



INTERNAL AUDIT DIVISION

REPORT 2020/007

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 and effective**

**24 April 2020
Assignment No. AE2020-820-01**

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 March 2019 to 31 January 2020 and included a review of the arrangements for: (a) accounting for funds deposited in the Compensation Fund; (b) disbursing compensation awards to the one remaining claimant; (c) reporting on the financial performance of the Compensation Fund to the UNCC Governing Council; and (d) reviewing and monitoring of the UNCC operational budget.

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 and its operational budget was properly approved and monitored. 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 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 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, in its decisions 272 of 2014, 273 of 2015 and 274 of 2016, the Governing Council 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 to 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. In 2019, the deposits to the Compensation Fund were \$1,013 million. During the period covered by this audit (1 March 2019 to 31 January 2020), UNCC disbursed a total of \$1,010 million comprising three quarterly payments in April, July and October 2019 totaling \$760 million, and one payment of \$250 million in January 2020. The payment of \$100 million done in January 2019 was covered in the previous OIOS audit of UNCC claims payments (AE2019/820/01). Table 1 shows the status of the Compensation Fund in 2019.

Table 1: Status of the Compensation Fund in 2019

	Amount (\$)
Opening Balance as at 1 January 2019 (A)	106,700,893
Income	
Deposits to the Compensation Fund	1,012,788,813
Investment Income	4,813,674
Net unrealized exchange losses at the end of 2018 and 2019	119,086
Total income (B)	1,017,721,573
Disbursements	
Administrative budget for 2019	1,349,800
Payments for compensation awards (January 2019)	100,000,000
Payments for compensation awards (April, July and October 2019)	760,000,000
Total disbursements in 2019 (C)	861,349,800
Fund Balance as at 31 December 2019 (A+B-C)	263,072,666
Payment of compensation awards (January 2020)	250,000,000

5. As of 31 January 2020, out of the \$52.4 billion in compensation awarded, \$49.2 billion had been paid, leaving an outstanding balance of \$3.2 billion representing 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 had three staff members including the Acting Head, a Finance Officer and an Administrative Assistant.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

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

8. This audit was included in the 2020 risk-based work plan of OIOS due to 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.

9. OIOS conducted this audit in February and March 2020. The audit covered the period from 1 March 2019 to 31 January 2020 and included a review of the arrangements for: (a) accounting for funds deposited in the Compensation Fund; (b) disbursing compensation awards to the one remaining claimant; (c) reporting on the financial performance of the Compensation Fund to the UNCC Governing Council; and (d) reviewing and monitoring of the UNCC operational budget.

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

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

III. AUDIT RESULTS

There were adequate arrangements for accounting for funds deposited into the Compensation Fund

12. UNCC verified, on a weekly basis, that all funds deposited in the bank account designated for receipt of revenue to the Compensation Fund were accurately recorded in the accounting system (Umoja). OIOS verified the accuracy of Umoja records by reconciling the total deposits in the bank account in 2019 to the total credits posted in the Compensation Fund account in Umoja. In accordance with established practice at the United Nations Secretariat, the balance of 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. 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

13. OIOS review of the four quarterly payments made in April, July and October 2019 and January 2020 indicated that they were accurately recorded, supported by appropriate approvals and were made timely. In compliance with Governing Council 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. The claimant submitted to UNCC, through PAAC and the Permanent Mission of the State of Kuwait in Geneva, letters confirming receipt of the funds disbursed. OIOS concluded that UNCC continued to have adequate arrangements for disbursing compensation payments and ensuring they are received by the claimant.

Information updates provided to the Governing Council were accurate and adequately supported

14. The Governing Council is the organ of the Commission that sets its policy within the framework of relevant United Nations Security Council resolutions. During 2019, the Governing Council held two informal sessions in July and October, and its formal session in October at which it discussed among other things: (a) the Compensation Fund (level and income); (b) payments and distribution of compensation awards; and (c) orderly winding down of UNCC. UNCC submitted to the Governing Council appropriate information notes and reports relating to payment and distribution of compensation awards and an information note and worksheet showing its computation of income projections for the Compensation Fund. OIOS verified the accuracy of the reports on the status of the Compensation Fund as well as income projections reported to the Governing Council.

UNCC operational budget was properly approved and monitored

15. The UNCC operational budget is financed from the Compensation Fund. OIOS reviewed the 2020 budget and noted that as per established practice, the budget proposal was submitted to the UNCC Governing Council working group and the Office of the United Nations Controller for review. Final approval was granted by the UNCC Governing Council Committee on Administrative Matters in its meeting of October 2019. The rationale and justification for each budget line were explained in the budget submissions. UNCC also submitted expenditure reports to the Governing Council in which it explained significant variations between budget and actual expenditures. OIOS concluded that there were adequate arrangements for review and monitoring of the UNCC operational budget.

16. Staffing related costs was the largest with a total budget of \$867,000 in the 2020 budget. The staffing level of three was approved as the minimum needed for effective functioning of UNCC to the end of its mandate. Administrative support services costs were the second largest with a total budget allocation of \$125,100 in the 2020 budget. This included \$40,000 for administrative services provided by the United Nations Office at Geneva (UNOG) and a lumpsum allocation of seven per cent of the operational budget (\$85,100) to cater for costs related to preparation of financial statements and other administrative services provided by United Nations Headquarters.

17. A memorandum of understanding between UNOG and UNCC provides for UNOG to bill UNCC based on workload and the standard prices for each category of administrative service provided. The exception was costs of preparing financial statements which UNOG did not bill UNCC directly because they were covered in the seven per cent lumpsum. The lumpsum had been agreed on with the Office of the United Nations Controller in 2015, when the financial statements were being prepared by Headquarters, prior to the task being transferred to UNOG following implementation of Umoja. In 2016, UNOG estimated the costs of preparing financial statement to be about \$80,000. Based on this estimate OIOS concluded that the lumpsum was not overstated since it also covered the cost of treasury and other administrative support services provided by Headquarters.

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) 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: Ms. Eleanor T. Burns
Director, Internal Audit Division, OIOS

DATE: 14 April 2020

REFERENCE: UNCC/27/2020

FROM: Irene Muchira 
Acting Head, UNCC Secretariat

SUBJECT: **Draft Report on the audit of UNCC claims payments
(Assignment No. AE2020/820/01)**

1. Thank you for the draft report on the audit of UNCC claims payments covering the period from 1 March 2019 to 31 January 2020.
2. The Secretariat welcomes the conclusions of OIOS that *“there were adequate arrangements for accounting for funds deposited into the Compensation Fund and for disbursement of compensation award; information updates provided to the Governing Council were accurate and adequately supported; and UNCC operational budget was properly approved and monitored”*. The Secretariat notes that there are no recommendations.
3. The final report will be shared with the UNCC Governing Council when received.
4. The Secretariat would like to take this opportunity to thank the OIOS team for its cooperation.

cc: Mr. David Kanja, Assistant Secretary-General, OIOS
Ms. Fatoumata Ndiaye, Under-Secretary-General, OIOS
Ms. Anna Nyaoro, Chief, European Audit Section, Internal Audit Division, OIOS
Mr. David Nyskohus, Acting Special Assistant to the Under-Secretary-General, OIOS
Ms. Cynthia Avena-Castillo, Auditing Assistant, Professional Practices Section, Internal Audit Division, OIOS
Mr. Michael Sams, Finance Officer, UNCC