



## INTERNAL AUDIT DIVISION

# REPORT 2015/016

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Audit of the United Nations  
Compensation Commission claims  
payments

Overall results relating to arrangements for  
disbursement of compensation awards were  
initially assessed as satisfactory.

FINAL OVERALL RATING: SATISFACTORY

12 March 2015  
Assignment No. AE2014/820/02

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# AUDIT REPORT

## Audit of the United Nations Compensation Commission claims payments

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Compensation Commission (UNCC) claims payments.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

3. UNCC was created in 1991 as a subsidiary organ of the United Nations Security Council. Its mandate is to process claims and pay compensation for losses and damages suffered as a direct result of Iraq's invasion and occupation of Kuwait. UNCC administers the Compensation Fund, which is financed by receiving five per cent of the Iraqi oil export revenues, as required by Security Council resolution 1483 (2003) and re-affirmed in resolution 1956 (2010). In addition, in resolution 1956 (2010), the Security Council decided that five per cent of the value of any non-monetary payments to service providers should also be deposited into the Compensation Fund.

4. UNCC completed the processing of claims in June 2005 and awarded a total amount of \$52.4 billion to successful claimants, with the majority awarded towards corporate and government claims. Payments are made to the submitting entities, which are then responsible for distributing the awards to the claimants. The payment mechanism is governed by decision 267 of the UNCC Governing Council. As at 31 October 2014, the value of outstanding unpaid awards was \$4.63 billion. UNCC Secretariat had previously projected that the outstanding balance would be paid in full by the end of 2015. However, in December 2014, the Governing Council adopted decision 272 which postpones deposits to the Compensation Fund and payments toward the outstanding award until 2016.

5. UNCC staffing comprised six staff members for the period from November 2013 to June 2014; and five staff members from June 2014 until October 2014 consisting of the Acting Head, an accounting/administrative assistant, one General Service staff and two Professional staff for the Follow-Up Programme for Environmental Awards. The Controller's Office at United Nations Headquarters continued to provide support for various activities including recording and reconciliation of receipts, fund availability and remittances.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNCC governance, risk management and control processes in providing reasonable assurance regarding the **effective arrangements for disbursement of compensation awards by UNCC**.

7. The audit was included in the 2014 internal audit work plan for UNCC because of the risk that UNCC may not continue receiving Compensation Fund revenues and disburse awards related to successful claims in a timely and effective manner. In addition, General Assembly resolutions 59/270 and 59/271 require OIOS to provide internal oversight of the entire claims process of UNCC and to report regularly thereon in the context of the annual reports of the Office.

8. The key controls tested for the audit were: (a) regulatory framework; and (b) programme management reporting. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the disbursement of compensation awards and maintenance of payment records; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

(b) **Programme management reporting** - controls that provide reasonable assurance that mechanisms are in place for timely and accurate reporting on programme and financial performance, including the revenues deposited into the Compensation Fund and any undistributed awards refunded by recipient governments.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from December 2014 to February 2015. The audit covered the period from 1 November 2013 to 31 October 2014.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. The UNCC governance, risk management and control processes examined were **satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective arrangements for disbursement of compensation awards by UNCC**. Regulatory framework was assessed as satisfactory because UNCC continued to have effective arrangements in place to ensure that the compensation awards were disbursed and that the payment records were accurate, properly documented and in compliance with the Governing Council decisions and the United Nations Financial Regulations and Rules. Programme management reporting was assessed as satisfactory as the system in place for reporting on programme and financial performance, including the receipt and monitoring of Compensation Fund revenue, continued to function as intended.

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **satisfactory**.

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<sup>1</sup> A rating of “**satisfactory**” means that governance, risk management, and control processes are adequately designed and operating effectively to provide reasonable assurance regarding the achievement of control and/or business objectives under review.

**Table 1: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective arrangements for disbursement of compensation awards by UNCC	(a) Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Programme management reporting	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

### **A. Regulatory framework**

Effective arrangements were in place for disbursement and recording of compensation awards

14. During the period under review, UNCC disbursed four quarterly payments totalling \$4.27 billion to the Government of Kuwait towards the outstanding unpaid awards. The allocation of funds to the outstanding awards complied with the Governing Council decision 267, the disbursements were made in compliance with the United Nations Financial Regulations and Rules, and internal reconciliation procedures were carried out as appropriate. OIOS verified that the payments made reconciled to the payment worksheets, press releases, the Integrated Management Information System (IMIS) records, and authorized disbursements prepared by the UNCC Secretariat staff. OIOS further verified that distribution reports and audit certificates were received for all payments.

15. In accordance with Governing Council decision 268 (2009), UNCC released all remaining principal and accrued interest on funds withheld under decisions 258 (2005) and 266 (2009) totalling \$43 million to the Governments of Jordan, Kuwait and Saudi Arabia in relation to the Follow-Up Programme for Environmental Awards.

16. Based on the above, OIOS concluded that UNCC continued to have effective arrangements in place to ensure that the compensation awards were disbursed and recorded accurately.

### **B. Programme management reporting**

Reporting on programme and financial performance was satisfactory

17. The UNCC Secretariat continued to report on its programme and financial performance to the Governing Council. There were no undistributed awards that needed to be refunded by recipient governments during the period under review. On behalf of UNCC, the Controller's Office reconciled the compensation revenues received with Iraq's Oil Proceeds Receipts Account to ensure that five per cent of the Iraqi oil export sales and the equivalent of five per cent of non-monetary payments were received into the Compensation Fund. This reconciliation was performed annually since bank statements pertaining to Iraqi oil export sales were received only at the end of each year. OIOS reviewed the reconciliation for 2014 and considered it to be accurate. Also, the revenues received in 2012-2013 reconciled with the oil export sales reported in the audited financial statements of the Development Fund for Iraq as of 31 December 2013.

18. In December 2014, the Governing Council adopted decision 272 which postponed until 1 January 2016 the requirement that Iraq deposit five per cent of oil proceeds and five per cent of the value of any non-monetary payments to service providers, into the Compensation Fund. Quarterly payments towards the outstanding awards will resume in 2016, in accordance with Governing Council decision 267 (2009). Under decision 272, the Governing Council also directed that deposits made into the Compensation Fund since 1 October 2014 be returned to the Government of Iraq. In this regard, the UNCC Secretariat had taken, in consultation with the Office of the Controller, the necessary administrative action for the return of the funds in early 2015. Based on the above, OIOS concluded that the system in place for reporting on programme and financial performance was functioning as intended.

#### **IV. ACKNOWLEDGEMENT**

19. OIOS wishes to express its appreciation to the Management and staff of UNCC for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* David Kanja  
Assistant Secretary-General for Internal Oversight Services

# **APPENDIX I**

## **Management Response**

UNITED NATIONS



NATIONS UNIES

SECURITY COUNCIL

CONSEIL DE SÉCURITÉ

UNITED NATIONS  
COMPENSATION  
COMMISSION

COMMISSION  
D'INDEMNISATION  
DES NATIONS UNIES

MEMORANDUM

TO: Mr. Gurpur Kumar  
Deputy Director  
Internal Audit Division, OIOS

FROM: Irene Muchira   
Acting Head, UNCC Secretariat

DATE: 3 March 2015

REFERENCE: UNCC/19/2015

SUBJECT: **Assignment No. AE2014/820/02 – Audit of UNCC claims payments**

1. Thank you for the draft report on the audit of UNCC claims payments covering the period from 1 November 2013 to 31 October 2014.
2. The Secretariat is pleased to note that OIOS's overall assessment is satisfactory and that there are no recommendations.
3. Once issued in final format, the report will be presented to the UNCC Governing Council for its consideration.
4. The Secretariat would like to take this opportunity to thank the OIOS team for its cooperation during the audit.

cc: Ms. Bettina Tucci Bartsiotas, Assistant Secretary-General, Controller, OPPBA  
Mr. Hans G. Baritt, Chief, Finance Resources Management Service, UNOG  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS  
Mr. Michael Sams, Finance Officer, UNCC