



INTERNAL AUDIT DIVISION

REPORT 2015/059

Audit of the operations in the Philippines for the Office of the United Nations High Commissioner for Refugees

Overall results relating to management of the operations in the Philippines were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

23 June 2015

Assignment No. AR2014/141/03

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AUDIT REPORT

Audit of the operations in the Philippines for the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in the Philippines for the Office of the United Nations High Commissioner for Refugees (UNHCR).
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. The UNHCR Representation in the Philippines (hereinafter referred to as ‘the Representation’) was established in 1975. It supports the Philippine Government in refugee status and statelessness determination and protection of the persons of concern, ensures the functioning of the Emergency Transit Mechanism for resettlement, and provides support in ensuring that displaced communities or those at risk of displacement have access to basic services. In addition to the branch office that has been based in Manila since 1975, the Representation established in 2010 a field office in Cotabato to implement protection activities for internally displaced persons (IDPs) in the Central Mindanao area. In November 2013, the Representation further created protection hubs in Tacloban, Guiuan, Ormoc, Cebu and Roxas for the emergency response and protection of the victims of typhoon Haiyan, which hit the Philippines in that same month. As of September 2014, the Representation assisted 5.0 million IDPs, 184 urban-based refugees, 107 asylum seekers, and 6,040 persons of concern who were at risk of statelessness.
4. The Representation was headed by a Representative at the P-5 level. As at 31 July 2014, the Representation had filled 68 of its 72 authorized posts. It had expenditure of \$17.2 million in 2013 and \$4.7 million for the 7-month period from 1 January to 31 July 2014. To implement its projects, the Representation worked with 14 partners in 2013 and 13 in 2014. The partners’ total expenditures of \$2.5 million for the period from 1 January 2013 to 31 July 2014 represented 17 per cent of the Representation’s total programme-related expenditures of \$14.4 million.
5. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the operations in the Philippines**.
7. The audit was included in the 2014 risk based internal audit work plan for UNHCR due to the risks associated with simultaneously managing both the regular protection activities of the Representation for its persons of concern and the emergency response brought about by typhoon Haiyan.
8. The key controls tested for the audit were: (a) strategic planning; (b) project management; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic planning** – controls that provide reasonable assurance that the Representation’s strategic plans for its programme and protection activities, including for emergency situations, are developed in alignment with UNHCR global strategic priorities.

(b) **Project management** – controls that provide reasonable assurance that there is proper planning and implementation as well as accurate and complete monitoring and reporting of the Representation’s project activities.

(c) **Regulatory framework**– controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations in the Philippines; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

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

10. OIOS conducted the audit from October 2014 to January 2015. The audit covered the period from 1 January 2013 to 31 July 2014. During the audit, OIOS visited the UNHCR Branch Office in Manila, the Field Office in Cotabato and the Protection Hub in Tacloban.

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 UNHCR governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of the operations in the Philippines**. OIOS made three recommendations to address issues identified in the audit.

13. There was a need for the Representation to: (a) strengthen supervision of the work of the project monitoring team and develop a training programme for the members of the team on UNHCR performance monitoring requirements; and [REDACTED]. The Representation took corrective action on the need to put in place procedures for monitoring compliance with the UNHCR rules on granting, utilization and recording of operational advances.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as the implementation of two important recommendations remains in progress.

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk 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 management of UNHCR operations in the Philippines	(a) Strategic planning	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Strategic planning

Arrangements over strategic planning were assessed as satisfactory

15. The UNHCR Global Management Accountability Framework requires the Representation to prepare and implement a clearly articulated country strategy that: is coherent and consistent with the corporate vision, corporate results framework and regional strategy; and guides the country operation in meeting its commitment to protect, assist and find solutions for all persons of concern. Based on a needs assessment, the Representation is further required to develop a Country Operations Plan that identifies the objectives for different planning population groups, the budget allocation, and the targets. It is also required to take prompt action to prepare and implement a response strategy in case of emergencies.

16. In 2014, the Representation conducted a comprehensive needs assessment, identified gaps and recommendations on the protection of refugees and stateless persons, and updated the previous needs assessment done in 2013. Subsequently, the Representation prepared its 2014 Country Operations Plan, which was aligned with UNHCR global strategic priorities. It also developed, in a timely manner, a strategy in response to the emergency operations in the aftermath of typhoon Haiyan in 2013. In 2014, the Representation, in cooperation with the Government, formulated a strategy for 6,040 persons at risk of statelessness. This included the analytical framework and assumptions; timelines, targets and outcomes; registration system and operational framework; community preparation; roles and responsibilities of the participating agencies; and an information management strategy to achieve the objective of reducing and preventing statelessness. Therefore, OIOS concluded that the Representation's controls over strategic planning were working effectively.

B. Project management

Need to strengthen supervision of the work of the project monitoring team and develop a training programme for the members of the team on UNHCR performance monitoring requirements

17. The UNHCR Implementing Partnership Management Guidance Note on Project Partnership Agreement Monitoring and Control requires the Representation to ensure that a project monitoring plan is developed and implemented by a multi-functional team. According to UNHCR Project Partnership Agreements, the Representation needs to verify implementing partner final reports to establish the completeness and occurrence of the reported expenditures. The Representation should also ensure that

partners maintain accounts for the receipt and disbursements of funds, maintain a separate bank account for UNHCR project funds, conduct periodic bank reconciliations, and follow UNHCR partner procurement guidelines. The Representation further needs to conduct performance monitoring to assess progress in project implementation and ensure that each partner's performance is aligned with the financial expenditures incurred.

18. OIOS reviewed the Representation's partner financial verification results for the period from January 2013 to July 2014 and its financial monitoring procedures in general. Although the Representation did not have a structured monitoring plan in place, it duly conducted financial verifications of each project at least once during the lifetime of the project in 2013, i.e. 18 verifications for the 14 partners. During the 7-month period from 1 January to 31 July 2014, it conducted 10 verifications for seven of the 13 partners. To validate the effectiveness of the monitoring controls, OIOS visited four partners in Manila, Cotabato, Davao and Tacloban. The Representation ensured that the partners followed the UNHCR partner procurement guidelines except for minor cases of non-compliance that OIOS noted at two partners which the Representation had not identified in its financial verifications. It also ensured that the partners maintained accounting systems and that expenditures could be traced from the partners' final reports to transaction journals, vouchers and supporting documents. The partners also maintained separate bank accounts for UNHCR funds and regularly conducted bank reconciliations. OIOS therefore concluded that the Representation's financial monitoring procedures were working effectively.

19. The Representation's performance monitoring of partners, however, needed strengthening. OIOS noted that the Representation did not adequately monitor the performance of partners in implementing agreed project activities in the following instances:

- The Representation engaged two partners to distribute non-food items totalling \$3.0 million to the typhoon Haiyan victims. However, it did not undertake adequate reconciliations of the non-food items issued to the partners per the UNHCR waybills against the partners' distribution records. As a result, OIOS noted the following discrepancies in quantities issued versus quantities distributed at one of the partners: a) the Representation's records indicated the issuance of 93,147 plastic sheets which was 18,695 more than the 74,452 items shown in the partner's distribution records; b) the Representation reported issuance of 16,383 kitchen sets which was 5,131 more than the 11,252 shown in the partner's distribution records; and c) the Representation's records indicated issuance of 1,900 sleeping mats which was 4,621 less than the 6,521 shown in the partner's distribution records. Regarding the other partner, the Representation did not reconcile the waybills with the partner's distribution lists for 2,668 bales of used clothing.
- The Representation engaged a partner to assist with the issuance of new civil registration records for the typhoon Haiyan victims, but it did not take appropriate remedial action on delays in project implementation. At the time of the audit fieldwork in October 2014, the partner had processed and released only 64,480 out of the targeted 83,790 applications for civil registration records. The Representation also did not test the integrity of the entries in the partner's registration database. OIOS visited a sample of households, validated 18 beneficiaries in Tacloban which were reported by the partner as having already been processed, and confirmed that only two of them had received their new civil registration records.

20. The above weaknesses in performance monitoring happened due to inadequate supervision of the work of the Representation's performance monitoring team and lack of awareness of the team members of the need to assess the progress of project implementation and its correlation to financial spending. As a result, the Representation was not ensuring the reliability of the reported performance information.

(1) The UNHCR Representation in the Philippines should: develop procedures for adequate supervision of the work of the multi-functional project monitoring team, and a training programme for the members of the team on UNHCR performance monitoring requirements.

UNHCR accepted recommendation 1 and stated that with the notable exception of forced displacement of 133,000 persons in February 2015 in Mindanao, the reduction of activity had allowed the Representation to plan regular performance monitoring procedures for partners led by the National Programme Officer. Recommendation 1 remains open pending receipt of evidence of the procedures put in place to ensure adequate supervision of the work of the multi-functional project monitoring team and evidence of completion of training for the members of the project monitoring team on the UNHCR performance monitoring requirements.

C. Regulatory framework

Action was taken to put in place procedures for monitoring compliance with the rules on granting, utilization and recording of operational advances

21. According to the UNHCR Manual, the Representation is required to ensure that the following controls are in place for operational advances: (i) a payment voucher should be prepared and the payee should acknowledge receipt by signing the voucher; (ii) the staff member should properly account for the amount advanced and should not further distribute advances to other staff members; (iii) each advance should be fully accounted for separately and the balance of one advance should not be carried forward to a subsequent advance; and (iv) special operating procedures should be prepared for operational advances during emergency operations. In addition, if the practice of cash advances is long term, a separate petty cash account and petty cash guidelines should be established.

22. During the Haiyan emergency operation, the Representation relied on operational advances to meet the basic communication and operational needs (e.g., cellular phone cards, water, first-aid kits and cash) of the emergency response teams. OIOS review of 12 of the operational advances amounting to \$117,628 (out of 26 advances amounting to \$314,322 granted by the Representation between November 2013 and September 2014) identified the following shortcomings:

- The Representation did not adequately address the issue of accountability for operational advances. For example, on 19 November 2013, the Representation granted one operational advance of \$23,202 under the name of a staff member but another staff member signed and acknowledged receipt of the voucher on behalf of the payee. Likewise, one staff member received two operational advances amounting to \$43,770 but further distributed the advances to seven other staff members.
- The Representation did not observe the rule of matching one advance against one liquidation since the custodians of advances did not separately account for each advance.
- The Representation did not strictly observe the appropriate use of operational advances. Field Office Cotabato granted operational advances to local staff members ranging from \$6,700 to \$8,000, which were high in relation to local salary levels. This practice increased the risk of loss or non-recovery of the advances in case of misappropriation.

23. The above shortcomings were due to inadequate monitoring of the management of operational advances. As a result, the Representation was exposed to risk of loss and theft of cash.

(2) The UNHCR Representation in the Philippines should put in place procedures for monitoring compliance with UNHCR rules on granting, utilization and recording of operational advances, which should indicate the frequency of the monitoring activities to be undertaken and the staff responsible for the monitoring activities.

UNHCR accepted recommendation 2 and stated that a set of norms was discussed and shared with the Representation's staff on conditions for granting, utilizing and recording operational advances. The need for operational advances, while continuing, had considerably decreased in view of the reduction of the size of the operation in the Philippines. In line with UNHCR rules, the current practice was to have recourse to operational advances as an exceptional measure only. Based on the action taken and the documentation provided by UNHCR, recommendation 2 has been closed.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the Management and staff of the UNHCR Representation in the Philippines for the assistance and cooperation extended to the auditors during this assignment.

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

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in the Philippines for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The UNHCR Representation in the Philippines should develop procedures for adequate supervision of the work of the multi-functional project monitoring team and a training programme for the members of the team on UNHCR performance monitoring requirements.	Important	O	Submission to OIOS of evidence of the procedures put in place to ensure adequate supervision of the work of the multi-functional project monitoring team and evidence of completion of training for the members of the project monitoring team on the UNHCR performance monitoring requirements.	30 September 2015
2	The UNHCR Representation in the Philippines should put in place procedures for monitoring compliance with UNHCR rules on granting, utilization and recording of operational advances, which should indicate the frequency of the monitoring activities to be undertaken and the staff responsible for the monitoring activities.	Important	C	Action completed	Implemented

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNHCR in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the operations in the Philippines for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ² / Important ³	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in the Philippines should develop procedures for adequate supervision of the work of the multi-functional project monitoring team and a training programme for the members of the team on UNHCR performance monitoring requirements.	Important	Yes	Associate Programme Officer NOB	30 June 2015	With the notable exception of forced displacement of 133,000 persons in February 2015 in Mindanao, the reduction of activity has allowed the office to plan regular performance monitoring procedures for partners led by the National Programme Officer.
2	The UNHCR Representation in the Philippines should put in place procedures for monitoring compliance with UNHCR rules on granting, utilization and recording of operational advances, which should indicate the frequency of the monitoring activities to be undertaken and the staff responsible for the monitoring activities.	Important	Yes	Senior Finance Associate	1 June 2015	A set of norms was discussed and shared with staff on conditions for granting, utilizing and recording operational advances. The need for operational advances, while continuing, has considerably decreased in view of the reduction of the size of the operation in the Philippines. In line with UNHCR rules, the current practice is to have recourse to operational advances as an exceptional measure only.