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AUDIT OF UNHCR OPERATIONS IN INDONESIA

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UNHCR Audit Service

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EXECUTIVE SUMMARY

In August 2005, OIOS conducted an audit of UNHCR Operations in Indonesia, including tsunami relief activities and regular programme. The audit covered activities with a total expenditure of US\$ 4.7 million in 2004 and 2005. The total budget for the two years came to some US\$ 15 million. The draft audit report was shared with Regional Representative in November 2005, on which comments were received by December 2005. *The Regional Representative has accepted the recommendations made in the draft audit report and taken action to implement them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Indonesia as above average, taking into account the prompt action by the Representation on the observations and recommendations of the audit. Overall, it was well run, and although some weaknesses in the application of internal controls were identified, the weaknesses concerned were not sufficiently critical to compromise the overall system of internal control.

Tsunami relief activities

Programme Management

- The draft Strategy Document needed to be reviewed and finalized and the Project Description for the Emergency Project needed to be revised. *Subsequent to the audit, a revised strategy document was approved and a revised project document issued.*
- A request by a third party for an audit of the UNHCR implemented project was contrary to the UN audit policy. The request also suggested that UNHCR could be held liable for claims and could revert to local arbitration mechanism, which appears not to be in line with the Convention on Privileges and Immunities of the United Nations. *The Representation assured that the single audit principle would be respected.*
- There was a need to improve the supervision of construction of two model houses. Advance payments upon signing of contracts should be avoided.
- Statistical data sent out of the Medan Office was not cross checked for accuracy, and the planning for Nias Island was not included in the main operational planning document. Nias still needed to be classified in terms of staff entitlements. *At the time of finalizing this report, the classification by the ICSC was still awaited.*

Supply Management

- The supply systems and procedures were in general assessed as adequate. We noted the strengths of the logistical system established in Medan. However, in the area of procurement, several cases of non-compliance with bidding requirements and incomplete procurement files were noted.
- The AssetTrak data was not accurate, and field offices were not sending up-dated asset lists to the Regional Representation in Jakarta on a regular basis. *Subsequent to the audit, AssetTrak has been updated.*

Security and Safety

- UNHCR Indonesia generally complied with UN security and safety requirements. However, the UNHCR Contingency Plan for Nias existed only in draft form pending completion of the UN DSS Security Plan for Nias. The existing UN Security Plan for North Sumatra had been prepared in 2003 and Nias Island was not mentioned in this plan. *Subsequent to the audit, the UN Security Plan for Nias/North Sumatra was finalized and the UNHCR Security Plan updated.*
- Lack of compliance of UN agencies operating in Nias may put staff at risk.

Administration

- In the areas of administration and finance, the Regional Representation in Indonesia generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, controls over reimbursement of private telephone calls needed to be improved. *The Representation has stepped up collection efforts.* In the area of MIP, supporting documents needed to be checked more accurately.

Regular programme

- Project financial and performance monitoring was adequately performed and regular missions were undertaken to West Timor to monitor project 04/AB/INS/LS/400.
- For the Implementing Partner Yayasan Pulih (project 04/AB/INS/CM/201), reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. However, when staff was financed for full time UNHCR work, there was no assurance that the persons in question actually worked full time to perform UNHCR-related activities. Also, performance indicators lacked concrete percentage targets, which had to be achieved at the end of the project. The Regional Representation had yet to follow-up with the Implementing Partner on the implementation of recommendations of a local audit firm.

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I. INTRODUCTION

1. From 24 August to 9 September 2005, OIOS conducted an audit of UNHCR's Operations in Indonesia, including tsunami relief activities and regular programme. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. Based on materiality and visibility factors, OIOS concentrated its review on tsunami related activities of the UNHCR Regional Representation in Jakarta, as well as field relief activities in Banda Aceh, Calang, Krueng Sabe and Medan. For the regular programme, it reviewed activities of the UNHCR Regional Representation in Jakarta and the implementing partner Yayasan Pulih.
2. OIOS conducted the last internal audit of UNHCR Indonesia in December 2002. The audit assessed the UNHCR Operation in Indonesia as above average. Critical recommendations dealt with implementing partners, such as Equity International and Ministry of Justice and Human Rights, human resources and supply management.
3. On 26 December 2004, tsunamis struck the shores of countries from Indonesia to the eastern coast of the African continent. UNHCR was tasked with providing shelter and non-food items in the Province of Nanggroe Aceh Darussalam (NAD Province). By 26 March 2005, UNHCR closed its emergency operations on order from the Ministry of Foreign Affairs after having spent US\$ 6.7 million (combined Headquarters and field expenditures). On 28 March 2005, an earthquake registering 8.7 on the Richter scale occurred with an epicenter 80 km north of Nias Island in the Province of North Sumatra. UNHCR retained a small logistical hub in Medan to provide emergency help to Nias. In June 2005, the Government of Indonesia announced that UNHCR had been invited to return to NAD Province to assist in providing shelter as part of the longer-term tsunami emergency rehabilitation effort. An MOU with the Agency for Rehabilitation and Reconstruction of NAD and Nias Island (BRR) was signed on 10 June 2005. In accordance with this document, UNHCR will provide support for up to 35,000 housing units subject to the availability of funding from UNHCR's donors. Total funding foreseen for the operation was up to US\$ 46 million.
4. The regular activities of UNHCR Indonesia are covering the following major themes:
 - i) East Timorese caseload - Former East Timorese refugees who remain in Indonesia are provided with appropriate legal counselling. The total number of returnees since 1999 stands at some 225,000. Regarding citizenship, at the beginning of 2004, the remaining former East Timorese pending durable solutions was some 16,000 people.
 - ii) Individual cases in Indonesia - Support will be provided to refugees in the search for durable solutions. The number of mandate refugees decreased during 2004 from 233 persons to 168 persons (80 cases). The year-end number of pending asylum seekers was 59 persons (56 cases).
 - iii) Promotion of Refugee Law - Promotion of UNHCR's mandate and the 1951 Convention/1967 Protocol. Enactment of national refugee legislation. Creation of a positive attitude towards refugees.
 - iv) Regional Support - Country Offices in Timor Leste, Malaysia, and the Philippines receive technical support in areas of Protection, Programme, Administration, and Staff Safety and

Security. Close follow up is given to the Bali Regional Ministerial Conference on People Smuggling, Trafficking in Persons and related Transnational Crime.

5. 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 9 September 2005. The draft audit report was also shared with the Regional Representative and with the Director, Bureau for Asia and Pacific in November 2005. The comments, which were received in December 2005, are reflected in the report. *The Regional Representative has accepted the four audit recommendations made and has taken swift action to implement them.*

II. AUDIT OBJECTIVES

6. 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;
- Compliance with regulations and rules, Letters of Instruction and Sub-agreements; and,
- UNHCR preparedness for tsunami relief operation, as well as systems and procedures established for this operation.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on the rehabilitation and reconstruction activities of the Tsunami project in Indonesia. They were funded under project 05/SB/INS/EM/131 with a budget (field spending authority) of US\$ 12.4 million and expenditure (including commitments) of US\$ 1.4 million as of August 2005. Our review included the functioning of the UNHCR Regional Representation in Jakarta, as well as field relief activities Banda Aceh, Calang, Krueng Sabe and Medan (covering the Nias Island operation). A visit to Nias Island could not be performed for operational reasons.

8. The audit also covered regular programme activities under projects 04/AB/INS/LS/400 and 04/AB/INS/CM/201 with expenditures of US\$ 1.5 million and US\$ 0.8 million respectively, as well as activities directly implemented by UNHCR with expenditure of US\$ 0.3 million. Based on interviews with key staff of the Regional Representation and review of documents, it was decided that a field visit to West Timor was not warranted.

9. The audit reviewed the administration of the UNHCR Regional Representation in Indonesia with administrative budget totalling US\$ 0.7 million in 2004 and assets with an acquisition value of US\$ 1.2 million and a current value of US\$ 0.1 million. The number of staff working for the UNHCR Operation in Indonesia was 64. This included staff on regular posts, United Nations Volunteers, consultants and staff on mission.

10. 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 - TSUNAMI RELIEF ACTIVITIES

A. Programme Management

Issues pertaining to tsunami response programme as a whole

11. The draft strategy document entitled “UNHCR’s Strategy in the Province of Naggroe Aceh Darussalam” was prepared by UNHCR Indonesia in February 2005. Since then, the situation has changed but the draft remained the same. In our opinion, the document could also tackle the main risks in the areas of funding, number of houses constructed/renovated, time span of the operation, implementing partners involved, major procurement and/or running of factories, transportation and comprehensive land development (water and sanitation). OIOS recommended that the UNHCR Regional Representation in Indonesia together with the Bureau for Asia and Pacific should finalize the strategy document for tsunami relief activities.

The Regional Representation agreed with the recommendation and indicated that the strategy document had been updated in November 2005 and shared with the field offices for comments. In December 2005, the strategy was approved by the Director of the Bureau for Asia and Pacific. OIOS is satisfied with the action taken.

12. The project document “Emergency Response to Tsunami and Earthquake affected Areas in Northern Sumatra, Indonesia” was revised last time in August 2005. The document includes the estimated target of completing 1,022 houses in six months, which cannot be achieved within the timelines established. It also includes statements, which are no more correct, like UNHCR chairing the Shelter Sector coordination meetings in Banda Aceh. OIOS recommended to revise the project document in order to make it more realistic and achievable.

The Regional Representation stated that the project description had been revised taking into account the observations made in the draft audit report and that the corresponding Amendment to the Letter of Instruction had been issued. OIOS is satisfied with the action taken.

NAD Province

13. The Coastal Design and Tsunami Mitigation Report emphasized the dangers of rebuilding new houses on original sites, which had been hit by tsunami. However, the local population expressed strong desire to build the houses on these sites. UNHCR provided us with agreements on land and construction issues containing signatures of community leaders and UNHCR staff. One document was signed by seven community leaders confirming the wish to build on their land, while the total number of villages is eleven. The documentation was not translated into English and the Legal Affairs Section (LAS) was not consulted on its content. *The Regional Representation stated that UNHCR had intensive discussions with the Government Agency for Rehabilitation and Reconstruction (BRR) on this issue. In accordance with the audit recommendation, the relevant documentation, including an English translation, had been referred to LAS to obtain their opinion. OIOS is satisfied with the action taken.*

14. In July 2005, at the request of BRR, the Head of Office in Banda Aceh signed an Anti-Corruption Declaration on behalf of UNHCR. As part of a commitment to operate in an open and transparent manner, it required that UNHCR provide to BRR a copy “of the final audit report of the project” implemented by UNHCR. OIOS wishes to recall that under UN and

UNHCR Financial Regulations and Rules, UNHCR's activities are audited exclusively by the Board of Auditors and by the UNHCR Audit Service. No third party requests for audits should be entertained. UNHCR offices should not commit to any audits without prior consultation with the UNHCR Audit Service and the Controller's Office.

15. The above BRR request also suggested that UNHCR could be held liable for any claim, law suit or dispute related to this project and that UNHCR could revert to a local arbitration mechanism in case of a dispute. Such approach appears not to be in line with the Convention on Privileges and Immunities of the United Nations. OIOS recommended that the UNHCR Regional Representation in Indonesia together with the Bureau for Asia and Pacific should ensure that the audit process of the UNHCR activities in NAD Province be in line with Financial Regulations and Rules. The issues of UNHCR liability and use of arbitration mechanism should be brought up with LAS for clarification.

In the reply to the draft audit report, the Regional Representation stated that it was fully committed to ensure that the audit process of UNHCR activities be in line with Financial Regulations and Rules. The Anti-Corruption Declaration was a declaration, which all UN agencies and non-governmental organizations had been requested to sign. The only commitment UNHCR undertook was not to engage in corrupt actions and to provide periodic reporting on project status, a final project report and a copy of the final audit report. There was nothing in the Declaration inferring that UNHCR could be held liable for any claim or law suit relating to the project or that a local arbitration mechanism would have any jurisdiction in this matter.

The Regional Representation suggested that this undertaking should be interpreted as an advance request from a Member State for releasing an audit report. In order to respond to the recommendation, the Regional Representation would – latest by 30 June 2006: (a) request OIOS to audit UNHCR's implementation of its Emergency Response to Tsunami and Earthquake affected Areas in Northern Sumatra operations; and (b) inform the Executing Agency of BRR that a formal request for the release of the UNHCR's final audit report should be made to the OIOS in New York through the Permanent Mission of Indonesia to the United Nations. OIOS welcomes the clarification by the Regional Representation that the single audit approach will be observed. OIOS is aware that the text of the Declaration itself does not invoke UNHCR's liability or local arbitration. However, the request from BRR does. OIOS is concerned that the issue was not clarified with BRR prior to signing the Declaration.

16. In Kreung Sabe, UNHCR decided to build two model houses as a pre-condition to start the construction on a larger scale. Our visit to the Kreung Sabe area showed that ten days after the signing of the contract with a local company, the work on the houses had not yet started. *The Regional Representation agreed that the commencement of work on the two model houses had been slow. The Director of the Company was informed that because of their slow start, they lost the opportunity to be considered for a much larger contract. It was assessed that, weather permitting, model houses would be finished by previously agreed deadline.* OIOS welcomes the progress made.

17. For construction of model houses and repair of community halls, an advance payment of 50 per cent was required upon signing of the contract. The same payment structure was used for the company, which had to prepare design certification and documentation of permanent housing solution. Although the technical designs delivered contained mistakes, the payment was done in full in March 2005. Eventually, these mistakes had to be corrected by the technical

experts from the UNHCR partner agency RedR. *The Regional Representation stated that the advance payment had been made in exceptional circumstances. As a result of the poor service provided, it had been decided that this company would not be used again in the future. The Representation confirmed that no advance payments had since been made or would be made in the future.*

Medan/Nias

18. In Medan, we verified the stock records for the tents and reviewed the system of recording deliveries. The reconciliation for one week in June 2005 showed that as per the situation report, 750 more tents were distributed than actually delivered from the warehouse. *The Regional Representation concurred that there was a need to ensure that all statistical data sent out by the office in various reports is accurate. The UNHCR Offices in Medan and Nias would ensure that situation reports in the future were cross checked with the stock reports.*

19. The List of Outstanding Issues is the main operational planning document of the Regional Representation. However, in the document, which we reviewed, tasks and issues for Nias Island were not mentioned. We recommended that operational planning documents cover the whole area of operations. *The Regional Representation agreed with the recommendation and stated that the document in question had been updated to include issues for Nias.*

20. Nias, which is one of the two areas of UNHCR involvement in reconstruction and rehabilitation, has not yet been classified in terms of staff entitlements, including the entitlement to Rest and Recuperation break (R&R). *The Regional Representation reported that action had been taken. UNDP, as the lead Agency, had requested the ICSC to classify Nias. UNHCR HQs was in the process of approving the formal establishment of Gunung Sitoli, Nias, as a Field Office. The Regional Representative had authorized that the international staff in Nias be entitled to R&R according to the established rules, while awaiting the ICSC classification.*

B. Supply Management

21. The supply systems and procedures were in general assessed as adequate. We noted the strengths of the logistical system established in Medan. However, in the area of procurement, several exceptions existed, including absence of competitive bidding and incompleteness of procurement files. *The Regional Representation indicated that action had been taken on the recommendation. RO Jakarta and FO Medan had reviewed the procurement system to ensure that procurement files include all relevant documents.*

22. Our review of AssetTrak revealed that asset data were neither accurate nor up-to-date. For instance, the records for Sub-location Banda Aceh showed discrepancies for seven items with the overall value of US\$ 29,400. *The Regional Representation agreed with the recommendation and took corrective action. The AssetTrak had been updated, and Field Offices had been requested to send an up-dated asset list to RO Jakarta on a regular basis.*

C. Security and Safety

23. UNHCR Indonesia generally complied with UN security and safety requirements. However, the UNHCR Contingency Plan for Nias existed only in draft form pending completion of the DSS Security Plan for Nias. We noted that the existing UN Security Plan for

North Sumatra is dated July 2003, and that Nias Island was not mentioned in this plan. The UNHCR Area Security Coordinator visited Nias and reported the failure of almost all UN agencies in Nias to comply with the security rules, which may put staff in a life threatening situation. *The Regional Representation indicated that it had taken proactive action to draw up UNHCR's own security evacuation plan since this was felt to be a critical gap for staff working in Nias.*

24. OIOS recommended further that the UNHCR Regional Representation in Indonesia together with the Bureau for Asia and Pacific should follow-up with the Department of Safety and Security (DSS) on the completion of the UN Security Plan for Nias and also contacted DSS directly. *The Regional Representation informed OIOS that DSS had finalized the Nias/North Sumatra Security Plan. UNHCR had in turn reviewed and updated the UNHCR Security Plan for its operations in Nias.* OIOS is satisfied with the action taken.

D. Administration

25. In the areas of administration and finance, the UNHCR Regional Representation in Indonesia generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, in Medan the salary of an Administrative Clerk working as local Individual Contractor had risen by 70 per cent in a period of three months in 2005. *The Regional Representation indicated that relevant action had been taken. The UNHCR Headquarters had approved the establishment of posts, therefore the Individual Contractor salary scales would no longer apply.*

26. The office had still to recover the cost of private telephone calls made by the staff on mission to NAD during the emergency. Thus, for January-February 2005, only three staff out of thirty reimbursed private calls. Individual bills came up to US\$ 1,200 per month. *The Regional Representation commented that recovery of personal phone calls was one of its important tasks. For mobile phones, as of end of September 2005, it had recovered approximately US\$ 5,000 out of US\$ 12,000. Follow-up action had also begun for reimbursement of calls made through satellite phones.*

27. An assessment of the application of Medical Insurance Plan (MIP) was done in May 2005 by a local audit firm, which also audited UNHCR's sub-projects implemented by partners. We support the recommendation that Human Resources staff should check more accurately the supporting documents and that other staff should be checking claims of Human Resources staff before they are approved by the Administrative Officer.

V. **AUDIT FINDINGS AND RECOMMENDATIONS – REGULAR PROGRAMME**

A. Programme Issues

28. OIOS assessed that project financial and performance monitoring was competently performed. We reviewed the reports of the field monitoring missions to West Timor for project 04/AB/INS/LS/400 and got assurances that final payments were released only after completion of all the works to the satisfaction of the Regional Representation in Indonesia.

B. Review of Implementing Partner

29. As far as project 04/AB/INS/CM/201 was concerned, for the partner Yayasan Pulih reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreement. OIOS assessed that internal controls were generally in place and operating effectively. Audit certificates were received in due time by the Regional Representation.

30. However, for Yayasan Pulih there was no assurance that staff fully funded by UNHCR actually worked full time to perform UNHCR-related activities. During discussions with the partner, doubts were expressed that the Project Director was working full time for UNHCR project. *The Regional Representation agreed with the recommendation and indicated that it would ensure during its monitoring that the financial expenditure be linked to performance. The errors would be corrected in the next revision to the LOI.*

31. The review of the Sub-Project document 04/AB/INS/CM/201 showed that performance indicators lack concrete percentage targets, which have to be achieved at the end of the project. *The Regional Representation commented that necessary improvements had already been incorporated into the 2005 Sub-Project document.*

32. A local audit firm reviewed the accounts and internal controls of Pulih for the Sub-Project 04/AB/INS/CM/201 (d) in April 2005 and submitted its management letter in August 2005. We reviewed the implementation of accepted recommendations and found that most of them were still pending although Pulih had confirmed their implementation. We recommended that the UNHCR Regional Representation in Indonesia should ensure, during its next project monitoring exercise, that the recommendations of the audit performed by the local firm are implemented. *The Regional Representation indicated that after two months UNHCR would conduct a financial monitoring mission to verify Pulih's adherence to the recommendations. The next financial monitoring mission had been scheduled as a surprise mission.*

VI. ACKNOWLEDGEMENT

33. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and its implementing partners in Indonesia.

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