurement of all services or goods exceeding the acquisition value of US\$ 5,000, formal competitive bidding be regularly conducted. This will ensure more competitive prices.

31. Some of the goods and services acquired were expensive, e.g. LAN system maintenance of only 16 hours per month cost US\$ 2,500, business cards cost US\$ 200 per set and office chairs were US\$ 500 each. While appreciating that goods and services are generally expensive in Sweden in comparison to some other European countries, OIOS felt that cheaper options could be identified if the Regional Representation conducted a thorough market research. For LAN system maintenance, the Regional Representation should request the assistance of the Division of Information Services and Telecommunications to find a more economical solution.

32. *The Regional Representation indicated that they had introduced control mechanisms to ensure that UNHCR procurement procedures are adhered to.*

C. Security and Safety

33. Due to the limited UN presence in Sweden, UNHCR is actively involved in the UN security coordination in the country. The Regional Representative is appointed as the Designated Country Official and the Senior Regional External Relations Officer is the UN Security Coordinator. Nevertheless, due to its location, the office still needs to conduct some further work to become fully MOSS compliant. *The Regional Representation informed OIOS that UNSECOORD would conduct a survey of the premises in early 2005. The date has not yet been confirmed.*

D. Administration

34. In the areas of administration and finance, the Regional Representation generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

35. OIOS recommended that the Regional Representation use UNHCR standard payment requests to initiate all expenditure. OIOS noted that staff members procured personal goods and services (such as computer equipment and DHL) through the office. OIOS informed the Representative that such a practice is not acceptable and results in an administrative burden to the office due to the recording and subsequent recovery of costs from staff. *The Regional Representation implemented the use of UNHCR standard payment requests and confirmed that procurement of personal goods and services was discontinued.*

IV. ACKNOWLEDGEMENT

36. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR in Sweden and of its implementing partner Lithuanian Red Cross.

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