



INTERNAL AUDIT DIVISION

REPORT 2021/027

Audit of the United Nations Compensation Commission

**Arrangements for processing of claims
payments were adequate but specific
timelines need to be defined for liquidation
activities**

**22 June 2021
Assignment No. AE2021-820-01**

Audit of the United Nations Compensation Commission

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Compensation Commission (UNCC). 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 February 2020 to 30 April 2021 and included a review of the arrangements for: (a) accounting for revenue received in the Compensation Fund; (b) disbursing compensation awards to the one remaining claimant; and (c) reporting on the financial performance of the Compensation Fund and the status of the liquidation activities to the UNCC Governing Council.

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. However, specific timelines need to be defined for liquidation activities.

OIOS made one recommendation. To address the issue identified in the audit, UNCC needed to update its liquidation plan to: (a) include specific timelines for completing the various activities; and (b) indicate focal points for Secretariat offices dealing with liquidation issues.

UNCC accepted the recommendation and has initiated action to implement it.

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Audit of the United Nations Compensation Commission

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Compensation Commission (UNCC).
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, 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 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. During the period covered by this audit (1 February 2020 to 30 April 2021), deposits to the Compensation Fund were \$1,669 million. UNCC disbursed a total of \$1,530 million of compensation awards to Kuwait. Table 1 shows the status of the Compensation Fund as at 30 April 2021.

Table 1: Status of the Compensation Fund as at 30 April 2021

	Amount (\$)
Opening Balance as at 1 February 2020	175,073,693
Investment Income	3,348,930
Deposits to the Compensation Fund	1,669,107,156
Disbursements	
Administrative budget for 2021	(1,286,700)
Payments for compensation awards	(1,530,000,000)
Fund Balance as at 30 April 2021	316,243,079

5. As of 30 April 2021, out of the approximately \$52.4 billion in compensation awarded, \$50.7 billion had been paid, leaving an outstanding balance of approximately \$1.7 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 June 2022.
6. UNCC had three staff members including 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 payment process.
9. This audit was included in the 2021 risk-based work plan of OIOS due to 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 in May and June 2021. The audit covered the period from 1 February 2020 to 30 April 2021 and included a review of the arrangements for: (a) accounting for revenue received in the Compensation Fund; (b) disbursing compensation awards to the one remaining claimant; and (c) reporting on the financial performance of the Compensation Fund and the status of the liquidation activities to the UNCC 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 funds 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 were accurately recorded in Umoja. OIOS verified the accuracy of Umoja records by reconciling the total deposits in the bank account to the total credits posted in the Compensation Fund account in Umoja. OIOS also checked a sample of 97 individual deposits and verified that they were accurately recorded 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's Treasury. As required, the proportion of investment income associated with UNCC funds was credited to the Compensation Fund in Umoja.
14. As of June 2021, UNCC had not received the 2020 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 there is normally a time lag of up to two years before the audited financial statements are received. The audited financial statements for 2018 and 2019 were the ones received in 2020 and 2021, respectively, and they showed that the deposits to the Compensation Fund in the two years reconciled with the revenues reported in the audited financial statements. However, the notes to the financial statements showed that there were non-monetary revenues in both years that had not been accounted for in the Compensation Fund. UNCC followed up on this matter and the gaps were addressed through additional deposits to the Compensation Fund of \$55 million in January 2021 for the 2018 non-monetary revenues and \$162 million in April 2021 for the 2019 non-monetary revenues.
15. Based on the above, OIOS concluded that the arrangements for monitoring and accounting of revenues deposited in the Compensation Fund and related investment income were adequate.

Arrangements for disbursement of compensation awards were adequate

16. During the period under review, UNCC disbursed \$1,530 million in five payments of \$440 million, \$210 million, and \$230 million in April, July and October 2020 respectively, and a further two payments of \$270 million and \$380 million in January and April 2021. OIOS verified that all the five payments were accurately recorded, supported by appropriate approvals, and were made in a timely manner. In accordance with Governing Council decision 267, payments utilized all available funds in the Compensation Fund at the end of each quarter 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 therefore concluded that UNCC had adequate arrangements for disbursing compensation payments and ensuring that they were received by the claimant.

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

17. The Governing Council is the organ of the Commission that sets its policy within the framework of relevant Security Council resolutions. The UNCC secretariat continued to report on its financial performance and liquidation activities to the Governing Council. During 2020, the Governing Council held one formal session in which it discussed: (a) the Compensation Fund (level and income); (b) payments and distribution of compensation awards; (c) audit review of UNCC activities; and (d) orderly winding down 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 the reports on the status of the Compensation Fund as well as income projections reported to the Governing Council.

Need to define specific timelines for liquidation activities

18. When the outstanding compensation is paid in full, a decision of the Governing Council will trigger the winding down of the Commission, to be followed by a Security Council resolution terminating the Commission and the Compensation Fund. According to current projections, UNCC expects the outstanding compensation to be fully paid in the course of 2022. UNCC prepared its liquidation plan in 2013 and regular updates were submitted to the Governing Council, the latest being in October 2020. The liquidation plan outlined activities to be completed as part of the liquidation process including: (a) determination of post-UNCC reserve; (b) preparation of a final report from the Governing Council to the Security Council; (c) archiving and disposal of remaining UNCC records; (d) general administrative tasks; (e) communication strategy for closure; and (f) regular risk monitoring. UNCC confirmed that plans were in place to translate the final report into six official languages of the United Nations when presented to the Security Council.

19. However, the liquidation plan had no specific timeframes by which the activities scheduled for 2021 and 2022 would be carried out or completed. Having the expected start and end dates for the various activities would facilitate monitoring and help ensure that liquidation activities are appropriately paced as the Commission nears the end of its mandate. Although Secretariat offices such as the Office of Legal Affairs that have a role in the liquidation process were indicated in the plan, focal points for each section/unit had not been assigned to liquidation activities in the plan. This is essential to facilitate timely liaison and coordination between UNCC and the relevant offices involved in the liquidation process.

<p>(1) UNCC should update its liquidation plan to: (a) include specific timelines for completing the various activities; and (b) indicate focal points for Secretariat offices dealing with liquidation issues.</p>
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UNCC accepted recommendation 1. Recommendation 1 remains open pending receipt of an updated liquidation plan with specific timelines for completing the various activities and details of focal points for Secretariat offices dealing with liquidation issues where applicable.

IV. ACKNOWLEDGEMENT

20. 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

STATUS OF AUDIT RECOMMENDATIONS

Audit of the United Nations Compensation Commission

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNCC should update its liquidation plan to: (a) include specific timelines for completing the various activities; and (b) indicate focal points for Secretariat offices dealing with liquidation issues.	Important	O	Receipt of an updated liquidation plan with specific timelines for completing the various activities and details of focal points for Secretariat offices dealing with liquidation issues where applicable.	1 September 2021

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

³ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁴ Date provided by UNCC in response to recommendations.

APPENDIX I

Management Response

UNITED NATIONS
SECURITY COUNCIL



NATIONS UNIES
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: 18 June 2021

REFERENCE: UNCC/21/2021

FROM: Irene Muchira 
Acting Head, UNCC Secretariat

SUBJECT: **Draft Report on the audit of UNCC (Assignment No. AE2021/820/01)**

1. Thank you for the draft report on the audit of UNCC covering the period from 1 February 2020 to 30 April 2021.
2. The Secretariat is pleased to note that the arrangements for accounting for revenue deposited into the Compensation Fund and the processing of claims payments were adequate and that there are no recommendations in that regard.
3. With respect to the recommendation to update the liquidation plan, as indicated in our response contained in Annex I, the Secretariat agrees to update the timelines and to indicate the focal points in other UN Secretariat offices by 1 September 2021, as far as practicable.
4. The final report will be shared with the UNCC Governing Council when received.
5. The Secretariat would like to take this opportunity to thank the OIOS team for its cooperation.

cc: Ms. Fatoumata Ndiaye, Under-Secretary-General, OIOS
Mr. Gurbur Kumar, Deputy Director, Internal Audit Division, OIOS
Ms. Anna Nyaoro, Chief, European Audit Section, Internal Audit Division, OIOS
Mr. Michael Sams, Finance Officer, UNCC

Management Response

Audit of the United Nations Compensation Commission

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNCC should update its liquidation plan to: (a) include specific timelines for completing the various activities; and (b) indicate focal points for Secretariat offices dealing with liquidation issues.	Important	Yes	Finance Officer	1 September 2021	UNCC accepts the recommendation and will implement as practicable.

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.