

INTERNAL AUDIT DIVISION

REPORT 2013/122

Audit of United Nations High Commissioner for Refugees operations in Nepal

Overall results relating to the effective management of UNHCR operations in Nepal were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING:
PARTIALLY SATISFACTORY

12 December 2013 Assignment No. AR2013/141/01

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AUDIT REPORT

Audit of United Nations High Commissioner for Refugees operations in Nepal

I. BACKGROUND

- 1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations High Commissioner for Refugees (UNHCR) Representation responsible for the management of operations in Nepal (hereafter referred to as 'the Representation').
- 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 Representation commenced operations in 1989 and was responsible, as at 31 December 2012, for a population of concern of some 41,000 refugees from Bhutan as well as 300 asylum seekers and urban refugees. It also assisted Tibetan new arrivals, facilitated their transit to India, and undertook activities to reduce statelessness. The Representation's activities have also actively focused on resettlement of refugees from Bhutan to third countries.
- 4. The expenditures of the Representation were \$10 million for 2012 and \$12.7 million for 2011. The Representation had two offices: the Representation office in Kathmandu, which was responsible for the overall direction of the country operation; and a Sub Office in Damak (SOD), which was responsible for refugees from Bhutan, all of whom stayed at the Beldangi and Sanischare camps. Approximately 61 per cent of the 74 staff were located at SOD, while the rest were at the Representation office in Kathmandu. As of 1 January 2013, the staff comprised one Representative (D-1); 11 professionals; 6 national officers and 56 general service staff.
- 5. Comments provided by the UNHCR are incorporated in *italics*

II. OBJECTIVE AND SCOPE

- 6. The audit of the UNHCR operations in Nepal was conducted to assess the adequacy and effectiveness of Representation's governance, risk management and control processes in providing reasonable assurance regarding the effective management of UNHCR operations in Nepal.
- 7. The audit was included in IAD's 2013 OIOS risk-based annual work plan due to the operations in Nepal being rated as higher risk, partly due to the large number of implementing partners (12) who executed 86 per cent of the operational budget. The last audit of the Representation was conducted in 2006.
- 8. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Project management:** controls that are designed to provide reasonable assurance that there is accurate and complete monitoring and reporting of project activities.
 - (b) **Regulatory framework:** controls that provide reasonable assurance that UNHCR policies and procedures are adequate and are being effectively complied with.

- 9. The key controls were assessed for the control objectives shown in Table 1.
- 10. OIOS conducted the audit from February to March 2013. The audit covered the period from 1 January 2011 to 31 December 2012.
- 11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

- 12. The UNHCR operations in Nepal's governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **the effective management of UNHCR operations in Nepal**. OIOS made five recommendations to address issues identified in the audit.
- 13. Controls over project management were initially assessed as partially satisfactory. There was a need to complete pending best interest determination cases and to review the pre-qualified status of a key implementing partner for undertaking procurement, given that the processes followed by the implementing partner lacked transparency and fairness and did not ensure value for money. The Representation took the following corrective actions: (a) ensured that a partner documented medical referral procedures and computed lump-sum amounts correctly; (b) reallocated staffing resources to clear the backlog of pending resettlement fraud investigations and captured biometrics data for refugees; and (c) improved supply of water and cooking fuel at the refugee camps.
- 14. Controls over regulatory framework were initially assessed as partially satisfactory because the Representation needed to address the weaknesses in its own procurement, including the requirement to follow competitive selection processes for all purchases. The Representation took corrective action to review supply chain management and train procurement staff of UNHCR and its partners.
- 15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

Table 1: Assessment of key controls

Effective operations and operational reporting and operations of assets regulations are rules Effective management of management satisfactory satisfactory satisfactory Effective management of management satisfactory satisfactory satisfactory Accurate financial and operational of assets regulations are rules Partially partially satisfactory satisfactory satisfactory	Business	Key controls		Control objectives						
management of management satisfactory satisfactory satisfactory Satisfactory	objective		effective	and operational	0 0	regulations and				
Satisfactory Satisfactory	Effective	(a) Project	Partially	Partially	Partially	Partially				
	U	management	satisfactory	satisfactory	satisfactory	Satisfactory				
	UNHCR operations	(b) Regulatory	Partially	Partially	Partially	Partially				
in Nepal Framework satisfactory satisfactory satisfactory Satisfactory	ın Nepal	Framework	satisfactory	satisfactory	satisfactory	Satisfactory				

A. Project management

Action was taken to address internal control weaknesses identified at an implementing partner

- 16. The following weaknesses were noted in the way an implementing partner, entrusted with making medical referrals to hospitals for refugees in need of medical assistance, conducted operations on behalf of the Representation:
 - Some of the staff of the implementing partner, which had an annual budget of \$300,000, mixed their personal funds with funds allocated by UNHCR to the partner. Corrective action was taken by the issuance of instructions to staff to prevent the mixing of personal staff and UNHCR funds.
 - This partner made medical referrals to hospitals for refugees in need of medical
 assistance and settled hospital bills in cash. UNHCR rules require that to the extent
 possible, payments should be made by cheque or bank transfer in order to reduce the
 handling of cash. Mitigation action was taken by entering into agreement with hospitals
 for making cheque payments.
 - UNHCR rules also require that partners responsible for making medical referrals should
 have written procedures in place to ensure that cases are referred to hospitals when there
 is a genuine need. However, the partner did not document the medical referral
 procedures as required under UNHCR guidelines, which increased the risk of incorrect
 referrals.
 - The same implementing partner had responsibility for taking care of refugees with substance abuse problems. The partner had entered into an agreement with a subcontractor in which it paid a lump-sum amount of NPR 33,000 (\$393) per person admitted to contractor's rehabilitation centre. The lump-sum amount was not determined based on a proper consideration of capacity and fixed costs, and the same rate was charged regardless of the length of stay.
- 17. Had the Representation ensured proper arrangements for supervision and monitoring of the implementing partner, these issues would have been detected earlier.
- (1) The UNHCR Representation in Nepal should improve supervisory control over the concerned implementing partner to ensure that: (i) medical referral procedures are documented; and (ii) the rehabilitation lump-sum amount is calculated based on a proper consideration of capacity, fixed costs and the duration of stay.

The Representation accepted recommendation 1 and stated that: (i) the concerned partner's referral guideline/agreements with hospitals were documented. One of the tertiary hospitals declined to enter into an agreement based on their policy despite several efforts made by the Office. The concerned partner formed a medical team comprising its Health Coordinator, Camp Medical Officers and Invoice Verifier to verify the bills received from referral hospitals and pharmacies. The medical team verified the bills and medical prescription/reports to confirm whether the services have actually been availed or not. After verifying the bills by the team the payment was made to the referral hospitals and pharmacies. (ii) The agreement between the two partners concerned was documented. The agreement distinguishes different rate per patient depending on the length of stay. The rate has been reduced by 15 per cent in average. Based on the action taken by UNHCR, recommendation 1

has been closed.

The pre-qualified status of an implementing partner needed to be reviewed

- 18. An implementing partner who had been delegated authority to use their own rules for procurement is referred to as a pre-qualified partner. This denotes that UNHCR has reviewed the partner's established internal procurement procedures and accountabilities and has assessed these as compliant with key standards. However, even for pre-qualified partners, UNHCR is required to monitor the implementing partner procurement processes to ensure that relevant rules and procedures are followed. Should the monitoring reveal weaknesses, UNHCR reserves the right to reverse the pre-qualified status granted to the partner.
- 19. An implementing partner who had been delegated authority to use their own rules for procurement (referred to as pre-qualified) carried out procurement aggregating to \$753,537 in 2012. There was no evidence that the Representation had taken action to review the implementing partner's procurement process despite a qualified opinion received by the partner in 2011 from the UNHCR appointed auditors, arising from the weak procurement processes in use. The failure to undertake adequate monitoring meant that the Representation could not demonstrate that best value for money had been obtained.
- 20. OIOS reviewed the largest contract undertaken by the implementing partner, valued at \$400,000, which was for the purchase of briquettes (20 per cent of the budget allocated). The initial exercise tendering elicited four responses and resulted in a lowest bid of NPR 13.1(\$0.16) per kg. However, based on an unverified statement that three of the four suppliers had not signed the terms and conditions of the tender, the Procurement Committee disqualified the three suppliers. The Committee decided to re-tender as they assessed that as only one bidder was qualified, adequate competition was not demonstrated. However, there was no documentary evidence to substantiate the disqualification of the three suppliers and in OIOS' assessment the first tendering exercise resulted in a viable bid that was competitive and should have been accepted. During the re-tendering three vendors submitted bids. Two were disqualified for technical reasons on the grounds of a laboratory report although that did not exhibit any strong reason for disqualifying the vendors as the quality parameters were very similar for all the samples, including that of the winning bid. As a result of this exercise the lowest bidder in the re-tendering, who had quoted NPR 15.5/kg (\$0.18 kg) was ruled out and, the tender awarded at price of NPR 20/kg (\$0.23/kg). This resulted in the implementing partner paying \$111,200 more than they would have had they had accepted the bid from the first round. As UNHCR had not carried out the required review of the procurement authority delegated to the partner, it was unable to detect and correct in a timely manner the issues identified by OIOS. OIOS concluded that it could not be demonstrated that a transparent competitive bidding process and a proper technical and financial evaluation had been done by the implementing partner.
 - (2) The UNHCR Representation in Nepal should: (i) request the Supply Management and Logistics Service at Headquarters to review the pre-qualified status for the concerned implementing partner; and (ii) undertake a review of its procurement of briquettes.

The Representation accepted recommendation 2 and stated that: (i) they have taken up the matter with the Supply Management and Logistics Service at Headquarters on the pre-qualification status and a response was awaited. (ii) With respect to procurement of briquettes, the Office has been actively following up with the partner. After lengthy processes and lab testing on specification of the briquette sample, a vendor was finally selected on 30 September 2013. Recommendation 2 remains open pending receipt of the results of the review undertaken by SMLS of the pre-qualified status of the partner.

Need to improve the provision of some camp services to meet camp standards

- 21. The Representation had met some of its camp targets in the areas of health care, education, food and shelter and it had initiated various measures to ensure that all camp services were provided as per UNHCR standards. This was achieved by putting in place: standard operating procedures for sexual and gender based violence, best interest determination/assessments (BID/BIA); and the use of a participatory approach to camp management. However, a shortage of resources had impacted on its ability to meet targets in the following areas:
 - As at 31 December 2012, the best interest determination sub-unit conducted 243 BID/BIA for unaccompanied minors and separated children. Seventy two cases were pending, indicating a completion rate of 77 per cent against the 2012 country operations plan target of 90 per cent.
 - In 2012, UNHCR reduced the baseline standards for water due to the influx of refugees at the two camps. Although the year-end results met the 2012 targets, these were below the standard requirement of 80 persons per water tap. Concerns of inadequate water supply at Beldangi were also expressed by the Camp Management Committee.
 - Actual supply of briquettes in 2012 was only for nine months i.e. 75 per cent as against
 the target of 100 per cent. The quality of the briquettes was 50 per cent below the
 required minimum calorific value of 4200 Kcal per kg.
- (3) The UNHCR Representation in Nepal should ensure that it: (i) assigns adequate staffing resources for completing the pending Best Interests Determination/Assessment; and (ii) provides its camps with adequate supplies of water and cooking fuel in line with UNHCR standards.

The Representation accepted recommendation 3 and stated that: (i) necessary staffing has been allocated to complete the pending Best Interests Determination/Assessment (BIA and BID) cases, however, other factors such as ongoing legal processes, family or community consultations also come into play and influence the timeframe for the resolution of these cases. A close monitoring of the cases was in place to track progress and ensure their most timely resolution. (ii)The Water Supply Survey – Bhutanese Refugee Camps of Eastern Nepal was undertaken in 2013. The Office was rigorously following up with the Implementing Partner on the quality of the briquettes as well as the testing of samples to ensure that the items meet the standard and specification. In addition, the Office had started the distribution of bio-briquette to a few of the vulnerable families in the camp starting October 2013 on a pilot project basis aiming to expand the number of families based on its effectiveness and availability in the local market to diversify the pool of suppliers. Recommendation 3 remains open pending receipt of documentation relating to the completion of pending BID cases pertaining to 2012.

Action was taken to reallocate staffing resources to clear the backlog of pending resettlement fraud investigations and capture biometrics data for refugees

22. In accordance with guidance on resettlement fraud issued in March 2008, the Representation had implemented, since January 2009, several measures to prevent, detect and investigate fraud in resettlement of refugees to third countries. Measures implemented included: (a) establishing a fraud

panel; (b) collection of biometric data; (c) appointment of a fraud focal point; (d) undertaking awareness training for staff and partners; (e) disseminating anti-fraud materials to refugees; (f) carrying out a desk review and requiring full Resettlement Registration Forms (RRF) for census absentees; and (g) the development of country-specific standard operational procedures (SOP). However, at the time of the audit fieldwork, the following elements of the guideline had not been completed:

- Fraud risk assessments and the baseline standards checklists had not been completed and shared with UNHCR Headquarters. The Representation took action and completed and submitted the fraud risk assessment and the baseline checklists in May 2013.
- The fraud unit had been allocated insufficient staffing resources (1.5 staff members) which limited its ability to review and investigate fraud cases. This resulted in delays in completing fraud investigations leading to accumulation of 236 pending cases which in the estimation of the Representation would need more than 18 person months to be concluded.
- Biometric data was only partly collected and was not put to use in the resettlement process as recommended under UNHCR's policy. The Representation continued to rely only on photograph identification in its resettlement programme. The exclusive reliance on photographs as a means of confirming identity was not adequate to detect the increasing numbers of fraud cases. This situation occurred as the fingerprint data for all the refugees above of the age of 16 had not been captured.
- (4) The UNHCR Representation in Nepal should reallocate staffing resources to clear the backlog of cases pending fraud investigations; and complete the biometrics data collection for all refugees.

The Representation accepted recommendation 4 and stated that: (i) in the course of 2013, staff was reallocated from other units to support the clearing of pending fraud cases. Continued efforts were being made to bring the number of pending cases down. (ii) As a matter of policy, biometric data is collected for refugees above 16 and for refugees whose refugee card is close to expiry. Typically the duration of the validity of the refugee card is 5 years. Based on the action taken by UNHCR, recommendation 4 has been closed.

B. Regulatory framework

Action was taken to improve procurement management

- 23. Whilst the Local Committee on Contracts (LCC) was regularly convened and reviewed cases falling within its purview, deviations were identified relating to two construction purchase orders for \$23,716 and \$37,312, which were not brought to the attention of the LCC as required. In another case, a purchase order for the extension of security services, whose value was \$53,230, had a waiver for competitive bidding incorrectly granted by the LCC instead of the Controller.
- 24. Exceptions were noted in 5 of the 25 purchase orders reviewed, where procurement competitive selection procedures were not complied with. This resulted in limited competition and an increased likelihood of failure to obtain best value for money.

- 25. OIOS reviewed construction works executed at SOD for which the initial purchase order was \$23,716. A subsequent purchase order for \$37,312 was added taking the aggregate contract value to \$61,028. Neither purchase order was submitted for LCC approval. The increase in the total value of the contract due to addition to the scope of work was also not in compliance with the requirements on amendments to contracts. Although required to do so, the office did not seek to verify the actual materials used or ascertain the quality of the construction. The final payment advice was prepared by staff that lacked technical knowledge to verify the actual work done or the bill of quantities. No written approvals were sought from the Head of Sub-office or other authorised person. The deficiencies in procurement were due to lack of proper supervision by professional staff.
 - (5) The UNHCR Representation in Nepal should strengthen supervisory controls over procurement to ensure that all procurement cases within the competence of the Local Committee on Contracts are submitted for its consideration, waivers are submitted to the appropriate authority, and required competitive selection processes are followed.

The Representation accepted recommendation 5 and stated that a mission from Headquarters to review the supply chain management (procurement, asset management and inventory) and to train relevant UNHCR and implementing partner staff was undertaken. A copy of the mission report was provided to OIOS. Based on the action taken by UNHCR, recommendation 5 has been closed.

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the Management and staff of UNHCR operations in Nepal for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Recom.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNHCR Representation in Nepal should improve supervisory control over the concerned implementing partner to ensure that: (i) medical referral procedures are documented; and (ii) the rehabilitation lump-sum amount is calculated based on a proper consideration of capacity, fixed costs and the duration of stay.	Important	С	Action completed	Implemented
2	The UNHCR Representation in Nepal should: (i) request the Supply Management and Logistics Service at Headquarters to review the pre-qualified status for the concerned implementing partner; and (ii) undertake a review of its procurement of briquettes.	Important	0	Receipt of the results of the review undertaken by SMLS on the pre-qualified status of the partner.	15 December 2013
3	The UNHCR Representation in Nepal that it: (i) assigns adequate staffing resources for completing the pending Best Interests Determination/Assessment; and (ii) provides its camps with adequate supplies of water and cooking fuel in line with UNHCR standards.	Important	0	Completion of pending BID cases pertaining to 2012.	31 December 2013
4	The UNHCR Representation in Nepal should reallocate staffing resources to clear the backlog of cases pending fraud investigations; and complete the biometrics data collection for all refugees.	Important	С	Action completed	Implemented
5	The UNHCR Representation in Nepal should strengthen supervisory controls over procurement to ensure that all procurement cases within the	Important	С	Action completed	Implemented

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.

 $^{^{3}}$ C = closed, O = open

⁴ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Recom.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	competence of the Local Committee on Contracts				
	are submitted for its consideration, waivers are				
	submitted to the appropriate authority and required				
	competitive selection processes are followed.				

APPENDIX I

Management Response

MANAGEMENT RESPONSE

Rec.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	The UNHCR Representation in Nepal should improve supervisory control over the concerned implementing partner to ensure that: (i) medical referral procedures are documented; and (ii) the rehabilitation lump-sum amount is calculated based on a proper consideration of capacity, fixed costs and the duration of stay.	Important	Yes	Senior Programme Officer	31 October 2013	(i) The concerned partner's referral guideline/agreements with hospitals are now documented. Please be advised that one of the tertiary hospitals declined to enter into an agreement based on their policy despite several efforts made by the Office. The concerned partner has formed a medical team comprising its Health Coordinator, Camp Medical Officers and Invoice Verifier to verify the bills received from referral hospitals and pharmacies. The medical team verifies the bills and medical prescription/reports to confirm whether the services have actually been availed or not. After verifying the bills by the team the payment is made to the referral hospitals and pharmacies. (ii) The agreement between the two partners concerned is documented. The agreement

⁵ 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.

⁶ 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

Rec.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
					31 October 2013	distinguishes different rate per patient depending on the length of stay. The rate has been reduced by 15% in average.
2	The UNHCR Representation in Nepal should: (i) request the Supply Management and Logistics Service at Headquarters to review the pre-qualified status for the concerned implementing partner; and (ii) undertake a review of its procurement of briquettes.	Important	Yes	Senior Programme Officer	15 December 2013	 (i) The Representation has taken up the matter with the Supply Management and Logistics Service at Headquarters on the pre-qualification status and a response is awaited. (ii) With respect to procurement of briquettes, the Office has been actively following up with the partner. After lengthy processes and lab testing on specification of the briquette sample, a vendor was finally selected on 30 September.
3	The UNHCR Representation in Nepal that it: (i) assigns adequate staffing resources for completing the pending best Interests Determination/Assessment; and (ii) provides its camps with adequate supplies of water and cooking fuel in line with UNHCR standards.	Important	Yes	(i) Senior Protection Officer	(i) 31 December 2013	(i) Necessary staffing has been allocated to complete the pending Best Interests Determination/Assessment (BIA and BID) cases, however, other factors such as ongoing legal processes, family or community consultations also come into play and influence the timeframe for the resolution of these cases. A close monitoring of the cases is in place to track progress and ensure

MANAGEMENT RESPONSE

Rec.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				(ii) Senior Programme Officer	(ii) 31 October 2013	their most timely resolution. (ii) The Water Supply Survey – Bhutanese Refugee Camps of Eastern Nepal was undertaken in 2013. Briquettes - The Office is rigorously following up with the Implementing Partner on the quality of the briquettes as well as the testing of samples to ensure that the items meet the standard and specification. In addition, the Office has started the distribution of bio-briquette to a few of the vulnerable families in the camp starting October 2013 on a pilot project basis aiming to expand the number of families based on its effectiveness and availability in the local market to diversify the pool of suppliers.
4	The UNHCR Representation in Nepal should reallocated staffing resources to clear the backlog of cases pending fraud investigations; and complete the biometrics data collection for all refugees.	Important	Yes	Senior Protection Officer and Resettlement Officer	(i) 31 October 2013 (ii) 31 October 2013	 (i) In the course of 2013, staff was reallocated from other units to support the clearing of pending fraud cases. Continued efforts are made to bring the number of pending cases down. (ii) As a matter of policy biometric data is collected for refugees above 16 and

APPENDIX I

MANAGEMENT RESPONSE

Rec.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						for refugees whose refugee card is close to expiry. Typically the duration of the validity of the refugee card is 5 years.
5	The UNHCR Representation in Nepal should strengthen supervisory controls over procurement to ensure that all procurement cases within the competence of the Local Committee on Contracts are submitted for its consideration, waivers are submitted to the appropriate authority and required competitive selection processes are followed.	Important	Yes	Senior Programme Officer	31 October 2013	A UNHCR mission to review the supply chain management (procurement, asset management and inventory) and to train relevant UNHCR and implementing partner staff was undertaken.