



## INTERNAL AUDIT DIVISION

### REPORT 2015/044

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Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations High Commissioner for Refugees

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# **Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations High Commissioner for Refugees**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted a review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations High Commissioner for Refugees (UNHCR).
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. UNHCR works in a collaborative relationship - referred to as 'implementing partnership' - with numerous partners to deliver its mandate and to maximize the potential benefit of protection and durable solutions to refugees and other populations of concern. Implementing partnerships fall under one of the following categories: (a) governmental entities; (b) non-governmental entities and other non-profit organizations; (c) multilateral and inter-governmental entities; and (d) other United Nations System organizations. OIOS undertakes audits of field operations in UNHCR and covers partnership management in the scope of these engagements.
4. In 2013, UNHCR spent \$1.2 billion, or 40 per cent of total UNHCR expenditure, through 957 partners. This amount represented an increase of 30 per cent compared to the expenditures in 2012. Out of the 957 partners, 567 (or 59 per cent) were national and local Non-Governmental Organizations (NGOs); 166 (or 17 per cent) were international NGOs; and the remaining 224 (or 23 per cent) were governments, other United Nations agencies and inter-governmental organizations. Forty-nine per cent of the funds were allocated to international NGOs. Local NGOs received 33 per cent of the funds and the remaining 18 per cent was allocated to United Nations partners, Inter-Governmental Agencies and Government partners.
5. UNHCR has established a set of policies and tools to provide guidance for partnership management activities, from selection of the partner to project closure. The Implementing Partnership Management Service (IPMS) was established on 27 October 2011, within the Division of Financial and Administrative Management, to lead the development and implementation of an Enhanced Framework for Implementing with Partners. At the time of the preparation of this report, IPMS was in the process of rolling out changes to its current framework for implementing with partners, which included: the planned release of several institutional guidance notes on different topics of partnership management; the implementation of system enhancements to improve monitoring of partnerships; and the development of new tools to streamline partnership management processes. These initiatives were initially targeted for completion by December 2014.
6. In addition to policy and tools development, IPMS supports, guides and oversees the management of implementing partnerships organization-wide. For the discharge of its functions, it coordinates with relevant substantive divisions and regional bureaux at UNHCR headquarters for cross-cutting issues. For instance:

- the Division of Emergency, Security and Supply provides emergency preparedness, supply management and security training to partners, and is responsible for the assessment and granting of the pre-qualification for procurement status to applicant partners;
- the Division of Programme Support and Management promotes the use of the Results Based Management framework in UNHCR which cascades to partner project plans;
- the different bureaux provide support, advice and oversight to country operations to ensure a consistent application of UNHCR policies and procedures; and
- the Legal Affairs Service assists the bureaux in interpreting legal instruments concluded with partners, including in cases of non-compliance with agreements and disputed fees.

7. Comments provided by UNHCR are incorporated in *italics*.

## **II. OBJECTIVE, SCOPE AND METHODOLOGY**

8. This engagement was conducted to review recurrent implementing partnership management issues raised in recent OIOS internal audit reports, and to identify related improvements needed at the institutional level.

9. The review was included in the 2014 risk based internal audit work plan for UNHCR due to risks related to increasing reliance by UNHCR on partners.

10. The review was conducted during the period from May to October 2014, and covered OIOS internal audit reports issued from 1 January 2013 to 31 May 2014.

11. The methodology for the review involved the following steps:

- a review of the 29 internal audit reports issued during the period to identify recurrent issues related to partners on the basis of importance and criticality;
- the identification of root causes of such recurrent issues;
- a review of the status and adequacy of actions taken to implement the internal audit recommendations raised;
- a review of UNHCR current framework for implementing with partners (policies, manuals, agreements, systems and tools) and ongoing measures taken to enhance this framework, and an assessment of their effectiveness to address the root causes of recurrent issues; and
- the identification of additional improvements required at the institutional level.

12. As the focus of the review was on root causes of recurrent audit issues in implementing partnership management, it only raises recommendations to further enhance the institution level controls. As regards the recommendations contained in the 29 internal audit reports issued during the period that still remain open; OIOS will close them only after appropriate corrective actions have been implemented by the respective UNHCR Representations to address them.

### III. RESULTS OF THE REVIEW

13. Of the 29 reports reviewed, 12 did not contain issues relating to implementing partnerships. Seventeen, or 59 per cent, of the 29 reports highlighted recurrent control deficiencies in the management of partnerships in the following areas: (a) selection and retention of partners; (b) procurement undertaken by partners; (c) performance monitoring; (d) financial monitoring; and (e) audit certification by external auditors. During the period covered by this audit, OIOS made 39 recommendations to address these issues. As at October 2014, 26 recommendations (25 important and one critical) had been implemented, and 13 (nine important and four critical) remained open. Issues related to financial and performance monitoring stood out from the review as the most frequently reported, as shown in Table 1 below.

Table 1

**Distribution of audit recommendations raised between 1 January 2013 and 31 May 2014 per recurrent issue**

Recurrent issue category	Number of recommendations per recurrent issue category	Percentage of occurrence
Selection and retention of partners	3	8
Procurement undertaken by partners	5	13
Performance monitoring	10	25
Financial monitoring	18	46
Audit certification by external auditors	3	8
<b>Total</b>	<b>39</b>	<b>100</b>

14. OIOS concluded that there was a need for UNHCR to: (a) establish formal oversight mechanisms at headquarters over procurement entrusted to partners; (b) strengthen oversight by headquarters to ensure compliance with the requirements for financial monitoring of activities implemented by partners; and (c) revise the policies and procedures on partner audit certification in accordance with the new risk based project audit approach.

15. OIOS made three recommendations to address the issues that are further described below.

#### **Selection and retention of partners**

##### Accountabilities, responsibilities and authorities for selection and retention of partners were clarified

16. In January 2009, UNHCR established a requirement to use a pre-selection checklist to assist in the selection of partners, as well as to create a multi-functional panel with the responsibility to ensure the fairness, integrity and transparency of the process and the selection of the most suitable partners through the application of appropriate selection criteria and the conduct of technical and risk assessments.

17. Three OIOS audit reports observed shortcomings regarding compliance with the partner selection and retention procedures. The observations related to: (a) a non-performing selection panel; (b) inconsistent application of the selection and retention procedures; and (c) inconsistent use of the pre-selection checklist and omission of key steps in the conduct of risk assessments of prospective partners. The shortcomings were attributed to lack of guidance and inadequate supervision related to the partner selection and retention processes in the field. The latest Guidance Note on Selection and Retention of Partners for Project Partnership Agreements, issued in July 2013, addressed these shortcomings by clarifying and reinforcing accountabilities, responsibilities and authorities of the different interlocutors. OIOS is therefore not raising an institution level recommendation in this report.

## **Procurement undertaken by partners**

### Requirements for entrusting procurement to partners were clarified

18. According to UNHCR Manual, when partners have been authorized to undertake procurement on behalf of UNHCR, they are required to apply the principles of fairness, integrity and transparency, non-discrimination and equal treatment of vendors, and awarding of contracts on the basis of competitive bidding.

19. Four audit reports highlighted weaknesses in the procurement procedures conducted by partners, as follows:

- Nine partners in four UNHCR country operations did not use competitive bidding for procurement.
- Two UNHCR country operations did not ensure compliance with one or more of the following requisites while handling vendor proposals: confidentiality and safeguarding of vendor proposals; exclusion of proposals received after the closing date/time; opening of proposals by designated persons; and verification of conformity of proposals with the conditions established in the solicitation documents.
- In one country operation, a partner did not perform technical evaluation for the procurement of 600 shelter kits valued at \$272,313 and four partners did not define adequate evaluation criteria in their procurement exercises.

20. These shortcomings happened because the UNHCR Procurement Guidelines for partners lacked clarity and were outdated. Although the Project Partnership Agreement was the legal instrument that formally authorized partners to conduct procurement in accordance with the Implementing Partner Procurement Guidelines, the guidelines were not included in the agreement. As a result, there was no assurance that partners were informed of and understood the procurement procedures they had to follow.

21. UNHCR recently issued a new policy and guidance on partner procurement which entered into force on 1 November 2014. The new policy simplified and clarified the applicable requirements for entrusting procurement to partners through alignment with UNHCR procurement policies and procedures. OIOS is therefore not raising an institution level recommendation in this report.

### Need to establish formal oversight mechanisms at headquarters over procurement entrusted to partners

22. The UNHCR Manual states that even where authority is entrusted to partners to conduct procurement with UNHCR funds, the responsibility for procurement remains with UNHCR. The Manual also states that procurement should be entrusted to partners only when considered a cost-effective solution for the organization. The assessment and decision to engage partners to conduct procurement needs to be made by the local committees on contracts.

23. The following instances of non-compliance with the rules for planning and monitoring of procurement undertaken by partners were included in three OIOS audit reports:

- In one country, the UNHCR Representation entrusted procurement to partners without considering the cost effectiveness of such decision given that the partners were required to pay

15 per cent Value Added Tax on all purchases. For two partners reviewed, project costs rose by \$325,000 due to tax paid on the procurement for construction and shelter materials.

- In another country, the required cost-effectiveness review and decision to entrust procurement to partners by the Local Committee on Contracts did not take place in a sub office of the UNHCR Representation in that country. The sub office also failed to detect that a partner, who had been authorized to conduct procurement, purchased four Toyota Land Cruisers instead of an ambulance that had been approved in the project agreement.
- In a third country, the UNHCR Representation did not monitor the procurement processes of a partner who carried out procurement aggregating to \$753,537 in 2012, despite a qualified external audit opinion received by the partner in 2011 from the external auditors due to weaknesses detected in its procurement processes.

24. These shortcomings occurred because UNHCR offices did not have adequate systems and procedures in place to assess the cost-effectiveness of entrusting procurement to partners and to monitor partner procurement activities. As a result, UNHCR was at risk of not obtaining adequate value for money from its procurement of goods and services through partners.

25. The 2014 policy and guidance on procurement conducted by partners required that field offices (programme and project control staff, or other authorized staff, under the leadership of the supply officer) should establish with partners joint plans to monitor delivery of procurement activities. To streamline the process, the policy also excluded the need for approval of the decision to entrust procurement to partners by the local committees on contracts, and, instead, introduced the requirement of approval by the Head of Office, supported by the recommendation of the multi-functional Implementing Partnership Management Committee. OIOS therefore concluded that the previous gaps had satisfactorily been addressed.

26. The new policy also established responsibilities for the Division for Emergency, Security and Supply, through its Procurement Management and Contracting Service, for the appropriate assessment and granting of the pre-qualification for procurement status to applicant partners and for providing support to field operations on matters related to procurement. The bureaux, including their senior resource managers and desks, were required to provide the necessary support, advice and oversight to the country operations in their respective regions. The new policy further established that it was the responsibility of the Controller and Director of Division of Financial and Administrative Management, supported by IPMS, to monitor and oversee compliance with the policy. However, no procedures were defined to clarify how oversight would be carried out and coordinated between different organizational departments, and how gaps would be identified to assess capacity building and policy review needs.

**(1) UNHCR should establish formal oversight mechanisms at headquarters over procurement activities entrusted to partners. These should include identification of the root causes of any implementation gaps and assessment of required capacity building and policy review needs.**

*UNHCR accepted recommendation 1 and stated that it would develop procedures for oversight monitoring and support at headquarters. Recommendation 1 remains open pending receipt of documentation on the oversight arrangements put in place at UNHCR headquarters, appropriately shared and coordinated between the Division of Financial and Administrative Management, the Division for Emergency, Security and Supply and the regional bureaux, to ensure that the policy on procurement conducted by partners is consistently complied with in UNHCR field operations and to identify any capacity building and policy review needs related to the implementation of the new policy.*

## **Performance monitoring of partners**

### Adequate steps were being taken to enhance performance monitoring of partners

27. The UNHCR Results Based Management Framework requires that project plans adequately reflect the operations plan, outcomes, and impact/performance indicators; and that progress in implementation is monitored and results achieved reported on. According to the UNHCR Manual, performance monitoring of project activities should take place on a regular basis throughout the project implementation period. Project monitoring activities need to be planned in the project work plan agreed with the partner and include site visits, meetings, and reviews of performance reports submitted by partners on the progress of the project and the use of resources.

28. OIOS observed weaknesses in the implementation of the required performance monitoring activities by the UNHCR Representations in six country operations. These included: (a) weak or inadequately defined performance targets in project documents; (b) lack of monitoring plans agreed with partners; (c) lack of or ineffective performance monitoring activities; and (d) failure to ensure delivery and/or review of partner performance reports. These weaknesses prevented UNHCR from detecting the following shortcomings:

- In one country operation, the UNHCR Representation did not detect that a partner had failed to document the medical referral procedures for refugees in need of medical assistance as required by UNHCR guidelines, which increased the risk of incorrect referrals.
- In the second country operation, the UNHCR Representation did not ensure that construction materials for a housing project valued at \$169,000 were used in accordance with the bill of quantities agreed in the project and were safely kept to avoid damage and waste.
- In the third country operation, the UNHCR Representation did not ensure that technical certification of shelter project construction work was done at the agreed stages.
- In the fourth country operation, inadequate monitoring by the UNHCR Representation prevented timely detection of non-delivery of a project valued at \$3 million. Also, although the project scope was reduced, UNHCR did not ensure that the project budget was reduced accordingly.
- In the fifth country operation, the UNHCR Representation did not effectively monitor the construction of 8,550 shelters to ensure their timely completion by the target date.
- In the sixth country operation, the UNHCR Representation did not maintain performance monitoring documentation, including for construction activities totaling \$11.5 million.

29. The weaknesses above occurred because there were inconsistent performance monitoring practices across the field offices. There were also gaps in the information management tools, which did not allow headquarters to capture, track, and analyze non-financial performance data, such as narrative reports at the partner level to enable systematic analysis and feedback to field offices, in support of their monitoring activities. Inadequate monitoring activities prevented UNHCR from detecting suboptimal performance, implementing timely corrective action, and ensuring effective use of resources.



30. UNHCR, led by IPMS, was in the process of developing various tools to address weaknesses in performance monitoring. This included the preparation of a new Guidance Note on Monitoring, the development of a Project Monitoring and Control Toolkit, the introduction of risk assessments in monitoring activities to optimize the use of resources, and the development of an e-learning tool to assist UNHCR staff and partners in the assimilation of the new instruments. In addition, IPMS was developing a Partner Portal, which would include a dashboard with project information, performance information of the partner, and a black list of partners with performance issues and/or under fraud alert. The Portal would be used as a tool to centralize partner information and to assist in performance monitoring activities. Considering the ongoing developments, and the impending issuance of the new guidance and tools, OIOS does not raise an institution level recommendation in this report.

## **Financial monitoring of partners**

### Need to strengthen oversight mechanisms at headquarters to ensure compliance with the requirements for financial monitoring of partners

31. The UNHCR Manual states that UNHCR offices have the responsibility to conduct financial monitoring, including: verification of financial reports submitted by partners; assessment of partner accounting systems; test checking of transactions; and verification of compliance with agreed sub-project budgets. Further, as per the UNHCR Manual, monitoring visits and expenditure verification activities need to be part of monitoring plans established in agreement with partners. The monitoring process and related outcomes should be documented for accountability and reference.

32. Nine audit reports referred to inadequate financial verification practices in UNHCR country operations. For example:

- Five country operations did not agree monitoring plans and criteria and scope of financial verifications with partners and, as a result, there were inconsistent financial monitoring practices across the operations;
- Two country operations did not follow up on weaknesses identified in previous monitoring visits; hence, opportunities were missed to strengthen the partners' control systems;
- In two other country operations, the required reconciliation between the partners' accounting records and financial reports submitted by the partners to UNHCR had not been done;
- Payment of instalments were not correlated with project milestones in two country operations, which increased the risk of failures in project delivery and loss of resources; and
- Two country operations did not review the banking arrangements at partners, which prevented UNHCR from achieving annual savings of approximately \$100,000 due to the payment of high banking fees.

33. The above inadequacies in financial verification practices prevented UNHCR from detecting the following deficiencies at partners: (a) unjustified expenditures or over-expenditures in three countries (totaling approximately \$2.4 million in one of those countries); (b) overpayments due to double charges of expenditure in one country; (c) unauthorized commingling of partner and UNHCR funds in three countries; (d) payments made by a partner in one country in cash, contrary to the UNHCR requirement of making payments only with cheques; (e) inaccurate and belated refund of balances at year-end in two countries; (f) absence of bank reconciliations, increasing the risk of fraud remaining undetected in one

country; (g) absence of accounting software and inadequate accounting records at partners in one country operation that managed projects valued at approximately \$104.4 million; and (h) advance payments made by partners in one country to contractors, which increased the risk of financial losses if the concerned contractors failed to deliver.

34. The factors contributing to these weaknesses included: absence of monitoring plans; shortage of project control staff; inadequate skills and knowledge of UNHCR and partner staff of the UNHCR financial monitoring requirements; and limited coordination between project control and programme staff to effectively link financial performance and project delivery.

35. UNHCR was in the process of addressing the above shortcomings as follows: (a) for 2015, additional project control resources had been requested for operations (increasing the staffing complement in this category to 50 project control staff organization-wide); (b) the job descriptions of Project Control Officer and Programme Officer were reviewed and updated to improve segregation of duties and clarify reporting arrangements for the Project Control Officer; (c) the use of multifunctional teams for project performance monitoring was being strengthened, including through more extensive involvement of finance staff in each office; (d) the Managing for Systems, Resources and People (MSRP) system, the UNHCR enterprise resource planning system, was enhanced to allow release of instalments based on specific project outputs; and (e) a new Guidance Note on Monitoring and a Project Monitoring and Control Toolkit were being developed.

36. However, despite the above-mentioned measures that UNHCR was developing to address the weaknesses identified, there was a further need to: (i) verify delivery and implementation of the intended measures; (ii) ascertain the level of compliance with the required procedures in the field as well as their effectiveness; and (iii) assess the capacity requirements and the related capacity building needs of both partners and UNHCR staff. Lack of attention to these matters could prevent UNHCR from achieving its intended goals of addressing gaps in monitoring of partners.

**(2) UNHCR should strengthen oversight mechanisms at headquarters to ensure and, as necessary, enforce compliance with partner financial monitoring requirements by: (a) verifying delivery and implementation of the new partner monitoring tools; (b) ascertaining the effectiveness of the new tools in improving compliance; and (c) assessing the staffing strength and skills required in field operations and identifying the related capacity building needs.**

*UNHCR accepted recommendation 2 and stated that it had: developed project monitoring and verification tools, including a methodology for tracking compliance and sampling for quality assessment of non-audited projects at year-end; identified countries with critical needs for project control officers; and created 20 new project control officer posts for priority locations. Recommendation 2 remains open pending receipt of documentation on the measures taken to strengthen oversight mechanisms at UNHCR headquarters over financial monitoring of partners, in line with the respective roles and responsibilities of the various organizational units, and evidence that the new Guidance Notes have been issued and consistently used.*

## **Audit certification by external auditors**

Need to revise the policies and procedures on partner audit certification in accordance with the new risk based project audit approach

37. According to the standard Terms of Reference for Audit of Implementing Partner Projects funded by UNHCR (TOR), external auditors are required to express an opinion on whether the partners' financial

reports for each project were presented fairly in all material respects. A management letter should be prepared containing: the major findings; an evaluation of the partner's compliance with the terms of the Project Partnership Agreement; and an assessment of the internal controls and financial management at the partner. Models of the audit report and of the management letter are provided in the TOR.

38. The following weaknesses related to the delivery of services by the external auditors were reported in three country operations:

- In two of the country operations, there was lack of information on the assessment of the partners' systems of internal control and financial management by the external auditors;
- In the third country operation, the external auditor did not conduct an adequate review of transactions and expenditures of one important partner;
- In two operations, the external auditors did not reflect the control weaknesses detected at the partners audited in their overall opinions;
- In two operations, the external audit reports did not comply with the standard format of reporting prescribed in relevant TOR; and
- In one operation, the external auditor submitted the audit reports four months after the 30th of April deadline for submission.

39. The above weaknesses were due to lack of awareness of the external auditors with UNHCR financial rules and regulations and external audit requirements, and inadequate monitoring and quality assessment of the external auditors' deliverables by UNHCR. As a result, UNHCR risked not meeting the intended purposes of the audit certification process and not making an effective use of audit resources.

40. To address these weaknesses and to improve the process of audit certification, UNHCR implemented in December 2012 an Internal Control Checklist for Audit, which was to be completed by external auditors contracted by UNHCR. It aimed to provide key results on the analysis of several areas of partner operations in a coherent way across the organization and to facilitate trend analysis by UNHCR.

41. On 12 September 2014, the Controller and Director of the Division of Financial and Administrative Management further announced a shift to a risk based project audit approach to be applied to 2014 projects as opposed to the current system of project selection that was done locally by field offices based on project thresholds. The main change related to the centralization of the procurement of services of external auditors at the headquarters as a means of improving consistency and quality of external audit reports. UNHCR subsequently selected four global audit service providers and chose the auditable projects based on a new risk assessment methodology defined centrally. It was foreseen that the new process would result in a reduction in the proportion of the number of audited projects from 65 to 34 per cent and of the project audited amounts from 96 to 78 per cent.

42. The existing UNHCR framework of policies and procedures on partner audit certification, including the TOR, the UNHCR Manual, and other previously issued instructions, required updating to reflect the change to a risk based project audit approach. Although IPMS was in the process of developing new guidelines, the following issues had not yet been formally clarified at the time of this review:

- how the 2014 projects would be identified for audit on the basis of a risk assessment and whether the selection criteria used was adequate, relevant and reliable to improve the process and overall assurance levels;
- how the auditable projects would be allocated among the four contracted providers for audit services and which communication formats would be used by the field offices for the engagement of such services; and
- how UNHCR headquarters would monitor the quality, timeliness and overall effectiveness of the new process.

**(3) UNHCR should revise the framework of policies and procedures on partner audit certification to include: (a) a clear definition of the risk based criteria for the selection of auditable projects; (b) the basis for allocating projects among the selected audit service providers; and (c) a description of the mechanisms established for enhanced oversight by headquarters over the audit certification process, in order to monitor the level of implementation and compliance with the revised policies and procedures.**

*UNHCR accepted recommendation 3 and stated that a policy formalizing the adoption of the new project audit approach would be issued shortly. Recommendation 3 remains open pending issuance of the new UNHCR policy on project audit certification, including clarification of the criteria for the selection of auditable projects, the basis for allocation of projects to selected providers, and description of the monitoring activities to be undertaken at headquarters.*

#### **IV. ACKNOWLEDGEMENT**

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

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

## STATUS OF RECOMMENDATIONS

**Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations  
High Commissioner for Refugees**

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNHCR should establish formal oversight mechanisms at headquarters over procurement activities entrusted to partners. These should include identification of the root causes of any implementation gaps and assessment of required capacity building and policy review needs.	Important	O	Submission to OIOS of documentation on the oversight arrangements put in place at UNHCR headquarters, appropriately shared and coordinated between the Division of Financial and Administrative Management, the Division for Emergency, Security and Supply and the regional bureaux, to ensure that the policy on procurement conducted by partners is consistently complied with in UNHCR field operations and to identify any capacity building and policy review needs related to the implementation of the new policy.	31 December 2015
2	UNHCR should strengthen oversight mechanisms at headquarters to ensure and, as necessary, enforce compliance with partner financial monitoring requirements by: (a) verifying delivery and implementation of the new partner monitoring tools; (b) ascertaining the effectiveness of the new tools in improving compliance; and (c) assessing the staffing strength and skills required in field operations and identifying the related capacity building needs.	Important	O	Submission to OIOS of documentation on the measures taken to strengthen oversight mechanisms at UNHCR headquarters over financial monitoring of partners, in line with the respective roles and responsibilities of the various organizational units, and evidence that the new Guidance Notes have been issued and consistently used.	31 December 2015
3	UNHCR should revise the framework of policies and procedures on partner audit certification to include: (a) a clear definition of the risk based criteria for the selection of auditable projects; (b)	Important	O	Submission to OIOS of the new UNHCR policy on project audit certification, including clarification of the criteria for the selection of auditable projects, the basis for allocation of	31 July 2015

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNHCR in response to recommendations.

## STATUS OF RECOMMENDATIONS

**Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations  
High Commissioner for Refugees**

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
	the basis for allocating projects among the selected audit service providers; and (c) a description of the mechanisms established for enhanced oversight by headquarters over the audit certification process, in order to monitor the level of implementation and compliance with the revised policies and procedures.			projects to selected providers, and description of the monitoring activities to be undertaken at headquarters.	

# **APPENDIX I**

## **Management Response**

## Management Response

## Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNHCR should establish formal oversight mechanisms at headquarters over procurement activities entrusted to partners. These should include identification of the root causes of any implementation gaps and assessment of required capacity building and policy review needs.	Important	Yes	To be determined	December 2015	UNHCR issued a revised policy and guidance note on procurement by partners that came into effect on 1 November 2014. Procedures for oversight monitoring and support at headquarters will be developed.
2	UNHCR should strengthen oversight mechanisms at headquarters to ensure and, as necessary, enforce compliance with partner financial monitoring requirements by: (a) verifying delivery and implementation of the new partner monitoring tools; (b) ascertaining the effectiveness of the new tools in improving compliance; and (c) assessing the staffing strength and skills required in field operations and identifying the related capacity building needs.	Important	Yes	Head of IPMS (DFAM) in collaboration with DPSM	December 2015	DFAM/IPMS in collaboration with DPSM has developed project monitoring and verification tools. A methodology for tracking compliance and sampling for quality assessment of the year end verification of non-audited projects has also been introduced. Countries with critical needs for project control officers have been identified. Despite financial challenges, the creation of 20 new posts for priority locations has been approved under the Capacity Building Initiative.
3	UNHCR should revise the framework of policies and procedures on partner audit certification to include: (a) a clear definition of the risk based criteria for the selection of auditable projects; (b) the basis for allocating projects among the	Important	Yes	Head of IPMS (DFAM)	31 July 2015	As part of enhanced Framework for Implementing with Partners, DFAM/IPMS has developed a risk-based approach to project audit certification to enhance assurance over the expenditure through partnerships. This methodology has been tested and validated by an independent audit firm.

<sup>5</sup> 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.

<sup>6</sup> 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

Review of recurrent implementing partnership management issues in internal audit reports for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	<p>selected audit service providers; and (c) a description of the mechanisms established for enhanced oversight by headquarters over the audit certification process, in order to monitor the level of implementation and compliance with the revised policies and procedures.</p>					<p>In September 2014, the new approach was adopted and it is being gradually applied in tandem with UNHCR's processes for the end of year closure of project partnership agreements, in order to ensure smooth integration, given the large number of projects (over 1,600) and multifaceted nature of partnerships.</p> <p>The procurement and engagement of the audit service providers has been centralized to improve the quality and consistency of audits and reduce the administrative burden on field operations.</p> <p>The procurement of the audit service provider and assignment of the audits has been conducted through competitive bidding and in accordance with a set of selection and assignment criteria. A methodology for Quality Assessment including Key Performance Indicators (KPIs) for audit performance has been developed and is being applied.</p> <p>These processes and related evidence documentation are being closely monitored and assessed by the UN Board of Auditors. The 2014 audit certification process will be completed after the UN BoA's conclusion of its annual audit of the UNHCR 2014 Financial Statements.</p> <p>A policy formalizing the adoption of this new project audit approach will be issued shortly (the policy is now at the final stage of approval).</p>