UNITED NATIONS INTEROFFICE MEMORANDUM



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AUD II-7-4 :4 (AE560/04)

1 November 2004

TO:	Ms. Louise Arbour High Commissioner for Human Rights
FDOM	

FROM: Egbert C. Kaltenbach, Director Internal Audit Division II Office of Internal Oversight Services

 SUBJECT:
 OIOS Audit of the UN Voluntary Fund for Victims of Torture (AE2004/330/01)

1. I am pleased to submit the final report on the audit of the financial management of the UN Voluntary Fund for Victims of Torture, which was conducted between March and June 2004 at the Office of the High Commissioner for Human Rights (OHCHR) by Mr. Raja Arumugham and Mr. Girma Gina. This audit was conducted in connection with the independent evaluation undertaken by the Monitoring, Evaluation and Consulting Division (MECD) of OIOS. The final evaluation report was issued on 20 September 2004.

2. A draft of this report was shared with the Chief of Treaties and Commission Branch, OHCHR on 2 September 2004, whose comments, which were received in October 2004, are reflected in the final report. I am pleased to note that most of the audit recommendations contained in this final report have been accepted and that the Treaties and Commission Branch, OHCHR has initiated their implementation. The table in paragraph 26 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendation 2 which OIOS considers to be of critical importance.

3. I wish to point to the recommendations contained in the OIOS evaluation report of 20 September 2004 and their link to the remaining recommendations listed in paragraph 26 of this report. The closure of these would depend on the implementation of the recommendations contained in the evaluation report. I therefore would appreciate if you could send us a copy of your replies to the MECD of OIOS as and when you submit it to them.

4. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me under confidential cover.

5. Thank you for your cooperation.

Attachment: Client Satisfaction Survey Form

- cc: Ms. C. Bertini, Under-Secretary-General for Management (by e-mail)
 - Ms. H. Featherstone, Executive Secretary, UN Board of Auditors
 - Mr. T. Rajaobelina, Deputy Director of External Audit (by e-mail)
 - Ms. M. Ize-Charrin, Chief of Treaties and Commission Branch, OHCHR (by e-mail)
 - Ms. K. Hinkle-Babul, Audit Focal Point, OHCHR (by e-mail)
 - Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)
 - Ms. C. Chavez, Chief, Geneva Audit Section, OIOS (by e-mail)
 - Mr. R. Arumugham, Auditor-in-Charge (by e-mail)
 - Mr. D. Tiñana, Auditing Assistant (by e-mail)
 - Mr. V. Guerassev, Director, MECD, OIOS (by e-mail)



United Nations Office of Internal Oversight Services Internal Audit Division II

Audit Report

Audit of the UN Voluntary Fund for Victims of Torture (AE2004/330/01) Report No. E04/014R

Report date: 1 November 2004

 Auditors: Mr. Raja ARUMUGHAM Mr. Girma GINA **UNITED NATIONS**



NATIONS UNIES

Office of Internal Oversight Services Internal Audit Division II

OIOS Audit of the UN Voluntary Fund for Victims of Torture (AE2004/330/01)

EXECUTIVE SUMMARY

From March to June 2004, OIOS conducted an audit of the UN Voluntary Fund for Victims of Torture (the Fund). The audit was conducted in connection with the independent evaluation undertaken by the Monitoring, Evaluation and Consulting Division (MECD) of OIOS in accordance with the Commission on Human Rights (CHR) Resolution 2003/32, adopted at its fifty-ninth session. The audit covered the financial management of the Fund with grants amounting to \$12.5 million for 199 projects in 2002-2003. *The Treaties and Commission Branch, OHCHR has accepted all the recommendations made and is in the process of implementing them.*

Approval of Grants

- According to the Guidelines of the Fund, funding for projects should not exceed one third of the project's budget. However, for a significant number of projects, the requesting grantees did not provide proof of funding sources that cover the remaining two thirds of the budget. For projects where this information was available, the Secretariat of the Fund did not verify the sources of these funds. Furthermore, for a substantial number of projects, the budgets showed a lump sum amount, instead of listing detailed expenditures as required under the Guidelines. *A new guideline requires proof that other donors were contributing to the projects and this has been applied to the applications received from November 2003.*
- The Board did not establish any policy for reducing requested grants. In 2002, for 108 out of the 176 projects, the approved grants were far below the amounts requested. Similarly in 2003 the practice prevailed. OIOS recommended that the Board of Trustees of the Fund should establish guidelines to determine the size of the grants. *OHCHR stated that the Board of Trustees would be seized of the recommendations once they are formally transmitted to OHCHR*.

Pending grants

• The Guidelines do not establish a reasonable time limit up to which an approved grant can be kept "pending." In 2001 and 2002, there were pending grants amounting to \$160,000 and \$419,000 respectively. In the opinion of OIOS, grants should not be kept pending beyond one year after its approval, so the funds can be used for other projects. The UNVFVT Secretariat established a one- year time limit for 'pending' grants.

Emergency Grants

• In two out of ten emergency grants, \$94,000 was paid in five instalments into the personal bank account of the grantee. Making a series of continued emergency payments to an individual who was not a victim and without review by the Board was not in compliance with the Guidelines. OIOS recommended that the Board be informed ex-post facto on any emergency grants made between sessions. *The Board was informed of all emergency grants approved between sessions during the 23rd Session of the Board of Trustees held in October 2004.*

Financial Reporting, Monitoring and Evaluation

- Contrary to the Guidelines, further grants for nearly half of the audited projects (13 out of 35) were released even if the recipients did not submit the required audited financial statements. The Guidelines lacked clarity as to the required format for the audited financial statements and audit certificate. It was also not clear whether the audited financial statements were to cover the entire project or only the grant portion.
- The financial statements submitted by the grantees did not appear to be in compliance with Generally Accepted Accounting Standards and did not provide sufficient information as to whether the grantees had complied with the conditions of the grant, i.e., spent the money for the intended purpose and in accordance with the budget. Furthermore, there was no systematic follow-up of the projects and the available spreadsheet did not contain adequate information for monitoring and follow-up. OIOS recommended that the Secretariat establish a standardized format for the audited financial statements on the use of the grant and in accordance with Generally Accepted Accounting Standards and establish proper financial monitoring and evaluation mechanisms. Also, the Secretariat should not release further grants, if financial reports for previous grants are overdue. *OHCHR agreed that a standardized format for the audited financial statements on the use of grants would be adopted. OHCHR also stated that no grants have been released since 2003 where financial reports have not been received or if when received these are not satisfactory.*

- November 2004 -

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I. INTRODUCTION

1. From March to June 2004, OIOS conducted an audit of the financial management of the UN Voluntary Fund for Victims of Torture (the Fund) at the Office of the High Commissioner for Human Rights (OHCHR), Geneva. The audit was conducted in connection with the independent evaluation undertaken by the Monitoring, Evaluation and Consulting Division (MECD) of OIOS, in accordance with the Commission on Human Rights (CHR) resolution 2003/32 adopted at its fifty-ninth session. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations.

2. The United Nations Voluntary Fund for Victims of Torture (UNVFVT) was established by General Assembly Resolution 36/151 of 16 December 1981 to assist victims of torture and their families. The Fund receives voluntary contributions from Governments, non-governmental organizations and individuals, and provides grants to non-governmental organizations that are involved in medical, psychological, social, economic, legal, and other types of humanitarian services to the victims of torture. Resolution 36/151 provided that the Fund should be administered in accordance with the United Nations Financial Regulations, by the Secretary-General, with the advice of a Board of Trustees. The Secretary-General appoints the Board, consisting of a chairman and four members with wide experience in the field of human rights and who serve in their personal capacity.

3. The Secretary-General administers the Fund through the UNVFVT Secretariat, which is part of the OHCHR Treaties and Commissions Branch, reporting directly to the UN High Commissioner for Human Rights. The Fund is administered on the basis of "Guidelines of the Fund for the use of organizations" (Guidelines) approved by the Board and OHCHR. UNOG receives the voluntary contributions on behalf of OHCHR and pays the grants as certified by OHCHR. A summary of the number of projects and the total amount of grants paid per biennium is presented as follows:

Biennium	Total projects financed	Total grants paid in million US\$
2000-2001	189	13.3
2002-2003	199	12.5

4. A draft of the report was shared with the Chief of Treaties and Commission Branch, OHCHR on 2 September 2004, whose comments have been reflected in the report in italics. *The Treaties and Commission Branch has accepted most of the recommendations made and is in the process of implementing them*

II. AUDIT OBJECTIVES

5. The objective of this audit was to review the Fund's activities to determine:

(i) Compliance with UN Regulations and Rules and with the Guidelines of the Fund for the use of organizations; and

(ii) Effectiveness and efficiency of the procedures for the approval and payments of grants and financial reporting and monitoring of the Fund.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit reviewed 35 out of the 199 projects that received grants amounting to \$6.5 million during 2002-2003. The amount of the grants given to each selected project during this period ranged from \$10,000 to \$500,000. The audit reviewed the Fund's existing and proposed guidelines, procedures for approval, payment and accounting of grants and their financial monitoring and evaluation. The auditors assessed the internal control mechanisms, analysed financial reports, examined documents and interviewed responsible staff members.

7. OIOS had not conducted any previous audit of the Fund, except for the audit of the receipt by UNOG of Trust Funds including this Fund. The Board of Auditors conducted an audit of OHCHR trust funds. Their audit findings and recommendations have been considered in this audit.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

1. <u>Approval of grants</u>

8. The Secretariat of the Fund receives applications for grants for projects by year-end. The Secretariat pre-screens the projects and presents them to the Board of Trustees during their annual meeting held in May. The Board, after reviewing the project documents, recommends their approval and the amount of the grants. On the basis of these recommendations, the United Nations High Commissioner for Human Rights approves the projects on behalf of the Secretary-General.

9. According to paragraph 25 of the Guidelines, the amount requested of the Fund should not exceed one third of the project's budget. The requesting grantees must provide proof that other donors are contributing to the project to ensure that the project is not fully dependent on the Fund. However, OIOS' review of the project files indicated that a significant number of the selected project applications did not contain proof relating to other funding sources. Furthermore, the Secretariat did not verify assertions about other funding sources, even if there was adequate time before review by the Board. Furthermore, contrary to paragraph 27 in the Guidelines, OIOS found that in a significant number of project proposals, the budget showed a lump sum amount, instead of a detailed listing of expenditures to be covered by the grant. *OHCHR stated that the guideline requiring project applicants to provide proof that other donors were contributing to their projects was adopted by the Board at its twenty-second session in May 2003 and that this has been applied to the applications received from November 2003.*

10. The majority of the NGOs applied for grants not exceeding one third of the project budget. However, the Board recommended amounts far below those requested. In 2002, in 108 of 176 projects, the amount of the approved grant was far below the grants requested. Similarly, in 2003, in 157 out of 199 projects, the same trend prevailed. OIOS noted that the Board did not establish a policy or basis for reducing the requested grants. Also, OIOS did not see any indication that such reductions were adequately justified or that the grantees were advised of the reasons. To cite an example of the trend, one NGO submitted a request for a grant of \$241,405 (31 per cent) for a project with a total budget of \$781,000, the approved grant was only \$80,000 or approximately 10 per cent of the total budget of the project. OHCHR needs to establish a basis for such reductions and ensure transparency in its approval

process. OHCHR clarified that the policy of the Board with regard to the size of the grants has been to ensure that all requests are treated fairly through the division of the available money to all admissible requests.

Recommendation:

The UNVFVT Secretariat of OHCHR in consultation with the Board should establish clear guidelines to determine the size of the grants, document the decisions taken and communicate them to the grantees. The UNVFVT Secretariat should also establish procedures to verify other funding sources of the projects (Rec. 01).

11. OHCHR stated that the Board of Trustees would be seized of the recommendations once they are formally transmitted to OHCHR. OHCHR also required additional human resources to undertake the verification of other sources of funding for the projects. OIOS will retain the recommendation for a follow up of the outcome of the discussions of the Board. OIOS also wishes to point out Recommendation No. 6 in its evaluation report on a similar issue.

2. <u>Pending grants</u>

12. Generally grants are paid promptly after the High Commissioner has approved the Board's recommendations. However, in certain circumstances, grants are kept pending for reasons such as need for additional information or assessment by the Secretariat or any UN office present in the field. OIOS noticed that the Guidelines do not establish a reasonable time limit up to which an approved grant can be kept "pending". OIOS' review indicated that there were 5 (\$160,000) and 17 (\$419,000) pending grants relating to the period 2001 and 2002 respectively. In the opinion of OIOS, approved grants should not be kept pending beyond one year after the approval. After one year, the approval should lapse and funds should be used for other projects.

13. OHCHR's practice of raising one blanket obligation (OBMO) for the total approved grants, including pending grants, does not allow effective monitoring of payments of grants. It also raises the risk that the pending grant could be paid to another grantee. In OIOS' opinion, for each pending grant a separate obligation should be raised in the name of the specific grantee, in order to ensure adequate follow-up and monitoring of the pending grants. OIOS recommended that OHCHR should establish a time limit, such as one year from the time of approval, for retaining a grant as "pending". Also, OHCHR should raise a specific obligation for each of the pending grants for effective monitoring and follow-up.

14. In response, the UNVFVT Secretariat had already established a one-year time limit for 'pending' grants. With respect to the raising of a specific obligation for each pending grant, OHCHR suggested that three obligations be raised, one for each category of grant, i.e., prompt, pending and emergency. OHCHR proposed to attach a detailed table to each set of obligations including all information relating to the grants, including the project number, date, the amount to be paid, the payment number so as to facilitate follow up and monitoring. This would be implemented from the 23rd Session of the Board. OIOS agrees with OHCHR's suggestion and its implementation.

3. <u>Emergency grants</u>

15. According to the Guidelines, between sessions of the Board, a grantee can apply for an emergency grant if the projects financed by the Fund encounters unforeseen financial difficulties. According to established procedures, the Fund can provide an emergency grant on the basis of the approval by the Chairman of the Board (for amounts up to \$20,000) and two other Board members (for amounts exceeding \$20,000). Individual victims of torture can also apply for an emergency grant provided they can produce evidence to that effect, and provided that there is no project financed by the Fund that gives assistance to victims of torture in the applicant's country. *OHCHR amended the guideline to include the member of the Board of the relevant geographical region in the approval of emergency grant from a particular region.*

16. During the period 2001-2003, the Fund provided ten emergency grants. In two cases, OIOS found that the grants were paid to an individual rather than an NGO. The individual, a legal representative, in two claims of torture, received a total amount of \$94,000 in five instalments between February 2003 and May 2004.

17. The grantee requested an emergency grant from the Fund in December 2002 to meet legal and related expenses for representing the assassination case of XXX, at the Inter-American Court of Human Rights. The Fund's Secretariat, in consultation with the Chairman of the Board, paid \$20,000 in February 2003. According to the grantee's report, this amount was spent to settle debts incurred in 2002. Subsequently, the grantee requested a supplementary grant of \$34,000 in February 2003. Although the Board met in May 2003, this additional request was not submitted to the Board as a regular case, but was approved using emergency procedures. The grantee was paid \$20,000 in July 2003 and another \$14,000 in November 2003.

18. In January 2004, the same grantee requested an additional grant of \$80,000 to represent a case involving YYY. The Fund's Secretariat made a \$20,000 payment in March 2004 after consultation with the Chairman of the Board. The Secretariat also advised the grantee that for technical reasons, series of payments would only be made after the receipt of the acknowledgement for the previous instalment. Subsequently, a payment of \$20,000 was made in May 2004. In OIOS' opinion, making a series of continued emergency payments to an individual (who is not a victim) circumvented the limits set by the Guidelines. OIOS noted that although an opportunity existed to consider and approve these requests as regular cases, the grants were nonetheless all paid on an emergency case basis.

19. OIOS also noted that all ten cases that had been approved and granted as emergency grants were not submitted to the subsequent Board meetings on an 'ex-post facto' basis for review. In OIOS' opinion, the Board should be informed on an ex-post facto basis, on all emergency cases approved by the Chairman. OIOS recommended that all emergency requests be taken into consideration and approved in accordance with the Guidelines and that the Board should be informed of all emergency grants approved between sessions. *The recommendation has been implemented since the 23^{rd} Session of the Board of Trustees held in October 2004*.

4. Financial reporting

20. The Guidelines stipulate that all grantees should provide either (a) a financial report

on the use of the grant; (b) audited financial statements issued by an independent audit authority, presented and endorsed by the grantees governing body or (c) an audit certificate issued by an independent audit authority when the grantee is not required to have audited financial statements (due to the absence of a national requirement). However, OIOS noticed that the Guidelines lack clarity as to the format of the audited financial statements and audit certificate. It is also not clear whether the grantee is required to submit the audited financial statement relating to the entire project or to limit it to the particular grant provided by the Fund. Therefore, as noticed from the files and the correspondence, it was not always clear to the grantees which form and content of the audited annual financial statements were required. As a result, OIOS noticed the following inadequacies:

• In many cases, it was not clear to the Secretariat whether the examiners who certified the audited financial statements, were authorized to certify them under the respective national laws.

- Many of the "audited" statements do not appear to be in accordance with Generally Accepted Accounting Standards.
- Audited financial statements submitted to the Fund do not provide sufficient information as to whether the NGO has complied with the conditions of the grant, e.g. spending the money for the intended purpose and in accordance with the approved budget.
- In a considerable number of projects (21 in 2002 and 30 in 2003), the amount of grants approved by the Board was \$15,000 or less. It may not be worthwhile to require a grantee to submit audited financial statements for such small grants.

21. The deadline for submission of the financial report for the approved grant is 30 November of the year for which the grant was approved. If final reports cannot be provided by that date an interim report should be submitted by that date and the final report issued no later than 15 February of the following year. OIOS found that in 13 out of the 35 selected projects (about 40 percent), grants were provided without recipients' submission of Audited Financial Statements, contrary to the Guidelines. The revised draft guidelines dispensed with the interim report and set the deadline for the final report to 1 February of the year following the payment of the grant. Since grantees can spend the funds provided until 31 December of the year, a deadline of 1 February does not still seem to be realistic. OIOS considers 31 March of the following year a more realistic deadline for the submission of Audited Financial Statements. OHCHR should not release further grants if financial reports for previous grants are overdue.

Recommendation:

The UNVFVT Secretariat of OHCHR should establish a standardized format for the audited financial statements on the use of the grant in accordance with Generally Accepted Accounting Standards, and should not release further grants if financial reports for previous grants are overdue (Rec. 02).

22. OHCHR agreed that a standardized format for the audited financial statements on the use of grants should be adopted and requested OIOS to provide it with a proposed format.

OHCHR also stated that no grants have been released since 2003 where financial reports have not been received or if when received these are not satisfactory. Regarding the format, OIOS suggests that OHCHR should consult with OHCHR and UNOG Financial Resources Management Service and adopt the format. OIOS would retain the recommendation for the review and adoption of the format.

5. <u>Financial monitoring and evaluation</u>

23. The core function of the Secretariat is to follow-up on pending grants, implement the recommendations of the Board on the projects and inform the Board of follow up action. Up to mid-2003, there was no systematic follow-up of the projects. Follow-up and monitoring mechanisms were established later, which further need to be strengthened. The spreadsheet that is currently used does not contain adequate grant data for monitoring and follow-up. The Secretariat has relied mainly on the financial reports and the audited financial statements provided by the grantees. Thus, the Secretariat cannot independently ensure that the project has been implemented in full or in part; whether the grant was spent fully or whether there was an unspent balance. For example, an amount of \$50,000 paid to Project 199 remained unspent and the Fund's Secretariat became aware of it only when the grantee approached the Fund's Secretariat and requested guidance when the NGO's independent auditors disagreed to include the grant as expenditure as it had not been spent. The unspent money was eventually reimbursed to the Fund. OHCHR clarified that the provision of audited financial statements allowing for identification of carry-over from a previous grant, were not required at the time of this incident. In the light of current procedures, this incident could not recur.

24. According to the Guidelines, the members of the Board or the Secretariat staff may visit a project to better understand and evaluate the work done by the grantee. OIOS noted that the staff of the Secretariat had undertaken visits to the projects and submitted reports. In OIOS' opinion, the reports were not comprehensive and did not include a detailed evaluation of the projects. In OIOS' opinion, the capacity of the staff of the Fund's Secretariat needs improvement particularly in project and financial monitoring and in the analysis of financial reports. OHCHR should provide adequate training and evaluation guidelines to the staff to make their field visit a more worthwhile exercise. OIOS recommended that adequate training and tools should be provided to the staff of the UNVFVT Secretariat to enhance their capacity in project monitoring and evaluation and in the analysis of financial reports. *OHCHR expected that in the course of 2005 more training and tools would be provided*.

Recommendation:

The UNVFVT Secretariat of OHCHR should establish mechanisms to ensure that the projects are adequately monitored and that the funds are spent for the intended purposes (Rec. 03).

25. OHCHR stated that the bulk of work undertaken by the Secretariat constituted monitoring of the projects. OHCHR welcomed any concrete suggestions on mechanisms that could be introduced to ensure that projects are adequately monitored and evaluated. OIOS wishes to point out that the implementation of the recommendations contained in its evaluation report would strengthen the Fund management. OIOS would retain this recommendation for a follow-up of the strengthening of the monitoring mechanisms.

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

26. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Rec. no.	Action/document required to close the recommendation
1	Discussion and Board's decision on the recommendations.
2	Adoption of standard format for Financial Statement.
3	A copy of OHCHR reply to OIOS evaluation report and its review by
	OIOS.

VI. ACKNOWLEDGEMENT

27. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of OHCHR and UNOG.

Egbert C. Kaltenbach, Director Internal Audit Division II Office of Internal Oversight Services