



INTERNAL AUDIT DIVISION

REPORT 2014/019

Audit of 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

11 April 2014

Assignment No. AE2013/820/01

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AUDIT REPORT

Audit of United Nations Compensation Commission claims payments

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of 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 Iraq should deposit into the Compensation Fund five per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to its various service providers.

4. UNCC completed the processing of claims in June 2005 and awarded a total amount of \$52.4 billion to successful claimants, mainly governments and a few international organizations. 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 2013, the value of outstanding unpaid awards was \$8.9 billion. The current levels of income to the Compensation Fund, the oil production and oil prices, and the latest estimates made by the UNCC Secretariat indicate that the outstanding balance would be fully paid in 2015. This was also confirmed by the Iraq Committee of Financial Experts. Furthermore, the United Nations Board of Auditors in their projections of March 2013 had estimated the same timing.

5. At the time of the audit, the UNCC Secretariat consisted of ten staff members, four of whom were funded by the Compensation Fund and six by the participating governments under the Follow-up Programme for Environmental Awards. Both programmes were under the leadership of the Executive Head of UNCC. The Controller's Office at the United Nations Headquarters provided support to UNCC for various activities, including the recording and reconciliation of receipts, verification of availability of funds, 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 2013 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 the audit from November 2013 to February 2014. The audit covered the period from 1 September 2012 to 31 October 2013. The audit reviewed and tested the five quarterly claim payments disbursed by UNCC during this period and the arrangements in place to monitor and report on oil income.

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 assessed as **satisfactory** in providing reasonable assurance regarding the **effective arrangements for disbursement of compensation awards by UNCC**. Regulatory framework was assessed as satisfactory since UNCC continued to have effective arrangements in place to ensure that compensation awards were disbursed and that payment records were accurate, properly documented and in compliance with UNCC Governing Council decisions and 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 revenues, 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**.

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 |
| FINAL OVERALL RATING: SATISFACTORY | | | | | |

A. Regulatory framework

Effective arrangements were in place to ensure that the compensation awards were disbursed and recorded accurately

14. During the period under review, UNCC disbursed five quarterly payments totaling \$5.8 billion to the Government of Kuwait towards the remaining outstanding claims. In addition, UNCC resolved and paid out two previously outstanding non-material corporate claims totaling \$1.8 million. The allocation of funds to the outstanding claims complied with the Governing Council decision 267, the disbursements were made in compliance with United Nations Financial Regulations and Rules, and internal reconciliation procedures were carried out. OIOS reviewed all payment worksheets, press releases, and the reconciliations between the Integrated Management Information System (IMIS) records and authorized disbursements prepared by the UNCC Secretariat staff, and also generated IMIS disbursement extracts to cross-verify the payments made. OIOS further verified that distribution reports and audit certificates were received for all payments. One of the above-mentioned corporate claims was not paid out through a submitting entity. In this regard, UNCC requested two affidavits as proof of distribution of the funds, one from the law firm representing the claimant corporation and the other from the managing partner of the corporation. The affidavits requested were still outstanding as of the end of the audit; however, they were not required until October 2014. *UNCC advised that the affidavits had since been received.*

15. In accordance with Governing Council decision 268 (2009), UNCC was required to release accrued interest on funds withheld under decisions 258 (2005) and 266 (2009) to the Governments of Iran, Jordan, Kuwait and Saudi Arabia in relation to the Follow-Up Programme for Environmental Awards. The total interest accrued on funds withheld from 1 September 2012 to 30 June 2013 amounted to \$5.6 million. The outstanding accrued interest balance up to June 2013 amounted to \$3.6 million payable to the Governments of Iran, Jordan and Kuwait. The accrued interest calculations for the period of July to October 2013 were not available from the Controller's Office at the United Nations Headquarters at the time of the audit, due to issues related to the implementation of the United Nations Secretariat-wide new enterprise resource planning system (Umoja). However, OIOS was informed by the UNCC Secretariat that the issue was being addressed and that the interest calculations would be available by the end of March 2014.

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

The system in place for reporting on programme and financial performance, including the receipt and monitoring of Compensation Fund revenues, was functioning as intended

17. The UNCC Secretariat continued to report on its programme and financial performance to the Governing Council. The Governing Council decision 18 stated that the funds received by governments from UNCC which the governments had not disbursed to claimants due to inability to locate such claimants should be reimbursed to the Compensation Fund. 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 nonmonetary 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 performed by the Controller's Office for 2013 and considered it to be accurate. In addition, the revenues received in 2011-2012 reconciled with the oil export sales reported in the audited financial statements of the Development Fund for Iraq as of 31 December 2012. As a result, OIOS concluded that there were adequate controls for ensuring that five per cent of the oil export sales and the equivalent of five per cent of non-monetary payments continued to be received into the Compensation Fund and were monitored effectively during the period under review.

IV. ACKNOWLEDGEMENT

18. 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

DATE: 1 April 2014

FROM: Trevor M. Rajah
Executive Head, UNCC Secretariat

REF. UNCC/37/2014

SUBJECT: **Assignment No. AE2013/820/01 – Audit of UNCC claims payments**

1. Thank you for the draft report on the audit of UNCC claims payments covering the period from 1 September 2012 to 31 October 2013.
2. We have reviewed the report and are pleased to note that the OIOS overall assessment is satisfactory and that there are no recommendations.
3. The Secretariat wishes to advise that the affidavits relating to the payment of the award of a directly submitted claim, referenced in paragraph 15 of the report, have since been received.
4. The Secretariat would like to take this opportunity to thank the OIOS audit team for the efficient conduct of the audit and cooperation with the Secretariat.
5. As is the normal practice, the final report will be presented to the UNCC Governing Council.

cc: Ms. Maria Eugenia Casar, Assistant Secretary-General and Controller, Programme Planning,
Budget and Accounts, Department of Management
Mr. Hans G. Baritt, Chief, Financial Resources Management Service, UNOG
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS
Ms. Irene Muchira, Chief, Finance and Administration, UNCC