



INTERNAL AUDIT DIVISION

REPORT 2022/046

Audit of the United Nations Compensation Commission

Deposits and claims payments were satisfactorily processed, and liquidation activities were adequately planned, monitored and implemented

26 September 2022

Assignment No. AE2022-820-01

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 and the management of its liquidation activities. The audit covered the period from 1 May 2021 to 30 June 2022 and included a review of the arrangements for: (a) accounting for revenue received in the Compensation Fund; (b) disbursement of compensation awards to the one remaining claimant; and (c) planning, monitoring, and implementation of liquidation activities.

The audit showed that there were adequate arrangements for accounting for revenue deposited into the Compensation Fund and processing of claims payments. In December 2021, the Compensation Fund reached a sufficient balance to pay the remaining compensation claim, and UNCC notified the Government of Iraq to discontinue deposits. With the final payment made in January 2022, UNCC had fully paid the \$52.4 billion of compensation awarded to successful claimants. In February 2022, the Security Council adopted resolution 2621 terminating the mandate of UNCC. UNCC had adequately planned, monitored, and implemented its liquidation activities and was on course to complete the liquidation process and close down as of 31 December 2022.

CONTENTS

| | |
|--|-----|
| I. BACKGROUND | 1 |
| II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY | 1-2 |
| III. AUDIT RESULTS | 2-4 |
| A. Claim disbursements | 2 |
| B. Liquidation activities | 2-4 |
| IV. ACKNOWLEDGEMENT | 4 |

APPENDIX I Management response

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 and awarded a total of \$52.4 billion to successful claimants, with the majority awarded towards corporate and government claims.
3. Successful claimants were paid out of the Compensation Fund which was administered by UNCC. In accordance with Security Council resolutions 1483 and 1956 and Governing Council decision 276, the Compensation Fund received a proportion of Iraq's oil export revenue which varied over the years and was set as 3 per cent in 2020 and 2021. In December 2021, when the Compensation Fund reached a sufficient balance to pay the remaining compensation claim, UNCC notified the Government of Iraq to discontinue deposits.
4. During the period covered by this audit (1 May 2021 to 30 June 2022), UNCC received \$1.4 billion in deposits from Iraq oil export sales revenue and disbursed a total of \$1.7 billion to Kuwait through three quarterly payments in July and October 2021 and January 2022. With the last payment in January 2022, UNCC had fully paid the \$52.4 billion of compensation awarded to successful claimants. The Governing Council held a special session on 9 February 2022 and adopted decision 277 declaring that the Government of Iraq had fulfilled its international obligations to compensate all claimants awarded compensation by the Commission.
5. On 22 February 2022, the President of the Governing Council presented a final report to the Security Council (S/2022/104) following which the Security Council adopted resolution 2621 terminating the mandate of UNCC. In accordance with this resolution, UNCC plans to complete all liquidation activities and close down by 31 December 2022.
6. As of June 2022, 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 and the management of its liquidation activities.
8. This audit was included in the 2022 risk-based work plan of OIOS due to the 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 office's annual reports.
9. OIOS conducted this audit from June to August 2022. The audit covered the period from 1 May 2021 to 30 June 2022 and included a review of the arrangements for: (a) accounting for revenue received in the Compensation Fund; (b) disbursement of compensation awards to the one remaining claimant; and (c) planning, monitoring, and implementation of liquidation activities.

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

A. Claim disbursements

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

12. UNCC had 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. In accordance with established practice at the United Nations Secretariat, the balance of funds in the Compensation Fund was managed and invested in a pool by the Secretariat's Treasury. As required, the proportion of investment income associated with UNCC funds was credited to the Compensation Fund account in Umoja. OIOS therefore concluded that the deposits made in the Compensation Fund and related investment income were properly recorded.

Arrangements for disbursements of compensation awards were adequate

13. During the period under review, UNCC disbursed \$1.72 billion to Kuwait in three payments of \$600 million, \$490 million, and \$629 million in July and October 2021 and January 2022 respectively. OIOS verified that all the three payments were accurately recorded, supported by appropriate approvals, and were made in a timely manner. In accordance with Governing Council decision 267, all available funds in the Compensation Fund were utilized 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 Iraqi 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 the disbursements made were adequately supported.

B. Liquidation activities

The liquidation plan was comprehensive and activities were proceeding as planned

14. The liquidation plan included all key activities and arrangements that needed to be put in place to close UNCC and manage its records and residual activities after its closure. As of July 2022, all liquidation activities were progressing in accordance with planned timelines. For example, UNCC had already issued termination notices for the contractual arrangements with the United Nations Office at Geneva (UNOG) including the agreement for lease of office space and the agreement for provision of administrative support services. OIOS interviewed focal points from the offices involved in the liquidation activities including UNOG, the Office of Legal Affairs, the Archives and Records Management Section (ARMS) at United Nations Headquarters and the Department of Political and Peace Building Affairs (DPPA). None of them raised any concerns about the liquidation plan and pace of implementation. UNCC provided regular updates on the status of its liquidation activities to the Governing Council, and a final Governing Council session was scheduled for 9 December 2022.

Appropriate budget provisions were made to cater for post closure expenses

15. UNCC was following the United Nations Financial Regulations and Rules regarding settlement of obligations, closure of financial accounts and disposition of financial records. The Compensation Fund was closed on 30 June 2022 and arrangements were in place for the financial statements for the year ended 31 December 2021 and for the period to 30 June 2022 to be audited by the Board of Auditors in September 2022. After the audit, UNCC planned to return the balance remaining in the Compensation Fund to the Government of Iraq. A post closure reserve of \$2 million was approved by the Governing Council at its eighty-eighth session to cater for UNCC's operational expenses from July to December 2022 (\$917,000) and the post-closure expenses from January 2023 onwards (\$1.083 million). The \$1.083 million provision for post-closure expenses comprised mainly of costs related to the management of UNCC archives, maintaining its website, and a general provision of 10 per cent (\$181,800) to cater for any unforeseen costs. OIOS' review showed that the estimated costs included in the post closure reserve were determined in consultation with relevant stakeholders and were adequately explained and/or supported. As recommended by the Controller's office, the post closure reserve was transferred to a separate fund under the United Nations Volume 1 accounts.

Archiving of records was progressing as planned, and arrangements were made for post closure management of archived records

16. In accordance with the Secretary-General's Bulletin on the records of UNCC (ST/SGB/2019/9), ARMS is responsible for preservation of UNCC's permanent records. ST/SGB/2019/9 identifies three categories of records including records of historical value such as Governing Council sessions and executive head's correspondence (category-one), claim files and claim payments records (category-two), and records falling under the broader United Nations archiving regime consisting of financial and administrative records (category-three). Most of the category-one records, and all the category-two records had already been transferred to ARMS at the time of the audit. According to the liquidation plan, the remaining category-one records, and all category-three records are to be transferred to ARMS by December 2022. Given the volume and complexity of these records, especially those in digital format, UNCC, in consultation with ARMS agreed on the funding needed for preservation and management of the records, and a budget provision of \$765,000 was included in the post closure reserve. Arrangements were in place for the Office of Legal Affairs to take over the responsibility for authorizing access to the records after UNCC closes, and a provision of \$25,000 was made in the post closure reserve for this function.

Appropriate arrangements were made for the Follow-up Programme for Environmental Awards

17. The Follow-up Programme for Environmental Awards was established to monitor and ensure that where applicable, funds awarded were spent on conducting environmental remediation and restoration projects transparently and appropriately, and that the funded activities remained reasonable. Following the Programme's closure in 2013, the Governments of Jordan, Kuwait and Saudi Arabia provided annual progress reports to the Governing Council. Security Council resolution 2621 encouraged these Governments to continue providing annual progress reports to the Secretariat following the closure of UNCC. DPPA accepted to take over the role of receiving the annual reports from 2023 until all funds allocated are utilized. UNCC made appropriate budget provisions for this function in the post closure reserve and had initiated the process of handing over the role to DPPA.

Arrangements were in place for termination of staff contracts

18. The liquidation plan addressed the need for staff members to be given three months' termination notice by September 2022 as required by the Staff Regulations and Rules. The UNOG Human Resources Management Service confirmed that it will issue the termination notices to UNCC staff on time and

communicate the staff separation entitlements, pension entitlements and separation protocol in the third quarter of 2022. OIOS verified and confirmed that all individual staff files, time and attendance records, and performance appraisals were complete and up to date.

IV. ACKNOWLEDGEMENT

19. 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) Gurpur Kumar
Deputy 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. Fatoumata Ndiaye, Under-Secretary-General
for Internal Oversight Services, OIOS

DATE: 16 September 2022

REFERENCE: UNCC/31/2022

FROM: Irene Muchira, Acting Head
UNCC Secretariat

A handwritten signature in blue ink that reads "I. Muchira".

SUBJECT: **Draft report on the audit of UNCC (Assignment No. AE2022-820-01)**

1. Thank you for the draft report on the audit of UNCC covering the period from 1 May 2021 to 30 June 2022.
2. The Secretariat is pleased to note that the deposits and claims payments were satisfactorily processed, and liquidation activities were adequately planned, monitored and implemented, and there are no recommendations.
3. The final report will be shared with the UNCC Governing Council when received.
4. As the Commission will be closing all its operations by the end of the year, the Secretariat would like to take this opportunity to thank the OIOS team for its cooperation during the audit and over the years.

cc: Mr. David Nyskohus, OIOS
Mr. Jeffrey Lin, OIOS
Mr. Michael Sams, UNCC