



INTERNAL AUDIT DIVISION

REPORT 2015/129

Audit of the arrangements for implementing partner personnel costs in the Office of the United Nations High Commissioner for Refugees

Overall results relating to the effective management of implementing partner personnel costs were initially assessed as partially satisfactory. Implementation of six important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

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AUDIT REPORT

Audit of the arrangements for implementing partner personnel costs in 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 arrangements for implementing partner personnel costs in 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 implementation of UNHCR programmes is often entrusted to implementing partners (hereinafter referred to as ‘partners’). These are usually specialized government departments or agencies, other agencies of the United Nations system and non-governmental or intergovernmental organizations. In 2013, UNHCR had 944 such partners, of which the vast majority, 78 per cent (734), were non-governmental organizations. Partner personnel are defined as any person directly hired and/or engaged by the partner to perform activities related to a particular UNHCR programme in accordance with a Project Partnership Agreement (PPA) with UNHCR. Partner personnel costs may include: salaries; contributions to social security schemes; taxes; incentives and allowances; and other related costs. UNHCR total partner personnel costs were \$272 million in 2013 and \$217 million in 2014.
4. The Implementing Partnership Management Service (IPMS) within the Division of Financial and Administrative Management (DFAM) is the centralized business owner for improving partnership management at UNHCR and is responsible for coordinating related activities and developing policies and tools. It also guides and oversees the management of partnerships organization-wide. The Representations in the field are responsible for enforcing compliance with UNHCR financial rules, policies and procedures related to partnership management. In turn, the Representations report to Regional Bureaux who are responsible for providing support, advice and oversight to ensure that UNHCR policies are consistently and coherently applied across country operations under their coverage.
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 implementing partner personnel costs in UNHCR**.
7. The audit was included in the OIOS 2014 risk-based internal audit work plan for UNHCR due to risks associated with the arrangements for managing implementing partner personnel costs.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (a) exist to guide UNHCR in managing implementing partner personnel costs; (b) are

implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.

8. The key control was assessed for the control objectives shown in Table 1.

9. OIOS conducted this audit from October 2014 to March 2015. The audit covered the period from 1 January 2013 to 31 December 2014. The offices visited in this audit included UNHCR operations in Malaysia, Myanmar, Serbia, Georgia, Uganda, South Africa, Ethiopia, Zambia, Senegal, Philippines, Pakistan and Lebanon. OIOS also reviewed partner personnel costs incurred at UNHCR headquarters. Overall, the review covered 54 partners, of which 15 were international, 26 were national and 13 were government partners.

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

III. AUDIT RESULTS

11. 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 implementing partner personnel costs in UNHCR**. OIOS made six recommendations to address the issues identified.

12. There was a need for UNHCR to: (a) refine and elaborate guidelines to assist field Representations in establishing uniform scales for partners that are consistent with local conditions for governing UNHCR contribution to salaries of partner personnel; (b) enforce the requirement that partner salaries are fixed at levels commensurate with established scales; (c) monitor that partner personnel budgets are established on a sound basis; (d) synchronize and streamline guidance to clarify UNHCR position on the payment of incentives; (e) instruct field Representations to regularly undertake reviews of funding provided to partners by other donors to identify possible overlaps; and (f) put in place a formal policy and procedures for utilizing the services of deployees.

13. The initial overall rating was based on the assessment of key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of six 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 control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of implementing partner personnel costs in UNHCR	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Need to ensure that uniform salary scales are consistently established for partner personnel

14. The UNHCR Manual states that UNHCR contributes towards the personnel costs of partners rather than covering them in total. The extent of the contribution to partner personnel costs depends on the terms agreed in writing between the Representation and the partner. While partners determine the salary scales for their personnel, the Representations are required to establish uniform scales governing the UNHCR contribution to salaries of partner personnel recruited under the PPA. The standard PPA template further states that the partner has the responsibility to ensure that salaries are fixed at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation. In determining remuneration, partners should consider the level of the post and criteria such as skills, education, experience and complexity of the job.

15. The audit observed the following instances of non-compliance with the above-mentioned requirements:

(a) The Representations in South Africa (since 2011) and Georgia (only since June 2014) had established uniform scales governing the UNHCR contribution to salaries of partner personnel, but the other 10 operations reviewed did not have such scales. The Representation in Lebanon had initiated steps to establish the contribution scales, but this was rejected by its international partners.

(b) Partners did not prepare their own salary scales with adequate consideration given to post level, skills, education, experience, complexity and responsibilities attached to the position, as required. The Representations also did not adequately monitor compliance with this requirement. For example, a partner in Georgia established a salary scale that was inconsistent with the qualifications and nature of work as Senior Lawyers were in the category of staff with ‘no supervisory responsibility’ although they did supervise staff, while Junior Lawyers were assigned in the same category with Assistants. In Serbia, the salary scales were unusually broad and posts with different levels of responsibility were assigned within one salary band.

(c) There were marked variations in partner salaries for similar posts within the same country operation. For example, the salary variations for the positions of Director, Coordinator, Social Worker, Case Worker, Lawyer, Finance Assistant and Driver ranged between 15 and 150 per cent within the same post category in five countries (Lebanon, Uganda, Georgia, Serbia and Myanmar). Although the posts had similar responsibilities, these variations were not explained.

(d) The various offices of the Representation in Lebanon negotiated different contribution scales with the same partner for similar job positions within the country operation. For one partner, the contribution for a Social Worker was set at \$850 in Mount Lebanon and at \$1,000 in Zahle. Similarly, a Senior Social Worker was paid \$1,100 in Mount Lebanon and \$1,200 in Zahle. For another partner, the contribution for a Shelter Assistant was \$1,236 in Tyre and \$1,600 in Zahle. For the same partner, the contribution for a Driver was \$989 in Tyre, \$1,099 in Tripoli, and \$1,000 in Zahle.

16. As a consequence, salary scales did not follow rational patterns and visible salary variations persisted within country operations that resulted in additional financial burdens for UNHCR. This occurred because the Representations lacked sufficiently detailed guidelines on how to establish uniform scales governing UNHCR contribution to salaries of partner personnel recruited under the PPA. Another reason was the lack of support, advice and oversight arrangements in the Regional Bureaux at headquarters to enforce compliance of the Representations with the requirements for the management and monitoring of partner personnel costs.

(1) The UNHCR Division of Financial and Administrative Management should further refine and elaborate guidelines to assist field Representations in establishing uniform scales governing UNHCR contribution to salaries of partner personnel that are consistent with local conditions.

UNHCR accepted recommendation 1 and stated that it would issue updated corporate policy and guidance on UNHCR's Contribution Towards Partner Personnel Costs, which would include standard procedures and the methodology related to setting contribution by category and partner types. The guidelines would also clarify the various roles and responsibilities assigned to field operations, Bureaux and Divisions for the application, monitoring, assurance and compliance related to the guidance. Recommendation 1 remains open pending receipt of the revised guidance on partner personnel costs, including guidelines on the establishment of uniform scales governing UNHCR contribution to salaries of partner personnel.

(2) The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to put in place appropriate arrangements to support, advise and oversee the Representations in enforcing the requirement that partners meet all the costs of engaging partner personnel, including salaries, wages and other emoluments, at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation.

UNHCR accepted recommendation 2 and stated that it would develop revised policy and guidance related to UNHCR contributions towards partner personnel costs. Further, in line with this recommendation, the Assistant High Commissioner (Operations) would send a memorandum to Bureau Directors to be shared with all Representations providing relevant instructions. Recommendation 2 remains open pending receipt of the revised guidance on partner personnel costs, including guidelines on the required arrangements to ensure that partners meet the costs of engaging partner personnel at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation, as well as evidence of implementation of such arrangements.

Need to ensure that partner personnel budgets are established on a sound basis

17. The UNHCR Manual requires the Representations to ensure that the operational costs included in the PPA are generated by the project activity itself. UNHCR budget instructions also require that

operational budgets for partners include partner personnel costs that reflect the resources required to achieve the comprehensive targets. The rules further require that the UNHCR contribution to partner personnel costs is presented in the budget in the form of periodic flat rates per post for the duration of the project. Operational costs such as personnel costs should be budgeted in terms of fully identifiable line items (e.g., salaries per staff and the months required). Lump sum amounts for salaries should be avoided as this leads to lack of transparency and difficulties in monitoring. Where budgets are presented as lump sums, assumptions for the calculation of such amounts should be clearly documented in the relevant agreement and based on objective, verifiable criteria to ensure the linkage to the project.

18. Review of budgetary practices in country operations identified the following shortcomings:

(a) None of the Representations reviewed could show evidence that they had verified that partners conducted a thorough assessment of personnel requirements to ensure that the related project budget inputs were commensurate with planned activities or expected outputs. It was therefore not possible to assess whether personnel budgets were determined in a correct and fair manner.

(b) A large number of budgeted posts were not filled by a partner in Ethiopia. This partner did not fill 348 positions budgeted at \$800,000 in 2013. Similarly, for 2014, this partner filled only 215 positions out of the 360 positions it had budgeted for.

(c) In Lebanon, the itemized detailed budget for five partners for 2014 presented salaries as lump-sums, while the underlying assumptions used to determine the percentage of salary costs charged and to calculate the resulting lump sum amounts were not documented in the PPA.

(d) In Uganda, one partner's budget lines for gratuity payments made to staff were budgeted as a lump sum, without any breakdown of the calculations to show that the gratuity budgets were based on the headcount provided in the staffing table. The total severance pay budgeted for was \$160,000, but if it had been based on the staffing table, it would have amounted to \$129,000.

(e) In Georgia, for a partner, the development of a refugee database by a private company costing \$60,000 was shown as a staffing proposal in the PPA rather than as a procurement activity. This violated UNHCR rules, as staffing budgets should reflect only the planned staffing resources necessary to implement the activities and achieve the objectives of the project.

(f) Other inconsistencies in budget formulation observed in five partners at four Representations reviewed included: (i) staff on the partner's staffing table who were not included in the project budget; (ii) staff in the project budget who were not included in the staffing table; and (iii) different salaries and functional titles were used in the budget and the staffing table.

19. As a result of the above shortcomings, neither partners nor UNHCR could demonstrate that all posts budgeted in the PPA were necessary and reasonable for the delivery of project objectives. The partner personnel proposals were often submitted on the basis of the available budget rather than activities planned for the operations. In addition, the use of lump sum amounts led to lack of transparency and difficulties in monitoring since the associated personnel were not itemized by function, grade and level, with unit quantity and unit costs by monthly rates. These shortcomings were due to the lack of adequate support, advice and oversight arrangements in the respective Regional Bureaux to enforce compliance of the Representations with the requirement that partners prepare staffing budgets with due care and avoid the use of lump sum figures in budgets.

(3) The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to establish appropriate support, advice and oversight arrangements to monitor that Representations review the preparation of partner personnel budgets to ensure that: (a) the number of partner personnel is reasonable for the delivery of project objectives; (b) salary items are budgeted in terms of fully identifiable line items and not as lump sum amounts; and (c) partners adhere to agreed staffing tables.

UNHCR accepted recommendation 3 and stated that the new policy, procedures and guidance would provide details on the expectations and responsibilities of the Bureaux, Representations and Divisions in ensuring compliance and the appropriate approach to be adopted commensurate with the assigned roles and responsibilities for reviewing budget and reports related to partner personnel costs. Recommendation 3 remains open pending receipt of the revised guidance on partner personnel costs, including provisions for review of the preparation of partner personnel budgets to ensure that: posts budgeted in the PPA are necessary and reasonable for the delivery of project objectives; salary items are fully identifiable; and partners adhere to agreed staffing tables, as well as evidence of implementation of such arrangements.

Need to address non-compliance with the policy on payment of retrenchment benefits

20. An earlier OIOS audit recommendation made in 2005 for UNHCR to formulate a policy regulating the payment of retrenchment benefits to partner personnel was yet to be fully implemented as the policy document on the subject was still under preparation. The UNHCR position was that the PPA specified that the partner should meet all the costs of engaging partner personnel in accordance with applicable regulations and relevant legislation. It further specified that UNHCR was not liable for payment of remuneration, employment termination and any other benefits or compensation or benefits payable or accrued over years of engagement by partner personnel. Instructions on Detailed Planning and Budgeting for 2013 specified that UNHCR had no contractual link with partner personnel and bore no legal liabilities for the payment of salaries, termination or other types of benefits.

21. However, the inclusion of clauses in the PPA and the issuance of instructions did not adequately clarify the matter as OIOS observed that field operations continued to face situations wherein national law mandated such termination and retrenchment payments and this responsibility often devolved upon UNHCR. For example, the Representations in Uganda, Senegal and Ethiopia paid retrenchment benefits to partner staff using UNHCR funds. These variations in practices adopted by field operations for the provision and subsequent payment of retrenchment benefits occurred because the policy was not being consistently followed. Therefore, UNHCR was exposed to the risk that field operations could wrongly enter into agreements that were not acceptable legally or financially, thereby committing UNHCR to sizable future liabilities. OIOS will not raise a new recommendation but stresses the need for UNHCR to take appropriate and prompt action to resolve this long-standing issue.

Need to synchronize and streamline guidance to clarify the UNHCR position on the payment of incentives

22. The UNHCR Manual requires field Representations to closely coordinate with other donors and agencies of the United Nations system their policies regarding the employment and remuneration of government officials including payment of incentives.

23. However, the UNHCR annual instructions on detailed planning and budgeting for 2013, issued in October 2012, stipulated that UNHCR cannot pay any incentives to partner personnel. These instructions were inconsistent with the UNHCR Manual. Representations in several countries paid incentives to government partner personnel (in addition to the salaries these personnel received from their

governments). For instance, the Representation in Uganda agreed to top up salaries at one government partner with allowances that totaled \$310,000 in 2013 and 2014. The Representation in Senegal paid incentives totaling \$40,000 to staff of two government partners. The Representation in Zambia paid a total of \$134,937 as incentives to government partner staff. There was no justification for such payments since the salaries they received were two to three times higher than partner personnel of a similar grade working for other UNHCR partners.

24. This situation occurred due to the apparent contradiction between the UNHCR Manual and the UNHCR instructions on annual planning and budgeting for 2013. While the annual planning and budgeting instructions indicated that such payments should not be made, the Manual required the Representations to closely coordinate their policies regarding the employment and remuneration of government officials with other donors and agencies of the United Nations system. United Nations agencies in practice often paid incentives to government partner staff as motivational incentives. As a consequence, incentive payments continued to be made in many of the operations reviewed by OIOS.

(4) The UNHCR Division of Financial and Administrative Management should synchronize and streamline existing guidance to clarify the UNHCR position on the payment of incentives to partner personnel working on UNHCR-funded projects.

UNHCR accepted recommendation 4 and stated that it would deal with this recommendation in the proposed new corporate policy and guidance. Recommendation 4 remains open pending issuance of the proposed guidance that should also clarify the UNHCR position on payment of incentives.

Need to improve the quality and extent of coverage of partner personnel costs in external audit reports

25. The UNHCR internal control assessment checklist, which is part of the external audit certification of partner projects, requires external auditors to report on: (a) controls over partner payrolls; and (b) whether personnel expenses correspond to relevant project agreements.

26. External audit coverage of partner salary and payroll issues in the operations reviewed showed that the quality and extent of coverage of personnel costs varied. While in four Representations (Philippines, Lebanon, Pakistan and South Africa) the audit reports demonstrated an adequate coverage of partner personnel costs, this was not the case in the eight other operations reviewed by OIOS. For example, the requirement to audit the payroll or personnel records in Georgia was not mentioned in the UNHCR template provided to the external auditors and, consequently, none of the six audit reports contained any observation on partner personnel or related costs. In Ethiopia, other than pointing out that a government partner had overrun the budget lines related to personnel costs, there was no evidence in the 2013 audit reports that personnel costs were audited thoroughly although the cumulative budgets aggregated to \$9 million. In Serbia, Uganda and Zambia, there was a need for more evidence of a more in-depth testing of personnel costs in the audit reports. The inadequate coverage of payroll and personnel costs meant that the requirements contained in the internal control assessment checklist had not been met.

27. As a result, in the eight operations referred to above, the external audit reports and management letters did not provide adequate assurance that personnel costs incurred by partners corresponded to the project agreements. This occurred because the work of the external auditors had not been adequately supervised by UNHCR staff. This was already identified by UNHCR as an area of high risk. Under the new audit arrangements put in place for the 2014 projects, the review of partner personnel costs was made a mandatory requirement for the external auditors. Therefore, OIOS will not raise a recommendation in this regard in this report, but will review the new project audit arrangements in its future audits of field operations.

Need to strengthen controls over partner personnel costs funded by multiple donors

28. In the spirit of partnership and in line with the UNHCR Manual and the existing PPA template, partners should endeavour to raise complementary funds and resources to support the project and to inform UNHCR of any changes in receipt of complementary contributions in cash or in-kind from sources other than UNHCR. The UNHCR Manual further requires that where partner staff are also involved in managing other separate projects funded by other donors and are not dedicated full-time to UNHCR operations, salary costs should be shared in proportion to the time spent by partner staff on the respective donor projects.

29. Of the 12 Representations reviewed: in 5, UNHCR was the primary donor; and in 4, the reporting on donor funds was satisfactory. The audit observed weaknesses in the application of the above rules in the other 3 Representations. For example:

(a) In Lebanon, the 2014 PPAs for five international partners did not disclose the receipt of complementary funding. In addition, in these PPAs both international and national staff members were partly charged to UNHCR projects and partly to other donor projects. The determination of the proportion applied to the salaries covered from the UNHCR budget and other donor budgets was not supported by a time sheet analysis.

(b) In Georgia, an international partner received funding from multiple donors and while it had acknowledged one international donor funding in the PPA, the other donor funding it received was not disclosed.

(c) In Pakistan, of the six partners reviewed, four received non-UNHCR funding. For one partner, eight posts were partly financed from UNHCR funds and the rest from funds received from other donors. However, there was no clear basis or criteria for establishing and allocating the respective percentages between the donors.

30. As a result of the above weaknesses, UNHCR was exposed to the risk of a partner charging the same expenditure to UNHCR and to projects financed by other donors. The root cause of this situation was that the Representations did not regularly and thoroughly review funding provided to partners by other donors to verify that partners transparently disclosed all sources of funding. Under the PPA, there was an obligation for partners to disclose sources of funding. Representations were also responsible as part of their financial verification missions to confirm that this was done.

(5) The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to monitor that Representations, while being mindful of the partnership principle, review the compliance of partners in transparently disclosing information on funding by other donors at the time of signing Project Partnership Agreements; and further that these aspects are subsequently verified during project monitoring.

UNHCR accepted recommendation 5 and stated that the Regional Bureaux, in collaboration with DFAM and the operations concerned, would, to the extent possible and mindful of maintaining the spirit of partnership, work with partners across operations to identify overlaps wherever they existed. UNHCR at corporate level had addressed this by revising the Project Partnership Agreement which obligated partners to declare their resources and contributions. DFAM/IPMS and Regional Bureaux would monitor the PPA to the extent possible within the resources available. However, as per the UNHCR accountability framework, accountability for ensuring compliance with these provisions remained with the Representation. Recommendation 5 remains open pending receipt of evidence of the review arrangements put in place to ensure that Representations

systematically review funding provided to partners at the time of signing the PPA and subsequently during project monitoring to identify possible overlaps.

Need to put in place a formal policy and procedures for utilizing the services of deployees

31. In line with the UNHCR policy on affiliate workforce arrangements, and to augment staffing capacity, UNHCR has entered into Memoranda of Understanding (MoU) with a few international partners to strengthen partnerships at global, regional and national levels. These standby arrangements and deployment schemes are for the purpose of supporting UNHCR protection delivery capacity in emergency and non-emergency contexts. The terms and conditions for the recruitment and deployment of staff should be determined on the basis of the MoUs and not on the basis of the standard PPA. In line with the UNHCR Manual, the UNHCR contribution for expatriate posts is limited to \$6,000 per month and all expatriate salary related expenditure should be charged to a specific account code for international personnel costs.

32. OIOS reviewed the MoUs utilized in 2013 by the Division of Emergency, Security and Supply, Division of International Protection and Division of Programme Support and Management for the standby arrangements and deployment schemes with four of these international partners. This review showed that:

(a) There was a policy gap in the existing instructions and UNHCR had not established clear implementation modalities for utilizing the services of the deployees under the MoUs. Therefore, the Divisions concerned used the PPA to implement the MoUs, although the terms and conditions for the recruitment and deployment of personnel under the two mechanisms had some significant differences between them. For example, whereas UNHCR was involved in the selection of the deployees who worked as affiliate workforce under the supervision of UNHCR officials, the recruitment of partner personnel under the PPA modality was left to the discretion of the partners and UNHCR did not play any role in the selection and management of the partners' personnel.

(b) According to the PPA between DESS and a partner, six consultants received monthly salaries that ranged from \$8,600 to \$16,000 per month. These amounts exceeded the maximum of \$6,000 payable to international expatriates under the UNHCR Manual.

(c) Expenditures on personnel costs for four partners aggregating \$11 million for the three Divisions reviewed were charged to the account code that was meant exclusively for international expatriate salary costs. In the case of one partner, the affiliate staff were consultants and the related expenditures should have been recorded under the account code for consultant fees. UNHCR had not designated separate account codes for recording expenditure on salaries for international deployees from these partners.

33. As a result, salaries for deployees who worked as affiliate staff were incorrectly charged to international personnel costs. These costs were therefore inflated by \$11 million and could not be separately tracked. In addition, staff recruited under standby arrangements and deployment schemes were incorrectly regarded as implementing partner staff. The Divisions therefore appeared to be incorrectly using the PPA modality to supplement their personnel requirements, whereas such arrangements should have been used only to implement a UNHCR project and not for bringing on board affiliate workforce. UNHCR needed to consider the use of alternative implementation modalities where the sole purpose of the agreement would be to bring on board affiliate workforce. By recruiting personnel such as consultants through such schemes, there was also a risk that the Divisions would circumvent the need to go through the Division of Human Resources Management for the engagement of consultants. These

shortcomings occurred because UNHCR had not established specific modalities and templates for engaging such personnel.

(6) The UNHCR Division of Financial and Administrative Management, in coordination with the Division of Programme Support and Management and the Division of Human Resources Management, should develop a formal policy and procedures for utilizing the services of deployees.

UNHCR accepted recommendation 6 and stated that DFAM in collaboration with other relevant Divisions/Services would take relevant actions to address this recommendation. Recommendation 6 remains open pending issuance of formal policy and procedures for utilizing the services of deployees from partners.

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General, Acting Head
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for implementing partner personnel costs in the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Division of Financial and Administrative Management should further refine and elaborate guidelines to assist field Representations in establishing uniform scales governing UNHCR contribution to salaries of partner personnel that are consistent with local conditions.	Important	O	Submission to OIOS of the revised guidance on partner personnel costs, including guidelines on the establishment of uniform scales governing UNHCR contribution to salaries of partner personnel.	31 December 2016
2	The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to put in place appropriate arrangements to support, advise and oversee the Representations in enforcing the requirement that partners meet all the costs of engaging partner personnel, including salaries, wages and other emoluments, at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation.	Important	O	Submission to OIOS of the revised guidance on partner personnel costs, including guidelines on the required arrangements to ensure that partners meet the costs of engaging partner personnel at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation, as well as evidence of implementation of such arrangements.	31 December 2016
3	The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to establish appropriate support, advice and oversight arrangements to monitor that Representations review the preparation of partner personnel budgets to ensure that: (a) the number of partner personnel is reasonable for the delivery of project objectives; (b) salary items are budgeted in terms of fully identifiable line items and not as	Important	O	Submission to OIOS of the revised guidance on partner personnel costs, including provisions for review of the preparation of partner personnel budgets to ensure that: posts budgeted in the PPA are necessary and reasonable for the delivery of project objectives; salary items are fully identifiable; and partners adhere to agreed staffing tables, as well as evidence of implementation of such arrangements. .	31 December 2016

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

³ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the arrangements for implementing partner personnel costs in the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	lump sum amounts; and (c) partners adhere to agreed staffing tables.				
4	The UNHCR Division of Financial and Administrative Management should synchronize and streamline existing guidance to clarify the UNHCR position on the payment of incentives to partner personnel working on UNHCR-funded projects.	Important	O	Submission to OIOS of the revised guidance on partner personnel costs that should clarify the UNHCR position on payment of incentives to partner personnel.	31 December 2016
5	The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to monitor that Representations, while being mindful of the partnership principle, review the compliance of partners in transparently disclosing information on funding by other donors at the time of signing Project Partnership Agreements; and further that these aspects are subsequently verified during project monitoring.	Important	O	Submission to OIOS of evidence of the review arrangements put in place to ensure that Representations systematically review funding provided to partners at the time of signing the PPA and subsequently during project monitoring to identify possible overlaps.	31 December 2016
6	The UNHCR Division of Financial and Administrative Management, in coordination with the Division of Programme Support and Management and the Division of Human Resources Management, should develop a formal policy and procedures for utilizing the services of deployees.	Important	O	Submission to OIOS of policy and procedures, for utilizing the services of deployees from partners.	31 December 2016

APPENDIX I

Management Response

Management Response

Audit of the arrangements for implementing partner personnel costs in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Division of Financial and Administrative Management should further refine and elaborate guidelines to assist field Representations in establishing uniform scales governing UNHCR contribution to salaries of partner personnel that are consistent with local conditions.	Important	YES	Head, IPMS	December 2016	<p>Given the importance of updating and adjusting UNHCR corporate Policy and Guidance on “UNHCR’s Contribution towards Partner Personnel Costs” to reflect prevailing operating contexts, UNHCR has been pursuing this matter in a phased approach and initiated a review. New articles have been introduced in the core binding document between UNHCR and its Partners (Project Partnership Agreement) that clearly stipulate the principles of UNHCR’s contributions and liabilities. Annual instructions and guidance for planning have been issued in the past two years.</p> <p>Furthermore, DFAM/IPMS – in consultation with other relevant Divisions and prominent partners – is further considering various aspects and challenges regarding its existing guidance for determining UNHCR’s contribution towards partner personnel costs of various categories of partners and personnel (local and expatriate, national, and international NGO/NPO, government, employees, etc.), to take into account operational needs, resources limitations, partnerships, and complexity of operations.</p>

¹ 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.

² 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.

Management Response

Audit of the arrangements for implementing partner personnel costs in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>UNHCR intends to issue updated corporate policy and guidance on “UNHCR’s Contribution Towards Partner Personnel Costs” through the leadership of DFAM/IPMS and consultations with relevant internal and external stakeholders. This will include standard procedures and the methodology related to setting contribution by category, partner types, etc, clarifying various roles and functional responsibilities assigned within UNHCR (Field Operations, Bureaus, Divisions, etc) for the application, monitoring, assurance and compliance related to the Policy and its Procedures.</p>
2	<p>The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to put in place appropriate arrangements to support, advise and oversee the Representations in enforcing the requirement that salary scales of partner personnel take into account criteria such as skills, education, experience, complexity of the job and responsibilities attached to the position and applicable regulations and laws.</p>	Important	<p>Yes, provided the language of the recommendation is adjusted in line with the comments provided in the column “Client Comments”</p>	AHC-O	December 2016	<p>This recommendation is accepted subject to tailoring the recommendation such that to integrate the comments included in the third bullet below.</p> <ul style="list-style-type: none"> As per the response to Recommendation 1, UNHCR will develop and issue revised Policy/Guidance related to UNHCR Contributions towards Partner Personnel costs. It will include the corporate approach and specifics, including eventual guidance and tools, regarding responsibilities of Bureaux and Operations for ensuring effective application and implementation of the revised Policy in their respective country offices and operations under respective Bureaux and Divisions. AHC-O and Bureaux will be consulted and included

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						<p>in the development of this policy, procedures, and guidance.</p> <ul style="list-style-type: none"> • In its review of the implementation of measures to address this recommendation, it is requested that OIOS take into consideration that the employment of partner personnel including their contractual obligations, grading, salaries, etc., is the sole responsibility of partners. UNHCR merely contributes towards the overall personnel costs. UNHCR will define the basis, categories and amounts for its contribution. However, UNHCR will not be in a position to define or verify partner salaries and criteria for their grading and salary scale. Hence, UNHCR kindly requests OIOS to note the difference between the responsibilities of partners for employment and salary, and that of UNHCR for contributions towards the personnel costs. • Based upon this consideration, OIOS is therefore requested to tailor its recommendations solely to UNHCR contribution and its corporate position of supporting partners. UNHCR proposes that this recommendation be reflective of paragraph 10.41 of the revised PPA as follows: <p><i>10.41 The Partner shall meet all the costs of</i></p>

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						<p><i>engaging Partner Personnel including salaries, or wages and other emoluments and entitlements (such as social security, overtime, taxes, allowances, travel costs, daily subsistence allowance, termination costs, retrenchment costs, etc.) at levels commensurate with established scales and in accordance with applicable regulations and relevant legislation.</i></p> <ul style="list-style-type: none"> Finally, it should be noted that in line with this recommendation, a memorandum is to be sent in the coming days by AHC-O to Bureau Directors (which in turn is to be shared with all Representations) providing relevant information on the above. A copy of this communication will be shared with OIOS.
3	The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to establish appropriate support, advice and oversight arrangements to monitor that Representations review the preparation of partner personnel budgets to ensure that: (a) the number of partner personnel are reasonable for the delivery of project objectives; (b) salary items are budgeted in terms of fully identifiable line items and not as lump sum amounts; and (c) partners adhere to agreed staffing tables.	Important	YES	AHC-O	December 2016	The Policy, Procedures, and Guidance as discussed in the comments to Recommendations 1 and 2 will also provide detail as to the expectations and responsibilities of the different actors (Bureaux, Representations, and Divisions) in ensuring compliance and the appropriate approach commensurate with the assigned roles, and responsibilities of each for reviewing budget and reports related to Partner Personnel Costs under Project Partnership Agreements in the respective operations.
4	The UNHCR Division of Financial and	Important	YES	Head, IPMS	December 2016	This recommendation will be dealt within the

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	Administrative Management should synchronize and streamline existing guidance to clarify the UNHCR position on the payment of incentives to partner personnel working on UNHCR funded projects.					Corporate Policy and Guidance mentioned in the Client Response on Recommendation No.1
5	The UNHCR Assistant High Commissioner (Operations) should request the Regional Bureaux to monitor that Representations regularly undertake reviews of funding provided to partners by other donors to identify possible overlaps and verify that partners transparently and accurately disclose all sources of funding.	Important	Yes, provided the language of the recommendation is adjusted in line with the comments provided in the column "Client Comments"	Regional Bureau Directors	December 2016	<p>This recommendation is accepted subject to the recommendation being adjusted to reflect the comments in the fourth bullet below.</p> <ul style="list-style-type: none"> • The Regional Bureaux, in collaboration with DFAM and the operations concerned, will, to the extent possible and mindful of maintaining the spirit of partnership, work with partners across operations to identify overlaps wherever they exist. • UNHCR at corporate level has addressed this by revising the Project Partnership Agreement, its terms and its annexes related to Partner Personnel, which obligate the partners to declare their resources and contributions (see PPA section 6.3). Although, UNHCR Country Offices do impress upon their counterparts to be transparent and ethical about their donor contributions, it goes beyond UNHCR's responsibility and violates spirit of partnership to force the partners to declare their independent resources. Based on the foregoing, UNHCR is of the position that the PPA as-is, goes as far as possible and

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						<p>necessary on this matter.</p> <ul style="list-style-type: none"> As mentioned above, the AHC-O's memorandum to Bureau Directors (and in turn their message to their Representatives) shall underline the importance of ensuring compliance in relation to completion of the PPA in full. Completion of the PPA will continue to be monitored, inasmuch as possible within the resources available, by DFAM/IPMS and Regional Bureaux; however, as per UNHCR's accountability framework, the accountability for ensuring compliance remains with the Representative. UNHCR therefore proposes that the recommendation be adjusted to reflect that partnership principles are considered and that compliance of partners in providing the information as required by Section 6.3 of the revised PPA is reviewed by UNHCR during signing of the PPA and performance verifications.
6	The UNHCR Division of Financial and Administrative Management, in coordination with the Division of Programme Support and Management and the Division of Human Resources Management, should develop a formal policy and procedures for utilizing the services of deployees.	Important	Yes	Head, IPMS	December, 2016	DFAM in collaboration with other relevant Divisions/Services will take relevant actions to address this recommendation.