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AUDIT OF UNHCR OPERATIONS IN MYANMAR

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EXECUTIVE SUMMARY

In May 2005, OIOS conducted an audit of UNHCR Operations in Myanmar. The audit covered activities with a total expenditure of US\$ 4.2 million in 2003 and 2004. The draft audit report was shared with the Representative in Myanmar and with the Director, Bureau for Asia and the Pacific in July 2005, on which comments were received by August 2005. *The Representative has accepted the audit recommendations made and taken swift action to implement them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Myanmar as average, recognizing the very challenging political climate under which the office is operating. Overall, the operation was adequately run and the majority of key controls were being applied. However, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the three partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. However, a comprehensive staff review needs to be performed at BAJ aiming at reducing the excessive number of support staff. There was no established procedure of administering project staff employed by IND. All the three partners reviewed needed to strengthen asset management.
- The Representation did not perform in-depth financial monitoring of its implementing partners. On the issue of foreign exchange policy, UNHCR Myanmar should ensure that documentary evidence on the exchange rates used by the implementing partners is submitted and encourage the practice of using foreign exchange certificates.

Supply Management

- The Representation engaged a company for office support services for more than US\$ 100,000 without signing an agreement and without seeking the approval of the Local and Headquarters Committee on Contracts. The Representation needed to strengthen bidding procedures, as well as receiving and inspection functions.

- A physical verification of fuel management at the Buthidaung store facility revealed a discrepancy of more than 800 gallons (over 3,600 litres) between the actual quantity in stock and the records. Although this discrepancy represented a surplus rather than a deficit, it pointed to a weakness in controls and raised concerns over possible non-recording of fuel deliveries.
- The Representation needed to take steps to retrieve the assets and get a refund for the advance payment of rent for the premises of the Myanmar Human Rights Commission, for a total amount of up to US\$ 15,000. Their activities had been suspended for political reasons.

Security and Safety

- UNHCR Myanmar generally complied with UN security and safety requirements. However, the UNHCR Security Plan for Myanmar existed only in draft form pending the review by the Security Management Team and the approval by the Designated Official in Yangon.

Administration

- In the areas of administration and finance, the UNHCR Representation in Myanmar generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating properly during the period under review. However, some improvement and strengthening of internal controls were required over apportioning of staff costs between project charges and office charges, as well as documenting and testing procedures for medical evacuation.

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I. INTRODUCTION

1. From 19 May to 3 June 2005, OIOS conducted an audit of UNHCR's Operations in Myanmar. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Yangon and its Field Office in Maungdaw as well as three of its implementing partners.
2. OIOS has not conducted any audit in Myanmar during the last few years. A UNHCR inspection mission took place in May 2002. The last external audit, which was performed in February 2003, identified internal control weaknesses over implementing partners' performance monitoring, budget planning, human resources and financial issues.
3. The current operations of UNHCR Myanmar are directed to meet the following major objectives: the completion of the ongoing voluntary repatriation of refugees from Bangladesh and the sustainable reintegration of returnees in Northern Rakhine State (NRS); the initiation of plans for voluntary repatriation and reintegration programme in favour of refugees from Thailand; and the promotion of Refugee Law and Human Rights Law for officials who deal or may deal with issues of population movement.
4. The initial return of Myanmar refugees from Bangladesh began in September 1992 under the bilateral agreement of Myanmar and Bangladesh. Since then approximately 236,000 refugees have returned from camps in Bangladesh to NRS in Myanmar with UNHCR assistance. In 2003, over 3,000 refugees returned to Myanmar. In 2004, only 210 refugees returned despite the clearance of over 7000 refugees by Myanmar authorities.
5. As a result of UNHCR's efforts and discussions with Myanmar authorities, UNHCR was given access to operate in major areas of origin of the 120,000 refugees currently living in camps in Thailand. Over 140 small projects, implemented in selected locations during the second half of 2004 were designed to improve the protection and assistance situation of the most vulnerable villages in the eastern Myanmar border region and help increase absorption capacities in the event of a future repatriation from Thailand. There are reportedly up to 600,000 Internally Displaced Persons in the area, who face a similar situation as those refugees who have actually crossed the border.
6. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 3 June 2005. The draft audit report was also shared with the Representative and with the Director, Bureau for Asia and the Pacific in July 2005. The comments, which were received in August 2005, are reflected in the report. *The Representative accepted the audit recommendations made and has taken swift action to implement them.*

II. AUDIT OBJECTIVES

7. 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

8. The audit focused on 2003 and 2004 programme activities under projects 03&04/AB/MYA/RP/371 and 04/AB/MYA/RP/370 with expenditure of US\$ 3.1 million. Our review concentrated on the activities implemented by Immigration and National Registration Department – Myanmar (IND) – expenditure US\$ 1.1 million; Bridge Asia-Japan (BAJ) – expenditure US\$ 0.7 million and Myanmar Red Cross Society (MRCS) – expenditure US\$ 0.6 million. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 0.7 million.

9. During the audit, we encountered several problems of scope limitation. Due to an acutely sensitive political environment, under which the UNHCR programme in Myanmar has to operate, the auditors could not get the clearance for a field visit to the Myanmar-Thailand border.

10. The audit reviewed the administration of UNHCR Representation in Yangon and its Field Office in Maungdaw with administrative budgets totalling US\$ 1.1 million for 2003 and 2004 and assets with an acquisition value of US\$ 5.4 million and a current value of US\$ 0.6 million. As of January 2005, there were 12 Professional (3 on mission to Maungdaw), 3 NOB and 13 GS staff in Yangon and 1 Professional and 23 GS staff in Maungdaw.

11. 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. Review of Implementing Partners

12. For the three partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS assessed that internal controls of the partners were generally in place and operating effectively. However, OIOS identified certain areas where further improvements were required.

13. Audit certificates for 2003 sub-projects were available for all partners with unqualified opinions. For 2004 sub-projects, there was an issue of auditing one of the implementing partners, Community and Family Services International (CFSI), because it did not have an

MOU with the relevant government entity. *The Representation confirmed that the audit was subsequently done and the relevant audit certificate issued.*

(a) Bridge Asia-Japan (BAJ)

14. The number of support staff in BAJ's main office Yangon was found excessive. Although BAJ administered an annual budget of less than half a million US dollars, it employed a Programme Manager and one Deputy, one Finance Officer and two Accountants. In our opinion, the administration and finance function could be combined as long as there are assistants for accounting, administration and logistics activities. OIOS recommended that the Representation in conjunction with BAJ complete the review of project staff job descriptions with a view to combining responsibilities and hence eliminating redundant posts, which could eventually result in achieving cost savings. *The Representation confirmed that after reviewing this matter with BAJ, an agreement had been reached to either abolish the post of Programme Manager or reduce UNHCR's contribution from the current 66% to 40% in 2006. A final decision would be taken at the time of project submission in November 2005.*

15. OIOS also observed that the lists of non-expendable property, which was transferred to BAJ, maintained by the UNHCR Representation in Yangon, by the Field Office in Maungdaw and by BAJ-Maungdaw did not agree to each other. *The Representation confirmed that a physical verification was conducted in July 2005 and records were updated.*

(b) Immigration and National Registration Department – Myanmar (IND)

16. There was no established procedure of administering project staff employed by IND. The staff did not have letters of appointment indicating terms of reference, contract dates and remuneration. *The Representation commented that relevant terms of reference had been provided to UNHCR and copies of all the appointment letters would be provided to UNHCR in the near future. The Representation has obtained updated staffing tables from IND.*

17. OIOS was unable to physically verify the ten computers (current value US\$ 2,916), which belonged to UNHCR and which IND was using under a Right of Use Agreement. We were informed that all the computers were with the Director General of Immigration and National Registration department's office and that a special arrangement was necessary to visit the Ministry. *The Representation confirmed that a physical verification of the ten computers in the Ministry building was conducted in June 2005.*

(c) Myanmar Red Cross Society (MRCS)

18. The review of non-expendable property revealed that reporting to UNHCR of damaged equipment needed improvement. We also noted that a vehicle assigned to MRCS-Maungdaw project office was taken by MRCS Yangon office for use of the Executive Committee member of MRCS. *According to the Representation, UNHCR and MRCS were at present conducting a physical verification of all its assets. The MRCS Executive Committee member was no longer using the project vehicle, which was assigned to the Project Coordinator directly in charge of the UNHCR projects with MRCS.*

B. Other Programme Issues

19. During the reporting period, the Representation in Myanmar undertook extensive verifications of sub-project monitoring reports on a quarterly basis. However, in-depth verification had yet to be introduced in accordance with the applicable rules to strengthen the monitoring of implementing partners in financial and personnel areas. *The Representation indicated that it would conduct in-depth monitoring jointly with implementing partners, with an emphasis on financial monitoring and reflect the results of such analysis and evaluations in the verification notes. Also, in June 2005 a workshop was held with all implementing partners on accounting and financial management.*

20. While reviewing foreign exchange transactions, we noted several scenarios with exchange rates varying from 450 Kyat to over 900 Kyat per US\$. IND, a government counterpart, was performing foreign exchange transactions using the 450 Kyat/US\$ government rate and in all cases supported them with documentary evidence. MMCWA, a quasi-governmental partner, used 600 Kyat/US\$ rate for payroll and 450 Kyat/US\$ for other expenditures. Documentary evidence of these transactions could not be provided to us. BAJ, an international NGO, used parallel market exchange rates, which were over 900 Kyat/US\$ and always supported their transactions with the documentary evidence from the dealers. Our review confirmed that two exchange rates, the government and the market one, should be used and that for government and quasi-governmental partner agencies, direct payments in Foreign Exchange Certificates (FEC), whenever possible, accompanied by proper invoices, would provide better internal controls. *UNHCR Myanmar indicated that, although under the present circumstances only an unofficial policy on foreign exchange transaction could be adopted by the UN system in Myanmar and two different exchange rates would continue to be used, the Representation would maintain the practice of requesting documentary evidence on the exchange rate used by implementing partners in their transactions. It would also encourage partners to use FEC as recommended, for example MRCS has contracted the suppliers in FEC from 2005. UNHCR Myanmar would encourage suppliers and contractors in their official dealings with the Representation to submit invoices in FEC.*

21. The UNHCR Representation in Myanmar, in following local tradition, procured gifts for Government officials and charged projects 04/RP/370 and 04/RP/371 for the expenditures incurred. Since the projects did not have a budget line for hospitality, these expenditures were charged to budget lines “Other commercial contracts/services” and “Other supplies/materials/goods”. The overall amount expended in 2004 was almost US\$ 5,000. *The Representation indicated that in future, hospitality expenditures would be incurred in accordance with applicable rules and regulations and within the budget allocated for these purposes.*

C. Supply Management

22. UNHCR Myanmar was using the services of the A&A Natural Resources Development Company to provide office support staff for the Representation, mainly security guards. No agreement was signed with this company in 2004, although the overall amount paid to it exceeded US\$ 105,000. UNHCR procedures for competitive bidding and referral to

the Local Committee on Contracts/Headquarters Committee of Contracts were not followed. *The Representation indicated that it would comply, for all future procurement, with prevailing supply chain regulations and rules. Concerning the provision of office support staff, the Representation confirmed that a tendering process had been completed and that a contract with A&A for a value of US\$ 85,000 had been approved by the Local Committee on Contracts in August 2005.*

23. In 2003 and 2004, purchase orders were not sequentially numbered. The payment of invoices was approved without the evidence that the goods were received in good order. This lack of proper receiving and inspection procedures resulted in the fact that for the purchase of school and health centre furniture for the amount of US\$ 6,600 in December 2004, the bad quality of materials and workmanship was only discovered after delivery when the payment had already been made in full. In 2004, there was no evidence of price quotations from alternative suppliers for three purchases amounting to over US\$ 6,500. *The Representation stated that in order to strengthen the internal control systems, only authorised officers had been assigned to inspect and ensure that goods had been received in good order. It accepted that there was no evidence of competitive bidding in the above cases.*

24. Our physical verification of the fuel management system in Buthidaung (Maungdaw area) showed a discrepancy of more than 800 gallons (over 3,600 litres) of petrol between the actual quantity in stock and the records. Although this discrepancy represented a surplus rather than a deficit, it still raised concerns over possible non-recording of fuel deliveries and we have no assurance that the difference is only one, which has occurred. OIOS recommended that the Representation establish a system reflecting the movements of fuel, including all of its components. It should also document the control over fuel supply and establish relevant Standard Operating Procedures. *The Representation accepted and fully implemented this recommendation. It has issued "Fuel Management Standard Operating Procedures" evidencing the full implementation.*

25. In August 2004, the Representation handed over assets to the Myanmar Human Rights Commission (MHRC) for an overall value of US\$ 10,736. It also concluded a lease agreement for the rental of premises for the MHRC. UNHCR is the lessee of the premises, and in July 2004 it paid the rent in advance for 21 months amounting to US\$ 4,200. The auditors were unable to verify the assets and were informed that the MHRC Office was sealed off due to political reasons and some office equipment and furniture had been moved to another location. According to the lease agreement, "should the premises be rendered uninhabitable by reason of "Force Majeure" or any other cause beyond the control of either party, the Lessor shall refund to the Lessee the portion of rent paid in advance". *The Representation confirmed that it has started retrieving the assets and had already received US\$800 from the lessor representing the four-months rent from September to December 2005.*

D. Security and Safety

26. UNHCR Myanmar generally complied with UN security and safety requirements. However, the UNHCR Security Plan for Myanmar existed only in draft form pending the review by the Security Management Team (SMT) and the approval by the Designated Official in Yangon. The Area Security Plan for Maungdaw was also in draft form. *The Representation indicated that the Designated Official (DO) had reviewed and approved the UNHCR security plan for Maungdaw and that he would attach it as an Annex to the Myanmar Security Plan in*

the near future. The DO would also submit the plan for endorsement by the SMT shortly.

27. Also, the UNHCR Marine Transport Operations consultant in his recent report issued in March 2005 raised the issue of timely Cyclone warnings for FO Maungdaw as a very serious one. The websites identified so far did not provide regularly updated information. OIOS recommended that the Representation in Myanmar together with the Bureau for Asia and the Pacific ensure that reliable and timely access to information on cyclones developing in the area be obtained. *The Bureau confirmed that following consultations with the Staff Safety Advisor in Geneva, the Bureau identified and supplied the Representation with a number of severe weather (including cyclone) warning websites. These websites had been also checked and were found to be useful and accessible and were being used by FO Maungdaw.*

E. Administration

28. In the areas of administration and finance, the UNHCR offices in Myanmar generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, salary expenses of an EDP Assistant and a Repatriation Assistant who were employed for the Field Office in Maungdaw were charged to the Project both in 2003 and 2004. The tasks of these staff members were not directly related to the project and it would have been more appropriate to charge the Office budget for these expenditures. *The Representation stated that the recommendation would be implemented as of July 2005, when the contract of the Repatriation Assistant was due to expire. The EDP Assistant working in Yangon was at present charged to the Office budget.*

29. Procedures for medical evacuation in Maungdaw Field Office existed in draft form pending formal approval from UNHCR Yangon. No drills have recently been performed for a medical evacuation at a possible accident site and at the Maungdaw Field Office, up to the point when the "SOS" MEDEVAC services have to be activated. *The Representation stated that a "real time" medical evacuation exercise was successfully conducted and properly documented in June 2005 and that it planned to perform another drill with its partners in Maungdaw in November or December 2005.*

V. ACKNOWLEDGEMENT

30. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and its implementing partners in Myanmar.

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