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**Office of Internal Oversight Services
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**REVIEW OF UNHCR IMPLEMENTING PARTNERS'
AUDIT CERTIFICATION**

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UNITED NATIONS



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Office of Internal Oversight Services
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(AR2005/161/04)

EXECUTIVE SUMMARY

In October and November 2005, OIOS conducted a review of UNHCR Implementing Partners' Audit Certification process. The objective was to provide UNHCR with an assessment of the adequacy of the current arrangements, and whether it was carried out in accordance with the revised policy issued in December 2003. The review included instalments paid to implementing partners in 2004 of approximately US\$ 350 million with a related audit cost of some US\$ 1.7 million.

Submission of audit certificates

- OIOS' review established that audit certificates were required for 672 sub-projects (449 partners) amounting to US\$ 305 million. This meant that the expected coverage for 2004 was 87 per cent of the total instalments paid to partners.
- As of 11 November 2005, three months after the 31 July 2005 deadline for submission of audit certificates, UNHCR reportedly attained 37 per cent certification coverage of the 2004 instalments paid, significantly short of the expected coverage of 87 per cent. Moreover, the figure of 37 per cent was not entirely accurate as it included 58 audit certificates relating to sub-projects that were not subject to mandatory audit. These non-mandatory certificates represented only 2 per cent of partners' expenditures, but cost about US\$ 160,000 (9 per cent of the total audit cost).

Maintenance of statistics for summary progress report

- To compile the statistics on the level of audit certification coverage, expenditures according to MSRP were used instead of the amounts actually certified. OIOS' review found variances for one third of audit reports, and recommended that action be taken to ensure systematic comparison of the expenditures certified with those recorded in MSRP.
- The statistics compiled did not distinguish between the opinions expressed: unqualified, qualified and unable to give an opinion. An unqualified opinion (giving assurance that UNHCR funds were appropriately used) was expressed for less than 80 of the sub-projects audited. This low figure is fairly significant and more attention should be given to categorising the type of opinions expressed in order to highlight the percentage of qualified opinions.

Factors contribution to low audit certification rate

- In OIOS' view, one of the major factors contributing to the low rate of audit certification was a lack of planning by Representations: auditors were not engaged early enough, tight deadlines were given to auditors and documents necessary for the audit were not always locally available. Another factor was ineffective monitoring and follow-up by the desks. OIOS did not find evidence that the desks were always properly involved in the process by identifying those where audit certificates were required. The desk's perception of its involvement and responsibilities differed between bureau and desk. Some desks saw the analysis of audit certificates as their responsibility others considered it too time consuming.

Costs associated to audit certification

- In 2005, the annual budget for audit fees was US\$ 1.4 million. This was an underestimation and had to be revised upwards to US\$ 1.8 million as of 31 December 2005.
- The average audit fee was US\$ 2,900 per sub-project, but the actual cost varied considerably between operations. For instance, it was as low as US\$ 485 in Rwanda compared with US\$ 9,000 and US\$ 20,000 in Burundi and Liberia respectively. A similar situation was observed in Asia where the average fees ranged from US\$ 750 in India to US\$ 10,800 in Indonesia.
- The UNHCR guidelines provide for flexibility to have either an audit certificate per sub-project or per partner. In most of the cases, audit certificates were obtained for each sub-project. OIOS estimated that if Representations had requested audit certificates for aggregate sub-projects per partner, it would have reduced the number required by 30 per cent. This would have generated some economies of scale.

Evaluation and follow-up of audit certificates and management letters

- Of the audit certificates and management letters received, there was no standardisation, and the objective of having similar type reports was not achieved. Some auditors issued audit certificates per site, others issued lengthy reports which failed to express a clear audit opinion. Notwithstanding the ambiguity in some audit opinions, it appeared that there was still a lack of understanding of the difference between a qualified and unqualified opinion.
- The main reason for qualified audit opinions in 2005 was the lack of locally available documents for international partners. As the guidelines suggests, in these instances a local branch of the international partner's audit firm could have been contracted to review the local activities. Moreover, in OIOS' opinion, the lack of documentation should have been noticed by UNHCR during regular project monitoring, and as it was not, this could highlight a weakness in the project monitoring process.
- OIOS' review of management letters found the recommendations were relevant and deserved proper follow-up. Despite this, OIOS could not obtain evidence that Representations did this adequately. Most Programme Officers had not submitted the required matrix developed to facilitate this follow-up.

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I. INTRODUCTION

1. In October and November 2005, at the request of UNHCR, OIOS conducted a review of UNHCR Implementing Partners' Audit Certification of 2004 sub-projects. This was the first year of implementation of UNHCR's new policy. The policy, outlined in IOM/61/2003&FOM/61/2003, dated 8 December 2003, was introduced to address the recommendations made by the UN Board of Auditors which had expressed concern about the recurring unsatisfactorily low percentage of audit certificates. The new requirements were applicable to all sub-projects beginning on 1 January 2004. The new policy and guidelines were aimed at increasing compliance with audit certification requirements, improving the financial accountability of UNHCR's implementing partners and establishing uniform requirements for the audit of UNHCR projects.

2. The major change from the previous policy was the requirement of international NGOs to submit a specific audit certificate for a sub-project or aggregate of sub-projects within the same country where the budget exceeded US\$ 300,000. Previously they were required to submit the audit reports of their global financial statements. The responsibility for engaging local audit firms was delegated to Representations who were provided with new guidelines for contracting the auditors. The new policy was also more explicit in what action should be taken where a qualified opinion was expressed. Management letters became mandatory with Representations delegated the responsibility of following-up on the implementation of the recommendations. Moreover, a summary progress report of audit certificates received at Headquarters would be submitted to the Oversight Committee every six months.

3. The findings and recommendations contained in this report have been discussed with the Controller and the Audit Coordinator during the exit conference held on 14 November 2005. A draft of the report was also shared with them, and their comments received in April 2006 have been reflected, as appropriate, in this final report.

II. REVIEW OBJECTIVES

4. The overall objective of the review was to provide UNHCR Management with an assessment of the adequacy of the current arrangements of the audit certification process for funds provided to UNHCR's implementing partners. By reviewing a sample of audit certificates, OIOS aimed to determine whether the audit certification process was in accordance with UNHCR's expectations as stated in the UNHCR Manual (in terms of accountability of the partners), in compliance with UNHCR's policy and whether it was an efficient use of resources. OIOS also aimed to identify areas where the new policy, as well as the Management Systems Renewal Project (MSRP) could be further enhanced with relation to managing the audit certification process.

III. REVIEW SCOPE AND METHODOLOGY

5. Given that the policy was applicable for sub-projects starting on 1 January 2004, the review included audit certificates for sub-projects implemented in 2004. The review consisted

of interviewing staff and management, reviewing available audit certificates and management letters, as well as analysing the financial information available in MSRP.

IV. FINDINGS AND RECOMMENDATIONS

A. Submission of Audit Certificates for 2004

(a) Audit certificates required and received

6. The deadline for submission of 2004 audit certificates was, for most sub-projects, 31 July 2005 (i.e. six months after the liquidation date). As of 11 November 2005, the audit certificates received covered (including instalments paid to the UN Agencies) US\$ 127.9 million representing 37 per cent of the total instalments paid to partners in 2004.

7. At the time of OIOS' review, UNHCR was unaware of the total number of audit certificates required for 2004. While the requirement for an audit certificate is dependent on the type of partner, UNHCR no longer centrally maintains information to identify which sub-projects require an audit certificate. The categorization of partners as national NGOs, international NGOs, Governmental or UN agencies does not exist in MSRP. OIOS recommended that this information, which is essential to manage the audit certification process as well as to prepare progress reports for the Oversight Committee, be made available in MSRP.

8. *UNHCR's Audit Coordinator stated that a request had been made to the MSRP support team to include the information on the category of Implementing Partners in the system but so far, the feedback from MSRP support team indicated that this might not be possible. Programme Assistants also indicated the usefulness of such a report, which should include budget details. The Audit Coordination Unit will pursue with the MSRP support team the feasibility and expected timeframe for this report.*

Recommendation:

- The UNHCR Division of Finance and Supply Management, with the assistance of the MSRP support team, should develop a reporting tool, including budget information, which would automatically generate a list of partners for which an audit certificate is required (Rec. 01).

9. For the purpose of the review, OIOS established the list of required audit certificates by analysing the instalments paid to implementing partners in 2004. Subsequently, OIOS found that the NGO Unit already had a database containing partners per category. This information could be useful in the short-term for preparing a progress report on audit certification for the Oversight Committee pending the development of an appropriate management tool in MSRP.

10. OIOS determined that audit certificates were required for 672 sub-projects totalling US\$ 305 million out of the US\$ 350 million paid in 2004. The results of our analysis are presented in the table below. From this information, the expected coverage for 2004 is 87 per cent of the total instalments remitted to implementing partners. This is close to the estimate of

85 per cent coverage of the total budgets for implementing partners made by OIOS in its 2003 feasibility study.

Table 1: OIOS analysis of UNHCR MSRP records for 2004

Type of Implementing Partners	No. of sub-projects	No. of Partners	Total instalments (US\$'000)	%
International NGOs with aggregate instalments exceeding US\$300,000 per cost centre	260	155	167,607	48
National NGOs with aggregate instalments exceeding US\$100,000 per cost centre	287	215	83,100	24
Government Partners with aggregate instalments exceeding US\$100,000 per cost centre	125	79	54,608	15
Total Audit Certificates required	672	449	305,315	87
Audit Certificates not required NGOs and Governments less than established threshold and UN Agencies	611	576	44,097	13
Total	1,283	1,025	349,412	100

11. OIOS' review noted that the total instalments for 2004 recorded in MSRP amounted to US\$ 349.9 million. This figure was not entirely accurate since it included US\$ 0.5 million for disbursements related to UNHCR directly implemented activities undertaken by 14 different cost centres. There was also an amount of US\$ 802,000 charged to an "Unidentified" partner. This corresponded to instalments paid to Alisei, Italy by UNHCR, Gabon. Although the amount was correctly recorded in FMIS it was incorrectly mapped when downloaded to MSRP. Therefore instalments paid to Alisei were shown as US\$ 85,000 instead of US\$ 887,000. To ensure the integrity of information in MSRP, quality control procedures, such as the comparison of MSRP data with other sources (LOIs and Sub-Project Agreements), should be established.

(b) Audit Certificates obtained when not required

12. The records maintained by the Audit Coordinator included audit certificates for sub-projects with an actual budget of less than US\$ 300,000 for international NGOs or less than US\$ 100,000 for national NGOs and Governmental partners. As these were not mandatory under the new guidelines, OIOS is of the opinion that they should have been excluded. By 11 November 2005, 58 audit certificates which were not required in accordance with the policy had been submitted. This corresponds to instalments of approximately US\$ 6.5 million. As an example, out of the 22 audit certificates received from Angola, 12 were not required in accordance with the policy. Assuming an average audit fee for each project of around US\$ 2,900, OIOS estimated that fees related to non-mandatory audit work amounted to approximately US\$ 160,000. *In response to the draft report, it was stated that this should be seen as a positive step taken by field offices whereby audit certificates are being received for all sub-projects to improve oversight and the accountability of partners.*

13. The guidelines (Annex 8.8 par 1.3) foresaw that Representations may request audit certificates even if they are not strictly required by them. Nonetheless, due to the absence of information, it was not possible to know whether the above cases were the result of decisions to have all sub-projects audited or decisions to audit specific projects or a misinterpretation of

the rules and procedures. To ensure the cost effectiveness of the resources spent, OIOS recommended that Representations document the reasons for decisions to audit sub-projects not subject to mandatory audit. This should be submitted to the desk together with the audit certificate. *UNHCR's Controller indicated that an official Memorandum will be issued to clarify audit requirements, as well as the roles of the all those concerned at both Field Offices and at Headquarters.*

(c) Audit Certificates not obtained when required

14. Some audit certificates were not obtained although required, mainly because the aggregated budget amount per partner was not taken into consideration as stipulated in the guidelines. This particularly concerned international partners, namely for sub-projects implemented in Kosovo, Democratic Republic of Congo and Namibia. This error was not detected since the notion of an aggregated amount for sub-projects was generally not well understood. UNHCR needs to clarify and reinforce the application of the guidelines.

B. Maintenance of Statistics for Summary Progress Report

(a) Discrepancies between the certified amounts and instalments paid

15. The statistics compiled by the Audit Coordinator for preparing the summary progress reports were not entirely accurate. By comparing the amount of instalments paid, according to the audit certificates, received with those paid as recorded in MSRP, OIOS found variances for one third of those reviewed totalling approximately US\$ 2.2 million (absolute numbers). This is a result of the Audit Coordinator not comparing the amount of instalments certified by the auditors with the amount paid as recorded in MSRP. There was an assumption that both amounts agreed. *UNHCR's Audit Coordinator stated that the Unit does not have the resources to do this, and it would be outside its coordination functions.*

16. OIOS also found that there was not sufficient documentation on the reconciliation of figures on audit certificates with FMIS or MSRP records by the desks and Representations. OIOS suggested that in order to ensure the expenditures certified in the audit certificates agree with MSRP records, the desks should verify and inform the Audit Coordinator of any discrepancies between them. Alternatively, Representations, when submitting audit certificates should attach a table with the description of the sub-projects, the total of instalments and expenditures certified, the total expenditures recorded in FMIS (pending the implementation of MSRP in the field) and an explanation for any differences. *UNHCR's Controller agreed with OIOS' recommendation and stated this issue will be emphasized and reiterated in the above-mentioned Memorandum.*

Recommendation:

- The UNHCR Division of Finance and Supply Management should emphasize the necessity for Representations and desks to reconcile the total expenditures according to the audit certificates to either FMIS or MSRP records as appropriate (Rec. 02).

(b) Absence of statistics on qualified audit opinions

17. The statistics collated on the audit certificates received were misleading, and further analysis were required since they did not disclose the number of certificates per opinion expressed: unqualified, qualified or when the auditors are unable to express an opinion. From our sample of 64 audit reports received at Headquarters, 15 (23 per cent) of them gave a qualified opinion. This should be a ‘red flag’ for active follow-up, as it does not provide reasonable assurance that UNHCR funds were used in accordance with the Sub-Project Agreement.

18. The Audit Coordinator explained that statistics on qualified audit certificates could not be compiled since the desks and/or Representations did not always indicate the type of opinion issued when forwarding copies of the audit certificates. OIOS would emphasize that without this information, desks cannot perform effective follow-up on field office activities and the Audit Coordinator cannot submit the necessary information to the Oversight Committee for consideration.

19. OIOS concluded that only a limited number of Representations analyse audit certificates, as only a few of them summarized their concerns in their transmission letters to the desk. In most of the cases reviewed, when the audit certificates were submitted, there was no mention that a qualified opinion had been expressed by the auditors or of any other problems outlined in the management letter.

20. There was a diverse attitude among the desks on this issue. Some Desk Officers stated they had read the audit certificates on their own initiative, others felt that it was the responsibility of programme managers in the field to analyse audit certificates as it was a time consuming exercise. In OIOS’ opinion, DFSM should remind Representations and desks on their respective responsibilities when a qualified opinion is expressed. According to the rules and procedures, programme managers should follow up on issues raised by the auditors, and it is the desks’ responsibility to ensure that adequate follow-up has been done.

21. Some UNHCR staff members at Headquarters and in the field were unfamiliar with the terms “qualified” and “unqualified” for audit opinions and there was confusion between the two. For instance, one Representation stated in a memorandum to Headquarters that all partners received a qualified audit opinion when the contrary was true. OIOS understands that measures will be introduced by MSRP to record whether an audit opinion is unqualified or qualified. OIOS is pleased to note this, but for it to be effective and generate reliable data, there needs to be a clear understanding of the terms. If not, the information input into the system will be incorrect. OIOS recommended that the terminology be further explained to UNHCR programme staff. *UNHCR’s Controller stated that Representations will be asked to follow up with audit firms to ensure audit opinions are clearly stated to facilitate the work of programme managers at Headquarters when filling such information in MSRP. The Controller also indicated that DFSM is working with the MSRP support team to resolve the technical problem of uploading such information into MSRP.*

Recommendation:

- The UNHCR Division of Finance and Supply Management should ensure Representations and desks are aware of their

responsibilities when a qualified opinion is expressed. Representations should actively follow-up on the issues raised by the auditors, and the desks should monitor their progress (Rec. 03).

(c) Inadequate filing of information in Livelink

22. The Audit Coordinator is responsible for collating and summarising information to identify country operations that are not complying with UNHCR's audit certification requirements. The statistics are currently maintained per partner instead of per country, and are filed according to the filing structure previously adopted when the international partners submitted their global financial statements. OIOS recommended that with the new policy and procedures a new structure for compiling the data be implemented. OIOS suggested that statistics be available per country and per project in order to initiate the action in case of non-compliance or to assist country operations facing difficulties in obtaining the required audit certificates. *UNHCR's Audit Coordinator agreed with OIOS recommendation and will modify the filing structure of information in Livelink. This issued was discussed with and the changes accepted by the desks and other users of the information.*

C. Factors Contributing to the Low Audit Certification Rates

(a) Inadequate planning by UNHCR field offices

23. Delay in contracting audit firms is one of the causes of the late submission of audit certificates. OIOS did not have detailed information on how Representations selected audit firms. There were indications however that many audit firms were contracted in mid-2005 and the audit carried out in the second semester of 2005. This is too late and means that in most cases the deadline for submission of audit certificates is not met. For example, as at 31 July 2005 (the time the audit certificates should have been submitted to Headquarters) only 23 per cent of the budgeted audit fees had been spent. OIOS noted that there was a marked increase in the submission of audit certificates at the latter part of the year, which also indicated a delay in contracting auditors. OIOS found that between mid-November 2005 and the beginning of January 2006, the percentage submitted had increased from 37 to 49 per cent.

24. To accelerate the process, audit firms should be contracted during the relevant year, e.g., during 2004 for the 2004 sub-projects. Moreover, as the audit certificate threshold is based on the budgeted amount and not the actual expenditure, there is no need to wait for the actual expenditure figures before contracting the audit firm. Moreover, early contracting of auditors allows them to conduct work prior to the end of the project (site visits, bank confirmations, etc.), which is the normal practice for auditors. This ensures that the audit certificate can be issued in a timely manner after the end of the liquidation period.

25. Another factor in the late engagement of auditors was the selection process, which was new for most Representations. OIOS understands that it was time consuming for them to become familiar with the guidelines, to identify audit firms, to initiate the tendering process, to establish the terms of reference and prepare the contract. However, this investment in time is not required annually. If UNHCR is satisfied with the quality of services provided, the audit firm can be re-contracted for a further two years. To ensure the timeliness and completeness

of audit certificates for implementing partners, OIOS recommended that DFSM reminds Representations to initiate the selection or contractual renewal process as soon as possible, and preferably before the end of the implementation period of the sub-projects. *UNHCR's Controller agreed with OIOS recommendation and stated that this will be included in a Memorandum to Representations to ensure the timeliness of the engagement of auditors.*

26. The late contracting of audit firms has an impact on the quality of the audit. For instance, the UNHCR Representation in Chad engaged auditors in late July 2005 for 15 partners (30 sub-projects with total expenditure of over US\$ 27 million) and gave them a deadline of 10 August 2005 for the submission of the reports. This gave the auditors only three weeks to conduct the audit despite the fact that sites were scattered over a large geographical area. Although the audit certificates were submitted within the deadline, they were not able to visit some partners' offices because of bad weather. They also faced difficulties in obtaining the necessary documentation from most of the international partners as the documents supporting expenditures were no longer available locally. The auditors issued audit certificates without forming any opinion for instalments paid amounting to US\$ 7.7 million.

(b) Lack of monitoring by the desks

27. In OIOS' opinion, desk personnel did not demonstrate a pro-active approach in monitoring the implementation of the audit certification policy. They had to be reminded of their responsibilities by the Controller through a memorandum issued on 7 June 2005 and a subsequent meeting with Finance and Programme Assistants from various desks on 28 September 2005. At the time of the OIOS review in October 2005, the majority of the desks still did not have a list of the audit certificates required per country and per partner. Consequently they were not in a position to monitor the engagement of auditors, to ensure audit fees had been properly budgeted for and to verify the completeness of the audit certificates received.

28. OIOS interviews with UNHCR desk staff found that they were not fully aware of the importance of audit certification. As a result, they did not give high priority to audit certification among the other day-to-day operational issues they faced. Some Desks Officers and Heads of Desk admitted that they had not read in detail the new guidelines, and others questioned the necessity of obtaining independent audit certification, as field Representations are responsible for performing quarterly reviews of sub-projects with partners. One desk mentioned that the requirement was not considered a priority since it was not mentioned in the IOM/82/2004&FOM86/2004 'Instructions and Guidelines on Reporting on 2004, Implementation in 2005 and Planning for 2006', which provided a list of the various reports to be submitted in 2005. OIOS was of the opinion that to ensure better planning, the annual IOM&FOM should make reference to the deadline for the engagement of the auditors and the submission of audit certificates to Headquarters.

29. The monitoring of the receipt of audit certificates was also perceived as a task to be performed by Desk Assistants, and a Senior Resource Manager declined to participate in a meeting with OIOS, as the follow-up of audit certification was too technical a task and it was felt that it was not a Senior Resource Manager's responsibility. This is contrary to the suggestion made by OIOS in its 2003 feasibility study, where it was thought that Senior Resource Managers should be designated focal points for monitoring the planning, reception

and follow-up of audit certificates and management letters. OIOS recommended that DFSM clarify who is responsible for monitoring the process at Headquarters. *UNHCR's Controller stated this was raised at a Department of Operations meeting, as well as with the Financial Reform Team. SRMs are aware of their responsibilities but did not give it a top priority among other competing ones. This issue will be addressed in the Memorandum mentioned earlier in the report.*

D. Costs Associated with Audit Certification

30. In the initial approved budget, the total cost for audit fees within the established thresholds was US\$ 1.4 million. As of 16 November 2005, the total amount budgeted for audit fees for 2005 was approximately US\$ 1.6 million (rising to US\$ 1.7 million as of 31 December 2005), out of which US\$ 0.95 million had been disbursed.

31. OIOS highlighted that this amount may not be fully accurate since UNHCR guidelines on budgeting for audit fees were not always adhered to. OIOS noted that as of 16 November 2005, some 17 cost centres had not made any budget provision for audit fees relating to an accumulative number of 40 sub-projects with total instalments of approximately US\$ 18 million. Alternatively, Representations in 7 cost centres had budgeted for audit fees of US\$ 20,000 although no projects at these locations fell into the established threshold under the present policy.

(a) Average budgeted cost per audit certificate

32. According to the current budget, the average audit fee per audit certificate in 2005 will be approximately US\$ 2,900 (based on one audit certificate issued per sub-project). This amount varies considerably from one country to another. For instance, it was the equivalent of US\$ 485 in Rwanda compared with US\$ 9,000 in Burundi and US\$ 20,000 in Liberia. Similar variances to audit fees were observed in Asia and the average audit fees were US\$ 750 in India compared to US\$ 10,800 in Indonesia.

33. Given that the charges have not yet been fully recorded, the costs of audits should be further analysed. An average cost should be established per country operation and compared with others in the same region. Any excessive fees should be investigated and the reasons determined with the aim of reducing costs.

(b) Absence of economies of scale

34. UNHCR's policy on audit certification gives flexibility to have either an audit certificate per sub-project or per group of sub-projects implemented by the same partner in a given country. Most UNHCR Representations opted for an audit certificate per sub-project, meaning that the number of audit certificates required was approximately 672 whereas taking the other option would have resulted in only 449. This could have generated some economies of scale.

(c) Possible savings by increasing the current threshold

35. OIOS' analysis of instalments revealed that by increasing the current threshold for national partners could reduce audit fees and still maintain adequate coverage of expenditure

of 80 per cent or above. (Please see annex for details). An increase of the current threshold would reduce the number of audit certificates and management letters, resulting in a reduction in analysis and follow-up.

36. OIOS also understands that the current threshold of US\$ 100,000 was aimed at obtaining audit certificates for a large number of national NGO partners, which present higher risks to, and require more capacity building from, UNHCR. Unlike international NGOs, national NGO partners may not receive any other form of audit. While it would be premature at this stage to change the current threshold, DFSM should periodically review the situation to see whether any revision may be warranted.

E. Evaluation and Follow-up of Audit Certificates and Management Letters

(a) Variety of audit certificates submitted

37. Despite having established standard terms of reference, as well as samples of audit report formats, a large variety in the nature and type of reports were submitted. OIOS noted cases where the audit certificate was a one-page document with the SPMR attached, in other cases it was a 90-page document (i.e. a sub-project implemented by GTZ in Sierra Leone). Moreover, an audit firm in India issued an audit certificate of approximately 90 pages that did not clearly express an opinion. In Sudan, the auditor issued audit reports per project site instead of per sub-project or the aggregate of sub-projects. At one particular site, the auditor issued two audit reports with conflicting figures.

38. The cause of these problems might be the failure either by the auditors to adhere to the terms of reference (ToR) provided by UNHCR, or of Representations to communicate the established ToR and the samples of the audit report format. The requirement to comply with UNHCR's reporting formats should be clearly stipulated in the contractual agreement. Any lack of compliance with the ToR should be taken into consideration in the assessment of the quality of services provided by the auditing firm, and could effect the decision on whether or not to renew the contract. With the exception of Gabon, OIOS was not aware of any cases where the Representation questioned the quality of the services provided.

39. OIOS was of the opinion that the briefings given to audit firms were not adequate. OIOS noted that some auditors did not have sufficient knowledge of UNHCR regulations and rules, and some of the audit findings as outlined in the management letters referred to insignificant issues. This could have been avoided with better knowledge of UNHCR practices. If required, OIOS could, during field missions, meet representatives of audit firms to provide additional information about UNHCR rules, procedures and practices.

Recommendation:

- The UNHCR Division of Finance and Supply Management should remind Representations of their responsibilities to provide a proper briefing to audit firms to make them fully aware of the terms of reference and the procedures necessary to assess the audit services provided (Rec. 04).

(b) Lack of adequate financial records

40. The main reason that audit firms expressed a qualified opinion was the lack of documents available in the international partners' field offices. For example this was observed in Chad, Angola and Congo. It seems that both UNHCR and the partners did not anticipate this problem, which should have been noticed by Programme Managers when carrying out financial monitoring. It also raises the question of whether financial monitoring was properly carried out. UNHCR should communicate to partners the requirement to maintain adequate supporting documents at their field offices for audit purposes. On the other hand, it could be agreed with the partners to engage a local branch of their international audit firm to provide sufficient audit coverage if records are maintained both locally and at its Headquarters. In these cases, UNHCR would make a financial contribution to the cost of the audit. OIOS was not aware of any such option taken in 2005.

Recommendation:

- The UNHCR Division of Finance and Supply Management should request Representations to make sure that all international partners are aware of their responsibility to ensure that documents are available for audit, including copies of documents of expenditures disbursed at the Headquarter level or other documents that are normally sent to their Headquarters. The engagement of a local branch of the international implementing partners' audit firms in order to provide sufficient coverage for audit purposes should be considered where necessary (Rec. 05).

(c) Follow-up on Management Letters

41. Under the new policy on audit certification, the issuance of management letters is a requirement. OIOS assessed from its review of the management letters that most of the findings and recommendations made were relevant and deserved proper follow-up.

42. OIOS did not obtain any evidence of action taken by Representations to follow-up on the implementation of audit recommendations, even though they are required to analyse management letters to determine the action necessary to implement the recommendations. Moreover, although Programme Officers are required to submit a matrix for follow-up on recommendations per partner, few of the Programme Managers had done so at the time of OIOS' review.

43. In most of the cases reviewed, the partners' comments were obtained and added to the management letter. There was, however, no comment from UNHCR. Such comments would have been important in cases where the partner disagreed with the auditors. Moreover, some findings and recommendations made by the auditors should have been raised at Headquarters. For instance, GTZ and ARC in Sierra Leone had sub-contracted a large part of their UNHCR activities to local partners without (in GTZ's case) informing UNHCR and without properly monitoring these sub-contracted partners. This should have been followed-up at Headquarters. One of the GTZ partners was under 'investigative audit'.

44. In the course of future field missions, OIOS could provide, if required, some assistance and advice on analysing and following up audit certificates and management letters.

Recommendation:

- The UNHCR Division of Finance and Supply Management should reinforce the requirements for the analysis of audit management letters and their follow-up. Programme Officers should be reminded of their responsibility to submit a matrix of the recommendations issued to facilitate the follow-up, and in cases where the partner disagrees with the recommendation made, comments from the Representation should be provided (Rec. 06).

45. *UNHCR' Controller stated that he appreciated the suggestions made in recommendations 4, 5 and 6 and will make sure that they are included in a Memorandum to be addressed to all field offices and Bureaux at Headquarters. The Controller is aware of the significance of a strengthened audit certification system in improving transparency and accountability in respect to expenditure incurred. The Controller informed the March Standing Committee of OIOS' review and is committed to improve the system.*

V. ACKNOWLEDGEMENT

46. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR.

Eleanor Burns, Acting Chief
UNHCR Audit Service
Office of Internal Oversight Service

SENSITIVITY ANALYSIS FOR AUDIT FEES AT DIFFERENT THRESHOLDS

Total	No of projects	No of IPs	Install. paid in 2004
Govt	226	175	57,981,944
INGOs	456	330	189,247,123
NNGOs	561	481	94,294,168
Intergovernmental	40	39	7,889,109
	<u>1,283</u>	<u>1,025</u>	<u>349,412,344</u>

Scenario 1

Audit threshold	No of projects	No of IPs	Install. paid in 2004
Govt >100k	125	79	54,608,218
INGOs > 300k	260	155	167,606,545
NNGOs > 100k	287	215	83,100,593
	<u>672</u>	<u>449</u>	<u>305,315,355</u>
Percentage to total	52%	44%	87%

Scenario 2

Audit threshold	No of projects	No of IPs	Install paid in 2004
Govt >150k	100	57	51,841,861
INGOs > 300k	260	155	167,606,545
NNGOs > 150k	234	166	77,095,616
	<u>594</u>	<u>378</u>	<u>296,544,021</u>
Percentage to total	46%	37%	85%

Scenario 3

Audit threshold	No of projects	No of IPs	Install. paid in 2004
Govt >200k	96	53	51,191,256
INGOs > 300k	260	155	167,606,545
NNGOs > 200k	200	136	71,986,704
	<u>556</u>	<u>344</u>	<u>290,784,505</u>
Percentage to total	43%	34%	83%

Scenario 4

Audit threshold	No of projects	No of IPs	Install. paid in 2004
Govt >300k	76	38	47,628,765
INGOs > 300k	260	155	167,606,545
NNGOs > 300k	163	105	65,108,975
	<u>499</u>	<u>298</u>	<u>280,344,285</u>
Percentage to total	39%	29%	80%