



INTERNAL AUDIT DIVISION

REPORT 2019/031

Audit of the United Nations
Compensation Commission claims
payments

Arrangements for accounting for revenue
deposited into the Compensation Fund and
processing of claims payments were
adequate

9 May 2019
Assignment No. AE2019/820/01

Audit of the United Nations Compensation Commission claims payments

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Compensation Commission (UNCC) claims payments. The objective of the audit was to assess the adequacy, efficiency and effectiveness of the UNCC claims payments process. The audit covered the period from 1 January 2018 to 28 February 2019 and included a review of the arrangements for: (a) accounting, monitoring and reconciling revenue deposited into the Compensation Fund and compliance with the decisions of the Governing Council; (b) disbursing compensation awards for the one remaining claim; and (c) reporting the financial performance of the Compensation Fund and projections to the Governing Council.

OIOS concluded that the arrangements for accounting for revenue deposited into the Compensation Fund and processing of claims payments were adequate. UNCC also kept the Governing Council informed of the status of the Compensation Fund and income projections. Since no control weaknesses were identified, OIOS did not make any recommendations.

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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. UNCC was created in 1991 as a subsidiary organ of the 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 completed the processing of claims in June 2005 and awarded a total of \$52.4 billion to successful claimants, with the majority awarded towards corporate and government claims. Successful claimants are paid out of the Compensation Fund which is administered by UNCC.
3. Prior to October 2014, the Compensation Fund, received five per cent of Iraqi oil export revenues pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). From October 2014 to December 2017, the Governing Council in its decisions 272 of 2014, 273 of 2015 and 274 of 2016, suspended the obligation of Iraq to deposit proceeds from its oil export revenues into the Compensation Fund. The deposits resumed in January 2018 following the adoption by the Governing Council of decision 276 of 2017, which provides for 0.5 per cent of proceeds generated by Iraqi oil export revenues to be deposited into the Compensation Fund in 2018, with yearly escalating percentages of 1.5 per cent from January to December 2019 and 3 per cent from 1 January 2020 until the outstanding compensation award has been paid in full.
4. During the period 1 January 2018 to 28 February 2019, the deposits to the Compensation Fund were \$518 million. UNCC disbursed a total of \$370 million of compensation awards to Kuwait, comprising three quarterly payments of \$90 million each in April, July and October 2018 and one payment of \$100 million in January 2019. Table 1 below shows the status of the Compensation Fund as of 28 February 2019.

Table 1: Movements in the Compensation Fund from 1 January 2018 to 28 February 2019

	Amount (\$)
Opening Balance as at 1 January 2018 (A)	12,038,251
Income	
Reversal of unrealized loss	86,349
Investment income	1,688,499
Deposits to the Compensation Fund	518,295,342
Total income (B)	520,070,190
Disbursements	
Administrative budget for 2018 and 2019	2,709,400
Payments for compensation awards	370,000,000
Total disbursements (C)	372,709,400
Fund Balance as at 28 February 2019 (A+B-C)	159,399,041

5. As of 28 February 2019, out of the approximately \$52.4 billion in compensation awarded, \$48.1 billion had been paid, leaving an outstanding balance of approximately \$4.3 billion in respect of the last remaining claim. Based on current levels of income to the Compensation Fund, UNCC estimated that the outstanding balance would be fully paid by the end of 2021.
6. UNCC staffing comprised of three staff members consisting of the Acting Head, a Finance Officer and an Administrative Assistant.

7. Comments provided by UNCC are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy, efficiency and effectiveness of the UNCC claims payments process.

9. This audit was included in the 2019 risk-based work plan of OIOS because of high inherent risks associated with disbursing large amounts of compensation awards. 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.

10. OIOS conducted this audit from March to April 2019. The audit covered the period from 1 January 2018 to 28 February 2019 and included a review of the arrangements for: (a) accounting, monitoring and reconciling revenue deposited into the Compensation Fund and compliance with the decisions of the Governing Council; (b) disbursing compensation awards for the one remaining claim; and (c) reporting the financial performance of the Compensation Fund and projections to the Governing Council.

11. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

Arrangements for accounting for revenue deposited into the Compensation Fund were adequate

13. UNCC established a practice of verifying, on a weekly basis, that all funds deposited in the bank account designated for receipt of revenue to the Compensation Fund are accurately recorded in the accounting system (Umoja). OIOS checked the revenue records for a sample of three months and confirmed that all deposits received in the bank had been accurately recorded in the Compensation Fund account in Umoja. At the time of the audit UNCC had not yet received the 2018 audited financial statements for the ‘Successor Account to the Development Fund for Iraq’ where proceeds from export sales by Iraq of petroleum and petroleum products are deposited. UNCC indicated that on receipt of the audited financial statements it will check whether deposits received in the Compensation Fund in 2018 reconcile to 0.5 percent of the revenue reported in the audited financial statements as required by Governing Council decision 276. In accordance with established practice at the United Nations Secretariat, the funds in the Compensation Fund were managed and invested in a pool by the United Nations Secretariat Treasury. As required, the proportion of investment income associated with UNCC funds was credited to the Compensation Fund account in Umoja. Based on the above, OIOS concluded that there were adequate arrangements for accounting for revenue deposited in the Compensation Fund and related investment income.

Arrangements for disbursement of compensation awards were adequate

14. OIOS’ review of the four quarterly payments made in April, July and October 2018 and January 2019 indicated that they were accurately recorded and supported by appropriate approvals. In accordance with decision 267, the payments utilized all available funds in the Compensation Fund in rounds of \$10

million. Distribution reports were submitted by the Kuwait Public Authority for Assessment of Compensation for Damages Resulting from Iraq Aggression (PAAC) as required. Prior to 2018, governments and submitting entities were required to submit audit certificates with each payment distribution or annually within three months of the end of the calendar year. In its April 2018 session, the UNCC Governing Council concluded that since the only remaining claim with an outstanding award is a state-owned enterprise, the claimant should provide written confirmation of receipt of the disbursements in lieu of an audit certificate. The claimant submitted to UNCC, through PAAC and the Kuwait mission in Geneva, letters confirming receipt of the funds disbursed. Based on the above, OIOS concluded that UNCC continued to have adequate arrangements for disbursing compensation payments and ensuring that they are received by the claimant.

UNCC kept the Governing Council informed of the status of the Compensation Fund

15. The Governing Council is the organ of the Commission that sets its policy within the framework of relevant United Nations Security Council resolutions. It is essential that it is well informed of the status of the Compensation Fund and other UNCC activities in general. During 2018, the Governing Council held two sessions in April and November in which it discussed: (a) the Compensation Fund (level and income); (b) payments and distribution of compensation awards; (c) orderly winding down of UNCC; and (d) audit activities of UNCC. UNCC submitted to the Governing Council information notes and reports relating to payment and distribution of compensation awards and a worksheet showing its computation of income projections for the Compensation Fund. OIOS verified the accuracy of information included in the reports and information notes and did not identify any exceptions. However, information relating to the income and balance in the Compensation Fund and variable and key conclusions drawn from the income projection computations were presented orally and were not documented in any formal report or information note. Therefore, OIOS could not validate the information that was presented during discussions in the Governing Council. *UNCC agreed that the information presented to the Governing Council concerning the balance in the Compensation Fund and the income projections could be better documented and will do so going forward.*

IV. ACKNOWLEDGEMENT

16. 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) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

APPENDIX I

Management Response

UNITED NATIONS



NATIONS UNIES

SECURITY COUNCIL

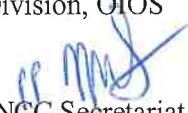
CONSEIL DE SÉCURITÉ

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: 8 May 2019

REFERENCE: UNCC/22/2019

SUBJECT: **Assignment No. AE2019/820/01 – Audit of UNCC claims payments**

1. Thank you for the draft report on the audit of UNCC claims payments covering the period from 1 January 2018 to 28 February 2019.
2. The Secretariat welcomes the conclusion of OIOS that the “*arrangements for accounting for revenue deposited into the Compensation Fund and processing of claims payments were adequate*” and the fact that there are no recommendations.
3. The final report will be presented to the UNCC Governing Council at its next session which will be held on 8 October 2019.
4. The Secretariat would like to take this opportunity to thank the OIOS team for its cooperation during the audit.

cc: Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS
Mr. Michael Sams, Finance Officer, UNCC